UNITED NATIONS ESCAP
Economic and Social Commission for Asia and the Pacific

BANGKO SENTRAL NG PILIPINAS

High-level Regional Policy Dialogue on "Asia-Pacific economies after the global financial crisis: Lessons learnt, challenges for building resilience, and issues for global reform"

6-8 September 2011, Manila, Philippines

Jointly organized by
UNESCAP and BANGKO SENTRAL NG PILIPINAS

Country Experiences 4: LDCs and SIDS

Experiences of the Pacific Islands Developing Economies during the Global Financial Crisis: Lessons Learnt and Challenges

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September 2011

Experiences of the Pacific Islands Developing Economies during the Global Financial Crisis: Lessons Learnt and Challenges[1]

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[1] Paper presented at the High Level Policy Dialogue on "Asia-Pacific Economies after the global financial crisis: Lessons Learnt, challenges for building resilience and issues for global reform" 6-8 September, 2011, Manila, Philippines.

1. Introduction

Pacific Island countries (PICs) are small developing economies. The challenges facing these small economies are well documented[2]. The challenges are similar in many ways, but also varied as these countries are a diverse group. They are different in terms of population size, land area, culture and natural resources. While the global financial crisis of 2008-2009 may have been the worst crisis in over 60 years, its impact worldwide has been varied. Large emerging economies in Asia, such as China and India, weathered the storm and in the process provided resilience to economies in the region. The PICs, while facing their own entrenched problems, were not directly or immediately affected by the crisis. But they took precautions to cushion any potentially adverse effects. This was a preemptive move to prepare for the worse. Isolated and small as it is, the Pacific has developed strong economic ties with the outside world, particularly as source markets for its tourism and as buyers of its fish. In addition, aside from markets for fish and tourism, PICs have maintained strong links with their diaspora in Australia and New Zealand and the West Coast of USA for remittances, which came as an unexpected but welcome support during the crisis years. The region could not hope to remain immune if the crisis worsened. This paper is organized into five sections and provides a brief economic background of the Pacific Islands, a detailed description of the policy responses to the Global financial crisis and possible policy options for the future before the conclusion.

2. Background

PICs are a diverse group of countries with varied levels of development indicators. The indicators for achieving the millennium development goal are also mixed (Flore-Smereczniak, 2011). The PICs are grouped into three categories and they represent a diverse group (see table 1)

Insert Table 1

[2] See for example Boris and Hughes (1982), Brigulio (1995, 1998), Sampson (2005), **Singh** and Prasad (2008), Streeton (1993), Srinivasan (1986) ,Winters and Martin (2004).

The first group of smaller Polynesian countries such as Niue, Samoa, Tokelau, Tonga and Tuvalu are mostly on track to achieve the MDGs. Tonga and Tuvalu, however, may not be able to achieve MDG goals 5 and 6. The second group of countries are Micronesian. They include include Kiribati, Marshall Islands, Nauru and Palau. Nauru and Kiribati are not on track to achieve several MDGs. These countries have extremely poor growth rates. The third group includes the Melanesian countries - Fiji, Papua New Guinea, Solomon Islands and Vanuatu. These countries have significant resources, but they are the most problematic in terms of political stability, governance and socio-economic issues. Papua New Guinea, which is the largest of the Melanesian countries, is unlikely to achieve MGDs one to seven. This is despite the fact that PNG has achieved the highest rates of economic growth in the last few years.

Before we analyse the responses of PICs to the GFC and what is likely to be in store for the future, it is important to highlight the economic performance of the countries before the GFC. Table 2 shows the trends in macroeconomic indicators after the crisis.

Insert Table 2

It is clear from Table 2 that PICs were experiencing sluggish economic growth even before the global economic crisis. In the case of Fiji, the military coup of 2006 caused a sharp decline in the level of economic growth in 2007[3]. The low growth trend has remained a feature of Fiji's economic performance over the last four years. Resource abundant countries such as Papua New Guinea and Solomon Islands have had high growth rates in 2010, and are expected to perform at around the same levels in 2011 and 2012.

3.0 Lessons Learnt

3.1 Transmission Mechanism- the direct and the indirect effects

It is true that PICs did not suffer much immediately and directly after the crisis. But the indirect effects were beginning to impact on some of them in 2009. For some countries this continued

[3] For more details on the Fiji economy and the impact of coups see (Chand, 2007; Prasad and Narayan 2008, Prasad, 2010, Mahadevan, 2009)

until 2010, when the world economy started showing signs of a rebound. But overall, the PICs were more resilient to the GFC and its aftermath compared to the Asian Financial Crisis and its fallout. This can be partly explained by the fact that during the Asian Financial Crisis, the two countries which underpin the economies of the PICs, Australian and New Zealand, also suffered. However, in the face of the GFC, the Australian economy, in particular, remained strong. This cushioned the PIC economies somewhat. While tourist numbers and remittances declined it was not a drastic reduction.

