

ADB-Asian Think Tank Development Forum 2023

Pacific Island Economies: Aiming for Sustainable Economic Development in the Midst of Growing Uncertainties

Grand Pacific Hotel and Laucala Campus, USP in Suva, Fiji

Pacific Island Economies: Aiming for Sustainable Economic Development in the Midst of Growing Uncertainties

26th -28th September 2023

Session 5: FDI, Migration, and Remittances

27th September 2023

**Economic Policy Advisor,
Office of the Prime Minister,
Fiji**

Dr. Sunil Kumar
Economist (PM's Office)

Presentation

- **Introduction – Sustainability and Uncertainty set the conditions for FDI in PICs and everywhere (small economies are severely disadvantaged)**
- **The fundamental of Pacific Island Economies**
- **Migration – Permanent, Temporary Migration**
- **Remittances – How does it contribute to the PIC economies?**
- **FDIs in the Pacific Island Economies**
- **Some Concluding Remarks**

Introduction:

Uncertainties – Global Shocks

After Covid-19 pandemic, War in Europe is taking a toll.

Food and energy Prices are hitting us hard.

Right now Russia-Ukraine war is having a significant effect on us. The pandemic shut us off almost completely.

- So PICs are not cushioned in any way from Global Shocks.
- So PICs need to be prepare against all forms of disaster.
- The problem is PICs have no control over global shocks and more so, we are far less capable of responding against shocks.
- Even responding appropriately against domestic or regional shocks is not possible!

Our smallness and our oceanic isolation is the reason for this vulnerability.

For instance when Tonga was hit by the volcanic eruptions, the country was almost totally helpless. Cyclones have the same effect.

Fiji or Samoa as the neighbouring countries could hardly extend any help.

Tonga relied entirely on assistance from Australia and New Zealand. There is nothing wrong with relying on Australia and New Zealand, these are our kind neighbours but the fact is PICs are completely unprepared against such disasters.

Have we taken any precautions for the future? The answer is no our policymakers have just forgotten about it.

For Most PICs when cyclones hit, significant parts of the economy gets dysfunctional. Sometimes, 50% of the economy is disrupted and sometimes 90%.

Therefore, our ability to absorb shocks is far less compared to bigger countries.

Disasters happen everywhere but our smallness makes us unique and thoroughly disadvantaged.

We largely depend on external assistance when disasters occur. Our capacities to deal with disasters is very weak.

The point is, we are vulnerable and that defines our economic status and character.

Therefore we rely heavily on our development partners for our economic existence and disaster management.

This is what defines our economic fundamentals!!

Economic Fundamentals of PIC

- i) Narrow Resource Base – few niche sectors
- ii) High production and Transport Costs
- iii) Lack of Technology – Low Productivity
- iv) Fragile infrastructure – Far more costly to maintain
- v) Outward Migration of Labour
- vi) Small Domestic Market – lack of economic scale
- vii) Hesitant Foreign Investors - FDI
- viii) Risk prone – cost of recovery is much higher

Due to uncertainties Investments remain weak so growth prospects remain weak.

While recovery from Covid-19 pandemic has been good, the prospect for higher growth in the medium to long term is minimal.

