

VI. CONCLUSIONS

112. This paper examines various issues related to the relationship between private sector development and Palau's future economic growth. It analyses current policy measures within the context of the debate among Palauans regarding the future of the country, the benefits of growth to Palau, and the structure of Palauan society. It concludes that many issues are holding back development of Palau's economy by restricting growth while failing to contribute to achievement of Palau's societal goals. In particular, a number of policy measures being implemented by the Government with the aim of helping Palauans play a greater role in the economic life of their country are in reality having a negative effect, and are hindering the development of Palau as a modern vital economy.

113. The Executive Summary outlines a list of reform measures, including: (i) reducing the role of the state in the economy through trimming of government payrolls; (ii) opening infrastructure services to public private partnerships; (iii) modernizing the legal system; (iv) strengthening the financial system, including introducing a modern framework for collateralization; (v) focusing on high-end tourism; (vi) improving the system for employing foreign workers; (vii) making the framework for landholding more investor friendly; and (viii) overhauling the system for attracting foreign investment. These changes will enable Palau to raise its potential growth rate, in spite of its small size. With an appropriate policy mix, there is no reason why the country cannot achieve levels of prosperity that rival those of the industrial countries.

114. With little effort, Palauans have the potential to combine prosperity, preservation of their way of life, and conservation of the country's natural resources. It requires, however, that the Government engage its citizens in a constructive debate to resolve the uncertainty regarding Palau's future direction, and then establish laws and incentives that reflect modern economic realities, and which allow Palau to meet the global economic challenge that even very small countries face. All elements of Palauan society will need to work together to achieve these ends, but future possibilities are bright if this can be achieved.