The Asian Development Bank (2009), in assessing the impact of the GFC, pointed out several transmission effects, which explained some of the adverse impacts that were to later reach the shores of the Pacific. In Solomon Islands, PNG and Vanuatu, the declining world prices of agricultural commodities lowered incomes for small holder plantations. Rural areas dependent on tourism experienced a decline in incomes with fewer arrivals or less spending; the demand for transport and other goods and services used in rural production weakened, affecting a range of rural businesses in formal and informal sectors; the urban economies in some of the larger countries such as Fiji and PNG suffered a decrease in demand as remittances to urban households declined, and as demand for the tourism and other services based in the main centers, such as international shipping were affected. In addition, private investment also declined in some countries. This affected government revenue and in some cases poverty alleviation programmes and infrastructure investment had to be wound down or suspended.

3.2 *Source of Resilience and Policy responses*

In terms of direct effect, PIC weathered this because of the nature of financial systems (see tables 3-5). PICs have a small financial sector characterised by small number of banks with small number of non-bank financial institutions. Apart from Tonga, many have their own national retirement funds where it is compulsory for workers to contribute.

Insert Tables 3-5

Majority of the banks are in PICs Australian-owned. The Australian financial system was very stable and was largely unaffected by the collapsing financial institutions in the US (see table 6-7). Most of these Australian banks have good risk management strategies, with high interest

spreads and profit. In addition, most PICs have some forms of capital controls, and this further mitigated the risks.

Insert Tables 6-7

The main policy response to the global economic crisis in many of the developed countries is the fiscal and monetary policy stimulus to create domestic demand. Many economists of the Keynesian tradition take heart from this as they believe that markets may have failed in some of the instances. However, if one looks carefully at some of the instruments of fiscal policy to stimulate demand, one finds that they are not necessarily against the principle of market-oriented policies. In fact one may consider some of the actions as aid for trade measures, thereby supporting some of the market-oriented reforms. However, much of the stimulus packages differ from country to country and are embedded in their own unique contexts.

In a recent ADB study (2009), several policy approaches have been highlighted, including those that may be relevant to the PICs. These include monetary policy, exchange rate management, fiscal policy, structural policy and policy on social protection. These are several policy options being considered by PICs for possible adoption and implement over the next few years.

Larger countries and those currently using stimulus packages operate very tight and independent monetary policies. Monetary policies are primarily used for preserving international reserves as a result of fixed exchange rates in most PICs (Yang, Davies, Wang, Dunn and Wu, 2011). Amongst the PICs, only Fiji, Papua New Guinea, Samoa, Solomon Islands, Tonga and Vanuatu operate independent monetary policies (see Table 8). Some of the countries have tried to lower official cash rates to reduce interest rates to stimulate investment. In addition, some like Fiji reduced the required reserve ratios to increase lending so that there was more to lend in the economy. The Reserve Bank of Vanuatu also changed its reserve ratio to ease lending to consumers and investors. All these made sense as they tried to look for ways and means to promote economic activity.

Insert Table 8

Exchange rate management is another challenging area that PICs as small economies have to grapple with. For many of the PICs who are dependent on exports of primary products and on tourism, maintaining the competitiveness of their exchange rate is vital and more critical in the current economic environment. In fact, the PICs faced similar challenges after the 1997 Asian Financial Crisis and managed to use exchange rate management tools to weather the negative impacts of that crisis. Many of the FICs also identified the exchange rate management as a tool to navigate through the crisis. Fiji, in particular, saw exchange rate management as a major issue in managing its foreign reserves. Fiji devalued its dollar recently by 20 percent to bring some competitiveness in its exchange rate. There is obviously debate as to how this will impact on the economy. While exports and tourism and remittances may benefit from this policy, the political instability in Fiji is likely to negate some of the positive benefits that could have arisen in the medium term.

PICs also maintained a steady flow of remittances and this provided a source of support to families to cushion the declining income from reduced exports and erosion of purchasing power through inflation. In particular, Tonga, Samoa, Fiji and Kiribati found this to be an import source of resilience (see table 9)

Insert Table 9

Fiji's remittances receipt between 2004 and 2007 has been around 6% of GDP. This declined in 2007, 2008 and 2009 (Prasad, 2011). The actual amount of remittances received in some of these countries are higher than the official figures as a lot of it is transferred through informal means. Remittances support consumption and to a lesser extent productive investment.

