



PACIFIC ISLANDS FORUM SECRETARIAT

FORUM ECONOMIC MINISTERS' MEETING

Koror, Republic of Palau
10-12 July, 2007

FORUM ECONOMIC ACTION PLAN 2007

The eleventh meeting of the Forum Economic Ministers was held in Koror, Republic of Palau from 10-12 July 2007.

2. The following countries were represented: Australia, the Cook Islands, Fiji, Kiribati, Nauru, New Zealand, Niue, Palau, Papua New Guinea, Republic of the Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu. Observers comprised representatives from the Asian Development Bank, Commonwealth Secretariat, Pacific Financial Technical Assistance Center, Secretariat for the Pacific Community, Secretariat for the Pacific Regional Environment Programme, United Nations Development Programme and the World Bank.

3. Economic Ministers **reaffirmed** their support for the implementation of its reform commitments as well as the further examination of regional and sub-regional approaches to lift economic growth performance. The initiatives contained in the Pacific Plan, which were prioritised by FEMM in 2006, particularly in areas pertaining to economic growth and good governance, were progressed and will continue to be considered over the medium term. This was seen as crucial in supporting the Leaders' Vision of "*a region of peace, harmony, security, and economic prosperity, so that all its people can lead free and worthwhile lives*".

4. We ask Leaders to note the outcomes of our deliberations as set out below.

FEMM Reform Commitments and Economic Growth

5. Ministers **noted** that the economic performance of a majority of members has been mixed with average growth hovering around 3.5 percent per annum for the past ten years.

6. Ministers **recognised** that the characteristics of smallness, isolation from major world markets and vulnerability to natural disasters have been exacerbated by a number of man-made challenges including increasing globalisation, limited market access, political instability, deteriorating security situations, poor governance, limited access to land and slow public sector reforms.

7. Ministers **noted** the experiences of Nauru, Papua New Guinea, Samoa and Tonga, with economic reform efforts. Ministers heard that these experiences reinforced the key message that amongst other factors, strong political leadership is necessary for reforms to succeed. This will enable a predictable policy environment that is conducive to private sector growth.

Regional Economic Integration and Labour Mobility

8. Ministers **noted** that on average 45 percent of the population in FICs is in the age group 15-24 years, with a majority of these either unemployed or subsisting mainly in the informal sector. Projected labour supply is estimated to be a lot higher compared with the projected demand for labour for all FICs. Most of the FICs have limited supply of technically skilled labour. In addition, generally low economic growth scenarios in many of the FICs also contribute to the low demand for labour. An option to address the excess labour supply situation, as well as improving the efficiencies in the functioning of labour markets in each FIC, is to allow freer movement of people within the region.

9. Ministers **recognised** that labour movement has largely been from FICs to the more developed countries. Movement within the FICs has been largely insignificant, though in recent years growth has been observed largely based on the demand for workers outpacing supply, for example, in hospitality, health care and the teaching professions. The motivation for this labour movement can be drawn from differentials including those in: economic development; sector growth; demography; labour skills/expertise; physical resource endowment per capita; and technology. Economic theory suggests that the greater the differentials in these, the higher the potential net gains from labour movement.

10. Ministers **noted** the outcomes of a recent regional workshop themed ‘Towards a Trade and Development Approach to Temporary Movement of Persons (Mode 4)’, organised by the Forum Secretariat in May this year. The workshop recognised that governments had a major responsibility to put in place policies at the national and regional level directed at getting the most out of existing and potential future opportunities for temporary movement of labour. In this regard, the meeting recommended improvements in these four broad areas namely: Facilitating Market Access; Addressing Supply Constraints; Minimising Social Costs of Temporary Movement; and Maximising Benefits of Temporary Movement.

11. Ministers **noted** that the Forum Trade Ministers (FTM) and PACP Trade Ministers Meetings are considering possible regional arrangements for the temporary movement of persons under PACER, PICTA and the EPA with the European Union.

12. Ministers **noted** that the New Zealand Recognised Seasonal Employer policy, and the World Bank facilitated pilot seasonal worker scheme, and the potential impact of skilled labour resulting from education initiatives such as the Australian Pacific Technical College all provide evidence for shaping a policy and design framework for future schemes.

13. Ministers **directed** the Secretariat, in collaboration with the World Bank and other development partners, to provide a further update at the 2008 FEMM on the types of support

and measures that could facilitate further temporary movement of labour in the region. This work would:

- Include a closer examination of the opportunities, challenges and constraints observed through the pilot schemes currently in place, and to provide further guidance to both the sending and recipient countries on ways of continuously improving the benefits, and addressing the risks from such schemes:
- Take into account, and be subject to ongoing work mandated by Forum Trade Ministers to move towards a more comprehensive trade and economic framework between Australia, New Zealand and participating Forum Island Countries under PACER Plus; and
- Complement work done under the auspices of Forum Trade Ministers within the context of potential services (Mode 4) negotiations under PACER Plus.

