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# What is possible by 2040?

Will a rising Chinese middle class choose the Pacific Islands as their holiday destination?

Are recent increases in revenues from tuna fisheries likely to continue into the future?

What should countries do to respond to increasing interest in deep sea minerals mining?

Will the ICT revolution help Pacific Island countries overcome the tyranny of distance?

What would it take to expand overseas employment opportunities for Pacific Islanders?

How can the Pacific Island countries mitigate the threats of climate change, high vulnerability to natural hazards, and the non-communicable diseases crisis?



By taking a closer look at what is happening in the Pacific — what resources are available, and what opportunities can be taken advantage of both globally and across the region — *Pacific Possible* paints a realistic and promising picture of what is economically achievable in the Pacific, as well as what can happen if specific dangers are not properly managed over the next 25 years.



To do this, *Pacific Possible* poses and answers the following questions:

- Why has the Pacific struggled with economic growth?
- Why should development in the future be better than the last 25 years?
  - What is realistically possible for the Pacific by 2040?
- What does this mean for income, employment, and government revenue?
  - What are the risks to prosperity?
- How can prosperity by 2040 be properly achieved?

As we answer these questions, you will discover the most significant opportunities and risks for the Pacific in seven particular areas. Each opportunity has the potential to create a significant boost in income, employment and government economy. Alternatively, the risks pose a real threat to development if they are not managed well.



## OPPORTUNITIES

**Tourism**

**Knowledge economy**

**Fisheries**

**Deep sea mining**

**Labor mobility**



## RISKS

**Climate change  
and disasters**

**Non-communicable  
diseases**

By exploring what is possible by 2040, *Pacific Possible* offers a deeper insight into the future while discussing what action is required across the Pacific to close the gap between opportunities and reality.

## Why has the Pacific struggled with economic growth?

Economic growth across many Pacific Island nations has been low in the last 20 years, particularly in comparison with other developing nations around the world and what they have achieved. Over this time, the discussion about why the Pacific has struggled to achieve real growth has been a frustrating debate among many Pacific people, policy makers and development partners.

**From these debates arise two commonly held views  
— that low economic growth is caused by:**

- 1** Poor policy and institutional environment; or
- 2** Unique geographic location of Pacific island nations.

# Why should the future be better than the last 25 years?

With this in mind, why should growth in the Pacific be better than what it has been in the last 25 years? It is an important question as many barriers to growth will still be around in the future, especially when it comes to geographic and capacity constraints.

## ***Pacific Possible* suggested that a major positive shift in economic growth and opportunity will be influenced by:**

- 1 A growing middle class in China;
- 2 The aging of the population of developed countries in the region, including Australia, New Zealand, Japan, and Korea;
- 3 Technological progress; and
- 4 The shift to a more multipolar geopolitical environment, with growing levels of insecurity.

## **These global megatrends mean a greater demand for what Pacific Island countries can offer competitively, such as:**

- 1 An attractive and safe island and marine environment;
- 2 Labor;
- 3 Natural resources, especially fish and potentially deep sea minerals; and
- 4 Their geostrategic position.

# What is realistically possible for the Pacific by 2040?

## TOURISM



Let us look at the figures. With a projected addition of one million arrivals to the Pacific by 2040, tourism will provide the main opportunity for growth and employment for most Pacific nations. What will this look like?

### Additional transformational impact in 2040



#### Increasing the Chinese Market



**650,000**  
tourists



**65,000**  
jobs



**US\$950m**  
receipts



**US\$35m**  
airport taxes



#### Home-basing 4 Cruise Ships



**250,000**  
tourists



**4,000**  
jobs



**US\$60m**  
receipts



**US\$9.0m**  
port fees



#### Expanding the High-end Resorts Market



**130,000**  
tourists



**30,000**  
jobs



**US\$450m**  
receipts



**US\$8.0m**  
airport taxes



#### Capturing the Retiree Market



**10,000**  
retirees



**13,000**  
jobs



**US\$200m**  
receipts



**US\$0.5m**  
airport taxes

## FISHERIES



### What about natural resources? Can fisheries play a part in real economic growth economic growth in the Pacific Island Countries?

A regional arrangement (the Vessel Day Scheme) has already brought significant increases in revenue from fishing licenses during the past five years. *Pacific Possible* reports that fisheries can generate more than US\$300 million in additional revenue by 2040, without an increase in catch levels or threats to the sustainability of the fisheries stock. This increase can significantly boost incomes in Kiribati, Tuvalu, and the Federated States of Micronesia. For Kiribati and Tuvalu, this could translate into an increase of between 50 and 60 percent in per capita incomes by 2040. The Federated States of Micronesia could see an increase in per capita incomes by about 20 percent due to fisheries alone.

#### For this to happen, the Pacific would require:

- Participation by other major resource owners such as Indonesia and the Philippines in the *Vessel Day Scheme*;
- Ensuring compliance with robust catch limits, including limits in the high seas;
  - Improvements to the *Vessel Day Scheme*;
- Significant investments in skills and capacity, and inclusion of coastal communities in the fisheries; and
  - Targeted investments to maintain food security.

#### Additional transformational impact in 2040



#### Sustainable Fisheries



**15,000**  
additional jobs



**US\$300m**  
additional public  
revenue/year

## DEEP SEA MINING



### As an additional natural resource, will deep sea mining offer a potential growth opportunity for the Pacific? If so, how can deep sea mining be utilised without seriously harming the environment?

Deep sea mining still involves significant uncertainty and knowledge gaps, particularly with regard to resource potential, technology, economic viability, social, cultural and environmental impacts.