3.3 Trade Policy and Trade potential in the current economic climate.

PICs have been grappling with the bigger trade issues in the Pacific. Only Papua New Guinea, Solomon Islands, Tonga, Fiji and Vanuatu (whose accession bill is pending, as of August 2010) before the parliament) are full WTO members. There are four regional trade agreements which have some specific impacts on PICs. Two of these are inter-PIC agreements: the Melanesian Spearhead Group Trade Agreement (MSG), including Solomon Islands, Fiji, Vanuatu and Papua New Guinea, and the Pacific Island Countries Trade Agreement (PICTA) including all PICs

except Marshall Islands and Palau. PICs have also been negotiating the Economic Partnership Agreements (EPAs) with the EU, and so far only Fiji and Papua New Guinea have signed the interim EPAs to ensure continued access of their sugar and tuna to the EC market. Other PICs continue to benefit from EC's GSP programme (all but arms trade) and concessional free trade to some of the least developed countries (Kiribati, Solomon Islands, Tuvalu and Vanuatu). The Pacific Agreement on Closer Economic Relations (PACER) has been signed and negotiations are continuing on PACER Plus. This has, however, been made difficult with Fiji currently suspended from the Pacific Forum and therefore is not able to participate in the PACER Plus negotiations.

The implication of the current crisis on exports can be better understood by analysing the trade figures (imports and exports) for the PICs. These figures show that there is little intra-regional exports - only 15%. This is likely to be further affected as demand for exports from the PICs decline generally due to falling incomes in developed economies. For some of the remittance dependent economies such as Tuvalu, Kiribati, Samoa and Tonga, the decline in imports caused by lower remittances can have implications for the overall trade volumes.

The bulk of the exports and imports of the PICs are from five sources which mainly comprises Australia, New Zealand, USA, China, Singapore and Japan. The three main economies on which most of the PICs depend on for their trade are experiencing serious economic decline. A delayed recovery in these countries could have major consequences for the PICs in the next few years.

Table 10 shows the trade share of GDP for the PICs. For most of them a decline in trade volumes will have a direct implication for the GDP, which means lower growth rates in the future.

Insert Table 10

The decline in the volume of trade can have serious consequences for the level of government revenue. While many of the PICs have been concerned about trade liberalisation and loss of revenue as a result of this, the situation many of them now face is that even without liberalisation, revenue could decline due to lower import volumes. Table 11 shows the volume of tariff revenue that PICs derive as a percent of total revenue.

Insert Table 11

While some countries such as PNG, Fiji and Solomon Islands are increasingly moving away from dependency on tariff revenue to other indirect forms of taxes such as the value-added tax, others still see tariffs as an important source of revenue for the government. However, even for the bigger countries which have moved towards VAT, the scope of increasing revenue would not be there in the short to medium term. This could affect fiscal balances of PICs.

It is estimated that countries will encounter revenue losses of serious magnitude as a result of further liberalization of trade regimes. This has been one of the concerns of the PICs for some time and many are still contemplating the policy responses to further trade liberalization expected under the PACER Plus negotiation with Australia and New Zealand.

3.4 Agricultural Policies

For many of the PICs, increasing trade by trying to increase manufactured exports not based on agriculture, fisheries and forestry, is unlikely to yield good results. For Fiji, the export of garments is on the decline, and this trend is likely to continue with the decline in demand for these exports in Australia and New Zealand. In addition, as Australia and New Zealand further liberalise their trade, competition for these manufactured exports to these countries would increase, with bigger and cheaper exporters such as China and India likely to displace countries like Fiji.

The potential therefore rests with the agricultural sector. PICs can built a comparative advantage in agriculture, especially for its tropical fruits and vegetables, through proper marketing. This is a strategy that has worked well in tourism, and also in bottled water, especially the internationally renowned Fiji Water. Agriculture could become a niche market for Fiji. For bigger countries like Fiji, Vanuatu, Solomon Islands and PNG, there is a great potential to raise the export of agricultural goods in the short to medium term. Some of these countries reverted to an aggressive agricultural production and promotion strategy as a direct response to the worsening economic crisis. Forestry does not present much of an opportunity for these countries. In the Solomon Islands for example, data shows that between November 2008 and February, 2009, logging volumes decline by about 22.5% (ADB, 2009). The ADB (2009) projected that Solomon

Islands could face a balance of payment crisis in 2009-2010 and would need to put in place severe austerity measures to address that crisis. The country would probably require external assistance. This threat, however, has passed for now as the Solomon Islands is expected to grow at rates of more than 7% in the next two years.

