The impact of the Global Economic Crisis on the Pacific region

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Executive summary

At a macroeconomic level, the Global Economic Crisis (GEC) has had less impact on many Pacific countries than on most other developing countries across the world. However, this does not imply that Pacific country economies are performing well. Economic growth rates for most countries in the Pacific region are expected to be low for 2009 and 2010 and the majority of economies are likely to contract on a per capita basis in these years.

A stable banking system, low levels of monetisation, small manufacturing sectors, low levels of formal sector employment and large proportions of population living in rural areas reliant on subsistence agriculture provide Pacific countries with protection from the impacts of the GEC. Strong traditional social support systems in these countries, particularly through extended family networks, can provide an important cushion to economic shocks.

The main transmission mechanisms of the GEC to the Pacific region include declining exports and government revenues, falling remittances and revenues from tourism and a loss in the value of trust funds. Pacific countries are heavily dependent on foreign aid. Aid programs to the Pacific region, so far, have not been reduced but they remain vulnerable to political and economic changes and reductions in public support.

Impacts from the GEC are ongoing and vary greatly across Pacific countries. At a macroeconomic level, the Asian Development Bank (ADB) has identified Kiribati, the Solomon Islands and Tuvalu as most vulnerable to the impacts of the GEC. Kiribati and Tuvalu are primarily being affected through falls in the value of their trust funds and a reduction in seafarer remittances. The Solomon Islands is being affected through falls in exports, which in turn are reducing government revenues. Further, macroeconomic impacts for Fiji and Samoa are larger than originally expected. Papua New Guinea, Timor-Leste and Vanuatu are least affected. These countries are expected to record strong economic growth rates in 2009 and 2010.

A large proportion of the population lives outside the formal economy and as a result the impact on many people's everyday lives is unclear. Making inferences that rely predominantly on macroeconomic data is not appropriate because nationwide economic growth in the Pacific region has not always contributed to poverty alleviation or led to improvements in many people's lives. Mechanisms with which the impacts of the crisis can be monitored at a community and household level don't currently exist in Pacific countries and should be established. Monitoring impacts should occur with civil society and communities to inform a comprehensive and cohesive response that effectively meets the needs of Pacific people.

While Pacific countries might be less affected by the GEC than other developing countries, many have been hit hard by the recent food and fuel crises and have a low capacity to respond to crisis impacts. Climate change has exacerbated food security and all indications are that the conditions that led to the food crisis in 2007 and 2008 are set to return. While Papua New Guinea and Timor-Leste are well positioned to undertake fiscal expansions, additional grants are likely to be required from the international community to protect essential expenditures in many other Pacific countries. International donors should assist by providing Pacific country governments with budget support to protect social expenditures, such as health and education, from being cut further. Policymakers also need to consider how to improve service delivery and the effectiveness of social spending in Pacific countries to help meet people's needs throughout the region.

The economic crisis raises questions about what form of future economic development best serves Pacific Island countries. Economic development is most effective when it reflects the needs of the people, therefore donors, such as Australia, should support Pacific Island governments to meaningfully engage their populations to consider their future economic development.

The traditional or custom economy and traditional support systems assist in meeting the needs of large proportions of the population in some Pacific countries. The majority of people live a subsistence or semi-subsistence lifestyle in rural areas on communally owned land and are largely unaffected by changes in global economic conditions. Policymakers should look at how the traditional economy and support systems in Pacific countries could be supported and strengthened to ensure they continue to provide resilience in times of crisis. At the same time, other forms of social support should be considered to work alongside these traditional systems in cases where they are not meeting current needs, particularly the needs of women and young people.

Recommendations:

- Governments, donors and non-government organisations should consider developing systems and methods to closely monitor the impacts of economic and other shocks. Monitoring impacts should occur with civil society and communities to inform a comprehensive and cohesive response that effectively meets the needs of Pacific people.
- International donors should assist by providing Pacific country governments with budget support to protect social expenditures, such as health and education, from being cut further. Policymakers also need to consider how to improve service delivery and the effectiveness of social spending in Pacific countries to best meet people's needs throughout the region. Australia should continue its focus on partnership with the Pacific, as a neighbour who is vulnerable to shocks.
- The economic crisis raises questions about what form of future economic development best serves Pacific Island countries. Economic development is most effective when it reflects the needs of the people, and therefore donors, such as Australia, should support Pacific Island governments to meaningfully engage their populations to consider their future economic development.
- Traditional social support systems are strong in the Pacific and policymakers should examine how these systems, the "traditional economy" and access to land for subsistence farming can be supported and strengthened to ensure they continue to provide resilience in times of crisis. At the same time, other forms of social support should be considered to work alongside or supplement these traditional systems in cases where they are not meeting current needs, particularly the needs of women and young people.

Summary: Impact of Global Economic Crisis (GEC) on Pacific countries

The table below illustrates whether countries have been affected by the key transmission mechanisms of the Global Economic Crisis to the Pacific.

Pacific country	Declining trade and loss of government revenue	Remittances	Tourism	Foreign aid	Trust fund revenues
Cook Islands					
Fiji					
Kiribati					
Marshall Islands					
Micronesia, Fed. Sts					
Nauru					
Palau					
Papua New Guinea					
Samoa					
Solomon Islands					
Timor-Leste					
Tonga					
Tuvalu					
Vanuatu					

Notes: Cells shaded in green imply the Pacific country is being affected by the transmission mechanism in question. Author's calculations.

Introduction

This report examines the impacts of the Global Economic Crisis (GEC) on Pacific countries as part of an Oxfam International research project analysing the impacts of the economic crisis, and the responses to it, across 11 countries. As the crisis started to hit developing countries, Oxfam International initiated research to inform national and global program and policy responses to the crisis. The objectives of the research were to assess the human impacts of the economic crisis and to analyse whether responses by government, civil society and multilateral agencies were serving the interests of poor people. Oxfam Australia focused its attention, in part, on the Pacific Islands, to contribute to the global analysis.

The report draws predominantly on relevant emerging macroeconomic data to identify how Pacific countries are different from other developing countries with regard to the current and potential impacts of the GEC and what specific responses are required for countries in the region.

The report demonstrates that, at a macroeconomic level, the GEC is impacting on Pacific countries through declining exports and government revenues, falling remittances and revenues from tourism and a loss in the value of trust funds. As a consequence, 2009 and 2010 GDP growth forecasts have been revised downwards for virtually all Pacific countries.

Caution should be exercised when using changes in GDP to measure the impact of the GEC on poverty, wellbeing and progress towards the Millennium Development Goals (MDGs) for Pacific countries. Relationships between economic growth and poverty and government spending and human wellbeing are not always clear for the Pacific. The Australian Agency for International Development (AusAID) (2009a) and the analysis of this report confirm that economic growth in Pacific countries has not always translated into poverty alleviation. Monitoring impacts at a household and community[1] level is therefore needed to understand how the GEC and other macroeconomic shocks flow into household decision-making, consumption, livelihoods and welfare. Monitoring impacts should occur with civil society and communities to inform a comprehensive and cohesive response that effectively meets the needs of Pacific people.

