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**EMERGING ISSUES AND DEVELOPMENTS AT THE REGIONAL LEVEL:
LEAST DEVELOPED, LANDLOCKED AND ISLAND
DEVELOPING COUNTRIES**

(Item 6 (f) of the provisional agenda)

**REPORT OF THE SPECIAL BODY ON PACIFIC ISLAND DEVELOPING
COUNTRIES ON ITS FOURTH SESSION**

Note by the secretariat

SUMMARY

The Special Body on Pacific Island Developing Countries concentrated its attention and adopted a set of conclusions and recommendations on two issues: the implications of recent developments for the trade and investment of Pacific islands and the coordination of development policy management. Particular attention was paid to problems facing small island States in their consideration of membership of the World Trade Organization (WTO), principally concerning the burden of payment of dues in relation to the size of the domestic economy, the limited human resources available to analyse the agreements and ensuing obligations and the substantial changes in domestic laws required to execute these obligations. There was recognition of the need for the economies of the Pacific island States to become more competitive as their protection through preferential agreements was eroded and they undertook efforts to expand and diversify export products and markets.

There was a call for greater exchange of experience between the Pacific and Asia in relation to development policy management, development of subregional economic arrangements, trade and investment promotion and the development of tourism, including through economic and technical cooperation among developing countries (ECDC-TCDC) programmes and secretariat projects.

In the area of coordination of development policy management, the Special Body recommended wider discussion of the issues raised in the secretariat report on the subject within the Pacific through workshops and seminars at the national and subregional levels. The Special Body endorsed the programme of work under subprogramme 10, Least developed, landlocked and island developing countries, for the biennium 1998-1999. It also noted that that subprogramme represented only a small part of the overall ESCAP activities for those countries, with many others being undertaken under the other nine subprogrammes and under the United Nations regular programme of technical cooperation.

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I. MATTERS CALLING FOR ACTION BY THE COMMISSION OR BROUGHT TO ITS ATTENTION

1. The Special Body, after a discussion of items 4 and 5 of the agenda, generally endorsed the conclusions and recommendations included in the two documents prepared by the secretariat on those items (E/ESCAP/SB/PIDC(4)/1 and E/ESCAP/SB/PIDC(4)/2). The Special Body submits to the Commission for endorsement the following conclusions and recommendations covering these two items.

A. Trade and investment: implications of recent issues and developments

2. The Special Body noted that Pacific island countries needed to adjust to the changing global trading environment. As small open economies with high dependence on trade, they were vulnerable to changes in external conditions which tended to have a magnified effect in their economic situation. They also had to ensure that their economies remained competitive. Those issues had been discussed at the third session of the Special Body and the conclusions and recommendations adopted at that session and endorsed by the Commission at its fifty-second session remained valid.

3. The Special Body noted that many Pacific island countries were very concerned about the implications of membership in the World Trade Organization (WTO) for their economies. It was felt that all countries had no option but to join WTO at some time in the future, but that the costs of membership in terms of payment of dues were very burdensome, the human resources needed to analyse the agreements and the ensuing obligations were limited, and the changes in domestic laws to execute the obligations were often quite substantial. The Special Body noted that assistance on WTO matters was available from several sources, including the Forum Secretariat, ESCAP, the Commonwealth Secretariat, the United Nations Conference on Trade and Development (UNCTAD) and WTO itself. It noted, however, that there was a need to make that assistance responsive to the needs of the individual countries, depending on the status of their involvement in the process. More information on the costs involved in membership, notification requirements, costs and benefits of membership and obligations and rights, tailored to the specific situation of those countries, would be helpful. The Special Body requested the providers of technical assistance to take those concerns into account. It also noted the plea of the Forum Secretariat for close coordination among organizations which provided assistance on WTO matters.

4. To address the problem of the cost of WTO membership, the Special Body recommended that ESCAP, in cooperation with Forum Secretariat, should examine the various possibilities of reducing the financial obligations of small island States, for the consideration of WTO. A report on that should be brought to the attention of the Forum Meeting of Economic Ministers, the Committee for Regional Economic Cooperation of ESCAP, and the Commission.