Fiji had to cope with two crises – the lingering impact of military coup of 2006 and the global crisis. One of the strategies it adopted was putting an emphasis on agriculture. This was in response to the increase in global commodity prices. Fiji has been able to increase its output of rice and other traditional root crops such as taro and cassava.

Vanuatu also has the potential to raise its agricultural output. The Vanuatu Agricultural Development Bank started its operation in 2008 and it is likely to put emphasis on increasing agricultural productivity. This would be a prudent policy option given that Vanuatu is also experiencing growth in tourism and some of the increase in production could feed the tourism industry and help ease the import demand in that sector.

While Papua New Guinea has used its mineral and oil income to raise its public spending as an overall response to the crisis, it could also concentrate on agriculture.

The issue of food security for all the PICs is likely to be a serious one as they all face declining levels of income, low employment levels and reduce remittances. It is therefore prudent that all PICs ensure that agricultural and fisheries production is not affected. Apart from exports, production for domestic consumption would be important. It is therefore prudent that infrastructure spending on the agricultural sector should be increased. It is one area that PICs can build a comparative advantage, and the investment could pay of quickly and handsomely in the form of job creation and foreign exchange savings.

It is a known fact that PICs have not been able to substantially improve the output and quality of their agricultural exports and perhaps this crisis presents an opportunity for many of them to improve the infrastructure for rural agricultural production and marketing. In addition, attempt should be made to address the often binding constraints to agriculture such as land tenure, high labour costs and marketing infrastructure.

3.5 Social Protection policies

It was generally perceived that PICs took a less pro-active approach in addressing the social impact of the GFC (Oxfam, 2010). Samoa reduced its spending on education by 8 % and health by 14.9 % for the 2009-2010 budgets. The Minister of finance in Samoa attributed this to the impact of global crisis and said that "for small Pacific States like Samoa, we cannot avoid being affected given our highly open economy and weak fiscal resilience, which combined leave us with little protection to cushion the impact of the economic downturn" (PACNEWS, Saturday, 20th June, 2009). This sums up the situation for most PICs. As economies experience low growth rates, many of these countries will find it difficult to allocate resources for various social protection policies.

4. Current Challenges

4.1 *Economic Growth and Inflation*

PICs survived the worst effects of the GFC, but they have several critical challenges that they need to address. These include the fluctuating global commodity prices and rising fuel prices fueling inflation in many of them. PICs continue to face critical macroeconomic challenges such as rising government budget deficits, declining government revenue and ability to sustain export growth to ensure sustainable levels of economic progress. In addition, they also face hurdles in achieving the MDGs, meeting targets for social protection policies and dealing with regular natural disasters. For some, political and social instability is a major problem.

Inflation has been on the rise despite the slow growth rates in many of the PICs (see tables 12-13). This has been driven by external food price rise and energy price shocks. Inflation in all the PICs between 2007 and 2009 was high, and then declined in 2010, except for Fiji and Papua New Guinea, where the decline was not as great. There seems to be an upward trend in 2011.

Insert Table 12-13

Again, Fiji, PNG and Solomon Island show high rates of inflation. Fiji has continued to muddle through as far as it growth is concerned, but its inflation rate has been increasing at faster rate than expected. For example, the headline inflation rate in June 2011 rose to over 10% y/y up

from 8.8% in May 2011. Fiji's growth could be compromised due to high level of imported inflation, and this could adversely affect its inability to raise economic growth significantly. The devaluation of the Fiji dollar in 2009 and the continued strengthening of the Australian and New Zealand dollars keep the prospect of high inflation around 5% in 2012 and 2013.

In the case of Papua New Guinea, inflation has been driven largely by strong domestic demand created through increased government spending and construction activities associated with the LNG project. PNG is expected to grow at a rate of 9.3 percent in 2011. The inflation forecast for PNG for 2011 is 9%, with a decline forecasted for 2012 and 2013. Samoa's inflation rate in 2010 was low but is forecasted to increase in 2012 and 2013. However, it expected to remain between 3.5-4%. Samoa is dependent on the import of food for its tourism industry and the rise in inflation in 2011 is coming from the increase in commodity prices rather than driven by domestic demand.

Solomon Islands is a relatively resource rich country and part of its export-led growth recovery comes from the export of logs. With higher global commodity prices for its logs, gold, palm and fish, Solomon Islands has been able to achieve high levels of growth. The forecasts for economic growth is very good and is it expected to achieve more than 7 percent growth rate between 2011 and 2013. Inflation, however, is also expected to be high with rates of 7.5 % for 2011, 6.5% for 2012 and 5.5 percent for 2013. Solomon Island is a net importer and it is likely that the high inflation is being driven by high food and fuel prices.