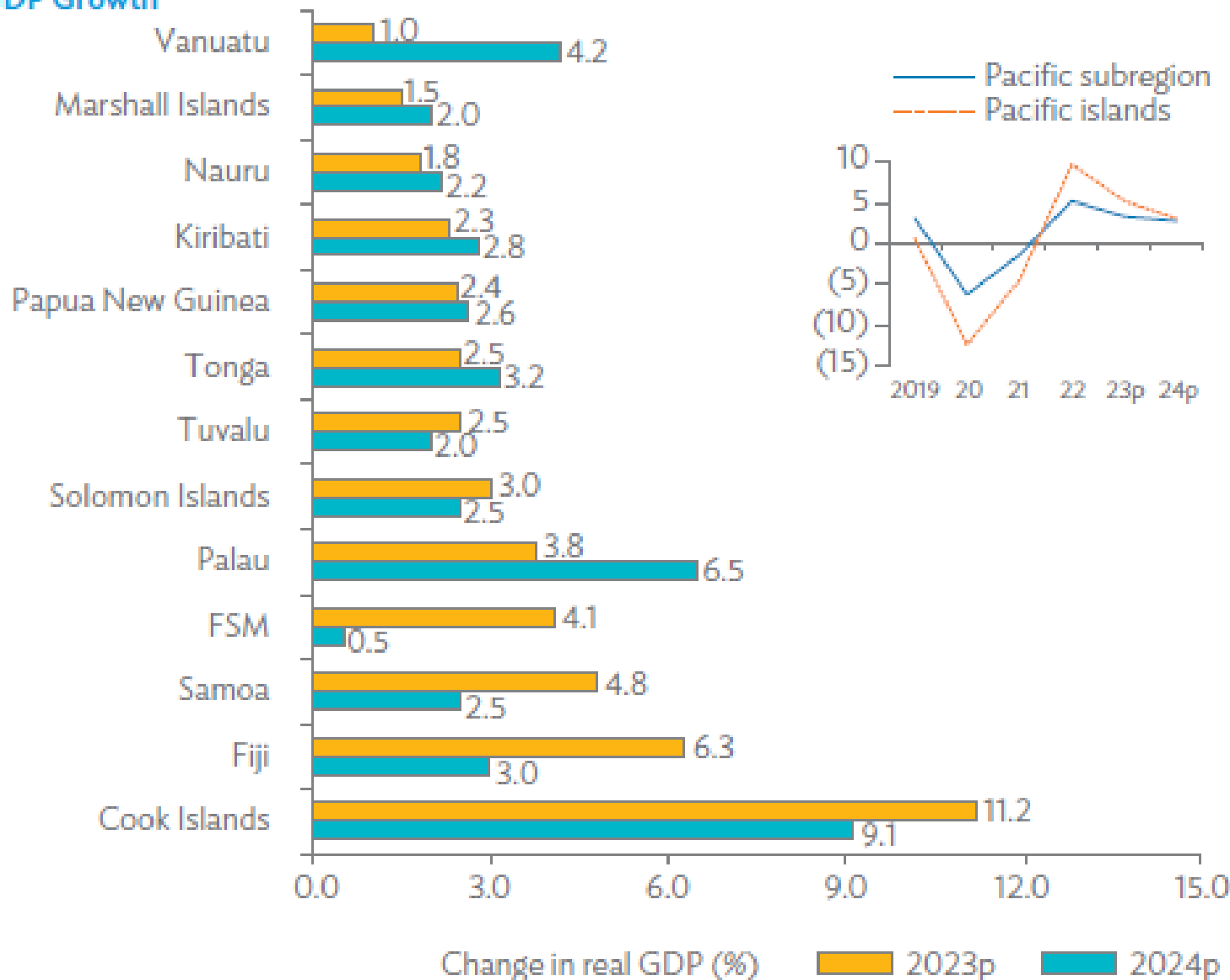
Much of the reason for low growth rates is the weak fundamentals of the PIC economies.

See Data on Chart next slide.

