



Federated States of Micronesia

Communiqué

On the occasion of the 3rd FSM Economic Summit held at the campus of the College of Micronesia-FSM in Palikir, Pohnpei, from March 29-April 2, 2004, over four hundred participants representing the four FSM states, the traditional leadership, private sector, National and State governments, non-government organizations, churches, women's and youth groups, government officials, as well as representatives of foreign governments and donor institutions gathered together. The theme of the Summit was, *The Next 20 Years: Achieving Economic Growth & Self-Reliance*. The Summit was successful in achieving its two immediate objectives to:

- build awareness of the economic structure of the amended Compact provisions and the likely impact on our economy.
- achieve consensus on an overall strategy consistent with our theme of achieving economic growth and self-reliance.

The third objective, to improve monitoring mechanisms to enhance implementation of our economic strategy and its underlying strategic goals and policies, will be addressed through actions following the Summit and will be the responsibility of the FSM Economic Policy Implementation Council (EPIC), an advisory body comprised of national and state executive and legislative leaders that was created in 1999 as a recommendation of the 2nd FSM Economic Summit.

The President of the FSM, His Excellency Joseph J. Urusemal, opened the Summit by noting the tremendous turn out of citizens. He discussed the theme of the meeting and indicated that now was the right time for the nation to gather to plan bold new actions to meet the challenge of achieving a higher growth rate than was achieved despite declining Compact funds. The President also thanked the Summit's international sponsors: the Asian Development Bank and the U.S. Department of Interior's Office of Insular Affairs. The national and state governments provided support to ensure broad-based participation from throughout the nation. Heads of the state delegations also addressed the

participants, describing the extensive preparations that had been undertaken in preparatory leadership meetings and dedicating their delegations to the success of the Summit.

The theme was chosen because the FSM is at the outset of a 20-year period of economic assistance under the Compact of Free Association with the United States. The terms of the new assistance package were negotiated over the past several years. The FSM's Joint Committee on Compact Economic Assistance Negotiations reported to the Summit participants that the final outcome of the lengthy negotiations met or exceeded almost every goal the FSM had established. However, the new package entails declining annual grants that require the FSM to make tough choices between alternative economic strategies and policies that will result in different outcomes in terms of income and out-migration rates of Micronesians.

Dr. Gustav F. Papanek presented three economic scenarios that the FSM might experience over the next 20-year period of Compact support. Dr. Papanek is Professor *emeritus* of Boston University and President of the Boston Institute for Developing Economies. He has been advising countries in the region for five decades and has advised the FSM since 1993. While noting that the FSM might face a truly "dismal" scenario if the country's leadership failed to make needed economic adjustments to offset the drag on economic activity resulting from the structure of the Compact assistance, there was more emphasis on "moderate growth" and "high growth" scenarios.

To achieve moderate growth in incomes and to avoid rising out-migration rates, the FSM would need to maintain fiscal discipline, including increases in its tax effort to support essential services and needed public infrastructure as Compact flows decline over time. The FSM would also need to implement a moderate program of reforms to improve the environment for domestic and foreign investment in private, productive activities. To do better, and to make significant improvements in incomes of Micronesians over the next 20 years, a much bolder reform program would be required, including greater sacrifice at the outset in order to bolster investment levels and to create a truly attractive and competitive environment of investment. The breaking of an air transportation bottleneck was presented as a vital key to achieving high growth from the leading sectors of tourism, fisheries and agriculture. The synergies of in-bound tourism and outbound sashimi-grade tuna exports were discussed.

At the outset of the Summit the President created a Select Committee, comprised of the EPIC members and the co-chairmen of the Summit Convening Committee. That committee endorsed the high growth strategy and gave its support to implementing reforms required to achieve high growth based on tourism, fisheries and agriculture, including: (i) increasing investment in infrastructure, especially in airports, electricity, roads and health facilities; (ii) raising revenue sufficiently to provide the funds that the FSM will need to invest in infrastructure, and to compensate for declining Compact funds; (iii) revising rules and laws with respect to investment and other matters to make the FSM an attractive place for investors; and (iv) carrying out other measures needed to achieve high growth such as adopting rules and regulations to facilitate the employment of foreign technicians and managers needed for rapid growth, ensuring that over several

years it is primarily Micronesians who benefit from high growth, and strengthening education to train people in skills needed for growing tourism, fisheries and agriculture sectors, and other measures.

Much of the work of the Summit was concentrated in nine sectoral working committees including: agriculture, education, environment, fisheries, gender, health, private sector development, public sector management, and tourism. The Gender Committee modified its policy matrix to be inclusive of women, youth and senior citizens. The sectoral strategies were developed according to the FSM Planning and Budget system, which is an integrated approach to performance budgeting and management. The system is responsive to new accountability standards of the amended Compact. The FSM Strategic Development Plan (SDP), the nation's primary planning document, will be finalized as a result of the endorsed outcomes of the Summit.

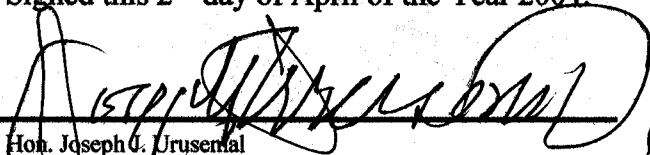
The final results of the sectoral committee deliberations also followed the spirit of the high growth strategy. A separate committee met to review and revise the FSM's draft Infrastructure Development Plan (IDP). Changes were made to ensure consistency with the high growth strategy and sectoral committee efforts.

Summit participants endorsed a strategic planning matrix from each of the nine sectoral committees and endorsed the IDP as amended following the discussions in the summit plenary sessions. Each State will have an opportunity for continuous review and revision of the IDP through the annual budget process. The participants also called for the completion of the SDP for submission to the Congress of the FSM for final approval and subsequent sharing with all of the FSM's donor partners. It was further agreed that the high growth strategy and sectoral plans should be carefully reflected in the annual budgets of the national and state governments.


Summit participants agreed that these recommendations should be openly shared and discussed at State and Municipal levels, throughout all communities, and that continuing input be provided to policy makers. The Summit Secretariat will maintain its website, www.summit.fm, in order to facilitate information sharing of all Summit documents and the monitoring process to follow in the coming years.

At the conclusion of the Summit national and state leaders were encouraged to maintain an open dialogue with public, private and non-governmental stakeholders in the nation's development. President Urusemal committed himself and his Administration to advancing the vision of high growth and ultimate self-reliance for the people of the FSM.

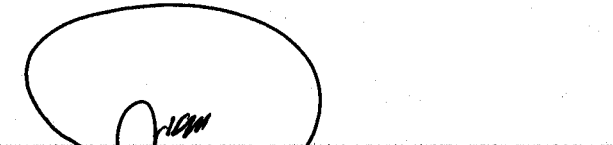
Signed this 2nd day of April of the Year 2004:



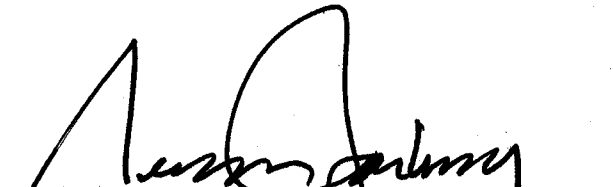
Hon. Joseph U. Urusemal
President of the FSM




Hon. Peter M. Christian
Speaker, Congress of the FSM




For the State of Chuuk



For the State of Kosrae



For the State of Pohnpei



For the State of Yap