The remainder of the report is structured as follows. *Section 1* examines the impact of the GEC at a macroeconomic level by looking at the adjustments to GDP growth forecasts for Pacific countries following the onset of the crisis. *Section 2* explores why Pacific countries might be less affected by the crisis than other developing countries before an examination of how Pacific countries are integrated into the global economy is undertaken in *Section 3.* How the GEC is being transmitted to individual Pacific countries is investigated in *Section 4* and inferences regarding the impact on people's lives drawn in *Section 5.* Appropriate responses to the GEC for Pacific countries are examined in *Section 6* and examples of initial responses of international donors to the region are outlined in *Section 7.* Finally, *Section 8* concludes.

1 The term "community" has an imprecise meaning in the Pacific. It often (but not always) refers to a village or a group of people living together.

1. The macroeconomic impact of the Global Economic Crisis (GEC) on the Pacific region

In spite of its geographic isolation and seeming lack of integration into the global economy, the Pacific region has not escaped the impacts of the Global Economic Crisis (GEC). Commentators have noted that the crisis has hit all countries to varying degrees, even those that are not highly integrated into the global economy (Davies and McGregor, 2009). However, at a macroeconomic level, so far the crisis has had less of an impact on Pacific countries than on most other countries in the world.

Table 1 provides GDP growth forecasts for Pacific countries in comparison to other countries and regions and also provides the adjustment to growth forecasts following the onset of the crisis. The table indicates that while the global economy is expected to contract by 1.1% in 2009, economic growth in the Pacific is expected to remain positive at 2.8% in 2009. Moreover, as the table shows, the current forecast for the global economy is 4.9% lower than the pre-crisis forecast. Yet the latest forecast for the Pacific is just 0.5% lower than its pre-crisis forecast.

Despite the GEC having a limited impact on Pacific economies, economic growth for most countries is expected to be very low in 2009 and 2010. Moreover, analysis at a regional level masks significant variations across countries. For example, in 2009, the ADB forecasts that economic growth will contract by 0.4% for the region excluding Papua New Guinea and Timor-Leste.[2] Economic contractions are expected in five Pacific economies in 2009: the Cook Islands, Fiji, Palau, Samoa and Tonga (ADB, 2009a). Moreover, due to high population growth, most of the 14 Pacific countries listed in *Table 1* are expected to contract on a per capita basis in 2009 and again in 2010.

Table 1: GDP growth forecasts for Pacific and other countries 2009

	2009 forecast	Pre-crisis 2009 forecast	Adjustment post crisis	2010 forecast
World	-1.1	3.8	-4.9	3.1
Emerging and developing countries	1.7	6.6	-4.9	5.1
Australia	-0.7	3.1	-2.4	2
New Zealand	-2.2	2.1	-4.3	2.2
The Pacific	2.8	3.3	-0.5	3.1
Cook Islands	-0.1	3.5	-3.6	0.8
Fiji	-1	1.6	-2.6	0.5
Kiribati	1	1	0	0.9
Marshall Islands	0.5	1	-0.5	0.8
Micronesia, Fed. States	0.5	-3	3.5	0.5
Nauru	1	-4.4	5.4	0
Palau	-3	3	-6	-1
Papua New Guinea	4.5	4.6	-0.1	3.9
Samoa	-0.8	3	-3.8	-0.6
Solomon Islands	0	2.5	-2.5	2.6
Timor-Leste	8	4.9	3.1	9.0
Tonga	-0.5	2	-2.5	0.5
Tuvalu	1	2	-1	1
Vanuatu	4	4.3	-0.3	3.5

Notes: Data for the Pacific are from ADB (2009a 2009e). Data for other countries and aggregates are from IMF (2009).

2 Following the Asian Development Bank (ADB) and the Australian Agency for International Development (AusAID), Timor-Leste is included in the analysis of this report although the country is not classified as being part of the Pacific.

2. Why are Pacific countries less affected by the GEC than most other developing countries?

There are four major reasons as to why Pacific countries might be better insulated from the impact of the GEC than other developing countries. Firstly, the banking and financial sectors of most Pacific countries have not been greatly affected by the crises since they have had little exposure to complex financial instruments and the United States sub-prime mortgage market. The Pacific did not therefore experience the same drop in consumer and investor confidence with the onset of the GEC experienced by many other countries.

Secondly, the traditional (or custom) economy in some Pacific countries dominates the cash economy. In traditional economies the majority of people live a subsistence or semi-subsistence lifestyle. They are based in rural areas living on communally owned land and are largely unaffected by changes in global economic conditions.[3] *Table 2* indicates that on average almost 64% of people in Pacific countries live in rural areas. In the region's most populous country, Papua New Guinea, an estimated 85% of the population lives in rural areas (World Bank, 2009). This is a far higher proportion than in most other countries in the world. Further, strong traditional social support systems exist within these economies providing resilience at a household level against economic shocks.

Thirdly, the use of money (or level of monetisation) in these countries is low. The use of a barter (exchange) system in rural areas protects people from the impacts of economic downturns. *Table 2* demonstrates that the amount of money (as a proportion of GDP) is much lower in Pacific countries relative to other countries although in recent years levels of monetisation have increased. Increasing monetisation is linked to increasing reliance on imported food in some contexts and fees being charged for education, in particular. While social structures may provide support for food consumption, shelter and other needs, traditional support structures may not be able to provide adequate support for education (Parks et al., 2009).

Fourthly, formal sector employment is generally very low in Pacific countries. The percentage of the working-age population employed in the formal sector is just 5.6% in Papua New Guinea, 9.3% in the Solomon Islands and 14.7% in Vanuatu (Booth et al., 2006). The agricultural and service sectors dominate most Pacific Island economies. It is usually the labour intensive manufacturing sector which is worst hit during economic downturns. *Table 2* indicates that on average the manufacturing sectors of Pacific countries account for less than 6% of GDP. Pacific countries are not therefore experiencing the massive loss of employment currently being experienced by many other countries.

Table 2: Selected indicators for Pacific countries (2007)

Country	Rural population (% total)	Monetisation (Money (M2) % GDP)	Manufacturing (% GDP)
Pacific average	63.9	51.7	5.7
Developing countries	55.7	70.0	18.4
World	50.5	93.1	17.7

Source: World Bank (2009).

3 The level of engagement with the formal monetised economy varies across and within Pacific countries. However, in recent years there has been an increasing need for money to purchase basic necessities throughout the region. Moreover, clearly distinguishing between the formal and informal economies is difficult since they are interlinked and some people move between them.

