

Policy Options for the Small Pacific Island Economies in the event of Global Economic Crisis

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ABSTRACT

As the recent financial crisis wreaked havoc on the global economy, Pacific Island countries (PICs) hoped that their remoteness would spare them the worst of the calamities. An uncertain faith prevailed amongst the Pacific Island economists and policymakers that the PICs would be cushioned from the global crisis due to their isolation from the global financial system. These assumptions proved to be far from the truth. In this age of global trade, information, financial and labour mobility, no country is an island, regardless of size or geographical location. The global economy affected every country in the Pacific region in one way or another. How and why a global crisis that began far away in the United States reached the door steps of impoverished PICs is examined in this paper. The analysis focuses on the linkages that exist between the global economy and the small Pacific Island economies. A comparative analysis of Fiji, Samoa, Solomon Islands, Vanuatu and Kiribati is undertaken to explain the economic linkages that help in the development of poor island economies. Pacific Island policymakers need to understand these links clearly so that they can devise corrective policy measures to mitigate the effects of global downturns. This paper pays particular attention to tourism and primary exports since these industries are the mainstay of the small Pacific Island economies that are being analysed.

INTRODUCTION

In the last five decades, several financial crises have rocked the global economy. The latest one has been termed by many analysts as a systemic failure of the American capitalist order. Though the causes of the major crises over the last hundred years have been varied, the frequency of the crises arising from stock market and financial instability has increased dramatically in the recent times. The increasing instability of the financial market is directly related to the financial market deregulation in the past two decades (UNCTAD 2009). Allen and Gale (2008) in their introductory chapter state that “Crises have been the feature of the financial landscape for hundreds of years”. In a radical wording, the UNCTAD secretariat report of 2009 states that the laissez-faire system of the last 20 years has dramatically failed. The task force report in its key message adds that its longstanding call for stronger international monetary and financial governance was underscored by the manner in which the crisis of 2007 unfolded. It pointed out that the dynamics of the crisis reflected failures in national and international financial deregulation trends of the past decade, which often persistently led to global imbalances in various regions. The South East Asian financial crisis of 1997 and the Mexican crisis of 1994 are two clear cases in point. Despite these well-known cases, the recent trend in the global financial sector reflects lack of international supervision, with clear signs of deep inconsistencies among global trading, financial and monetary policies (UNCTAD 2009). It is argued that the lack of proper financial regulations have led to increasingly volatile speculative operations in commodity and currency markets, which has resulted in severe global imbalances.

The US government and the Treasury have been rightly criticized for the failure to foresee the crisis. Similarly, economist and policymakers have been criticized for failing to predict such a mega crisis in time to take corrective measures (Colander et al. 2009). The criticisms are particularly intense since the warning signs were ignored by those in control (McDonald and Robinson 2009). The fundamental problems lingering in the system due to the bad practices of the big financial companies in the United States were allowed to carry on without proper system check. This crisis not only weakened the financial system in the United States, but also damaged the economic systems of developing countries like China as stated by Chou (2009) and UNCTAD (2009) among many others. However, not all economies were equally affected by this crisis. The Indian economy, for instance, was far less affected than the Chinese or the Korean economies since the Chinese and the Korean economies are far more integrated with the US commodity markets than the Indian economy (see IMF 2009).

As the financial crisis spread its tentacles to the rest of the world in September/October 2008, it became increasingly obvious that millions of poverty-stricken people in the developing countries would not be spared, even though they were far removed from the decisions and events that triggered the economic catastrophe. The citizens of these small and poor countries came into harms way due to no fault of their. Though the trade and other linkages of many of these countries with the United States and Europe are weak, most of them suffered depressed growth due to decline in exports and tourism.

There are several transmission channels through which the financial crisis spread around the world since 2007 to 2008 (Frenkel and Rapetti 2009). With liquidity drying up, financial institutions around the world came under stress and resorted to financial tightening. Financial institutions in developing countries came under extreme pressure to withdraw funds from external sources to maintain reasonable levels of domestic liquidity. The inflow of capital into developing countries turned into a trickle due to the downturn in the US and European markets putting pressure on exchange rates and causing unprecedented increases in costs of credit.

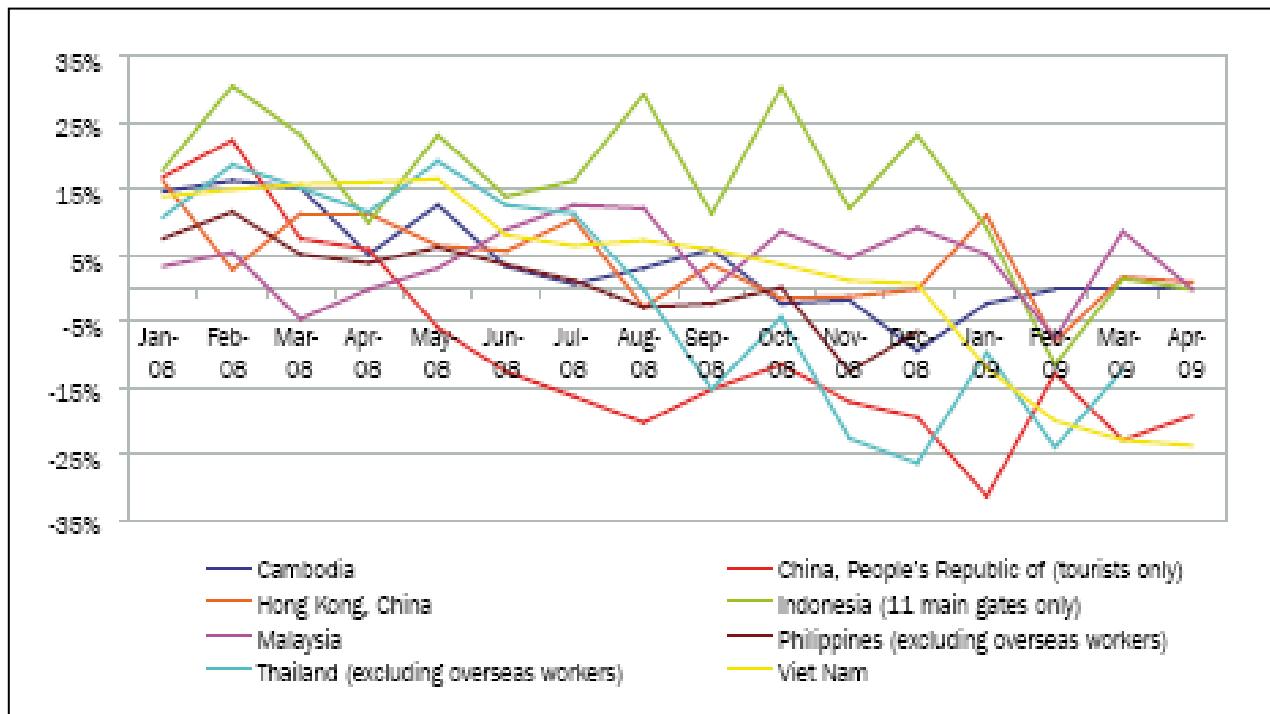
The slowdown of the global economy also affected energy and commodity prices, which hurt energy and commodity exporting countries in South America and Africa extremely hard. While oil importing countries had some relief from declining oil prices, it hardly helped in rejuvenating the domestic economic slowdown. Due to declining incomes in the US, Europe and Australia, the flow of remittances to the Pacific Island communities also slowed down (Frenkel and Rapetti 2009). Fiji, Samoa, Tonga and Kiribati took a direct hit since a large proportion of their GDPs are made up of consumption from remittances. For a large proportion of households in the Pacific, remittance is an important source of livelihood (World Bank 2006).