5. The Special Body noted that there was interest in the Pacific island countries in increasing their subregional economic cooperation arrangements, such as the Melanesian Spearhead Group, as a means

to increase inter-subregional trade and investment links and as part of the learning process for linking up with the rest of Asia.

6. The Special Body supported greater exchanges of information and periodic meetings among agencies responsible for trade and investment in the subregion and with their counterparts in Asia. It supported efforts to build a network and data exchange among those agencies and to enhance their institutional capacity. It also supported efforts to devise or revise investment guidelines and procedures to develop a more friendly environment for private investors in the subregion, and to increase the transparency of the guidelines.

7. The Special Body noted that Pacific island countries were in the process of enhancing the role of the private sector in trade and investment activities and changing the role of government to one of facilitator and regulator. It recommended that technical assistance for that purpose should be continued. It also recommended that the studies on the costs of doing business in the Pacific recommended by the Expert Group Meeting on Enhancing Cooperation in Trade and Investment between Pacific Island Countries and Economies of East and South-east Asia in the 1990s be undertaken by the Forum Secretariat, assisted as necessary by ESCAP and other international agencies, and the results disseminated and discussed.

8. The Special Body noted that tourism was likely to remain an important foreign exchange earner for the subregion. It requested advice on how to overcome obstacles to its further development, drawing on the experience of Asian countries in that area.

9. The Special Body requested the ESCAP secretariat to continue its role as a bridge between the Pacific and Asia to encourage interaction between the groups of countries and to assist Pacific island countries in taking advantage of offers of technical assistance, fellowships, study tours and other such offers made by developing countries in Asia under bilateral or trilateral arrangements.

B. Coordination of development policy management

10. The Special Body noted that Pacific island countries were paying increasing attention to governance issues in their management of development policy. It recommended that the report presented under item 5 be given wider dissemination and that its contents be discussed in seminars or workshops at the national or subregional level, with the assistance of ESCAP.

11. The Special Body recognized that sound policy-making, which was vital for national development, required the strengthening of national machinery for decision-making and coordination for national development so that decision makers could be regularly briefed; policy decisions could be made promptly as internal and external circumstances changed; collective decisions could be based on sound analysis and carefully appraised options; policy papers presented for decisions could have the collective intellectual inputs of all the relevant government departments and agencies and, where necessary, the private sector and academics; and the proposed allocation of public sector resources could reflect the

balanced needs of all sectors of the economy. An institutional arrangement for macroeconomic coordination and decision-making for national development, which one or two Pacific island countries had in place and others were currently in the process of adopting, or should contemplate adopting with suitable adaptation, was discussed. The Special Body encouraged Pacific island country authorities to examine that matter further and, where necessary, take appropriate action.

12. Central bankers, planning offices and ministries of finance in the subregion had had intermittent arrangements for staff attachments among themselves. Various organizations, such as the Forum Secretariat, the South Pacific Commission (SPC), the South Pacific Regional Environment Programme (SPREP), and ESCAP, had organized training workshops for those development managers in the past under regional programmes. The Special Body encouraged those organizations to continue those important activities. It underlined the urgent need for further enhancing exchange of experience between development managers in the subregion, on the one hand, and those from Asia, on the other; it suggested that the existing programme for that needed to be enhanced and adequately funded and that ESCAP, located as it was in Asia, should give priority attention to it.

13. The potential damage caused by scams to the open and fragile economies of the Pacific island countries was recognized. It was noted that some scams had exposed such countries to contingent or actual liabilities many times the external reserves of the countries concerned. Generally, "get-rich-quick" operators who promoted such scams in the subregion posed as potential investors with substantial amounts of funds to invest. The Special Body recommended that screening procedures of various sorts should be established as part of the process for countering the activities of such operators. It also suggested that central banks be encouraged to strengthen their cooperative efforts against their activities. It noted that a comprehensive data bank on operators known to central banks, the Comptroller of the United States currency in Washington, Interpol and national police managed by one of the central banks, was a useful regional arrangement for countering scams. The services of investor rating agencies could also be used to vet promoters of schemes effectively.

