

**KEY NOTE PRESENTATION BY THE
ASIAN DEVELOPMENT BANK PRESIDENT TAKEHIKO NAKAO
ON THE 'PACIFIC ISLANDS: DEVELOPMENT OPPORTUNITIES AND POLICY
PRIORITIES AT THE USP LAUCALA CAMPUS, 28 AUGUST 2015**

Vice Chancellor Professor Chandra,
Excellencies,
Ladies and gentlemen:

Bula vinaka. Welcome.

I am delighted to have the opportunity to address you on my first visit to the beautiful country of Fiji. I would like to thank the Fiji Government for hosting my visit, and the Vice Chancellor for his kind introduction.

The University of the South Pacific has a proud record. USP alumni include several current Pacific Island heads of Government, as well as business, academic, and community leaders. Current students - including those of you here today - will, like those before you, help to influence the Pacific of tomorrow.

Today I would like to discuss five issues:

First, the achievements that have been made in the Pacific.

Second, opportunities for the Pacific from the ongoing global economic transformation and the rise of Asia.

Third, the potential benefits from even greater regional cooperation and integration.

Fourth, the challenge of climate change and the continuing need for a strong "Pacific voice" on the world stage.

Fifth, how the Asian Development Bank is changing to help you accomplish these objectives.

Pacific Achievements

With ADB established in 1966 and USP in 1968, both institutions are approaching their 50th anniversaries. Samoa was a founding member of ADB in 1966. In the subsequent 50 years, 13 other Pacific islands have joined the Bank. Fiji was the second Pacific Island nation to join ADB, doing so on Independence in 1970. Most recently, Palau joined in 2003.

Pacific island countries have made significant progress over the past 50 years.

Across the Pacific, children born today can now expect to live to 70 - compared to a life expectancy of 56 in the mid-1960s. Hundreds of thousands more girls and boys are now attending primary schools each year. And average incomes have increased by thousands of dollars, although progress has varied among countries.

ADB's 14 Pacific members include Cook Islands, Fiji, the Federated States of Micronesia, Kiribati, Nauru, Palau, Papua New Guinea, the Republic of the Marshall Islands, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu.

Despite progress, continued challenges remain. While absolute poverty in several Pacific island countries is limited, many people face hardship and are vulnerable to natural disasters and other shocks. Several countries have made progress in meeting millennium development goals (MDGs), including maternal and child health, but countries still need renewed efforts.

Pacific Opportunities: Leveraging Asia's Growth

Over the past 50 years, the world has transformed. The rapid rise of Asia over this period is one of the most successful economic development stories in history.

Asia's contribution to total global economic output has doubled: from about 15% in the mid-1960s to about 30% today, and could contribute more than half of global output by 2050. The fastest decline in poverty anywhere in the world has been in Asia, where - despite a growing population - the number of people living in extreme poverty has fallen from 1.5 billion in 1990 to about 600 million today.

The Pacific is benefitting from Asia's rise. Many Pacific Island countries have adopted "look North" economic strategies. They are strengthening their links with Asian economies - boosting growth and incomes for citizens.

While recognizing gains, ADB sees further opportunities for Pacific Island countries to strengthen links with the fast-growing Asian countries. ADB's recent report "Pacific Opportunities: Leveraging Asia's Growth", launched here at USP last month, identifies five key priorities.

First, the private sector should take the lead. Innovative Pacific businesses have successfully established niche markets for bottled water, high quality agricultural products such as vanilla and coffee, and cosmetics. As a result, Pacific exports to Asia have more than quadrupled since 1990, to over US\$3.6 billion per year.

Direct foreign investments in the Pacific now amount to about US\$500 million per year, with several Asian countries starting to invest heavily in the region providing jobs and incomes for tens of thousands of people.

To assist, ADB is providing advice to businesses, and ADB's private sector department is actively looking for opportunities to invest in the Pacific.

Second, substantial infrastructure investments in communications, seaports, and airports are needed to reduce the high cost of doing business.