Many thousands of Pacific island families would have drifted into dire poverty due to the decline in remittance. For countries like Fiji, Vanuatu and Samoa, a decline in tourism and exports were other channels for the transmission of the crisis. Figure 1 shows declining tourism in Asia, which is a direct result of falling incomes and diminishing savings of households and businesses in the source countries like the US, Europe and Australia. Tourism data for Fiji shows declined of 23% in early 2009, although the visitor arrivals to Fiji in 2008 had increased substantially due to marketing impact, discount offers and the strategic location that Fiji enjoys.

Small Pacific Island economies with very weak or no links at all with the American financial system have still been affected because of their strong trade links to Australia and New Zealand. The downturn for the PICs, therefore has possibly occurred through the global goods market, tourism and remittances. The Pacific Economic Survey (2009) states that Pacific island economies

were affected negatively due to the decline in consumption in the United States and the consequent decline in Australia and New Zealand. However, the report argues that the PICs experienced growth in 2008 fiscal but the growth was confined to only a few sectors and countries, such as Timor-Leste and Papua New Guinea that have remained depressed in the immediate past. The Report argues that for 2008, small PICs including Timor-Leste grew by about 5.1%, which was about double the growth rate in 2007. However, the impact of the global slow down was felt severely by the PICs in the later part of 2008 and throughout fiscal 2009.

Figure 1: Visitor Arrivals in Asia (% change)



Source: Adapted from ADB (2009a), Key Indicator for Asia and the Pacific

The paper examines the effects of the global downturn on the various economic sectors of some Pacific Island countries (PICs) in the next section. The tourism sector, remittance inflows and some agricultural sector exports are examined. The import bills of the PICs are examined to determine how the crisis impacted on the trends in consumption in relation to the trends in Australia, New Zealand and the United States. The policy responses of some of the PICs are also studied in the following section and some conclusions are drawn in the final section. The conclusion focuses on the appropriateness and efficacy of the PICs' policy measures if any.

SMALL PACIFIC ISLAND ECOMONIES

The Pacific Island economies vary widely in population size, geography, economic structure, environmental conditions and developmental status. Among the typical Pacific Island economies in the central Pacific, Fiji is the second largest after PNG. Tuvalu is the fourth smallest with about 12,500 people and 26 square kilometres of land area. Table 1 provides the basic data of some of the PICs. It shows that the population density of PICs also vary widely, with Solomon Islands at the lowest density with 46 persons per square kilometre and Tuvalu at the highest with 374 persons per square kilometre. Fiji has the highest GDP per capita of \$3,175 USD while Kiribati is at the lowest rung with per capita GDP of \$653 USD (see Table 1 for details).

Table 1: Characteristic Indicators of PICs (in USD)

Country	Characteristic Indicators					
	Land Area	Population	Population Density	% Growth (2008)	GDP (\$'000)	GDP/Capita
Fiji	18,272	839,324	46	0.6	2,695,666	3,175
Solomon Islands	28,370	517,455	18	2.7	373,800	753
Vanuatu	12,190	233,026	19	2.6	459,010	2,127
Samoa*	2,935	179,645	61	0.1	532,000	2,872
Tonga	650	102,724	158	0.4	234,484	2,319
Kiribati	811	97,231	120	1.8	61,433	653
Tuvalu**	26	9,729	374	0.3	17,514	1,831

Source: SPC, Database (as on 19 January 2010)

Note: * implies 2007 and ** implies 2002

Despite their size and other basic characteristics, all the small economies in the Pacific region were affected by the global downturn, albeit at differently levels and lags due to their varying economic characteristics. As such, different policy measures were adopted by the countries depending on their anticipated effects. The effectiveness of the policy measures in different PICs was also varied. Some countries were especially exposed to the global financial crisis because of various internal weaknesses such as poorly performing and inefficient economic sectors and also severe vulnerability to natural disasters (Pacific Economic Survey 2009). For instance, there was severe flooding in Fiji in February 2009 and the devastating tsunami in Samoa in September 2009. The flooding in Fiji had serious negative effects on agricultural output and tourism. The tsunami in Samoa claimed over 100 lives and destroyed infrastructure. In such a diverse region like the Pacific, the rapid rise in commodity prices in 2008 and 2009 had a mixed effect on various economies. For instance, oil and mineral exporting countries such as PNG and Timor-Leste enjoyed windfall gains from the shifting terms of trade in their favour, where as the oil importing countries suffered severe

adverse effects. In 2008 the increases in prices of agricultural commodities commonly exported from Pacific island countries such as palm oil, coconut oil, copra, hardwood, cocoa beans, coffee and gold was a boon for the economies of these countries. However, the price increases in these commodities were more than offset by large price hikes in imported oil and food. Tonga, Samoa, Fiji and Kiribati that import lots of food products were affected seriously due to the price hike.

The Fijian economy is among those in the region that is quite open to international shocks. Fiji's total imports and exports make up a substantial proportion of the GDP. Recently, the ratio of imports to GDP has grown significantly from 57% in 2002 to 70% in 2008. The sum of imports and exports reached 99% in 2008 and merchandise trade deficit was at 37% of GDP. As a result of this increasing imbalance in trade the Fijian currency was devalued by 20% in April 2009.