Tonga, like Samoa, is another remittance dependent PIC. Tonga's economic recovery remains poor with a negative growth for 2010. It is expecting lower growth rates for 2011, and still lower for 2012 and 2013. Inflation forecast, however, between 2011 and 2013, is expected to be in the range of 4-5%. Tonga's economy remains fragile as it has not been able to increase its exports. The only source of resilience for Tonga is a modest growth in tourism but more significantly, remittances have continued to flow at a sustainable rate.

Vanuatu's economic performance over the last several years has been better than exported. This is partly reflected in the reforms that Vanuatu has been able to achieve in its economic policies, whereby it has promoted an export-led growth. The economic growth for 2011 to 2013 is forecast at more than 4%. This growth is expected to be led by increases in exports and other

domestic activities as tourist numbers slow. Inflation in Vanuatu has remained modest compared to other PICs, with the forecasts remaining below 4 % for the next three years.

4.2 *Macro-economic policies and challenges*

One of the challenges for the PICs in the future would be improve their current account and fiscal balances (see tables 14-15) The fiscal balances of all the PICs is very poor with PNG and Vanuatu expected to achieve positive fiscal balances between 2011and 2013. Fiji debt level has been increasing over the last 10 years and this has been made worse after the military coup in 2006.

Insert Table 14-15

The current account balance for almost all PICs does not show any sign of improvement and this is one area where governments of PICs will have to pay attention.

Foreign reserves will also have to strengthened as many PICs are not always have adequate levels and if terms of trade deteriorates drastically then some of them could be in difficulty (see table 16).

Insert Table 16

In the case of Fiji, the foreign reserve has achieved adequate levels with more than 4 months of import cover. For Solomon Islands reserves have been healthy amounting to more than 8 months of import cover and Tonga having an import cover for more than 7 months. In all the cases this has been due to receipts of official capital inflow and foreign aid. Capital inflows have put pressure on exchange rates in some of the PICs including Fiji where maintaining low levels of interest rate to spur economic growth has been the key objective.

4.3 Policies for the future and lessons learnt

Some of the impacts on PICs in the medium term do indicate the vulnerability of PICs to external shocks. While many not have been directly and drastically hit by the GFC, they all seem to be feeling the heat in the medium-term. It is clear from the discussion before that PICs would need to pay a lot of attention to maintaining an appropriate levels of fiscal balance and also foreign reserves to ensure that they able to respond in a more robust manner in the event of a future economic crisis. The use of expansionary fiscal policy provides little room for compfort for most PICs except probably PNG and Vanuatu which have adopted prudent fiscal policies to over the past few years and had reserves to meet contingencies in the event of the crisis (Jayaraman, 2010). Furthermore loose monetary policy will not work, as financial sectors in PICs with most of them having independent currencies are not well developed and monetary policy transmission mechanism is weak. Thus, PICs' central bank responses to global economic downturn have been largely ineffective (Jayaraman, 2009).

In addition, PICs would have to adopt a cautious monetary policy stance to avoid a credit boom. PICs are currently characterized by rising inflation and weak economic growth. In the case of Fiji, interest rates are low and banks are flush with liquidity. In the case of Fiji, there is a perceived lack of confidence in the economy, and this is reflected in a weak demand for credit from the private sector. Much of the inflation in PICs is driven by global price rises, except in Papua New Guinea, where domestic demand may be driving inflation. In PNG, therefore, tightening of monetary policy may be required. PICs need to ensure that that exchange rate management supports export-led growth in the economy. PICs, however, have exchange rates which are pegged to a basket of currencies of major trading partners. This provides an important nominal anchor for price stability.

Some of the key issues that would continue to confront PICs are the impact of climate change, natural disasters, fluctuations in commodity, fuel and food prices and political instability in some PICs. These shocks would require PICs to have a sound macroeconomic policy to deal with them.

In terms of fiscal policy, PICs would have to reduce their budget deficits and manage their expenditure for building productive capacity in their countries. Many of the PICs need to invest significant amounts in social and economic infrastructure. Health and education infrastructure

would need a lot of investment in countries like Solomon Islands, Vanuatu and Papua New Guinea.

5. The Way Forward

Small island states generally, and this is true also for PICs, have weathered the adverse impact of the financial crisis. This is mainly due to the fact that they often have smaller financial systems, which offered some protection. The PICs have their financial systems linked to Australia and New Zealand through the major banks owned by Australia. The stability of the Australian banks provided another buffer. Many PICs have exchange controls. With an exception of few, they also have limited foreign borrowing.