ADB is assisting countries with partners in digital connectivity and transport networks in the Pacific.

In Tonga, for instance, ADB and the World Bank financed a new broadband cable, providing access to high-speed internet and reducing prices by almost two thirds.

We are now looking to replicate this success across the region, including Samoa, Solomon Islands, and the North Pacific.

In Kiribati, Fiji, Papua New Guinea, Solomon Islands, and Timor-Leste we've worked with Australia and the World Bank to finance the building and reconstruction of hundreds of kilometers of roads. And in Cook Islands, ADB financed the extension of the main port. These investments will better link remote, rural and outer island areas to mainstream markets as well as health and education services.

While public investment for infrastructure is needed, there is significant scope to attract new private sector financing. The telecoms revolution over the past decade has seen over \$1 billion invested by new private operators in the Pacific giving almost 2 million more people access to affordable mobile phones.

For air services, a regional approach to encouraging greater private sector competition through ("open skies" could help increase the number of flights within the region and with key overseas markets.

On shipping, initial experience in Vanuatu and Solomon Islands suggests that subsidizing the private sector on a competitive basis to undertake shipping routes to remote communities can be a better approach than through inefficient state owned enterprises.

Third, ("soft infrastructure" will be needed. By this, I mean that institutional and policy constraints such as high barriers to imports and slow and complex customs procedures will need to be addressed.

Regional trade agreements, including those being negotiated between Pacific Island countries themselves, as well as with Australia and New Zealand, can reduce regulatory costs and encourage growth.

The Pacific is especially likely to benefit if greater trade in goods is accompanied by greater labor mobility. Australia and New Zealand temporary labor migration programs, for instance, now provide opportunities for thousands of Pacific islanders each year. These schemes have been proven to benefit both labor sending and labor receiving countries.

ADB is working with Governments across the region to undertake reforms to encourage business, attract investment, and streamline "red tape".

Fourth, it is people who forge economic links. Improving and expanding opportunities for education can promote innovation and develop the skills needed for Pacific countries to engage globally. The Pacific can also mobilize the wealth of talent in large Pacific populations in the U.S., Australia and New Zealand, as well as the Asian diaspora in the region.

USP is the first regional university established anywhere in the world, and a great example of Pacific regionalism. I am especially pleased that ADB has been able to work closely with USP, including efforts to improve campuses in Kiribati and Solomon Islands.

Fifth, as the Pacific Island countries aim at greater integration, they should also be mindful to keep the unique cultures, social fabric, and environmental beauty that makes the Pacific special.

For ADS's part, we work carefully to ensure that all of our support for the Pacific recognizes your cultures and traditions, and the fragile environment of your island countries.

Accelerating "Pacific Regionalism"

Let me now turn to potential opportunities from accelerating Pacific regionalism. ADB recognizes the diversity of the Pacific. The region has over 800 languages.

Pacific island economies are very different. But a regional approach to common challenges can benefit all. Pacific island leaders will be discussing a new framework for Pacific regionalism in at the Forum Leaders meeting in Port Moresby in early September. ADB stands ready to support their key priorities.

I already discussed the importance of a coordinated regional approach to hard and soft infrastructure development. One concrete example of the benefits of regional cooperation is the recent success of the Pacific islands improving the management and economic returns from fisheries.

The Pacific Ocean covers almost one third of the world's surface area and is the last great global fishery, with over 60% of the world's tuna. By working together, the Pacific island countries have managed to raise fishing license fees fivefold, from just over \$80 million in 2010 to more than \$450 million expected in 2015.

Strong regional efforts are making the fishing industry more sustainable. While more still needs to be done, there is now a hard cap on total fishing days, and several countries are introducing extensive marine protected areas.

As PNG Prime Minister O'Neill has noted, now is time for a paradigm shift to accelerate Pacific regional cooperation and integration.