Fiji's import bill is wide-ranging since the domestic economy is narrowly-based in terms of production of commodities. Thirty three percent of total imports comprise of fossil fuel and over 15% comprise of food products. The rest of the imports are chemicals, transport, machinery, and assorted manufactured items for consumption and for inputs of production. The commodities export base includes sugar, gold, garments, fish, lumber, molasses and coconut oil. Apart from these, there are many other agricultural products and manufactured goods that are exported in small quantities. Table 2 shows the decline in earnings from Fiji's exports as the global downturn took hold in 2009.

Table 2: Exports from Fiji Islands (in '000 FJD)

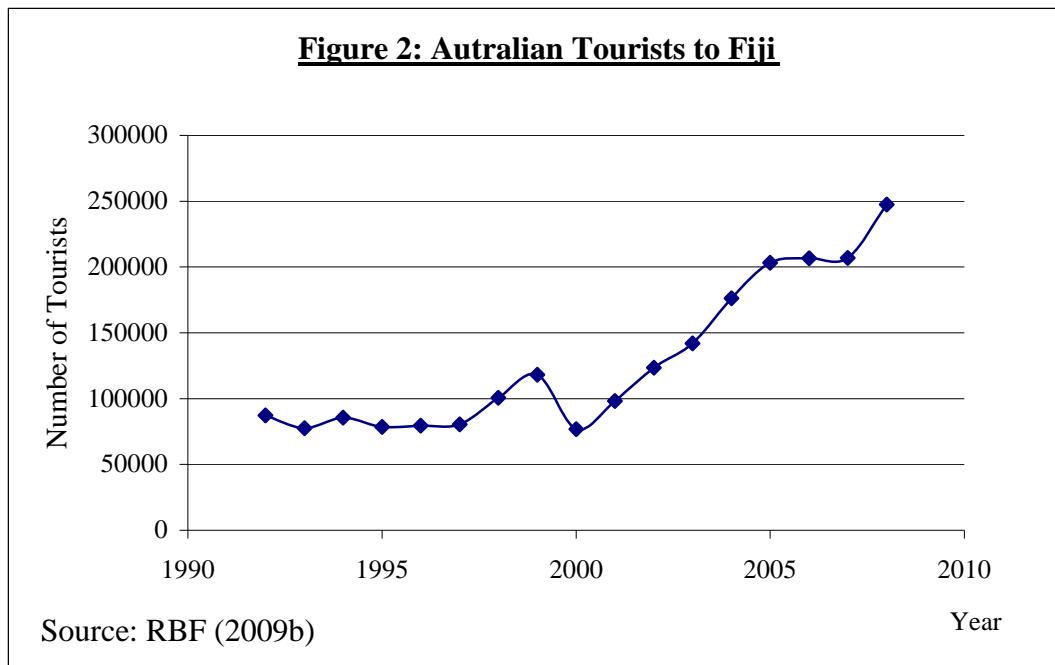
Quarter Period	2007	2008	% Change	2009	% Change
Q1	231.7	293.7	0.2676	255.4	-0.1304
Q2	276.0	331.8	0.2022	250.3	-0.2456
Q3	357.0	432.9	0.2126	365.6	-0.1555
Q4	345.1	412.6	0.1956	NA	NA
Total	1209.80	1471.00			

Source: RBF (2009b).

There are three main ways in which a continued global downturn could affect Fiji's economy. First, Fiji's exports could dwindle further if external demand declines, as was the case in the first three quarters of 2009, which occurred despite the 20% devaluation of the Fijian currency in April 2009. Interestingly, exports in all four quarters of 2008 show significant increases (see Table 4 for details). This increase in 2008 could be due to a combination of factors. It could be due to internal adjustments and policy measures taken by the Fiji government to boost primary industry production in 2008 combined with the increase in sugar prices on the global market.

Secondly, Fiji's tourism sector is expected to be affected by the global downturn. But the effects of the global crisis may not necessarily be negative since there are a number of factors and dynamics regarding Fiji's tourism industry that remain favourable. For one, Fiji's location in the central Pacific is of essence. Australia and New Zealand are Fiji's strongest markets and tourists from these destinations intending to travel to Europe or the US would normally turn to Fiji as the second best option if they were to be faced with a cash crisis or travel risk. Likewise, if travel risks in Middle East or South East Asia increases, tourists from Australia and New Zealand look to Fiji as a safer, cheaper and often a closer option. This distinct advantage seems to have helped Fiji during the crisis in 2008.

Figure 2 shows that the number of Australian tourist travelling to Fiji increased after 9/11 incident in 2001. There seems to be a structural break in the travelling pattern of Australian tourists since 2001. The series in Figure 2 shows that Australian tourists to Fiji have more than doubled in this period. This increase has been consistent except for a slight break in 2006 where it hovered around 200,000 and then increased to 250,000 in 2008 A similar trend is evident for the tourists from New Zealand.



The Tables 3 and 4 show that Fiji's downturn in tourism started in late 2008 and continued into early 2009. However, this downturn and a subsequent upturn occurred very swiftly, evidently due to the policy response put in place by Fiji. The data shows that the trend growth in tourist arrivals from Australia declined to 7.1% in the fourth quarter of 2008 from a high of 39.2% in

quarter 1. In quarter 1 of 2009 Australian tourist declined by 26.4% and again started on a growth path in quarter 3 of 2009. This reversal of the dramatic decline in late 2008 and early 2009 seems to be due to the Fijian currency devaluation of 20% in April 2009, which gave Fiji tourism a substantial competitive advantage. In addition to the devaluation, the Department of Tourism in Fiji moved into overdrive in its global campaign to attract visitors.

Table 3: Tourist Arrivals during Global Crisis

Period	2007				2008				2009			
	Aus.	NZ	US	Total	Aus.	NZ	US	Total	Aus.	NZ	US	Total
Q1	38236	14098	14307	108733	53241	13588	17759	130762	39186	9175	11377	100331
Q2	47538	28142	16520	130002	58235	26669	14897	140084	52378	22050	12569	124077
Q3	59288	36768	17477	159540	69820	38364	15893	170394	73652	37955	14139	168201
Q4	61939	20736	16383	141606	66312	21397	15118	143791	NA	NA	NA	NA
Total	207001	99744	64687	539881	247608	100018	63667	585031	NA	NA	NA	NA

Source: RBF (2009b)

Table 4: Tourist Arrivals during Global Crisis (% Change)