3. How is the Pacific integrated with the global economy?

As outlined above, for many people living in Pacific countries the low level of connectivity with global markets provides some protection against its impacts. However, it is important to note that there are many respects in which Pacific countries are highly integrated with the world economy, implying the region is not immune to the GEC. In particular, foreign trade, foreign investment, tourism, labour mobility and an increasing reliance on food imports are more important for Pacific countries than they are for most other countries in the world.

Table 3 indicates that average levels of trade (defined as the sum of imports and exports) account for almost 80% of GDP in Pacific countries. The table also indicates that average levels of Foreign Direct Investment (FDI) relative to GDP are also high for Pacific countries. FDI varies greatly across Pacific countries, usually being associated with large resource projects and tourism. Finally, *Table 3* demonstrates that Pacific countries are heavily dependent on tourism and remittances. Average tourism receipts and remittances, relative to GDP, are far higher for Pacific countries than for most other countries in the world.

Pacific countries have their strongest economic ties with Australia which has recorded relatively good rates of economic growth in spite of the GEC. This is providing an important cushion for Pacific countries to the global economic downturn. However, a heavy reliance on one economy also poses a risk for some Pacific countries in the future.

Table 3: Selected indicators of global integration for Pacific countries (2007)

Country	Trade (% GDP)	Foreign Direct Investment (% GDP)	Tourism receipts (% GDP)	Remittances (% GDP)
Pacific	78.9	6.5	16.5	11.8
Developing countries	64.3	3.7	2.1	2
World	56.9	4	1.9	0.7

Source: Trade for the Pacific calculated using data from ADB (2009b). Other data are from the World Bank (2009).

4. How is the GEC impacting on specific Pacific countries?

The Pacific region is experiencing the flow on, or second wave, impacts of the Global Economic Crisis and these impacts are ongoing. The different ways that the GEC is impacting on Pacific countries are known as transmission mechanisms. A summary of the different transmission mechanisms and their importance to individual Pacific countries is provided by *Table 4.* The table demonstrates that the crisis is impacting on Pacific countries in different ways. The exposure of Pacific countries to each transmission mechanism is discussed in turn.

4.1 Trade and loss of government revenues

Government revenues are falling below pre-crisis estimates for nearly all Pacific country governments. This is because they are losing revenues from trade taxes and consumption taxes (such as VAT) as the demand for goods and services falls.

Pacific countries are characterised by a dependence on trade taxes (taxes on both imports and exports) as an important source of government revenue and a heavy reliance on just a few key export commodities. This is clearly demonstrated by *Table 5.* The table indicates that trade taxes as a percentage of total government revenue range from 7.3% of government revenue in the case of Papua New Guinea to 54% in the case of Tonga. In the last quarter of 2009, Tonga experienced a 23.8% fall in trade taxes from the previous year (ADB, 2009f). Trade taxes can be expected to fall further over coming years if Pacific country governments agree to increased trade liberalisation in negotiations on the Pacific Agreement on Closer Economic Relations (PACER) with Australia and New Zealand (Braxton, 2009). In some cases losses from trade taxes will be significant and will be difficult to replace. Negotiations for any

Table 4: Selected transmission mechanisms of the GEC to Pacific countries

Pacific country	Declining trade and loss of government revenue	Remittances	Tourism	Foreign aid	Trust fund revenues
Cook Islands					
Fiji					
Kiribati					
Marshall Islands					
Micronesia, Fed. Sts					
Nauru					
Palau					
Papua New Guinea					
Samoa					
Solomon Islands					
Timor-Leste					
Tonga					
Tuvalu					
Vanuatu					

Notes: Cells shaded in green imply the Pacific country is being affected by the transmission mechanism in question. Author's calculations.

further agreement must be centred on sustainable and equitable development in the Pacific Islands, and provide time for governments to engage their citizens in determining their positions. Any further trade agreements should address the need for crisis-resilient strategies for development (Braxton, 2009).

Vulnerability to falling trade taxes during economic crises is exacerbated by Pacific countries being heavily reliant on just a few key export commodities. As demonstrated by the final column in *Table 5,* just two or three commodities typically account for a very high proportion of total exports for Pacific countries. Fish and coconut products are particularly important to Pacific countries making them highly vulnerable to changes in the prices of these products. If external shocks affect the prices of these commodities, Pacific Island governments can face sudden and significant reductions in revenues that contribute to crucial expenditures.

During 2008 and the first part of 2009, the GEC has led to falls in the prices of most key exports from Pacific countries due to the fall in global demand. The recent increase in some commodity prices may offset some of the recent trade tax losses experienced by Pacific countries (while harming consumers). This is particularly true for crude oil (benefitting Papua New Guinea and Timor-Leste) but prices have also increased for palm oil, coconut oil and copra (ADB, 2009b, 2009f).

The fall in log prices has not been reversed which is having a devastating impact on the Solomon Islands. Logging is a very important sector for the Solomon Islands economy. In 2007, it accounted for a quarter of economic growth and two-thirds of export earnings. Moreover, logging rates exceeded five times the sustainable level in 2007 and the commercially exploitable natural forest is expected to be fully depleted in approximately four years (ADB, 2009c).

Table 5: Trade data for Pacific countries (2007)

	Trade taxes [a] (% total government revenue)	Major export commodities [a] (% of total exports in parenthesis)
Cook Islands	19.6	Pearls, Fish (76%)
Fiji	26	Sugar, Garments, Fish (32%)
Kiribati	19.7	Copra, Seaweed, Fish (41.6%) 2005)
Marshall Islands	21.1	Fish, Coconut oil (68%) (2006)
Micronesia, Fed. Sts	15.8	Fish (94%) (2005)
Palau	20.8	na
Papua New Guinea	7.3	Gold, Crude Petroleum, Copper (78%)
Samoa	13.3	Fish, Coconut cream, Beer (70%)
Solomon Islands	23.9	Timber (65%)
Timor-Leste	na	Coffee (7%) (2005)[b]
Tonga	54	Squash, Fish (44%)
Tuvalu	15.1	na
Vanuatu	36.5	Copra, Beef, Timber, Cocoa (32%)

Source: ADB (2009b), UNESCAP (2006). na implies data are not available. [a] Data are for the latest year available. [b] Oil and gas export data not available.