14. The Special Body noted that there was a need to improve governance practices and reduce possibilities for corruption. It recommended that action of the following sort could be implemented to achieve that objective: updating legislation on procurement, financial and audit procedures; provision of onerous sanctions for those who breached the rules and regulations; strengthening of audit and accounting capacity in government; deregulation aimed at minimizing the scope of discretionary decision-making; strengthening the police, the office of public prosecution, the ombudsman and the judiciary; allowing increased freedom for the media; and strengthening the capacity of civil societies so as to encourage transparency in the decision-making process of governments.

II. PROCEEDINGS OF THE SPECIAL BODY AT ITS FOURTH SESSION

A. Trade and investment: implications of recent issues and developments;

and coordination of development policy management

15. During its deliberations on items 4 and 5 of the agenda, the Special Body had before it the following documents prepared by the secretariat: "Trade and investment: implications of recent issues and developments" (E/ESCAP/SB/PIDC(4)/1), and "Coordination of development management" (E/ESCAP/SB/PIDC/(4)/2). The Special Body commended the secretariat for those documents, which provided a solid basis for its deliberations. The documents were supplemented by a well-received presentation by Thailand on its export promotion activities.

16. The Special Body acknowledged that the rapid changes in the world economy were likely to have an adverse impact on Pacific island countries owing to a combination of factors, including their lack of diversification in exports and their dependence on preferential access to traditional markets. While noting that the successful conclusion of the Uruguay Round was likely to reduce the margin of preferences enjoyed by Pacific island countries in their traditional markets, it urged those countries to meet the challenges by introducing policies and initiatives to ensure that their economies became competitive.

17. The Special Body acknowledged that Asian economies were expected to remain relatively robust into the next century and therefore there were prospects for Pacific island countries to increase trade and investment with those countries. It noted that the extent to which Pacific island countries were able to participate in and benefit from the new trading environment would be largely determined by the type of policies they adopted. It then considered action to be taken by Pacific island countries at global, subregional and national levels.

18. The Special Body, while acknowledging that Pacific island countries would not have a sizeable influence on the course of world events, suggested that they should continue to keep abreast of developments at the global level, including taking informed decisions on such issues as WTO membership, to avoid being further marginalized. It was noted that three Pacific island countries (Fiji, Papua New Guinea and Solomon Islands) were members of WTO and that three others (Samoa, Tonga and Vanuatu) were applying for membership. The other smaller Pacific island countries were facing a dilemma between the need to be part of the global trading system and the costs of becoming members of WTO. The problems facing Pacific island countries in trying to address WTO issues included limited appropriate human resources and lack of information relevant to their situation. The need for many more consultations and more appropriate advice was obvious. In that connection, the Special Body suggested that Pacific island countries still aspiring for membership of WTO might consider pooling their resources and adopting one or more common systems that could follow up their interests and monitor developments. Such systems might include a common representative office or ad hoc use of subregional organizations, as well as use of an Internet-accessible database.

19. At the subregional level, the Special Body suggested that Pacific island countries might

continue their efforts to increase cooperation in trade and investment among themselves. Increased subregional cooperation in tourism could also be explored, and a study on Asian experiences on tourism could be considered. It cited the example of the Melanesian Spearhead Group and its Trade Agreement as an interesting model for the countries to follow in experimenting with economic cooperation before they ventured into more ambitious schemes to integrate their economies further with the rest of the world, including the Asian economies. In that connection, enhancing inter-island transport systems in support of tourism and trade was seen as a key area for attention.

20. The Special Body recognized that the formulation and implementation of national policies, such as reforms of tax systems and the maintenance of appropriate exchange rates and transparent, market-friendly investment regimes, supplemented by appropriate sectoral policies especially for private sector development, youth employment and self-employment, and urbanization, were crucial for economic and social development. Modalities for dealing appropriately with the consequences of economic shocks were also required. It noted that the role of the State was still important in economic development, but stressed that its role should increasingly be one of facilitator, promotor and regulator of private sector activities. It further acknowledged that, in formulating national policies, there should be active cooperation and interaction between the government and the private sector and the civil society, as well as better coordination in policy management among the relevant departments and agencies in a government to ensure that policies were internally consistent and supportive of each other.

