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ADB-Asian Think Tank Development Forum Pacific Island Economies
“Aiming for Sustainable Economic Development in the Midst of Growing Uncertainties”

ADB Chief Economist, Mr Albert Park
Asian Development Bank Institute Dean, Mr Tetsushi Sonobe
Vice Chancellor of the University of the South Pacific
Distinguished Guests
Ladies and Gentlemen,

It’s great to be here today amongst you all. I take this opportunity to thank the Asian Development Bank, the ADB-Asian Think Tanks Network (ATTN), the Asian Development Bank Institute (ADBI) and the University of the South Pacific (USP) for organizing this very timely Forum.

This Forum is timely because Fiji and the countries of the Blue Pacific are beginning to show their restlessness at the pace of reform of the global financial architecture, of which the ADB is a part. This Forum is also timely because as I speak, Fiji’s Prime Minister joins his fellow Pacific and small island states leaders at the United Nations General Assembly in New York and in Washington DC. Hon
Prime Minister Sitiveni Rabuka says that the global financial system does not work for small island states.

We find ourselves at an inflection point. The World, we hope, will find the courage and political will to fundamentally reform the global financial architecture so that it is fit for purpose for these times. If the World continues to muddle through as it has done for decades, it will deny small island states the opportunity and openings that we so justly seek.

Ladies and gentlemen, we live in a difficult and uncertain global environment. The once in a 100 year pandemic-induced economic catastrophe has wiped off decades of our development progress.

We know the pandemic is not behind us. As we are now living in a world that is being changed by global warming, new pandemics could lie ahead. It is more than likely that new pandemics could also be worse than the last.

All countries suffered massively from the Covid pandemic. But without doubt, the impact on our small island states have been the deepest and sadly, the long-term scars of the pandemic – most enduring.

Small island states did not have the fiscal weapons that large and OECD states had to fund their social and health response and their recovery. We could not print money as the UK and other countries did. Some of the island states do not have national currencies and so this option was plainly not available to them.
As a result, our debt situation which in many cases was already bad has worsened. Many countries have entered an uncharted debt trajectory with high levels of debt. We will need global solidarity and a political will to take a fundamental new look at debt restructuring. But at the same time, we are welcoming of new approaches for debt treatment, such as debt for nature swaps. Debt restructuring cannot be kicked into the long grass and ignored any longer. That is why Fiji lends its full support to the Bridge Town initiative. I look forward to more discussions on this at the Annual meetings of the IMF and World Bank.

Geopolitical tensions are on the rise. Global peace is at risk. We see major global powers locked in a geo-strategic competition. This is hugely unsettling for us across the Pacific. Fiji and the Pacific nations find themselves on the frontlines of this geopolitical contestation. This contestation will have long term adverse consequences for the region. There are no win-win options on the road ahead. None. There will only be hard choices.

This global geo-strategic competition is shaking up the global order. The emerging economies are rethinking their approach to globalization. We are seeing supply chains being remodeled along these geo-strategic lines. As a result, industries are not able to choose economically efficient production bases. More and more countries are looking inwards to promote self-reliance, even if this comes at a higher economic cost. Resources are being diverted to promote strategic interests which otherwise would have been deployed towards fighting socio-economic challenges. In many ways, this global environment is not dissimilar to the period leading up to the Second World War.
As a result of these trends and a result of new conflicts such as Russia’s war on Ukraine, we are seeing increases in commodity prices and a rising cost of living. The traditional levers available to policy makers no longer work in such a politically charged global context.

We have failed to see substantial actions being taken towards reducing greenhouse gases and decisively fighting the existential threat from climate change. A temperature rise beyond 1.5 C will have the deepest and gravest of impacts on the Pacific. Estimates suggest that even at 1.5 Celsius temperature rise, Pacific island economies stand to lose between 40 to 80 percent of their land based economies. The 1.5 Celsius goal may be breached as early as 2030.

We are disappointed that the UN General Assembly failed to make progress on a loss and damage facility. If the Pacific Island states did not have to borrow to recover from climate catastrophes, we could at least stand still. But the brutal truth is that whether it is Tonga or Vanuatu or any other Pacific nation, each climate catastrophe leads to increased debt. Recovery from each climate catastrophe comes at the price of progress on our SDG’s.

We are now making the argument internationally that all climate finance windows must have a dedicated small island states window – from the Green Climate Fund to across climate windows within the ADB and the World Bank. The time for SIDS specific financing windows has come and we need substantial progress on this.

Ladies and Gentlemen, we are seeking support for new approaches to funding recovery – by prepositioning low-cost finance needed for recovery; by
expanding parametric insurance coverage. This is good in and of itself. This will also enable us to work towards meeting the SDGs.

As a region, we are falling behind in meeting our SDG targets. Last week, my Assistant Minister, Honorable Esrom Immanuel briefed the UN SDG summit. With only 7 years remaining before 2030, he called on the World to take an urgent recalibration and to step up the efforts required to get the SDGs back within reach. We are now in overtime zone.

Multilateralism and global cooperation have to be protected. We will forge solutions together; not alone. But to get there, both China and the US need to be at the same table – not at different tables and in different rooms. We small island states are called by history to play our part in getting the superpowers of our era to cooperate. We must not underestimate the strength of the solidarity of the Pacific region as a whole. And we cannot allow our solidarity to be undermined. We will all be worse off is this were to happen.

The multilateral architecture which was born and designed almost 7 decades ago has to be fundamentally transformed. Make no mistake about my commitment to this.