Period	2007				2008				2009			
	Aus.	NZ	US	Total	Aus.	NZ	US	Total	Aus.	NZ	US	Total
Q1	38236	14098	14307	108733	39.2%	-3.6%	24.1%	20.3%	-26.4%	-32.5%	-35.9%	-23.3%
Q2	47538	28142	16520	130002	22.5%	-5.2%	-9.8%	7.8%	-10.1%	-17.3%	-15.6%	-11.4%
Q3	59288	36768	17477	159540	17.8%	4.3%	-9.1%	6.8%	5.5%	-1.1%	-11.0%	-1.3%
Q4	61939	20736	16383	141606	7.1%	3.2%	-7.7%	1.5%	NA	NA	NA	NA
Total	207001	99744	64687	539881	19.6%	0.3%	-1.6%	8.4%	NA	NA	NA	NA

Source: RBF (2009b)

Table 5: Total Imports for Fiji Islands (in '000 FJD)

Quarter Period	2007	2008	% Change	2009	% Change
Q1	655.0	711.3	0.0860	709.8	-0.21
Q2	663.3	880.6	0.3276	666.1	-24.36
Q3	744.9	1049.2	0.4085	723.0	-31.09
Q4	826.9	960.2	0.1612	NA	NA
Total	2890.1	3601.3	-	-	-

Source: RBF (2009b)

As a result of declining GDP in the last quarter of 2008 and the first quarter of 2009, consumption declined significantly and thus imports declined by approximately 24.4% in the second quarter and 31.1% in the third (see Table 5). The import consumption declined mainly due

to price signal arising from the 20% devaluation of the Fijian currency. Apart from the 20% devaluation, the government also implemented some fiscal policy measures to increase domestic production of primary food products, which included tax holiday for certain category of investors..

As in the case of Fiji, exports from the Solomon Islands also declined significantly by about 14% in 2008, and was expected to decline by more than 20% in 2009 (see Table 6). Unfortunately, in the case of Solomon Islands, despite this negative growth in exports in 2009, policymakers failed to implement any policy initiative to boost domestic output. The policymakers were more inclined to wait in anticipation for the global economy to pick up in the later quarter of 2009, which unfortunately did not eventuate and overall exports declined dramatically (see CBSI 2009 for details of exports decline).

Table 6: Exports from Solomon Islands (in '000 SID)

Period	2007			2008 Percent Change			2009 Percent Change		
	Fish	Timber	Total	Fish	Timber	Total	Fish	Timber	Total
Q1	7730	211986	264653	248.98%	-12.50%	16.67%	14.78%	-3.66%	-8.24%
Q2	12780	167900	242109	210.99%	36.58%	67.06%	-9.69%	-16.39%	-27.54%
Q3	43213	187696	310314	-24.47%	36.41%	38.50%	18.52%	-29.85%	-33.39%
Q4	94032	239645	412200	-80.78%	-2.10%	-14.03%	NA	NA	NA

Source: CBSI (2009), September Economic Review

There are a number of constraints faced by Solomon Islands industries. While timber and fish industry can increase outputs, the concerns for environmental degradation due to unsustainable, poorly regulated and even illegal harvests persist and continue to limit production. The fisheries sector requires concerted government assistance, which often proves expensive to the exchequer due to minimal tax returns from such industries that absorb public funds. The low price of fish and diminishing stocks are constant concerns of the industry. Both these factors cause increase in production costs and a decrease in revenues, leading to a drop in the margin of returns (CBSI 2009; Pacific Economic Survey 2008). Generally, the prices of primary products on the international market fluctuate widely, exposing the producers to significant risks. These price fluctuations are directly related to fluctuations in global demand, seasonality in production and slow adjustment processes in agricultural sectors. The Solomon Islands has virtually no answer to address these global or even regional issues entirely on its own. Therefore, policy response to situational changes is basically non-existent. Appropriate agricultural policies are often very costly and technologically challenging, and the Solomon Islands can hardly afford such policy options. For instance, infrastructure support can reduce costs of production for the benefit of the farmers, but it requires

lots of resources to facilitate such infrastructure. New techniques and extension services often result in better production efficiency but may entail change in techniques of production and demand personnel that are non-existent in the island states. In addition to the lack of such resources, the Solomon Islands is faced with serious political problems and inhibitive internal conflicts, and largely inadequate physical infrastructure (UNDP 2009; Pacific Economic Survey 2009).

In comparison to Solomon Islands, Vanuatu has a much larger tourism sector. From the data shown in Table 8, Vanuatu does not seem to be affected by the global crisis. Like Fiji, Vanuatu also attracts Australian tourists due to its geographical location and natural oceanic beauty. According to the detailed Reserve Bank of Vanuatu data, tourists from Australia continue to grow while those from New Zealand declined. The reason for this is not clear but multiple factors affect tourism in Vanuatu, as in Fiji and are most likely interrelated. Reserve Bank of Vanuatu (2009), points out that Vanuatu may be gaining ground in tourism due to political instability in other comparable destinations. Fiji seems to have been implied in this assessment. However, despite the increase in tourism sector, which is by far the largest economic sector in Vanuatu, imports show declined in all quarters of 2009, which indicates declining consumption (see Table 9). The imports declined as the Vanuatu currency depreciated against major currencies, which is quite an expected result.

Table 8: Visitor Arrivals for Vanuatu

Period	2007	2008		2009	
		Million Vatu	% Change	Million Vatu	% Change
Q1	42,696	49,424	13.61%	65,630	24.69%
Q2	39,900	37,298	-6.98%	52,892	29.48%
Q3	37,270	46,298	19.50%	53,944	14.17%
Q4	47,216	63,639	25.81%	NA	NA

Source: Reserve Bank of Vanuatu (2009) September Economic Review

Table 9: Imports for Vanuatu (in millions of Vatu)

Period	2007	2008		2009	
		Millions of Vatu	% Change	Millions of Vatu	% Change
Q1	4,507	6,730	49.32%	5,733	-14.81%
Q2	5,423	7,388	36.23%	6,181	-16.34%
Q3	5,779	7,901	36.72%	6,740	-14.69%
Q4	6,665	8,234	23.54%	NA	NA

Source: Reserve Bank of Vanuatu (2009) September Economic Review

In early 2009 food prices declined in the global market, reducing revenues from exports of beef, cocoa and other products. Vanuatu is not a competitive producer of agricultural goods in the

global market. However, Vanuatu beef, which is renowned for its excellent quality, has a distinct advantage in the domestic market, and also in Australian and Japanese markets. Vanuatu had the option of currency devaluation to attract tourists and also to become more competitive globally in agricultural products (see Pacific Economic Survey 2009). The Reserve Bank of Vanuatu did not consider this drastic action as Fiji did but allowed the currency to depreciate slightly against the Australian currency, which helped Vanuatu exports to regain some level of competitiveness. However, the Vatu appreciated against the US Dollar in the last two quarters of 2009 mainly due to the depreciation of the US Dollar.