Falling government revenues pose a threat to Pacific country populations. Essential expenditures on health, education and basic infrastructure are already under pressure. For example, the Cook Islands was unable to make a cost of living adjustment to its welfare payments to the destitute, the infirm, caregivers and other vulnerable groups in its 2009 budget; the Marshall Islands has cut education expenditures in its next budget period; Palau has cut government spending by 10% and dropped a proposed financial assistance program for low-income families; and most government-funded development spending in the Solomon Islands has been deferred (ADB, 2009f).[4]

4.2 Remittances

As demonstrated by *Table 6,* remittances are far more important for some Pacific countries than others depending on the access they have gained to other countries' labour markets. Data are not available for the Marshall Islands, Federated States of Micronesia and Palau but remittances are important for these countries since they have access to the United States labour market under the Compact of Free Association (CFA). Tonga and Samoa receive some of the highest levels of remittances in the world, relative to the size of their economies, and historically these countries have relatively large numbers of citizens residing in Australia, New Zealand and the United States. Remittances are also important for the Cook Islands although data are not available for this country. Currently, remittances to Kiribati and Tuvalu come largely from seafarers crewing vessels for international shipping companies.

Remittances are less important for Melanesian countries (Fiji, Papua New Guinea, the Solomon Islands and Vanuatu). Citizens of these countries have not had wide access to labour markets in other countries and only very small numbers have been able to meet requirements for skilled migration. However, remittances have become increasingly important for Fiji largely as a result of skilled migration from the late 1980s.

Remittances are expected to fall during the GEC as workers from Pacific countries start receiving lower wages or lose their employment overseas. Further, fewer migrants are likely to be accepted by developed countries during the economic downturn. The latest data reveal that remittances to Tonga have been in decline for the last 15 months with the real value down 9.5% in the year to June 2009 (ADB, 2009f). For Samoa, remittances were down 17% for the year to July and they have fallen also for Kiribati and Tuvalu. Given that unemployment is still increasing in the key economies for the Pacific, remittances can be expected to fall further. Even when the global economy picks up, it takes time for unemployment to fall and it is therefore likely to be some time before remittances return to their previous levels (ADB, 2009f).

Recent labour mobility initiatives should increase the importance of remittances to Pacific countries. New

Table 6: Remittances to Pacific countries as a percentage of GDP (2007)

Country	Remittances (% GDP)
Cook Islands	na
Fiji	4.8
Kiribati	9
Marshall Islands	na
Micronesia, Fd. Sts.	na
Palau	na
Papua New Guinea	0.2
Solomon Islands	5.3
Samoa	22.8
Timor-Leste	na
Tonga	39.4
Tuvalu	na
Vanuatu	1.2

Source: World Bank (2009). Note that official figures are likely to significantly underestimate the true amount since some remittances will occur outside of the formal financial system.

4 The ADB (2009f) documents these impacts.

Zealand's Recognised Seasonal Employer (RSE) scheme allows approximately 5,000 Pacific Islanders to work in the county's vineyards and orchards annually. Australia has initiated a pilot Pacific labour mobility scheme allowing a total of 2,500 visas to be held by workers from Kiribati, Tonga, Vanuatu and Papua New Guinea over three years of the pilot to work in Australia for up to seven months in any 12 month period. So far only 56 Pacific seasonal workers have participated under Phase 1 of the Pilot; 50 from Tonga and six from Vanuatu.[5] A call is open for employers to participate in the next stage of the pilot where up to 2,400 visas can be issued. The small numbers involved in piloting the scheme in Australia provide negligible cushion to any impacts of the GEC in the Pacific.

While no estimates for these remittances exist, they are likely to be significant since, until recently, the cost of sending remittances to the Pacific through the formal financial system has been very high.

4.3 Tourism

There is a danger that the number of tourists to the Pacific will fall due to the GEC as people in crisis-affected countries refrain from overseas travel. Southern Pacific Island countries are particularly reliant on tourists from Australia and New Zealand and northern Pacific countries depend on tourists from the US, Japan and Taiwan.

Tourism receipts (relative to GDP) are very important for Fiji, Micronesia, Palau, Samoa, Tonga and Vanuatu and provide an important source of foreign exchange. They are also important for the Cook Islands although recent data are not available. The GEC has yet to dramatically hit tourist numbers in the Pacific. Recent figures suggest tourist arrivals are firm for the Cook Islands, Samoa (before the September tsunami), and have increased in the case of Vanuatu. However, they are down slightly for Tonga and have fallen for 18 consecutive months in the case of Palau (ADB, 2009f).

Part of the explanation for the increase in tourist arrivals in some countries is that Australian tourists have opted for these destinations over Fiji due to its recent period of political instability (although the ADB (2009f) finds that tourists have started returning to Fiji). Another explanation is that Australians have decided to holiday closer to home rather than travel to the US and Europe. The ADB also estimates that tourist departures from Australia have increased 2.3% in August 2009 (from the previous year), and departures from New Zealand and the US have recently picked up, reversing several months of contraction. However, departures from Japan are yet to recover (ADB, 2009f).

5 Details from email communication with Pacific Seasonal Worker Pilot Scheme, Migration Branch, Department of Education, Employment & Work-place Relations, 14 January 2010.

Table 7: Tourism receipts as a percentage of GDP for Pacific countries (2007)

Country	Tourism receipts (% GDP)
Cook Islands	na
Fiji	20.1[1]
Kiribati	na
Marshall Islands	3
Micronesia, Fd. Sts.	7.6[1]
Palau	57.5[1]
Papua New Guinea	0.1[2]
Solomon Islands	2.4[1]
Samoa	20.5
Timor-Leste	na
Tonga	5.9
Tuvalu	na
Vanuatu	31.4

Source: World Bank (2009). [1]Data are for 2006. [2]Data are for 2005.

4.4 Foreign aid

Pacific countries are heavily dependent on foreign aid. Pacific countries receive some of the highest levels of foreign aid in the world relative to the size of their economies and populations. Foreign aid also provides an important source of government revenue for many Pacific countries. *Table 8* provides the amount of Official Development Assistance (ODA) (the most commonly used measure of aid) from OECD countries relative to their Gross National Income (GNI). The figures do not include aid from China, India and Taiwan. No accurate figures exist for these countries but they are believed to be increasingly important donors of aid to the Pacific. They are recovering well from the initial effects of the crisis (Chhibber et al, 2009), and it is assumed that their aid allocations to the Pacific Islands will not fall as a result of the crisis. The table indicates that foreign aid accounts for particularly large percentages of GNI for Kiribati and the Solomon Islands. The Regional Assistance Mission to the Solomon Islands (RAMSI) explains this high level of aid in the latter case.

4. How is the GEC impacting on specific Pacific countries?

Australia is by far the largest donor to the Pacific region, accounting for more than 50% of total aid to the region in 2007 (OECD, 2009). Other important OECD donors include the US, New Zealand, the European Union and Japan. While Australia has pledged to continue increasing the size of its aid program, there is a risk that foreign aid budgets will be cut due to the GEC as developed country governments face competing demands on their tightening budgets. The experience of previous recessions indicates that cuts to aid budgets are likely. Ireland and Italy have already announced cuts to their aid budgets and it is believed that a number of other European countries might have difficulties in meeting their commitments (McCulloch and Sumner, 2009).