We in Fiji find the ADB and the World Bank to be a fundamental part of our development story. But in the medium term, the current arrangements for development financing to Fiji and the island states of the Pacific cannot continue in this form.
A transformational – not incremental reform is needed – transformational in scope; transformational in ambition; and transformational in development impact.

ADB and the World Bank were not designed with small island states in mind. Indeed, they were designed in an era when the largest developing countries such as Indonesia, India, Nigeria were regaining their freedom. It was decades before small island states would follow suit.

I have often said that the international system is light-years away from understanding the depth of disadvantages that small island states face in the development system.

Challenges emanating from our geographical location, distance to and from major markets, small population sizes, lack of access to technology, cost of finance, and cost competitiveness impose huge constraints on our development aspirations.

Let me give two examples to illustrate this. If Indonesia were to borrow to build and upgrade 50 kilometers of its roads; it may cost Indonesia, let’s say $100 million. Indonesia does not need to import most of the raw materials; it has a competitive road construction sector and it has capacity.

If Solomon Islands were to build the same length of road, it may cost them in excess of $300 million because of all the challenges I’ve just stated. Machinery will need to be imported; steel and other inputs will need to be imported with crippling shipping costs; contractors will need to be imported; critical technical
capacity will also need to be imported. So, to achieve exactly the same outcome as Indonesia, the Solomon Islands will need to borrow or spend 2-3 times more from its domestic resources. Yet Indonesia and Solomon Islands will borrow at almost the same cost.

This is the start of a food chain of unfairness. This chain of unfairness is written across the international development system.

A crucial determinant of the cost of development finance is the cost of borrowing. The cost of borrowing is largely dependent on debt to GDP ratios.

Let me explain how debt to GDP ratios ends up being high in small island states. A single investment in a small island state may be enough to cause debt stress.

For example, Tuvalu is currently borrowing some $20 million USD to upgrade its airport. This airport has been degraded as a consequence of climate change. $20 million USD in Tuvalu is nearly 33 percent of its total GDP. No one can argue that this is not a necessary and that this is not a crucial investment. Upgrading its airport will keep Tuvalu connected to the world. It is an economic lifeline for this island state.

Now, let us imagine if Australia was doing exactly the same investment in upgrading its airport like Tuvalu. Imagine if the Australian Government had gone to the World Bank to borrow $500 billion USD to upgrade the Sydney airport. $500 billion in Australia is roughly the equivalent of a third of its $1.5 trillion GDP economy. I don’t think the Australian Government would ever sign off on this loan for a single airport.
I have interacted with many American, Australian, and international scholars and policy makers over the years. However, experienced they may be, it is sometimes still difficult for so many of them to grasp and make sense of these numbers.

Yet, as small island states we are expected to be able to undertake these types of essential investments time and again; keep our economies afloat, keep our countries connected and our economies and societies vibrant. Something has to change. Something has to give. Business as usual is a death sentence for small states!

Now, let me comment on the enormous impact of geopolitics on our World. The burden of high commodity prices triggered by the Russia-Ukraine crisis and supply chain disruptions has severe consequences for small island states. This is obvious to mums and dads across the Pacific each morning when they buy a loaf of bread. The price of flour has increased by over 30 percent in our region. It has more than doubled in some countries. A loaf of bread costs anywhere between 50 to 100 percent more in Port Moresby, Pot Villa and Rarotonga. As a region, we do not import a single grain of wheat from Ukraine or from Russia, however, we are certainly feeling the impacts of geopolitical tensions each time we buy bread. Sadly, we are not distant islands shielded from the universe of geopolitical tensions. Geopolitical tensions have immediate impacts on small states of the Pacific.

Finally, some of us, especially Fiji, are currently going through a major skill migration. This has the potential to harm our fragile post pandemic economic
progress. We need to rethink how to rebuild the human resource infrastructure across the Pacific. I have said before that a fully integrated Pacific region with a visa free arrangement is a crucial part of this fix. This has to be a short term goal – not a long term one.

Ladies and gentlemen, these are some aspects of the new realities that we need to grapple with. It is time to recalibrate and re-strategize to adapt to this new normal. Some of the trainings economists and development practitioners have acquired are no longer relevant in this new world.

As an academic and researcher, I am always looking for new ideas to build our knowledge and to sharpen our responses.

History has shown that, when pressed, humanity has always been able to rise to find solutions. We invented light to overcome darkness. We developed vaccines to fight pandemics. We formed the international world order with the United Nations at its heart to forge and maintain peace.

It is that time again. This is an inflection point for our region and indeed for the World. It is time for new energy. It is time to carve new pathways forward. This is the time for creativity and innovation.

As a Finance Minister, I know that more of the same will be the surest path to an economic and political disaster in Fiji and the region. As a researcher and an academic, I also know that it is at times like this, that our community of researchers, scholars and development practitioners are at their finest. And that is indeed what I expect over the next few days here at this Forum.
This Forum fosters an environment of open and constructive discussions. The People’s Coalition Government is open to ideas. The People’s Coalition welcomes criticism informed by critical thinking. The People’s Coalition Government seeks your partnership to co-create solutions.

Our focus has to be on solutions. I know you are aware of the unique context of Pacific Island economies. You also know that the Blue Pacific is diverse and welcoming. Make the Blue Pacific the home for your new ideas; for testing your new approaches and for scaling your policy and program innovations.

Ladies and Gentlemen, I express my sincere gratitude to the Asian Development Bank, the Asian Development Bank Institute, and the University of the South Pacific for collaborating to bring this forum to fruition. Your commitment to supporting Pacific Island countries in their pursuit of sustainable economic development is commendable.

Thank you – Vinaka Vakalevu.