Economic Growth among PICs

Asian Development Bank Projections

GDP Growth

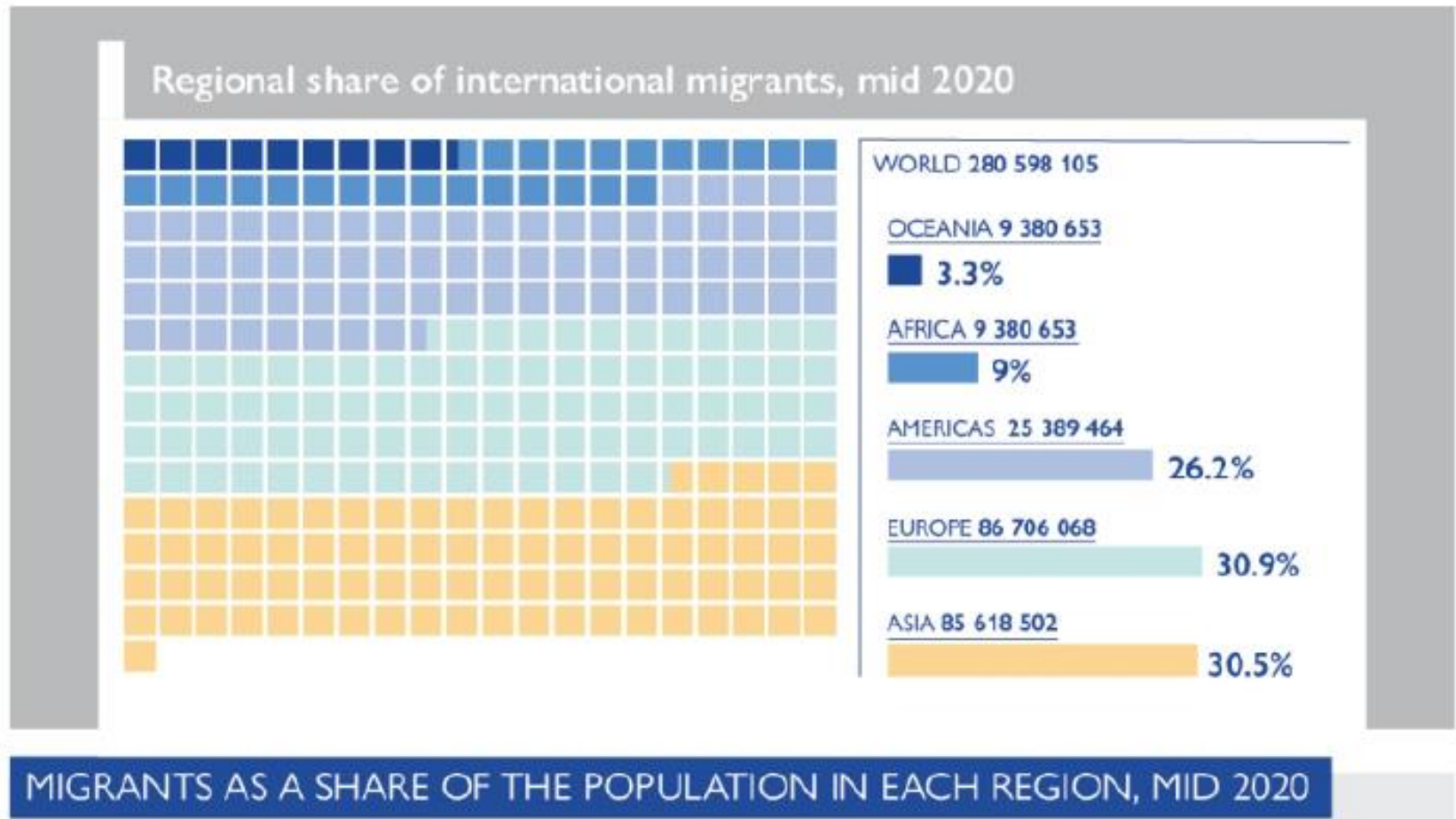


The low economic Growth is part of the reason for high outward migration.

Unemployment and lack of economic opportunities remain significant despite.

Migration and Remittances

MIRAB Economy (Migration, Remittances, Aid and Bureaucracy)