Unlike the Vanuatu economy, the Samoan economy is strongly dependent on remittances, which has been increasing in the last decade due to the increasing number of Samoans living abroad who sent monies back home to support their relatives (World Bank 2006). While the global Samoan population is estimated at 450,000, only 188,000 lived in Samoa as per 2006 estimates. The majority of ethnic Samoans now reside in other countries, primarily in New Zealand, United States and Australia with estimated populations of 115,000, 70,000 and 39,992 respectively.

In fact, in Samoa, remittance flows are considered more significant than the tourism sector due to the direct impact of remittances on poor households (see World Bank 2006). Remittances to Samoa make around 25% of the total GDP, which is normally spent on consumption goods. However, like tourism, remittances also dwindle when economic downturn occurs in the source countries, and Samoa and Tonga have been affected in this way due to downturns in Australia and New Zealand. A sizable number of Samoan migrants also live in the United States, and a continued downturn in the US could also cause remittances to decline (Pacific Economic Survey 2009). However, there are no clear signs that remittances to Samoa have declined in 2008 or 2009 since the import data in Table 10 does not show any specific trend to suggest that anything like that would have happened. Export for 2008 however, shows decline for all the four quarters whereas the first quarter of 2009 shows an increase (Table 11 shows details). All monetary indicators remain positive for the entire period of 2009 and liquidity condition in the system remained normal with no sign of decline (Central Bank of Samoa 2009).

The tourism sector faced significant decline which was underpinned by decreased travelers from all the targeted tourist markets such as USA, Australia, Europe, Western Samoa and New Zealand that declined by 26%, 24%, 22%, 19% and 14% respectively for September 2009. When categorized by purpose, the lower tourist arrivals reflected a reduction in those arriving for ‘holiday’, ‘visit friends and relatives’ and for ‘business’ (Central Bank of Samoa 2009). However,

tourism and associated revenues increased in October 2009, due mainly to Tsunami related travel and donations.

Table 10: Imports for Samoa (in '000 of Tala)

Period	2007	2008		2009	
		Millions of Tala	% Change	Millions of Tala	% Change
Q1	133,443	141,827	6.3%	117,294	-17.3%
Q2	148,321	139,768	-5.8%	NA	NA
Q3	173,445	198,202	14.3%	NA	NA
Q4	138,430	179,384	29.6%	NA	NA

Source: Central Bank of Samoa (2009), Economic Review

Table 11: Exports for Samoa (in '000 of Tala)

Period	2007	2008		2009	
		Millions of Tala	% Change	Millions of Tala	% Change
Q1	5,225	4,209	-19.4%	5,847	38.9%
Q2	10,390	7,193	-30.8%	NA	NA
Q3	11,188	7,802	-30.3%	NA	NA
Q4	9,384	6,694	-28.7%	NA	NA

Source: Central Bank of Samoa (2009), Economic Review

Samoa was devastated by an earthquake and a killer tsunami in September 2009. Apart from 129 deaths, total cost of damage was US\$36 million. As a result of the damage to infrastructure, including seaside tourism accommodation, the economy has been seriously affected. Prior to the tragedy, Samoan economy was doing reasonably well, with tourism numbers increasing slightly. Export of commodities had been increasing, particularly in marine products and beer. However, these two sectors have remained volatile in the short term and currently they are not doing as well as expected (Central Bank of Samoa 2009). Tourism has been increasing steadily since 2002 but there is no clear sign that the global downturn has affected Samoa significantly. The data gives mixed results. However, it is known that Samoa is a high cost destination, and upward swing would only be possible if the traditional markets (Australia and New Zealand) pick up. Additionally, Samoa needs to develop niche market strategies to build its economic infrastructure, including primary production.

The Tongan economy has been in bad shape for a long time now. Its weak growth prospects are related to the political instability and incoherent economic policies. The economic structure is based on only a few primary products such as vanilla, squash, taro and fish. However, there has been very little or no sign of a growth trend in the economy since early last decade. While the global crisis does not seem to have had any clear negative effect on the Tongan economy, there

appears to be some decline in the first two quarters of the 2009. Tourism in 2008 showed signs of increase in the first 3 quarters but declined in the last quarter. The data for 2009 does not show any definite sign of decline but prospects for growth remains minimal (Table 12 gives details). This may be due to the continued inflow of remittances, which is a strong determinant of domestic consumption. According to the imports data, consumption declined in quarter 1 and 2 of 2009 but 2008 had shown a strong increase in the middle two quarters, which eased off in quarter 4 (see Table 13 for details). There is no definite policy option for Tonga in response to the global crisis but long term planning towards the primary sector is likely to give favourable results. Tourism development and appropriate land policies would be helpful in boosting output. Restrictions on the foreign exchange market seem to persist for obvious reasons but more investor friendly policies would be appropriate. The flow of remittances into Tonga is expected to be affected by external crisis in source countries, which however does not seem to be obvious from the data. Domestic liquidity and foreign reserves have remained stable for the period 2007 to 2009 (see NRBT 2009). In fact the data shows that foreign reserves improved for this period on a month-to-month basis.

Table 12: Tourist Arrivals for Tonga (in '000 of Tala)

Period	2007	2008		2009	
		Number	% Change	Number	% Change
Q1	7,228	8,474	14.7%	8,973	5.9%
Q2	10,881	11,290	3.6%	10,792	-4.4%
Q3	12,177	14,865	18.1%	14,906	0.3%
Q4	15,709	14,776	-6.3%	NA	NA

Source: NRBT (2009), Economic Review, September 2009.

Table 13: Imports for Tonga (in millions of Tala)

Period	2007	2008		2009	
		Number	% Change	Number	% Change
Q1	63.1	67.0	6.2%	65.1	-2.8%
Q2	61.6	83.8	36.0%	70.6	-15.8%
Q3	76.6	93.4	21.9%	NA	NA
Q4	79.7	80.3	0.8%	NA	NA

Source: NRBT (2009), Economic Review, September 2009

Another Pacific economy that is of interest is Kiribati. However, recent economic data for this country is not available. The export economy is based on coconut oil, copra, fish, seaweed and beach-de-mer and handicraft. Unfortunately, even fish export that could easily be Kiribati's niche sector has not performed well since long (WCPFC-SCI 2005).

The next section of this article contains a policy analysis of these countries in order to examine whether the policy options they adopted and implemented could yield favourable results since it has often been asserted that small Pacific Island economies are ill-equipped to deal with economic calamities such as the 2008/2009 global crisis.