A Pacific Voice on Climate Change

Now more than ever, a strong and coordinated Pacific voice on Climate change is vital. Pacific island countries are already among the most vulnerable in the world to disasters - as Cyclone Pam in Vanuatu earlier this year reminded us. Natural disasters cost most Pacific Island countries over 2% of GDP each year.

Risks will be exacerbated if the world doesn't take urgent and concrete actions on climate change. As the expert International Panel on Climate Change has reported, without policy change, we can expect a world that is 4 degrees warmer by the end of the century.

As Kiribati President Tong has said, potential sea level rises as a result of climate change threaten the very existence of the low lying atoll countries.

COP21- the 21st Conference of the Parties to the United Nations Framework Convention on Climate Change in Paris in December this year - aims to reach, for the first time, a universal agreement that will enable the world to slow global warming.

The stakes are high. A concerted voice from the small islands - at the forefront of having to adapt to climate change - will be vital. A proposed "Suva Declaration" arising from the Pacific Islands Development Forum in Fiji next week will be an important step in this direction. Similarly, a clear message from the Pacific on the need for greater funds on grant terms to assist with adaptation efforts will be important.

ADB is trying to do our share to help the Pacific better manage risks from 'natural disasters and climate change. In close coordination with governments and partners, for instance, we've been able to respond quickly to assist with reconstruction after natural disasters, such as the 2009 Samoa tsunami and Cyclone Pam in Vanuatu earlier this year.

We are integrating resilience to climate change and natural disasters into everything we do in the Pacific. We have to date mobilized over US\$80 million in new and additional grant resources to help countries adapt to climate change.

And we hope to work closely with the new Green Climate Fund to make further resources available for the region.

ADB is proud to be the largest single source of financing for renewable energy investments in the Pacific. We are working with New Zealand, the European Union and Japan to help countries reduce reliance on imported fossil fuels and set a global example that ambitious emission reduction targets can be met. We are currently implementing energy projects in ten Pacific developing member countries.

Across Developing Asia, ADB invests almost US\$2.5 billion per year for climate change mitigation efforts. All this will help to reduce the impact of climate change on vulnerable Pacific islands.

ADB Efforts to Assist Pacific Islands' Own Development Priorities

I am pleased to report that ADB is stepping up support for Pacific countries to meet their own priorities. ADB's assistance to the Pacific more than doubled in the last decade, with more than \$2 billion in loans, grants and TAs approved from 2005 to 2014, compared to \$856 million approved from 1995 to 2004. And we are increasingly providing concessional and grant financing for our smallest and most vulnerable members.

The recent decision to combine our concession all ending operations with the ordinary capital balance sheets operations will allow us to further increase our financing for the Pacific islands.

We are planning to increase the minimum allocation we provide to the smallest countries to US\$6 million per year, starting in 2017. This is almost 10 times the amount we had available for our smallest members - like Tuvalu and Nauru before 2015.

In Fiji, ADB has agreed to provide \$350 million over 5 years from 2014 to 2018, including \$100 million committed for a road and jetty project in December 2014.

This is more than the amount ADB committed in the entire period from 1970 until end 2014.

Along with increased financing capacity, we have four full-fledged country offices in the region (Suva, Fiji; Sydney, Australia; Port Moresby, PNG; Dili, Timor-Leste) and nine coordination offices in smaller countries. Over half of our staff working on the Pacific are based in the region: - giving ADB a true "Pacific character".

In this way, we can combine financing, global expertise, and local knowledge. Of course, we are fully committed to work collaboratively with other partners. Working together, we've been able to assist Pacific Island countries to make larger, transformative investments.

We look forward to continuing our work with you to achieve your development goals. We will try to do so with humility, and by listening to Pacific voices to ensure our activities remain responsive, relevant and people-focused.

I was advised when I arrived in Fiji that one definition of the "Pacific way" is to wear a colorful shirt... but to speak softly.

Although I have saved my Bula shirt for a social event this evening, I hope ADB is increasingly engaging with the region in a truly Pacific way.

Vinaka vakalevu. Thank you very much.