Regulation and Regional Economic Integration: Regional Options for Economic Regulation

14. Ministers **reiterated** the need to improve regulation of *foreign investment, competition, pricing and access, and consumer protection and fair trading*. Regulation in each of these areas currently suffers from a number of problems, which fit into the following broad categories:

- *Problems with regulatory rules*, including the adoption of rules that are too complex to be properly understood and enforced and the adoption of rules that do not work well with other legislation or policies;
- *Weak institutions*, which includes the lack of technical capacity among regulatory staff and lack of financial and human resources for the regulatory organisation; and
- *Problems with regulatory processes and implementation*, such as the need for an independent regulator, and the lack of appropriate or sufficient enforcement when rules are broken.

15. Ministers **identified** the need for a phased implementation of regional approaches through: firstly, a *policy phase* where the relevant policy objectives are identified and adopted; secondly, a *development of legislation phase* which considers the appropriate type of laws to implement; and finally, an *implementation phase*, where legislation is enacted and regulation enforced.

16. Ministers **noted** the potential for a policy framework and common regulatory laws, which can be comparable, are appropriate and enforceable based on agreed principles. These laws should in the short-to-medium term provide a template for effective regulation in small market environments. These should also take into account the limited resources that FICs may have available to monitor and enforce compliance. These laws, whilst allowing enough flexibility for application at the national level, would allow for greater FIC collaboration, and also provide the legislative basis from which the regional approaches proposed could carry out enforcement.

17. Ministers **noted** the factors critical to the success of regulatory reform at the national level, including a clear policy framework for regulation; the importance of periodic

monitoring and review of regulations; and the need for coordination amongst implementing agencies.

18. Ministers **reiterated** the 2006 FEMM decision, that member countries share information and, where appropriate, provide technical assistance to improve regulatory policy outcomes in FICs, considering the existing technical capacity and resource constraints.

19. Ministers **noted** a possible regional regulatory framework, whilst allowing enough flexibility for application at the national level, would allow for greater FIC collaboration, and also provide the legislative basis from which other regional approaches could carry out enforcement.

20. Ministers **directed** the Secretariat to convene in 2007 a workshop to facilitate the exchange of regulatory knowledge and experience in FICs and to agree on the scope and design of further regional regulatory initiatives. In this context, the Ministers noted the potential for the phased establishment of a regional or sub-regional Competition, Fair Trading and Pricing and Access Regulatory Authority and directed members to consider this at the proposed workshop.

An Accountable and Independent Macroeconomic and Microeconomic Technical Assistance Mechanism

21. Ministers **noted** the potential for improvement in, and broadening the scope of, TA delivery to meet the requirements of FICs, including in areas of microeconomic policy advice. Ministers also noted the many reasons for poor economic TA delivery. These include:

- Limited donor coordination in the delivery of economic TA; and
- The high transaction costs for Pacific countries due to the manner in which economic TA is undertaken, with the many visits by staff and consultants undertaking TA placing a large amount of stress upon the FICs limited human resources.

22. Ministers **urged** development partners to improve co-ordination of donor assistance consistent with the Paris Declaration on aid effectiveness, at the same time, Ministers recognised the need for FICs to organise the management of bilateral and multilateral aid. This would include improved coordination on TA missions and enhanced dialogue and information sharing.

23. Ministers **noted** the scope for adopting strengthened regional approaches through pooling of TA resources to help alleviate underlying problems and **noted** that a range of development agencies are currently co-operating to support a successful regional TA modality through PFTAC.

24. Ministers **agreed** to take forward a pilot arrangement to expand PFTAC capacity by drawing in staff from other International Financial Institutions/ Forum Island Countries/

development partners, allowing expansion of economic advice to include additional priority areas of microeconomic TA such as SOEs, Infrastructure and Regulatory Policy.

25. Ministers **directed** the Forum Secretariat to consult with members to determine priority areas for expanding PFTAC advice for endorsement at PFTAC's Tripartite Review Committee meeting to be held in September 2007.

A Regional or Sub-Regional Customs Service

26. Ministers **noted** the role of Customs has evolved from a complete focus on revenue collection to a broad role encompassing components of revenue collection, trade facilitation and border security. However, while these three functions are all important facets of Customs administration in FICs, the principal role at present is still revenue collection.

27. Ministers **recognised** that human resource capacity in FICs to handle technical areas of Customs administration (such as interpretation and application of the Harmonized System of tariff classification, the application of proper valuation techniques, application of post clearance audit techniques and a risk based approach for cargo clearance) is of variable quality.

28. Ministers **noted** that weak institutional characteristics and inadequate resourcing remain critical constraints for all Customs administrations in the region. These result in, for example, under-valuation and under-invoicing, corruption and facilitation payments, incorrect tariff classification of goods, transfer pricing, shortage in manpower and skilled personnel, lower than market rates of remuneration, and lack of appropriate technology.