POLICY OPTIONS FOR SMALL PACIFIC ISLAND ECOMONIES

From the discussions above it is clear that small Pacific island countries have been affected by the global economic crisis but with different ways and intensities. The reasons for these variations are related to the nature of linkages that exist between the island countries and the global market and secondly, the nature of policy options the island countries took to tackle the crisis, which in most cases were absent. Small island country policymakers often feel helpless and without any policy options when global crisis occur. The island countries have often been thought not to have the capacity to respond to such crisis with policy instruments as larger countries such as Malaysia, Thailand or China may have (UNDP 2009). The case of Fiji stands out quite clearly where monetary policy measure in early 2009 worked favourably to rebuild reserves (RBF 2009a; 2010). This policy produced desirable macroeconomic results albeit overall negative welfare outcomes due to increasing food and fuel prices (UNDP 2009). However, policy measures such as rural development and rural investment did not yield immediate results due to the nature of the problems that exist. In Fiji, lack of investments and outflow of skilled labour are related to political instability and cannot be resolved in the short run. Despite this, it is expected that good policy measures yield desirable outcomes. Table 14 provides some details for the other Pacific Island countries.

Like Fiji, it is expected that countries such as Solomon Islands, Vanuatu, Samoa and Tonga can also use policy options to change economic outcomes. However, these economies need to further develop the infrastructure to be able to respond to global crisis. For instance, if the tourism infrastructure in Solomon Islands was better than what existed today, policies to attract more tourists would help rejuvenate the economy even when primary exports declined. In the case of Vanuatu, devaluation of the currency could have helped the tourism sector but was not considered by the Vanuatu Reserve Bank due the comfortable foreign reserve position (Reserve Bank of Vanuatu 2009b). Similarly, Samoa could have opted for long term policy to attract more remittances and additionally it could opt for investment policies to attract foreign investors towards capacity building in industrial sector such as food processing.

Table 14: Policy Options for Small Pacific Island Economies

Country	Main Economic Issues for 2007-2009	Required policies or Reforms	Action taken (or not taken)	Effectiveness & Outcomes
Fiji	Declining Investments	<ul style="list-style-type: none"> • Tax incentives for investors • Infrastructure development • Tax exemption for creation of new business ventures • Tax holiday for creation of new business ventures • Policies to retain skilled workers • Lowering of interest rates on long term loans • Policies to promote political stability and investor confidence • Facilitate better business registration processes • Ease foreign investment regulations on domestic borrowing • Reform land legislation 	<ul style="list-style-type: none"> • Government announced rural investment policies in 2008 and 2009 National Budget (see Government of Fiji 2008; 2009) • Government invested in rural development, e.g. road upgrade projects but came in drips and drapes, which is often felt to be too little too late. • Rural banking policies were implemented in 2008. • Reserve Bank of Fiji (RBF) is regulating commercial bank interest rates to keep them at competitive levels. • Fiji Trade and Investment Bureau (FTIB) and RBF adopted a fast track investment process to facilitate foreign investment initiatives (RBF 2009a). • There does not seem to be any political resolution of the current crisis • Any resolution on land legislation soon is least like 	<ul style="list-style-type: none"> • Rural development policy - not so effective (although commercial activities in some areas have increased) • Fiji's fourth coup in 20 years cemented its reputation as a politically unstable country. Now Election is expected in 2014 • Investment levels continue to be low due to political instability. • Land legislation continues to be an entrenched, unsolvable issue
	Declining Rural Economy	<ul style="list-style-type: none"> • Upgrade of rural infrastructure and facilitation of marketing agencies for agricultural 	<ul style="list-style-type: none"> • Upgrade of rural infrastructure and facilitation of marketing agencies for agricultural products 	<ul style="list-style-type: none"> • Partial success in terms of rural development • Some farm access roads

	<p>products</p> <ul style="list-style-type: none"> • Financing agricultural ventures • Better technology and knowledge for farmers • Better protection of property rights (land rights) 	<ul style="list-style-type: none"> • Financing agricultural ventures • Better technology and knowledge for farmers • Better protection of property rights (land rights) 	<p>have been improved, which is helping build confidence among farmers</p> <ul style="list-style-type: none"> • Extension services not up to standard
Migration of skilled Labour	<ul style="list-style-type: none"> • Employment creation • Citizenship Rights • Better healthcare facilities • Better education facilities • Better race relations • Crime reduction policies • Non-discriminatory Civil service 	<ul style="list-style-type: none"> • Early retirement policies recently implemented (60-55 years) • Dual citizenship now permitted • Race/religious discrimination in police force affecting crime fighting ability • Improvements to Healthcare services (not much in sight but nurses' issues of pay and work conditions are now being addressed) • Government seems unclear about the right policies for race relations • Crime remains a major public concern • No specific action taken to reduce discrimination in civil service • More military personnel appointed to senior civil service positions seems to discourage existing civil servants 	<ul style="list-style-type: none"> • Early retirement policy caused loss of experienced /qualified personnel in the civil service (contrary to employment creation). • Lowly-paid and unmotivated healthcare personnel • Existing health facilities depreciating • Quality of primary healthcare in declining • Quality of Education declining. Urgent overhaul and review of the curriculum needed • Race relations could get worse. • Employment of military personnel in the civil system not helping
Declining exports	<ul style="list-style-type: none"> • Devaluation of Fijian currency for export competitiveness/tourism • Better regional/ bilateral trade agreements • Economic Partnership Agreement (EPA) 	<ul style="list-style-type: none"> • Rural investment policies put in place (RBF 2009a) • Fiji Development Bank loans for investments • Rural road upgrade projects put in place. 	<ul style="list-style-type: none"> • Partial success in terms of rural development • Some farm access roads have been improved, which is helping build confidence among farmers • Extension services not up