Table 8: Net Official Development Assistance (ODA) to Gross National Income (GNI) for Pacific countries (2007)

Country	ODA (% GNI)
Fiji	1.7
Kiribati	22.2
Marshall Islands	28.3
Micronesia, Fed. Sts.	45.3
Palau	13.4
Papua New Guinea	5.7
Samoa	7.2
Solomon Islands	64.6
Timor-Leste	16.3
Tonga	11.6
Vanuatu	13.5

Source: World Bank (2009).

4.5 Trust fund revenues

Some Pacific countries are reliant on revenues from trust funds in their annual budgets. These trust funds and are often invested in offshore stock markets and as a consequence have suffered a large loss in value. Countries that hold trust funds include Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, Palau and Tuvalu. The value of Palau's trust fund fell by 28% in 2008 (ADB, 2009a). The superannuation funds of Pacific countries are also likely to have suffered a loss in value. However, losses are being partially offset by the recent rally in world stock markets.

4.6 Other transmission mechanisms

The financial sectors of Pacific countries have, so far, been relatively unscathed by the GEC. The banking sector in the Pacific is dominated by foreign-owned banks. However, the banks with the greatest share of the sector in the Pacific are from Australia and have, in general, been resilient to the crisis. The same is true of other smaller Pacific banks which were not exposed to the US sub-prime mortgage market or toxic assets. However, the rising cost of credit overseas will to some extent increase interest rates in the Pacific, making borrowing more expensive and leading to lower private sector investment. Reduced credit growth and tighter lending practices have occurred in the Cook Islands, Fiji and Tonga (ADB, 2009f).

Further, the fall in global investor confidence will lead to a loss of Foreign Direct Investment (FDI) in Pacific countries. Although investment data in the region are sparse, the GEC is likely to reduce future flows on investment to the region and will also impact on major investment projects that were already in the pipeline. So in which Pacific countries are the impacts of the GEC most severe? The ADB (2008) concludes that Kiribati, the Solomon Islands and Tuvalu are most vulnerable to the impacts of the GEC. Kiribati and Tuvalu are primarily being affected through falls in the value of their trust funds and a reduction in seafarer remittances. The Solomon Islands is being affected through falls in exports and government revenues. Further, the contraction in GDP forecasts for 2009 in Fiji and Samoa is larger than originally expected (2009c). However, Papua New Guinea, Timor-Leste and Vanuatu are least affected. These countries are expected to record strong economic growth rates in 2009.

5. What impact will the GEC have on people's lives in the Pacific region?

Given the large informal sector in Pacific countries involved in agricultural subsistence, using macroeconomic data to make inferences of the impact of the GEC at a household level is problematic. Mechanisms with which the impacts of the crisis can be monitored at a community and household level don't currently exist in Pacific countries and this makes accurately evaluating the impact of the GEC on poverty and vulnerable groups very difficult. Community and household-based analysis of the GEC is arguably needed more in Pacific countries than in other developing countries. Stronger evidence of the links between the economy, governance and wellbeing in the Pacific are needed to help inform policy.

A number of studies have estimated the impact of the crisis on income poverty using the expected fall in economic growth and a Growth Elasticity of Poverty (GEP). The GEP measures the percentage change in poverty associated with one percentage change in GDP per capita. For example, globally, Chen and Ravallion (2009) calculate that the crisis will lead to an additional 73 million people living in poverty by the end of 2010. For the Pacific, the ADB estimates that an additional 50,000 people will be living in poverty by the end of 2010 due to the impact of the GEC (ADB, 2009f).[6]

This is a legitimate exercise for many countries in the world where the relationship between growth and poverty reduction is well established. However, caution should be exercised when adopting the approach for the Pacific region for a number of reasons. Firstly, there is a paucity of data relating to poverty in the Pacific region. Secondly, as demonstrated in *Table 9,* where data do exist they demonstrate that the relationship between economic growth and poverty reduction in the Pacific region is not always clear.

Table 9: The relationship between economic growth and poverty in selected Pacific countries

Pacific country/ period	Growth in Gross National Income (GNI) per capita	Incidence of poverty
Vanuatu (1998–2006)	Increased (0.30)	Fell (10%)
Tuvalu (1994–2006)	Increased (3.75)[a]	Fell (3%)
Micronesia (1998–2005)	Fell (-0.73)	Increased (2%)
Papua New Guinea (1996–2002)	Fell (-3.02)	Increased (16%)
Fiji (1996–2003)	Increased (1.66)	Increased (8%)
Samoa (1997–2002)	Increased (3.26)	Increased (5%)

Source: World Bank (2009), AusAID (2009a). Gross National Income is calculated as GDP plus net factor income from abroad.
[a] GNI data not available. Figure relates to growth in real GDP per capita from 1994–2002 from the ADB.

Table 9 provides data on growth in GNI per capita and compares it to changes in the incidence of poverty during the same time period. Data are only available for six Pacific countries and the time periods differ. The table indicates that Vanuatu experienced a large decline in the incidence of poverty during a period of very low economic growth. This is surprising since Vanuatu's growth largely occurred in the tourism and real estate sectors and benefited foreign investors with arguably very little benefit going to Ni-Vanuatu people (Cox et al., 2007). Tuvalu experienced a very small fall in poverty despite recording relatively high rates of economic growth during the same period. As expected, falls in economic growth are associated with increases in the incidence of poverty in the cases of the Federated States of Micronesia and Papua New Guinea. However, poverty increased in the cases of Fiji and Samoa during periods of relatively strong per capita economic growth. Clearly growth was not pro-poor in these countries during the periods in question.[7] The Pacific region has made little progress towards the MDGs in a similar time period, with some

6 The ADB (2009f) estimates this reduction in poverty using a GEP of -3. This is surprisingly high and much higher than their original GEP for the Pacific region of -0.37. The UNDP estimates that that the number of people in the Pacific region living below the poverty line jumped from 4 to 4.5 million people over the two years to mid-2009 (Chhibber, 2009). However, this is likely to be due more to the impacts of the food and fuel crisis than the impacts from the GEC.

7 AusAID (2009a) performs a similar exercise comparing changes in the incidence of poverty to changes in GNI per capita (Atlas Method). Using this data, the report indicates that growth was not pro-poor in Samoa or Micronesia.

indicators going backwards (DESA, 2008).

Section 4 indicated that government revenues are falling below estimates for all Pacific countries. In the absence of increased borrowing or foreign aid, government expenditures must be cut which often poses a threat to the provision of basic services and progress towards the MDGs. However, not only is the relationship between growth and poverty questionable in the Pacific region but so too is the relationship between government expenditures and some social sector outcomes. *Table 10* indicates that between 2000 and 2007 infant mortality remained unchanged in Fiji but fell in all other Pacific countries. However, in five of the Pacific countries listed in the table, per capita spending on health actually fell over a very similar period. Health outcomes clearly depend on more than actual resources provided to the health sector.