Given the many unknowns and risks, *Pacific Possible* recommends that Pacific Island countries take a Precautionary Approach to deep-sea mining; which requires strengthening of knowledge of affected eco systems, continuous updating of information, monitoring, as well as stakeholder consultations.

# IMPROVED INTERNET ACCESS AND CONNECTIVITY



## Can improved Internet access and connectivity mean better income and better employment opportunities?

We think so - it has the potential to translate to more than US\$5 billion and close to 300,000 additional jobs by 2040.

For the larger economies in the Pacific, particularly Melanesian countries, improved connectivity can accelerate the spread of knowledge and adoption of productivity-enhancing technologies, helping to close productivity gaps to other countries.



### Expansion of Mobile Phone Services



**6m**  
additional mobile  
subscribers



**17,000**  
jobs



**US\$1.1b**  
receipts



**US\$300m**  
taxes



### Global Outsourcing Services



**US\$500m**  
revenue



**17,000**  
jobs



**\$150m**  
taxes



### Increased Productivity



**US\$3.5billion**  
GDP



**250,000**  
jobs



**\$700m**  
taxes



# LABOR MOBILITY



**What will the economy look like when Pacific people have better access to employment in neighbouring countries like Australia and New Zealand?**

**There are several opportunities that could be exploited:**

- Australia-New Zealand Atoll Access Agreements
- Pacific Access Category (PAC) for Australia
  - Pacific caregiver program; and
- Entry into new labor markets such as Canada and Korea.

*Pacific Possible* estimates that these opportunities could generate an additional net income of US \$13 billion for 240,000 permanent migrants by 2040 and an increase in remittances and seasonal workers' income by US\$900 million.

## Additional transformational impact in 2040



## Expanding Opportunities for Labor Mobility



**20,000**  
additional  
non-seasonal  
migrants/year



**30,000**  
additional  
seasonal  
workers/year



**US\$13b**  
additional  
income for  
migrants/year



**US\$900m**  
additional  
remittances and  
seasonal workers'  
income/year



# How can these transformational opportunities impact income, employment and government revenue by 2040?

Making the most of these opportunities could mean a huge increase in the long-term average growth rate for most Pacific Island countries by between 0.6 and 1.3 percentage points, resulting in incomes that are **about 15 to 40 per cent higher in 2040** compared to projections based on trends of the last 25 years.



## ► What are the risks to prosperity?

*Pacific Possible* looks at the impact of two key risks that could significantly impact growth and standards of living in the Pacific by 2040:

- **Noncommunicable Disease (NCD) crisis**, which is affecting the lives of many Pacific Islanders; and
- **Climate change and natural disasters**, which could have more dire impacts on the Pacific Islands than on any other country in the world.

*Pacific Possible* examines the financial burden of further illness and death due to NCDs, as well as the potential cost of selected measures to enhance climate and disaster resilience:

- **Climate and Disaster Resilience**  
The economic costs of natural disasters are already high for most Pacific countries — on average between 0.5 to 6.6 per cent of GDP is lost annually—and climate change will increase vulnerabilities.
- *Pacific Possible* estimates that the annual cost for coastal adaptation to deal with sea level rise and adaptation to increases in rainfall and temperature alone could be between US\$400 million and US\$1.2 billion. *Pacific Possible* identifies a range of options and policies for countries to deal with risks and uncertainty.
- **Noncommunicable Diseases**  
The economic burden of NCDs in the Pacific is already high compared with other middle-income countries, and is increasing over time, especially as incomes rise.
- *Pacific Possible* estimates that unless effective measures are adopted to stem the NCD crisis in the Pacific, GDP could be reduced by up to 9 percent for the most affected countries by 2040. Implementation of measures contained in the NCD Road Map, which was adopted by Pacific Ministers of Finance in 2014, is thus essential.

# How can the Possible become reality?

**In addition to actions in the specific areas examined, *Pacific Possible* highlights five cross-cutting issues that are central to achieving prosperity and managing threats:**

- Focusing on policies and investments;
  - Investing in people;
- Promoting regional cooperation to unlock economic opportunities;
- Ensuring sustainability and sound environmental management; and
  - Addressing the special challenges of low-lying atoll nations

## ✓ **Focusing policies and investments to unlock growth opportunities**

Given the thin capacity in the public sector, limited financial resources, and scarce political capital — these countries must choose very carefully which reforms to pursue and which investments to make. This implies that Pacific Island countries identify clearly where their most promising economic opportunities lie and what needs to be done to unlock these opportunities.

## ✓ **Investing in people**

Opportunities will rely on the availability of adequate skills. Education sector reforms should thus be designed with a view as to what is needed to be able to harness targeted economic opportunities.

## ✓ **Promoting regional cooperation to unlock economic opportunities**

Regional arrangements for granting access to Pacific Island countries' fishing grounds has generated massive economic payoffs. Coordinated approaches to deep sea mining, harmonized rules for investors in the tourism sector, or collaboration between labor sending and receiving countries are examples where regional cooperation can be expected to have high economic payoffs.

## ✓ **Ensuring sustainability and sound environmental management**

Three of the opportunities discussed in *Pacific Possible* — fisheries, sea-bed mining and tourism — are based on natural resources. These resources require strong regulations and processes to protect sustainability and the health of the environment.

## ✓ **Addressing the special challenges of low-lying atoll nations**

Because of their extreme remoteness and small size, economic opportunities in atoll nations are even more limited than those in other Pacific countries, including in the areas of knowledge economy and tourism.