	<ul style="list-style-type: none"> • New trading partners • Infrastructure improvement • Better quarantine agreements with trading partners 		
Declining foreign reserves	<ul style="list-style-type: none"> • Devaluation of currency • Boost exports • Lower imports • Boost tourism 	<ul style="list-style-type: none"> • Currency devalued in April 2009 • Bilateral/regional agreements at low ebb due to international discord with military –appointed Government • EPA seems to be functioning as Fiji continues to sell sugar to EU at a preferential price. However, with world sugar prices rising, this agreement is losing significance. • China is emerging as a reliable donor but export to China would remain limited unless Fiji is able to open new areas such as natural forest or mineral exports. Fiji has very strong diplomatic ties with Beijing. • Chinese aid is helping build road infrastructure and some other vital transport and communication sectors. 	<ul style="list-style-type: none"> • Low commodity exports for years. No sign of significant improvement • Devaluation has helped lower imports and improve foreign reserves • Fiji has clear prospect of selling more sugar but the industry is not performing well due to various internal conflicts • No new areas opening up to boost exports. So economic and diplomatic relations with China may not be of help
		<ul style="list-style-type: none"> • Fiji currency devalued No new sectors established, although room for investment in renewable energy sector (ethanol and other bio-fuels) but limited initiatives taken Food production can be encouraged as substitute for imported food and produce. Potential for processed food exports such as breadfruit, duruka and Pacific Chestnut is being tapped by foods Pacific Ltd 	<ul style="list-style-type: none"> • Foreign reserve has improved, mainly due to decline in imports Increase in exports has not occurred. Generally no success is visible in terms of enabling new sectors to emerge

Samoa	Low Exports	<ul style="list-style-type: none"> • Niche market development strategies needed • More favourable bilateral agreements needed with Australia and New Zealand • Flexible foreign investment policies needed • Training programs for new, emerging entrepreneurs • Need to tap into large Samoan diaspora in US West Coast cities, Honolulu, New Zealand, and Australia. • Devaluation of Tala may boost exports 	<ul style="list-style-type: none"> • No specific policy implemented • A WTO bilateral agreement was signed with Australia on 3 April 2009 • FIAS, the Investment Climate Advisory Service reviewed the Foreign Investment Act in 2007. • Business Toolkits Phase II meeting and PIPSO Pacific Regional Small, Medium and Micro-Enterprises Forum in October 2008. • The 225,000 diaspora remains largely untargeted as an export market • Tala has in fact appreciated, which could be the cause of decline in fish and beer exports • It may also be declining demand for the Samoan beer for various reasons 	<ul style="list-style-type: none"> • Some specific policy measures are urgently needed to boost local production capacity • Some effort is needed to create demand of Samoan commodities in Australia and New Zealand as is the case for Samoan Taro • Currently, there is no clear option to increase agricultural products • Research capacity in agriculture is there but some specific steps need to be taken to start new industries or expand the existing ones
	Increasing Imports and merchandise trade deficit	<ul style="list-style-type: none"> • Policy needed to produce processed local food products for export to Samoan diaspora and for tourism • Creating opportunities to invest remittances • Devaluation of the Tala may be a broad strategy to reduce consumption imports 	<ul style="list-style-type: none"> • No significant new policy initiatives • No targeted initiatives to promote investment of remittances • No devaluation has been attempted 	<ul style="list-style-type: none"> • Processed food production remains insignificant despite potential markets. Facilitating export markets could be an excellent long term strategy to reduce imports and thus trade deficit • Significant proportion of remittances is used for daily consumption. Some goes into educational needs and some into expenditures such as rentals and health expenses.

				<ul style="list-style-type: none"> • Devaluation too unpopular and would probably be ineffective since import consumption is linked to remittances from abroad
	Decreasing Tourism	<ul style="list-style-type: none"> • Need Investment in Tourism infrastructure • Incentives for private investments in tourism • Encourage training in hospitality • Tax relief policies to attract more tourism investments 	<ul style="list-style-type: none"> • No new tourism specific policies • Investment environment, particularly registration process, seems favourable • No specific manpower training in hospitality sector • 	<ul style="list-style-type: none"> • Some investments have occurred recently • Trained labour force in tourism sector remains weak • No tax or other government incentives in response to devaluation of national currency by competitor countries like Fiji
	Currency appreciation	<ul style="list-style-type: none"> • Devaluation could be an option to boost exports and create employment 	<ul style="list-style-type: none"> • Devaluation seems a viable option because of the high remittance from abroad. Devaluation would also help some of the niche market exports such as beer and fish to grow 	<ul style="list-style-type: none"> • No policy has been taken but currency devaluation would give more buying power to the foreign dollar in the domestic market
Tonga	Low Exports	<ul style="list-style-type: none"> • Further development of niche market sectors such as vanilla and squash • Flexible foreign investment policies needed • More support for exporters, including fish export sector • Training programs and financial incentives for new, emerging entrepreneurs • 	<ul style="list-style-type: none"> • No new specific policies to increase production and boost exports of vanilla and squash, the traditional export commodities. • Legislation simplifying foreign investment and streamlining business registration procedures came into effect April 1, 2007. New customs and excise regulations grant exemptions from import duty on capital goods effective from July 1, 2008. • NZAID and Tongan government establish a new scheme to encourage 	<ul style="list-style-type: none"> • Exports of vanilla and squash have been successful in the past so they can be further developed • It remains somewhat challenging to establish business in Tonga. • Recent government reforms aim to make the procedures and processes easier and quicker but success has been limited. The World Bank lists Tonga as the

			<ul style="list-style-type: none"> • New initiatives to attract foreign investments in the export and fisheries sector is encouraging •
Low Tourism Arrivals	<ul style="list-style-type: none"> • New policies to attract investments in tourism sector • Land acquisition policies need to be revised to attract investors in the tourism sector and generally for industrial development • 	<ul style="list-style-type: none"> • No new specific policies in place but the Business Opportunity Support Scheme that provides entrepreneurs up to T\$30,000 to carry out feasibility studies covers the tourism sector. • No major efforts at land reforms have taken place for many years • 	<ul style="list-style-type: none"> • Tourism arrivals by air rose 20% in the first nine months of 2007 and cruise ship visitors increased by 50% • More investment needed in tourism, which is considered to be performing below its potential. • The private sector is constrained by existing land framework that makes it very difficult for investors, especially small ones, to identify land available for leasing.
Industrial Development	<ul style="list-style-type: none"> • Land acquisition policies for foreign investors • Government support for infrastructure development • Foreign exchange rules to be relaxed to facilitate 	<ul style="list-style-type: none"> • No specific policy initiatives taken by Tongan government • USD60 million construction of Nuku’alofa central business district commenced in 2007. \$USD45 million concessionary loan from 	<ul style="list-style-type: none"> • New policy initiative would work in the long run if such policies remain consistent • Land acquisition remains the main huddle—