However, improving the resilience of the PICs to future economic and financial shocks will be an on-going challenge. It's certainly not going to be an easy task given the volatile nature of external shocks. It is evident from the analysis in this paper that PICs largely escaped the direct impact of the financial crisis on their domestic financial system. However, many of the PICs have been affected indirectly and they will continue to experience shocks in the future. Much of the indirect effects have come through trade, capital flows and volatility of fuel and food prices. Amongst the PICs, remittances fell but not drastically, as the Australian and New Zealand economies remained strong. About 50 percent of the remittances originate from Australia and New Zealand. In addition, while tourist numbers declined slightly in 2008 and 2009, it bounced back in 2010, and is likely to grow on a sustainable basis in the future. This is again largely due to the strong Australian and New Zealand economies, which account for 60 percent of tourists to the PICs.

The excessive reliance on tourism and remittances by some PICs pose potential risks. The outlook for the PICs major trading partners, Australia and New Zealand, does not look too bright. If their economies decline, it could affect the amount of remittances and tourist numbers that filter down to the PICs.

The other risk for PICs is that for some their initial conditions are weak. As shown earlier, many of them run large current account deficits, and their fiscal balances have been weak. This could

give off poor signals to investors and would be a drawback in terms of cushioning the impact of any unexpected global shocks.

PICs will have to continue to improve their infrastructure, look for new sources of economic growth and reform their governance structures to improve accountability. In addition, the crisis and the risk should be a case to stall deeper regional integration in the Pacific. More efforts will have to be made at the political level to accelerate the integration and connectivity of countries within the region. Meaningful regionalism and integration with Australia and New Zealand and pooling of resources to improve trade amongst PICs could also support resilience in the future.

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Tables

Table 1: Characteristics of the Pacific Island States, 2008

	Population	Population Growth	Population Density	Urban Population	GDP per person
	'000	% Change/year			
Melanesia and Timor Leste					
Fiji	853	1.0	47	51	3,306
PNG	5,995	2.5	13	14	943
Solomon Islands	489	2.8	17	17	684
Vanuatu	215	2.7	18	24	1,799
Timor-Leste	1,029	3.2	69	27	346
Polynesia					
Cook Islands	22	0.6	91	70.2	7,549
Niue	1.8	-2.2	6.9	33	4,364
Samoa	186	0.8	66	23	2,277
Tonga	102	0.4	142	24	2,176
Tuvalu	10	1.6	381	48.1	1,346
Micronesia					
FSM	111	2.0	159	22	2,205
Kiribati	101	2.2	138	48	703
Marshall Islands	65	1.9	636	67	2,363
Nauru	10	0.6	482	100	3,500
Palau	20	2.0	85	12	671
Comparators					
Low Income countries		2.0	85	12	671
Middle income Countries		1.1	45	53	6,564

Source: AusAID, 2008 (data derived from World Bank 2007d, ADB, (2007D) Population growth is for the period 1990-2004 and comes from AusAID, 2006, except for Timor Leste which is for 2005 from World Bank, 2007c.

Table 2: Rates of economic growth and inflation in selected Pacific Island economies, 2009 to 2012

	Real GDP growth				Inflation		
	2009	2010	2011	2012	2009	2010	2011
Oceania Region	1.0	2.9	3.4		1.9	2.8	2.9
Pacific island developing economies	1.7	5.1	4.2		6.3	5.6	6.1
Cook Islands	-0.1	0.6	2.0		6.7	3.5	4.2
Fiji	-2.5	1.9	2.0	2.0	4.0	4.0	3.0
Kiribati	-0.7	0.5	1.0		6.6	5.4	4.2
Marshall Islands	0.0	0.5	1.5		2.8	4.5	2.4
Micronesia, Fed. States of	-1.0	0.5	1.0		7.4	3.5	3.0
Nauru	0.0	0.0	4.0		2.2	2.3	2.4
Palau	-2.1	0.5	2.0		6.1	3.8	3.4
Papua New Guinea	4.5	8.0	9.3	6.0	6.9	7.1	8.0
Samoa	-4.9	-2.8	3.0	2.2	14.4	-0.2	3.0
Solomon Islands	-2.2	3.4	5.2	8.5	7.0	4.8	6.2
Tonga	-0.4	-0.5	1.7	1.8	5.0	2.2	4.2
Tuvalu	1.5	1.6	1.6		3.8	3.5	3.2
Vanuatu	3.8	4.0	4.0	4.0	2.8	5.0	5.0
Aggregate growth of Australia and New Zealand	1.0	2.9	3.4		1.8	2.8	2.9
Australia	1.2	3.0	3.5		1.8	2.9	2.8
New Zealand	-0.4	2.0	2.6		2.1	2.0	3.3