Table 11 shows that the relationship between education expenditure and school enrolments is also unclear. For example, the table demonstrates that while Fiji and Vanuatu increased their per capita spending on education during 2002 and 2006, the net primary school enrolment ratio fell over a similar time period. Further, while Tonga decreased per capita spending on education the country recorded a strong increase in primary school enrolments. Once again, there are likely to be other factors which are important for the realisation of increased school enrolments, in combination with education spending.

The evidence presented here does not imply that growth and government expenditures are not important for reducing poverty and achieving the MDGs in the Pacific region, just that they are clearly not sufficient in some Pacific countries. Improving development outcomes in the region will involve a complex interplay between a number of different factors.

The economic crisis followed the food price shock of 2007–2008. The Pacific region is vulnerable to food price shocks and these may be felt more strongly by individuals and families. In the Pacific region, 11

Table 10: Expenditure on health and rates of infant mortality

Country	Average health expenditure per capita (2002–6) US$	Infant mortality (2007)	Average annual growth in health expenditures per capita (%) (2002–06)	% change (2000–07)
Fiji	128	16	-0.8	No change
Kiribati	112	46	-6.5	-12
Marshall Islands	339	51[a]	-1.2	-7
Micronesia	236	33	10.6	-13
Palau	746	9	1.68	-31
Papua New Guinea	28	50	-6.1	-12
Samoa	98	22	3.2	-21
Solomon Islands	37	53	6.9	-18
Timor-Leste	41	77	9.2	-23
Tonga	91	19	6.1	-14
Vanuatu	61	28	-2.9	-26

Source: World Bank (2009), UN (2009).

[a] *2005*

countries are net food importers. In seven of these countries, net food imports account for more than 5% of their total imports: Kiribati, Micronesia, Cook Islands, Samoa, Papua New Guinea, Nauru and Palau.

The evidence also indicates that to determine the impact of the GEC on human development in the Pacific region, household level surveys and monitoring are required. Households can adopt a number of coping strategies following a shock. Internationally, these often include changing or reducing their consumption of food, withdrawing children from school, selling assets, borrowing money, activating remittances, migrating and diversifying their income (IDS, 2008). The specific choice of strategy is very important, since many of these strategies will actually increase household vulnerability and conflict and reduce the chances of escaping poverty in the long run.

Currently, evidence on how Pacific Islanders respond to economic shocks is sparse. Limited evidence which does exist for Vanuatu suggests an increased reliance on gardens in response to the GEC and a reduction in the consumption of imported food in response to the food crisis (Gartrell, 2009). Further, there is some evidence to suggest a narrowing of households' diets and a reduction of nutritional standards in Tuvalu, and in Samoa many children have been suspended from school until overdue school fees have been paid (Chhibber, 2009). This evidence is supported by recent surveys conducted by UNICEF. Its recent findings indicate that 80% of families living in vulnerable communities in Tonga and Tuvalu do not have enough money for food. Youth and women are worst affected along with those living in remote areas.

In the absence of real-time monitoring for other countries, UNICEF identifies the following groups as being most vulnerable to the GEC and past food and fuel crises:

- the urban poor who rely on purchasing their food;
- small-holder farmers who are net food buyers, many of whom are women, and who have also had difficultly accessing higher-priced seeds and fertilisers;
- front-line workers, such as health workers and teachers, whose salaries are either reduced or may not be adjusted to keep up with higher commodity prices, and who often support extended families;
- communities or groups that have been

Table 11: Public sector expenditure on education and net primary school enrolment ratios

Country	Average education expenditure per capita (1998–2004) US$	Net primary school enrolment ratio	Average annual growth in education expenditure per capita (%) (2002–06)	Change in net primary school enrolment ratio
Fiji	143	94.2 (2006)	4.4	Fell from 98.7 in 1999
Kiribati	89 [a]	99.7 (2002)	8.1	Increased from 99.2 in 1999
Marshall Islands	267	66.5 (2007)	-0.9	Fell from 91.7 in 2003
Samoa	61 [a]	99.1 (2004)	1.2	Increased from 94.2 in 1999
Tonga	92	98.5 (2005)	-3.3	Increased from 88.2 in 1999
Vanuatu	103	87.7 (2007)	1.3	Fell from 91.9 in 1999

Source: World Bank (2009), UN (2009).

[a] 1998-2002

excluded from productive resources, decent work and social security such as non-citizens, ethnic minorities and populations displaced due to environmental degradation or disasters; and

- low-skilled workers and immigrants, especially the untrained, who are among the first to be laid off because they are concentrated in vulnerable sectors, such as construction or tourism, and often hold temporary jobs (Parks et al., 2009).

A number of other factors support the need for an empirical investigation of the GEC on poverty in the Pacific region. While there are limited formal social protection mechanisms in the Pacific region, strong family support networks exist in many countries providing some resilience. Further, combating the negative impacts of the GEC are receding rates of inflation, providing some relief for Pacific country populations following high spikes in the prices they pay for food and fuel.

Box 1: The impact of the GEC on Vanuatu

In 2009, Oxfam Australia released a report examining the impact of the GEC on Vanuatu based on fieldwork conducted in Port Vila (Gartrell, 2009). While the analysis was preliminary and exploratory only, findings indicated that the GEC has had minimal impacts on Vanuatu's economy and society to date. The report finds that the economy continues to grow, the banking system is stable, tourist numbers remain firm and levels of international aid are being maintained.

The paper finds that impacts of the GEC in Vanuatu are predominantly being felt by the real estate sector, with real estate prices falling by 25–30% between October 2008 and April 2009 and land enquiries dropping by 80–90% between January and May 2009. Consequently, real estate sales have slowed. Several interviewees viewed this as a positive development arguing that the real estate market had been overheating and was "stealing away from the people".

Although interviewees did note increases in the cost of living over the last 6 to 12 months, given the timing of these changes they are more likely to be related to the food and fuel crises in 2008 than to the GEC.

Table 12: Pacific country food and agricultural imports (2004–05, two year average)

Food items (cereals, pulses, meat, dairy, vegetables and fruits)		All agricultural products	
Net importer	**Net exporter**	**Net importer**	**Net exporter**
Kiribati, Federated States of Micronesia, Cook Islands, Samoa, Papua New Guinea, Nauru, Palau, Fiji, Solomon Islands, Tonga, Marshall Islands	Vanuatu, Tuvalu	Kiribati, Federated States of Micronesia, Cook Islands, Samoa, Palau, Nauru, Tuvalu, Marshall Islands	Tonga, Papua New Guinea, Vanuatu, Fiji, Solomon Islands

Source: Francis NG & M. Ataman Akoy, "Who Are the Net Food Importing Countries", Policy Research Working Paper 4457, World Bank, Jan 2008, cited in Chhibber, 2009.