		<ul style="list-style-type: none"> • Government need to expedite viable bilateral and regional trade agreements 	<ul style="list-style-type: none"> • Government approves fiscal stimulus package aimed at accelerating investment in infrastructure, and promoting income and employment generating programs in 2009. 	<ul style="list-style-type: none"> • Once land is identified makes it difficult for investors to secure leases within a reasonable period of time.
Vanuatu	Declining Exports	<ul style="list-style-type: none"> • Devaluation of the vatu • Further development of niche export sectors through foreign investment • Build infrastructure to boost agricultural production, including beef • Develop new export sectors such as mineral mining • Educational sector and overall human resource development needs attention to attract foreign investor 	<ul style="list-style-type: none"> • Vatu exchange rate has remained quite stable but a devaluation could have boosted primary exports and tourism • Fiscal expenditure on Infrastructure needs to increase substantially • New sectors have not been considered through policy instruments • Government investments in the education sector remains minimal 	<ul style="list-style-type: none"> • Policies would generally be rewarding but no fresh initiative taken • In the long run policies would prove effective but the initial steps need to be taken.
	Stagnation of niche sectors such as beef, cocoa and copra	<ul style="list-style-type: none"> • Infrastructure development policies are needed to boost these existing sectors • Reliable extension support for farmers is needed to deal with problems such as disease and drought • Assistance from external agencies such World Bank and ADB is needed (ADB 2009b) • Basic agricultural knowledge and techniques are lacking 	<ul style="list-style-type: none"> • Policies are very weak and the support is inconsistent • Manpower and expertise in various field is lacking • Lack of resources • ADB, under the Country Partnership Strategy, provides Vanuatu Government \$32 million in lending support and \$5 million in technical assistance for reducing poverty and promoting private-sector led sustainable growth over the period 	<ul style="list-style-type: none"> • Infrastructure policies would be effective in the long run

	Lack of Tourism Infrastructure	<ul style="list-style-type: none"> Tourism development, marketing, and investment policies offering concessions are needed to expand and capitalise on the promising and expanding tourism sector 	<ul style="list-style-type: none"> Some marketing is done but the strategy is not aggressive enough Government needs to be more proactive and take advantage of the boom Land rights are not transparent enough to provide confidence to investors Policies are needed to attract investors in domestic aviation to boost inter island service 	<ul style="list-style-type: none"> Vanuatu is an exotic and safe tourist destination. It can be easily developed further with the right policies and incentives for investors
Solomon Islands	Decline in Agricultural production; unsustainable exploitation of timber resources	<ul style="list-style-type: none"> Long-term growth policies are needed to grapple with supply constraints Timber export need to be based on firm bilateral or regional trade agreement that adhere to sound and sustainable forestry practices Policies to promote greater efficiency in Fish, Palm Oil and coconut oil production 	<ul style="list-style-type: none"> Policies are in place but the government lacks resources to be proactive and intervene in essential areas of concern Government is not active in monitoring unsustainable forestry practice and taking corrective measures. Basic infrastructure is not in place to boost Fish, Palm Oil and coconut oil production. 	<ul style="list-style-type: none"> The government is not actively involved in taking corrective measures Basic infrastructure is lacking so any progress at first will be slow Skilled human resources are needed to make effective policies and strategies.
	Tourism sector underdeveloped	<ul style="list-style-type: none"> Long term planning is needed to establish basic infrastructure Investment policies are needed in tourism sector Basic training in hospitality on a large scale would be needed to accompany any developments in hotels, resorts and other types of accommodation 	<ul style="list-style-type: none"> Appropriate policies specifically targeting tourism development are lacking Training facilities for the hospitality sector is needed Political instability has been a strong negating factor The opportunities are available, with the Solomon Islands possessing some of the most pristine and beautiful beaches in the Pacific, but any 	<ul style="list-style-type: none"> Tourism sector has seen no substantial growth in years Government needs to focus on tourism development. Australian and New Zealand assistance towards this could be a very helpful

	Basic Infrastructure Lacking	<ul style="list-style-type: none"> • Long term development plans need to be in place and funds secured and committed towards this end • Road building, would give farmers access to markets and should be a priority • Training programs and other forms of technical assistance for farmers are needed • Financing of projects should also be part of the plan 	<ul style="list-style-type: none"> • Strategies are not well executed • Develop new export sectors such as mineral mining and value adding in timber exports • Banking facilities and funds are needed 	<ul style="list-style-type: none"> • So far development is very slow • Mega plans with bottom up strategy is needed
	Human resource development lacking	<ul style="list-style-type: none"> • Right policies and facilities for training personnel needs to be put in place in place for niche sectors such as forestry and fisheries • Vocational training established at high school level may be cost-effective and most appropriate 	<ul style="list-style-type: none"> • At the moment only very rudimentary concepts of technical training is functional in the country and that too in areas close to the capital only. Multiple replications of the success stories are needed for a national level impact. • Better facilities for primary and secondary level education are necessary 	<ul style="list-style-type: none"> • Education sector is very weak; needs more government funds and development effort • Numerous problems need to be solved simultaneously
Kiribati	An inherently depressed economy	<ul style="list-style-type: none"> • Strategic planning needed to start primary sector production • Need to develop bilateral relationship with Australia and New Zealand for the development of fisheries and other oceanic products where more value –adding can be done domestically (see WCPFC-SCI 2005). 	<ul style="list-style-type: none"> • Some policies are there but actual government involvement is minimal due to scarcity of resources. • Local expertise in developmental issues are very limited, however the signs seem to be positive (AUSAID 2009) • This country needs constant support from Australia and New Zealand 	<ul style="list-style-type: none"> • The developmental situation in Kiribati is generally in bad shape • Even the most basic government services is not available • There is a need for international attention • Australia and New Zealand need to step in and offer

		<ul style="list-style-type: none">• Negotiate better shipping services and air links• Construction of better sanitation facilities and supply of safe drinking water could lead to better economic development		
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Kiribati is an extreme example of lack of capacity among Pacific island countries. It has a population of 100,000 and lacks even the basic infrastructure. Solomon Island lies in a similar category, where basic infrastructure is lacking and often has no tangible option to deal with global crisis.

CONCLUSION

Policy options in the Pacific island countries to tackle global economic crisis have been weak and uncommitted. During the crisis policymakers in the PICs were anticipating no drastic effect. For instance, the Reserve Bank of Fiji anticipated complete insulation of Fiji's financial sector from the global financial system (see Reddy 2008). However, this was only partly true. Firstly, the financial crisis in the United States did not last long enough to have a direct effect on Fiji's financial flows, and even if it did, it is not clearly known yet. Fiji however did feel the economic pinch through reduced tourist demand and exports. Similar economies such as Samoa, Vanuatu, Solomon Islands and Tonga, felt the downturn in the similar way. However, only those countries that have a reasonable infrastructure could devise some policy options to tackle the problems.

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