Source: based on various forecasts by ADB, ESCAP and various governments

Table 3: Size of the banking sector in 2007
(percent of GDP)

Pacific Islands Small States	Central Bank Assets	Deposit Money Bank Assets	Other Financial Institutions Assets	Total Financial System Assets
Fiji	3.4	73.9	100.2	177.5
Kiribati	-	-	-	157.0
Samoa	0.2	69.8	53.0	123.0
Solomon Islands	5.1	50.6	27.1	82.8
Tonga	3.5	45.5	14.5	63.5
Vanuatu	3.5	132.6	9.3	145.4
Average	**3.1**	**74.5**	**40.8**	**124.9**

Source: World Bank and National Sources.
Note: Figures for Kiribati corresponds to IMF's estimate for 2001

Table 4: Composition of Non-Bank Financial Institutions
(Percent of GDP)

	Other Financial Institutions Assets	Of which Development Banks	Of which Provident Fund
Fiji	100.2	13.8	64.2
Kiribati	-	-	-
Samoa	53.0	12.1	32.2
Solomon Islands	27.1	0.3	25.5
Tonga	14.5	13.9	0.6
Vanuatu	9.3	0.0	9.3
Average	**40.8**	**8.0**	**26.4**

Source: National Sources.

Table 5: Indicators of financial depth in 2007
(Percent of GDP)

	Liquid Liabilities (M2)	Private Credit by Deposit Money Banks	Private Credit by Deposit Money Banks and Other Financial Institutions
Fiji	56.8	44.1	48.3
Kiribati	0.0	0.0	0.0
Samoa	46.5	44.1	44.1
Solomon Islands	43.8	28.5	33.0
Tonga	58.5	65.8	65.8
Vanuatu	107.5	47.2	47.2
Average	**52.2**	**38.3**	**39.7**

Source: World Bank

Table 6: Foreign ownership of banks (a)

Country	Number of banks (foreign-owned)	Assets of foreign-owned banks (%)	Assets of state-owned banks (%)
Fiji	6 (6)	100.0	0.0
Kiribati	1 (1)	100.0	0.0
Samoa	4 (3)	85.7	14.3
Solomon Islands	3 (3)	100.0	0.0
Tonga	3 (3)	100.0	0.0
Vanuatu	4 (3)	88.0	12.0

Source: IMF Article IV, various issues.

Table 7: Foreign ownership of banks (b)

Country	No. of banks (foreign-owned)	Foreign banks	Domestic banks
Fiji	6 (6)	ANZ, Wespac, Bank of Baroda, Habib Bank, Bank of Hawaii (US), NBF Asset Management Bank	
Kiribati	1 (1)	ANZ	
Samoa	4 (3)	ANZ, Westpac, Samoa Commercial Bank	National Bank of Samoa (S)
Solomon Islands	3 (3)	ANZ, Westpac, Bank of South Pacific (PNG)	
Tonga	3 (3)	ANZ, Westpac, Malaysian Banking Finance	
Vanuatu	4 (3)	ANZ, Westpac, Credit Corporation (PNG)	National Bank of Vanuatu (S)

Sources: IMF Article IV, various issues.

Table 8. Monetary Policy Frameworks in PICS

Country	*Monetary Objectives*	*Monetary target*	*Main Monetary Instruments*	*Exchange rate Regime*
Fiji	Promote monetary stability and a sound financial structure; foster credit and exchange conditions conducive to an orderly and balances economic development	Broad money (M2)	OMO; discount windows; policy rate	Pegged to a basket (USD, AUD, Euro, etc)
PNG	Achieve and maintain price stability and financial system stability, and promote macro-economics stability and economic growth	Broad money (M3)	OMO; discount windows; policy rate	Float
Samoa	Promote sustainability real economic growth by maintaining price stability and international reserves viability	Broad money (M2)	OMO; discount rate reserve requirements; repos	Pegged to a basket within a ±2 percent band (NZL, AUS, US, Euro)
Solomon Islands	Promote monetary stability and a sound financial structure; foster financial conditions conductive to orderly and balanced development.	Broad money (M3)	Liquid asset requirement; foreign exchange surrender	*De facto* peg to the US dollar
Tonga	Maintain internal and external monetary stability; promote a sound and efficient financial system; support macroeconomic stability and economic growth.	Broad money (M2)	OMO: statutory reserve deposit; credit ceilings	Pegged to a basket with monthly adjustment band of up to 5 percent
Vanuatu	Maintain low and stable inflation rate and maintain a sufficient level of official foreign exchange reserves.	Broad money (M2)	Statutory reserve deposit; OMO; rediscount rate	Adjustable peg, linked to an undisclosed transactions-weighted basket

Source: Yang et.al (2011: 5)