29. Ministers **noted** the potential for adopting phased regional approaches through pooling of resources to help alleviate underlying structural problems and noted that regional options could be explored. These could include, for example:

- In the short-term, building on existing regional structures and activities underway to deliver appropriate results. For example, enhanced regional cooperation that expands on the current efforts of agencies such as the Oceania Customs Organisation (OCO) including, sharing of appropriate technology, support to members in the harmonisation and simplification of customs procedures and sharing of information on landed costs of goods and services at the border, and provide mobile post-clearance audit teams; and
- In the medium-to-long term, modalities for regional pooling and delivery of services, to assist audit of Customs revenue collection processes and the systems and documentation held by importers and exporters.

30. Ministers **directed** the Secretariat to work closely with the OCO and to consult all members widely to implement practical options for further regional approaches including in the areas of training, model legislation, post-clearance audit and information technology.

31. Ministers **agreed** to explore, in consultation with the OCO and other stakeholders, through a feasibility study to determine the viability of targeted customs services at sub-

regional levels. The preliminary results of the feasibility study shall be reported to the OCO meeting in April 2008 and the final report presented to FEMM in its next session.

Financial Sector Reform, Financial Sector Supervision and Regulation in FICs

32. Ministers **reiterated** that prudential regulation and supervision of the financial sector, in its broadest sense, remains a challenge in FICs, particularly in smaller island states.

33. Ministers **identified** the significant gaps in the supervisory frameworks that exist in FICs, which include the absence of an appropriate legislative framework, insufficient resourcing (human and financial), and lack of institutional and technical capacity to undertake supervisory and regulatory functions.

34. Ministers **noted** the potential regional options to help with addressing the constraints at the national level in financial sector supervision. In this regard, Ministers noted the importance of appropriate indicators, such as Financial Soundness Indicators, to assist in the assessment of strengths and vulnerabilities of financial systems, and also serve as critical inputs for policy formulation. Ministers also noted the technical services of Pacific Financial Technical Assistance Centre (PFTAC) to assist with developing appropriate statistical indicators; and

35. Ministers **directed** the Secretariat, in collaboration with PFTAC, to expand the work already done by developing specific proposals for regional mechanisms to facilitate better regulation and supervision of financial sectors in FICs. This work would include a closer examination of the challenges and constraints (for example, confidentiality issues) in FIC supervisory frameworks, and to examine potential solutions including outsourcing, contracting, and development of shared supervisory services.

36. Ministers **acknowledged** the concerns raised by some Forum Island Countries with Offshore Finance Centers in relation to legislation and other measures being proposed by some OECD countries which, if enacted could result in the closure of these Offshore Finance Centers. Ministers directed the Secretariat to collaborate with PFTAC to assess the impacts of the proposed measures on these countries financial services sector, in consultation with the FICs concerned.

International Financial Institutions

37. Ministers **directed** the Secretariat to actively participate in facilitating FIC engagement with the International Financial Institutions (IFIs), especially through coordination of regional priorities for consideration at the annual meetings of the IFIs. This shall require the Secretariat to proactively engage with the IFIs on regional programmes and strategic issues, with the aim of promoting a more accurate reflection of regional priorities, including those agreed by FEMM. This work shall include the preparation of agenda, and formulation of regional positions on IFI policy issues, for the annual ADB Pacific Developing Member Country and the World Bank/International Monetary Fund Small States Forum, amongst other regional engagements with the IFI's. This will facilitate improved advocacy of regional needs and positions at the international meetings.

38. The Ministers **agreed** to inform the IFIs, through the FEMM Chair, of their decision and to seek the understanding for the recognition of the Secretariat to be included in all business relating to the FIC region.

FEMM Meeting Arrangements

39. Ministers **directed** the Secretariat to implement the following for the 2008 FEMM agenda, in order to focus the meeting on Minister to Minister engagement:

- the number of meeting papers restricted to key issues identified for action by Economic Ministers and provided well in advance of the meeting;
- an informal Ministerial session at the commencement of the meeting to discuss priorities and to engage on issues of importance;
- the formal plenary should deal with agenda items issue by issue rather than clustering several items;
- apart from the keynote presentation, presentations should be made to the officials meeting with presenters available during the Ministerial plenary to answer questions if required; and
- to maintain a Ministerial retreat on the final day of the meeting to facilitate informal open discussion as decided by Ministers.

40. Ministers **directed** the Secretariat to provide an update on the progress of FEMM decisions half yearly.

Other Matters

41. Ministers **acknowledged** the briefing on the Global Environment Facility (GEF) and **noted** the economic benefits of environmental conservation in the Pacific SIDS, the FEMM supported the development of the Pacific Alliance for Sustainability that will exponentially increase funding by the GEF to the region, approximately \$100 million for the next 4 years.

42. Meeting **noted** that adaptation to Climate Change is critical for sustaining economic growth of small islands for which GEF is a vital funding source. Ministers **urged** all Parties to the UN Framework Convention on Climate Change (UNFCCC) to reach an early decision for housing the adaptation fund so that it can be operationalised without further delay.

Next Meeting

43. Ministers **recognised** the excellent arrangements and registered its deep appreciation to the Republic of Palau for the warm and generous hospitality. Ministers **noted** that the next FEMM will be held in Port Vila, Vanuatu.

Pacific Islands Forum Secretariat
12 July 2007