MIGRANTS AS A SHARE OF THE POPULATION IN EACH REGION, MID 2020

In Oceania,
more than 1 in 5 people
are migrants



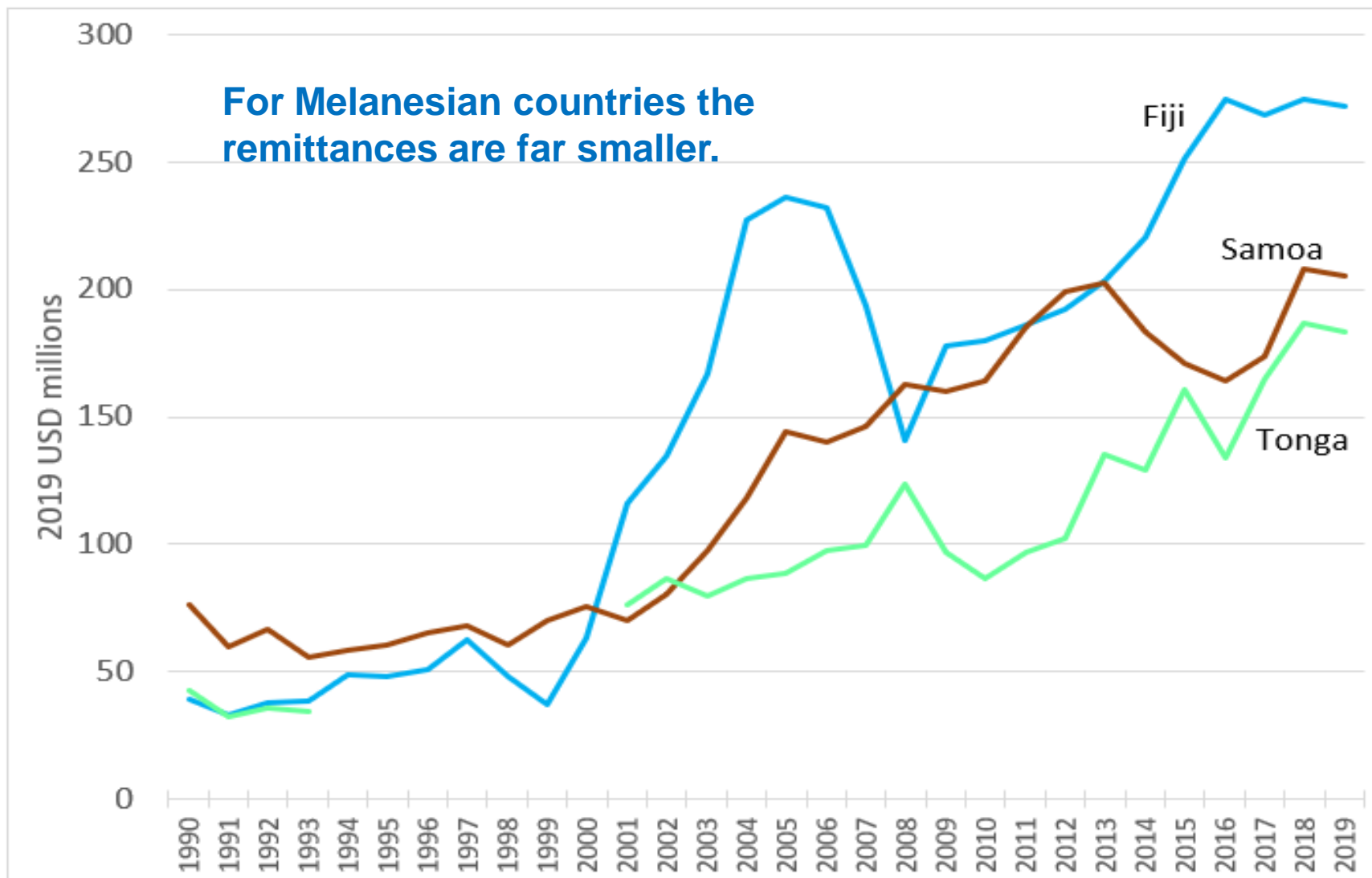
22%

While only a small share of the world's international migrants live in Oceania, they constitute a substantial percentage of its population.

Oceania has the largest proportion of migrant (Diaspora) population

The up-side to migration is remittances – it is steadily increasing

Remittances continues to growth among Key PICs



Some Observations:

- 1) Remittance is Good;
- 2) Remittances increase our import bill due to consumption
- 3) Outward Migration is not good – bad for the domestic Economy
- 4) Diaspora is good – for social and political development
- 5) Return Migration is good – new ideas and FDI comes into the country
- 6) Return Migration can be bad when people return from host country due to lack of jobs – Tonga is one example where crime increased due to return migrants.

But the fact is when the productive workers of a country migrate the prospect for growth is severely compromised.

FDI has not shown much increase.

For Fiji it has been sporadic – lots of return migrants are willing to invest but business environment remains poor.

Doing Business remains costly – approval processes remains time consuming

What needs to be done?

- **New Skill Training is required to fill the huge gap that exists;**
- **A massive multi-skilling is needed;**
- **Policy Incentives for new technologies are necessary;**
- **Labour laws need to be reformed;**
- **Labour productivity needs to improve by many folds;**
- **Infrastructure, particularly roads need immediate attention – Rural roads continue to be in bad shape;**
- **Its time to think of new solutions – Business as usual will not work.**
- **Change of mindset is necessary**
- **Non-tourism sectors need added incentives – Primary Agriculture and Agri-processing; BPO and other services such as Health and Education need more incentives;**

What needs to be done?

- **Economies of Scale is needed to make small enterprises more competitive - Cluster Building and Co-operatives could be a viable solution.**
- **More Finance through Banks should be made available to farmers and small businesses – FDB has not been effective;**
- **Access to Global funding to build resilience and enhance economic capacity;**
- **More International Trade – More bilateral Agreements**

Thank You for listening, Vinaka and
Dhanyabaad