Table 9: Remittances inflows as a percentage of GDP in selected Pacific island economies, 2004 to 2009

	2004	2005	2006	2007	2008	2009
Fiji	6.4	6.1	6.0	4.7	3.3	5.1
Kiribati	7.4	8.8	11.9	8.2	7.6	6.0
Papua New Guinea	0.1	0.1	0.0	0.0	0.1	0.1
Samoa	18.7	20.9	24.5	22.4	24.8	25.9
Solomon Islands	9.9	8.5	11.0	7.3	6.2	7.4
Tonga	41.8	40.3	31.8	33.9	28.8	24.1
Vanuatu a/	1.5	1.4	1.2	1.0	1.2	1.0

Source: UNESCAP, 2010

Table 10: Trade share of GDP

Country	Trade share of GDP (2000)
Cook Is.	74.0
Fiji	82.9
Kiribati	92.3
Marshal Is	59.2
Micronesia	56.9
Nauru	166.9
Palau	115.7
PNG	79.9
Samoa	44.9
Solomon Is.	55.1
Tonga	53./7
Tuvalu	42.1
Vanuatu	47.4

Source: ADB (2009)

Table 11: PI Tariff Revenues

	% of Total Revenues	*ANZ, % of Total Revenues*	**Tariff Revenues from ANZ, USD**
Tonga	33.3	17.2	9,845,417
Vanuatu	27.1	17.2	12,398,316
Samoa	25.0	14.0	15,041.762
Kiribati	23.0	14.3	7,917,941
Marshall Islands	21.3	2.2	718,881
FSM	17.7	0.6	267,186
Fiji	17.4	4.9	35,173,983
Cook Islands	15.1	12.2	6,460,122
Solomon Islands	9.0	3.7	3,072,816
PNG	3.6	1.4	17,735,890
Niue	2.9	2.8	399,982

Table 12: Real GDP Growth (%) 2010-2013

	2010e	**2011**	**2012**	**2013**
Fiji	0.1	2.5	2.0	1.8
PNG	7.6	9.3	6.0	2.0
Samoa	1.5	2.8	2.2	2.6
Solomon Is	7.1	7.0	8.5	7.5
Timor-Leste	9.8	8.5	8.0	7.2
Tonga	-1.2	0.8	1.8	1.8
Vanuatu	2.2	4.2	4.4	4.0

Source: ANZ Pacific Quarterly, 15 August, 2011: 9

Table 13: Inflation (%) 2010-2013

	2010e	**2011**	**2012**	**2013**
Fiji	5.5	6.0	5.0	4.5
PNG	7.2	9.0	7.0	5.0
Samoa	1.0	3.5	4.8	4.0
Solomon Is	1.1	7.5	6.5	5.5
Timor-Leste	9.2	8.0	5.0	4.0
Tonga	2.7	5.5	4.2	5.0
Vanuatu	3.4	3.0	3.5	3.0

Source: ANZ Pacific Quarterly, 15 August, 2011: 9

Table 14: Fiscal Balance (% of GDP) 2010-2013

	2010e	2011	2012	2013
Fiji	-4.4	-8.5	-6.5	-5.5
PNG	0.7	0.0	1.0	1.1
Samoa	-7.0	-10.2	-6.5	-6.7
Solomon Is	-1.9	-2.8	-3.5	-3.3
Timor-Leste	-1.0	-1.0	-1.3	-1.3
Tonga	-4.0	-5.2	-4.2	-4.0
Vanuatu	-0.1	0.2	0.2	0.2

Source: ANZ Pacific Quarterly, 15 August, 2011: 9

Table 15: Current Account Balance (%) 2010-2013

	2010e	2011	2012	2013
Fiji	-14.0	-13.0	-11.0	-9.5
PNG	-26.2	-45.9	-43.0	-37.0
Samoa	-8.0	-13.4	-8.8	-7.0
Solomon Is	-23.0	-21.0	-20.0	-19.0
Timor-Leste	227.1	196.9	167.6	104.82
Tonga	-9.4	-11.3	-11.2	-11.1
Vanuatu	-5.9	-5.7	-6.0	-6.0

Source: ANZ Pacific Quarterly, 15 August, 2011: 9

Table 16: Foreign Exchange Reserve US$m 2010-2013

	2010e	2011	2012	2013
Fiji	714	700	685	675
PNG	3,147	3,960	4,530	4,754
Samoa	185	254	286	320
Solomon Is	265	415	520	600
Timor-Leste	250	275	300	325
Tonga	88	85	85	90
Vanuatu	159	180	195	210

Source: ANZ Pacific Quarterly, 15 August, 2011: 9.