

**IMF Deputy Managing Director Min Zhu's Concluding Remarks at the High-Level  
Pacific Islands Conference**  
*Lifting Potential Growth in the Pacific Islands*  
**November 22, 2013**  
**Port Vila, Vanuatu**

1. **It has been a long and very productive day.** We exchanged views and best practices on policies that governments can effectively implement to raise potential growth in the region. Let me provide some key messages I have taken away today.
  
2. **Small states, like the ones that populate the region, can indeed achieve strong and sustainable growth.** We began the conference wondering if the economies in the region can achieve strong growth, given the weak performance in the past. In fact, in the 10 years preceding the 2008–09 global financial crisis, Pacific islands' growth averaged just 2 percent a year—much lower than the Asian low-income countries, the Eastern Caribbean Currency Union countries, and other small states. Against this background, we discussed several successful cases, including Malta, Mauritius, Singapore, Botswana, St. Kitts and the Dominican Republic. Each of these economies may have some characteristic that may not exactly fit the Pacific island economies, but as a whole they made it clear that with right policies strong and sustainable growth can be achieved.
  
3. **There is broad agreement on the key policies to achieve growth.** First, macroeconomic stability is critical. Fiscal sustainability is particularly important in the Pacific islands given that a number of economies in the region do not have a central bank. The region has brought down fiscal deficits, and has done well in keeping inflation low. Nevertheless, there still remains room to increase fiscal buffers and enhance the quality of government spending, including those that are geared toward strengthening human capital. In this regard, having a well-functioning tax system is very important—and there is a critical need to discuss tax exemptions and the treatment of racing to the bottom.
  
4. **Second, governments need to articulate a clear vision forward.** As Prime Minister Carcasses emphasized, this vision should encompass a private-sector led growth strategy. The private sector is pivotal to financing large investment needs economies in the region face without accumulating large debt. Public-private partnerships could help, provided they do not create large contingent liabilities. Education should be boosted with a view to improve skills and raise value added in production, business environment should be improved, and challenges associated with climate change should be brought into the overall policy framework.
  
5. **Third, structural reforms remain top priority.** State-owned enterprises in particular should either be rehabilitated or passed on to the private sector to improve their contribution to the economy and transform them from being a burden to the budget to a contributor to fiscal revenue. More broadly, institutions matter—governments should make every effort to improve public institutions to serve the populations better.

6. **Fourth, look beyond the immediate horizon and think outside the box.** Asia is set to grow strongly in the foreseeable future and provide important opportunities for the region. Tap into Asia's growth, including—but not limited to—in tourism and agriculture. This could be greatly facilitated through enhanced regional cooperation and increased connectivity. I understand that the University of the South Pacific is a very successful case of regional cooperation, and this cooperation could successfully be extended to other areas.

7. **I can reaffirm that the IMF is committed to work closely with the region and support the region's growth agenda.** In our surveillance and lending we will pay particular attention to growth, and we will continue to tailor our technical assistance to serve best the region. We will also explore ways to facilitate peer-to-peer learning. As a clear sign of good cooperation, Papua New Guinean Minister for Treasury Don Polye has been elected to be the chairman of the Boards of Governors of the International Monetary Fund and the World Bank in 2014. It is a very prestigious role and it is the proof that small can become big.

8. **Finally, I would like to thank the government of Vanuatu for co-hosting this event, for the warm hospitality, and the excellent organization.** Thank you to all of you for attending the conference, for sharing your views and experiences, and for your attention.