This relief may be short lived, with an expected return to high food and fuel prices in 2010, making monitoring at a community level even more imperative.

Pacific Islands governments and UNICEF are currently conducting surveys to examine the impact of the crisis in the Pacific region, focusing on women and children. Surveys are being conducted in six countries: Kiribati, Tonga, Fiji, the Solomon Islands, Tuvalu and Vanuatu. In each country surveys will be conducted in three sites identified as vulnerable. In each site a clinic, a school, a pharmacy and neighbouring communities are targeted. Results from the first phase of this project should be available in 2010. Monitoring impacts should occur with civil society and communities to inform a comprehensive and cohesive response that effectively meets the needs of Pacific people.

Box 2: The impact of the GEC on the Solomon Islands

The GEC is expected to have severe macro-economic impacts on the Solomon Islands. The Asian Development Bank (ADB) has categorised the Solomon Islands as one of the most vulnerable countries in the Pacific to the GEC (ADB, 2008). Further, the Solomon Islands has been identified as one of two Pacific countries where the impact of the GEC on women and children could be “extremely high” (Parks et al., 2009).

The main transmission mechanisms of the GEC to the Solomon Islands will be lower international demand for its exports, lower export commodity prices and a subsequent tightening of the Solomon Islands government budget. Revenues from tourism and remittances are also likely to fall although these flows are less important in the Solomon Islands than for other Pacific countries.

As a result of the GEC, the ADB has adjusted its 2009 GDP growth forecast for the Solomon Islands down, from 2.5% to 0% (ADB, 2009a). On a per capita basis, the economy will therefore contract. The fall in forecast economic growth is largely due to the expected fall in Solomon Islands exports. Exports are dominated by logs, fish, palm oil and copra and total exports declined by 11% in the first quarter of 2009 relative to same period for 2008. Logging exports are expected to decline by 30% for 2009 (ABD, 2009a). The ADB estimates that the rural economy will contract in 2009 while the economy of the capital Honiara will continue to grow (ADB, 2009f). The impact on people’s lives remains unclear, particularly as little of the export revenues from logging are provided to local communities and therefore the human impact may be less severe than is suggested by the macro data.

A more possible impact on people’s lives is through falling trade and consumption taxes on Solomon Islands government revenue. Actual revenue was 11% lower than forecast revenue in the first quarter of 2009. In response, the Solomon Islands Government has had to reduce its expenditures by 35%, with the development budget taking the brunt of the adjustment (ADB, 2009a). This reduction could further undermine access to social services in the Solomon Islands, noting that, as seen in this section, increased revenue does not always lead to increased wellbeing.

6. What response is required to the GEC in the Pacific region?

While Pacific countries might be less affected by the GEC than other developing countries, many have been hit hard by the recent food and fuel crises and therefore have a lower capacity to respond and are less able to cope with crisis impacts. Expenditure on food accounts, on average, for 50% of total household spending in the Pacific Islands (IMF, 2008). Rising prices have put extreme pressure on household budgets. Pacific countries, which responded by reducing taxes on food and fuel and/or increasing subsidies, will have less fiscal space to respond to the current economic crisis (IMF, 2008). Other constraints to responding to the GEC include high current account deficits, low foreign currency reserves and a lack of formal social protection schemes in most Pacific countries. Clearly, the role of the international community will be important in minimising the impacts. Since specific impacts at a household level are not known, developing the most effective response to the GEC in the Pacific region is difficult. Various policy options are discussed in turn.

6.1 Strengthening the traditional economy

The traditional or custom economy assists in meeting the needs of large proportions of the population in some Pacific countries. Characteristics and benefits of the traditional economy include (i) universal access to land, providing food security, (ii) large extended family groups providing a high level of social security for all, (iii) the sustainable management of natural resources through traditional practices, and (iv) dispute resolution and strengthening relationships between different groups (Regenvanu, 2009).

Policymakers should look at how the traditional economy in Pacific countries could be supported and strengthened to ensure it continues to provide resilience in times of crisis. This could involve measuring the extent and importance of the traditional economy, focusing on food security, maintaining customary land tenure and including the role that the traditional economy plays in providing livelihoods and sustainable development in education syllabuses (Regenvanu, 2009).

6.2 Appropriate social support

The strong social support networks of the Pacific region provide resilience to food or economic crises. These informal or traditional structures exist alongside social services that do not always reach all communities, or provide adequate access to healthcare and education. There are very few formal social protection mechanisms which currently exist in Pacific countries (exceptions are the Cook Islands, Fiji and Timor-Leste) (Parkes et al., 2009). In countries in Asia and Latin America, in particular, social protection mechanisms such as conditional cash transfers, the distribution of food and nutritional supplements, school feeding programs, price subsidies, fee waivers, insurance and microfinance schemes and cash for public work schemes, are used to cushion the impacts of economic crises. UNICEF argues that establishing social protection schemes should be viewed as a priority in the Pacific region (Parkes et al., 2009).

Appropriate social protection is highly context specific. Pacific country governments, in consultation with communities and civil society, should consider what forms of social support might be required to work alongside existing traditional systems in cases where they are not meeting current needs, particularly the needs of women and young people. In cases where Pacific country governments and communities determine clear needs, donors should support their financing.

6.3 Fiscal stimulus

Standard economic policy responses to the GEC adopted by developed countries are not necessarily appropriate for Pacific countries. Fiscal stimuli have been undertaken throughout the world in response to the crisis which involve increasing government expenditures and/or reducing taxation to stimulate domestic economic activity and counteract the fall in global demand. However, Pacific countries with already limited revenue bases, large fiscal deficits and little access to external borrowing have little scope for fiscal stimulus. Further, Pacific countries are heavily reliant on imports and therefore increases in consumer spending will often benefit producers overseas rather than domestic producers (ADB, 2009d). Where appropriate, fiscal stimulus should therefore be carefully directed towards increasing domestic economic activity and employment and should receive support from donors. School, health clinic and road maintenance projects are likely to boost domestic employment and economic activity more than new large construction projects with a high use of imported goods and services (Chhibber, 2009).

Pacific countries undertaking a fiscal expansion include Papua New Guinea and Timor-Leste (ADB, 2009a). These countries are well placed to undertake these expansions due to windfall revenues from the recent commodity boom and there are even concerns over the size of their stimulus packages (ADB, 2009d). Most other Pacific countries are not in a position where they are able to undertake a fiscal expansion and are cutting expenditures. Protecting essential expenditures should be viewed as a priority in these countries. International donors should assist by providing Pacific country governments with budget support to protect social expenditures, such as health and education, from t further cuts.