21. The Special Body stressed that fiscal discipline was a necessary condition for macroeconomic stability and that, without macroeconomic stability, sustainable development could not be achieved. A number of Pacific island countries were currently in the midst of socially and economically painful adjustment and reform programmes. Such a situation often stemmed directly from inappropriate fiscal policies, including mismatches between receipts and expenditures.

22. Some observations were made on the worrying trends of scams and corruption in the subregion. The Pacific island countries were, of course, not the only countries which were exposed to the activities of "get-rich-quick" operators and those who engaged in corrupt practices. But they were singularly vulnerable to their negative impact because of the small size of their economies. Examples of such practices were cited.

23. The Special Body held the view that ESCAP could play a vital role, as a bridge between Pacific island countries and Asian economies, especially in facilitating the sharing of development experiences among countries of the two subregions. It recognized the value of economic and technical cooperation among developing countries (ECDC-TCDC) arrangements and urged their expansion. In that connection, China and Thailand described their TCDC arrangements and offered the Pacific island countries access to them.

24. The Special Body acknowledged that research and advisory activities by international and

subregional organizations could be useful to individual countries. Examples included providing counselling and consulting services on WTO issues and Forum Secretariat support for revising investment guidelines for the Pacific island countries.

B. Report on the Commission's activities in the Pacific

25. During its deliberations on item 6 of the agenda, the Special Body had before it the following document prepared by the secretariat: "Report on the Commission's activities in the Pacific" (E/ESCAP/SB/PIDC(4)/3). The Special Body expressed appreciation of that useful document.

26. The Special body commended the secretariat on its efforts to increase the number of activities with Pacific island participation and reaffirmed its view that ESCAP could play a vital role as a link between Pacific island countries and Asian economies. It noted that some activities had been undertaken with the support of member countries, including China, Indonesia, Malaysia, Singapore and Thailand, under their ECDC-TCDC arrangements. The Special Body noted that Pacific island countries valued that programme highly. It urged more countries to offer such assistance, and Pacific island countries to make fuller use of that unique mechanism for technical assistance. Several countries, including China and Thailand, reaffirmed their offer of continued assistance to Pacific island countries under their national ECDC-TCDC mechanism.

27. The Special Body expressed satisfaction at the very valuable role of the ESCAP Pacific Operations Centre (ESCAP/POC) in carrying out a wide range of activities, including workshops, seminars, and technical and advisory services for the benefit of Pacific island countries. It noted that those activities were focused and practical in nature.

28. The Special Body noted with appreciation the continued support of many donors and agencies for ESCAP activities for the benefit of Pacific island countries. It expressed appreciation to donors, including Australia, France, New Zealand and the Republic of Korea, for providing very valuable financial assistance to ESCAP/POC. It acknowledged the additional contribution of \$NZ 100,000 from New Zealand to assist the Centre with consultancy services in 1997/98, and noted that New Zealand was considering further assistance to the Centre. It noted that France, in addition to providing an expert on a non-reimbursable loan basis, had funded a technical assistance project on informal financial systems undertaken in cooperation with SPC. The Special Body was briefed on the background of Australian Government funding of the post of adviser on development policy formulation and implementation at the Centre for an initial period of 12 months, after which ESCAP was to fund the post for an additional two years. The Special Body took note of the offer of the International Civil Aviation Organization (ICAO) to provide technical assistance to Pacific island countries in the area of civil aviation development, subject to the availability of funding for those activities from external sources.

29. The Special Body also acknowledged the very useful role of the Pacific Trust Fund in facilitating the participation of Pacific island countries in annual sessions of the Commission, and

expressed its appreciation to the many donors that had contributed to the Fund. It welcomed the announced contributions in 1997 of \$US 10,000 by China and \$NZ 10,000 by New Zealand to the Pacific Trust Fund.