6.4 Monetary policy

Domestic activity can also be boosted through an expansionary monetary policy. This involves central banks lowering interest rates to stimulate the economy. Lower interest rates will make it more attractive for individuals and firms to borrow money and therefore increase their levels of spending and investment. Central banks adjust interest rates by controlling the supply of money, hence monetary policy is only an option for countries which have their own currency. Therefore, Fiji, Papua New Guinea, the Solomon Islands, Vanuatu, Samoa and Tonga are the only Pacific countries to have independent monetary policy. Further, expansionary monetary policy often leads to inflation and it is therefore only a sensible policy option in countries where inflation is under control (ADB, 2009d). Inflation rates are currently high in many Pacific countries due to the recent food and fuel crises. It is also the case that many consumers and businesses are not responsive to changes in interest rates in Pacific countries.

6.5 Improving data collection and crisis monitoring

There is an urgent need to improve data collection and tracking information on poverty and vulnerability in the Pacific region to ensure early warning systems are in place. This will help policymakers respond quickly and effectively when crises occur. Currently, real-time data for the Pacific region is poor. Monitoring impacts should occur with civil society and communities to inform a comprehensive and cohesive response that effectively meets the needs of Pacific people.

7. How are international donors assisting Pacific countries?

International donors have been pro-active in their engagement on the region's response to the economic crisis (AusAID and NZAID, 2009, Adams, 2009, ADB, 2009d, Parks et al, 2009).

The Asian Development Bank is providing quick-disbursing budget support to the worst affected economies. Specific examples include undertaking road improvement programs in Fiji, the Solomon Islands and Timor-Leste; economic reform and financial management programs in the Cook Islands, the Solomon Islands, Tonga, Tuvalu and the Marshall Islands; water supply projects in Fiji and Palau; and a flood recovery project in Fiji. The ADB and other international donors are advocating longer-term structural reforms including reforming State Owned Enterprises (SOEs) and improving competition, improving the business, legal and regulatory environments, strengthening financial and budget management, removing distortions in the tax system and mobilising customary land.

AusAID has established a Global Recession Taskforce and its response includes multi-year commitments to improve food security and build community resilience through rural development and to provide support for priority infrastructure needs. AusAID will also provide advice to partner governments on sequencing and implementing reforms. Specific examples include improved economic management programs in Samoa and Tuvalu, and school fee relief and employment programs in the Solomon Islands and Vanuatu (to maintain key economic and social infrastructure such as roads, schools and health facilities) (AusAID, 2009b). The New Zealand Government's aid agency is also assisting with school fee relief in Samoa.

UNICEF is actively seeking the establishment of social protection schemes in Pacific countries, supporting monitoring across five countries and hosting inter-governmental discussions on the response.

Donors have played an important role in the response to the crisis. A critical question about the response is to what extent is it driven by and will meet the needs of Pacific people? In particular, is this crisis the appropriate time to attempt long-term structural changes to the economies and whose interests do such changes serve? Similarly, previous efforts at mobilising customary land have not served the needs of Pacific people (Slatter, 2006). Time, particularly away from the pressures of a crisis response, is needed for governments to adequately engage their citizens in determining their future long-term economic development. A crucial role for donors is to provide fiscal and policy space for governments to genuinely engage their populations in determining both an appropriate response to the economic crisis, and a longer-term vision for the economic and social development of their countries that provides resilience to future crises.

8. Conclusion and recommendations

Macroeconomic data indicates that the GEC is having less impact on Pacific countries than most other developing countries. However, the links between changes to GDP and people's lives are not always clear and there is a clear need for further research into how the GEC is impacting on Pacific countries at a household level. It is not yet known which groups of people are most affected by the GEC, how they are affected and how they are responding. The importance of subsistence agriculture and the traditional economy in Pacific countries needs to be explored and strengthened where appropriate.

Developing the most effective response to the GEC in the Pacific region is difficult when household level impacts and responses are not known. In the absence of this information, priorities are likely to include protecting essential expenditures and increasing spending on activities which stimulate domestic economic activity and employment. Importantly, Pacific country governments need to engage citizens in understanding the impacts and determining an appropriate response. Pacific countries should also consider developing crisis-resilient strategies for development, components of which might be greater diversification of exports, strengthening social support alongside traditional systems and supporting the traditional economy. In the longer-term, strategies need to address a number of other vulnerabilities that Pacific countries face. These include global challenges such as climate change, food and energy security and natural disaster preparedness which impact severely on the Pacific region.

Oxfam recommends:

- Governments, donors and non-government organisations should consider developing systems and methods, to closely monitor the impacts of economic and other shocks. Monitoring impacts should occur with civil society and communities to inform a comprehensive and cohesive response that effectively meets the needs of Pacific people.
- International donors should assist by providing Pacific country governments with budget support to protect social expenditures, such as health and education, from being cut further. Policymakers also need to consider how to improve service delivery and the effectiveness of social spending in Pacific countries to best meet people's needs throughout the region. Australia should continue its focus on partnership with the Pacific as a neighbour who is vulnerable to shocks.
- The economic crisis raises questions about what form of future economic development best serves Pacific Island countries. Economic development is most effective when it reflects the needs of the people, and therefore donors, such as Australia, should support Pacific country governments to meaningfully engage their populations to consider their future economic development.
- Traditional social support systems are strong in the Pacific region and policymakers should examine how the "traditional economy", support systems and access to land for subsistence farming can be supported and strengthened to ensure it continues to provide resilience in times of crisis. At the same time, other forms of social support should be considered to work alongside or supplement these traditional systems in cases where they are not meeting current needs, particularly the needs of women and young people.

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Methodology

This report examines the impacts of the Global Economic Crisis (GEC) on Pacific countries as part of an Oxfam International research project analysing the impacts of the economic crisis, and the responses to it across 11 countries. As the crisis started to hit developing countries, Oxfam International initiated research to inform national and global program and policy responses to the crisis. The objectives of the research were to assess the human impacts of the economic crisis and to analyse whether responses by government, civil society and multilateral agencies were serving the interests of poor people. Oxfam Australia focused its attention, in part, on the Pacific Islands to contribute to the global analysis.

The author was seconded to Oxfam Australia from RMIT on an industry placement and conducted the analysis over five months (July–November 2009). Oxfam staff across the region contributed to the analysis.

The report draws predominantly on relevant emerging macroeconomic data to identify how Pacific countries are different from other developing countries with regard to the current and potential impacts of the GEC and what specific responses are required for countries in the region. Alongside this macro analysis, a very small scoping study, involving a small number of key informants and randomly selected community interviews, was conducted in Vanuatu which contributed to the analysis.

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Juilyn Senipitu lives in Vori Vori village on Ghizo Island, Solomon Islands. Photo: Lara McKinley/OxfamAUS.

Passam One Village, Wewak, Papua New Guinea. Photo: Jerry Galea/OxfamAUS