30. The Special Body considered and endorsed the programme of work for the benefit of Pacific island countries under subprogramme 10, Least developed, landlocked and island developing countries, for the biennium 1998-1999. It noted that the programme of work was only a small part of overall ESCAP activities for those countries, as there were many other activities implemented under other subprogrammes and through the United Nations regular programme of technical cooperation.

III. ORGANIZATION OF THE SESSION

A. Opening of the session

31. The fourth session of the Special Body on Pacific Island Developing Countries was held in Bangkok on 18 and 19 April 1997.

32. In his opening address, the Executive Secretary recalled that at the third session of the Special Body, a consensus had been reached on a number of proposals and recommendations for assisting the Pacific island developing countries, which had guided the secretariat in implementing activities for the benefit of those countries. He also highlighted the desire of Pacific island countries for the Special Body to continue playing a useful role in their development efforts, as evidenced by the active participation of selected Pacific island countries in the Regional Preparatory Meeting on the Review of the Conference Structure of the Commission, which had argued for the Special Body's retention and invigoration. He then appealed to the Governments to ensure that the Special Body fulfilled the mandate entrusted to it.

33. In a world economy that was undergoing rapid change, there were prospects for increased regional dynamism and strengthened cooperation in trade and investment, especially with the dynamic Asian economies. However, the implementation of the Uruguay Round of trade agreements presented Pacific island countries with some difficult challenges as well as opportunities to increase and diversify trade. Even though Pacific island countries had virtually no influence over developments on the international scene, the action taken at the macroeconomic and sectoral levels would go a long way in determining the extent to which Pacific island countries prepared themselves to meet the challenges of the rapidly changing world environment. Pacific island countries had made considerable progress by implementing far-reaching macroeconomic reforms in which emphasis had been placed on policy convergence towards market-based development strategies, with downsizing and change in the role of government, concurrently enhancing the role of the private sector in production activities.

34. As efforts increased to bring Pacific island countries into the mainstream in the Asian and Pacific region, there was an important role for ESCAP as a bridge between the two groups of countries.

In an atmosphere of declining aid resources, coordination with and between donors, subregional organizations, and recipients then became important. ESCAP/POC continued to be the main venue for secretariat initiatives in the Pacific, supplemented with activities undertaken in Bangkok. ESCAP/POC had been playing a very useful role in the development efforts of Pacific island countries, including strengthening cooperation with other subregional organizations. The Executive Secretary concluded by placing on record the secretariat's appreciation to all donors, including contributions to strengthening ESCAP/POC and to the Pacific Trust Fund. He also expressed appreciation to some member countries for extending assistance to Pacific island countries under their ECDC-TCDC activities, and urged more countries to join the programme.

B. Attendance

35. The session was attended by representatives of the following members and associate members of the Commission: Australia, China, France, India, Kiribati, Nauru, New Caledonia, New Zealand, Niue, Northern Mariana Islands, Palau, Papua New Guinea, Philippines, Republic of Korea, Samoa, Solomon Islands, Thailand, United States of America, Uzbekistan and Vanuatu.

36. Representatives of the following United Nations bodies and specialized agencies also attended the session: United Nations Conference on Trade and Development, United Nations Development Programme, United Nations Environment Programme, Food and Agriculture Organization of the United Nations, United Nations Educational, Scientific and Cultural Organization, World Health Organization, International Civil Aviation Organization and United Nations Industrial Development Organization.

C. Election of officers

37. The meeting elected Hon. Andres Uherbelau (Palau), Chairperson, Ms Noumea Simi (Samoa) and Mr Charan Plangtrakul (Thailand), Vice-Chairpersons, and Mr Gerard Baudchon (New Caledonia), Rapporteur.

D. Agenda

1. Opening of the session.
2. Election of officers.
3. Adoption of the agenda.
4. Trade and investment: implications of recent issues and developments.
5. Coordination of development policy management.
6. Report on the Commission's activities in the Pacific.
7. Other matters.
8. Adoption of the report.

E. Adoption of the report

38. The Special Body adopted its report on 21 April 1997.