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AGENDA ITEM 4(a): ECONOMIC IMPACTS OF COVID-19 PANDEMIC

Purpose

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This paper draws from the paper - *An Overview of the Probable Impacts of COVID19 on Forum Island Countries*, annexed below as **Attachment 1**, which provides an analytical overview of the unprecedented economic impacts, both globally and on Forum Island Countries (FICs), from the COVID-19 pandemic. The paper is also intended to inform ministerial discussions on policy response measures by Member countries to: a) stimulate economic activity and growth; b) protect well-being and livelihoods; c) support economic recovery in the short-to-medium term; and, d) ensure resilient economies and communities in the long-run, among others.

Summary

- i. The global economy, [inclusive of the FICs' major trading partners and markets, are] is being hard hit by the fallout of the COVID-19 pandemic. The World Economic Outlook report predicts a contraction in the global economy by – 4.9 % in 2020 which is a further downgrade from 3.0% in April 2020 projections, although growth is expected to rebound in 2021 and grow at 5.4%.
- ii. The economic impact of COVID-19 is devastating the Pacific region due to the shut-down of economies and travel to and from Pacific countries as well as their trading partners and external markets. Key economic sectors and drivers of growth such as tourism, exports, fisheries and remittances are projected to fall, which would lead to a regional economic contraction by -4.3% from 0.3% which was based on earlier projections.
- iii. The onset of the COVID-19 pandemic has also amplified and exposed FICs' underlying structural impediments to growth, as well as the limited capacity (both fiscal/financial and key social services) to respond swiftly and adequately.
- iv. FICs are employing all available policy measures and initiatives, with development partners and the region's private sector (such as the superfunds and pension funds) support, to respond to COVID-19. These measures include expansionary fiscal and monetary policies, and easing of financial/banking, and superannuation measures for social protection, and economic stimulus.

- v. It would take both short-term economic stimulus and social protection measures, as well as long-term commitment to policy reform efforts by FIC governments to address the negative impact of COVID-19, and the underlying economic challenges.
- vi. The 2020 FEMM provides Forum Economic Ministers and Senior Officials an important avenue for frank discussions and sharing of ideas and lessons learned to support each other's efforts in this difficult economic time, in order to recover from the pandemic and chart a way forward for the Blue Pacific region that is stronger and more resilient.

A. Problem/Opportunity Identification

The public health emergency and danger posed by the COVID-19 pandemic has forced countries worldwide, including all PIF members, to put in place extraordinary containment measures, including strict restrictions on air travel and border closures, and stringent public health measures including social-distancing. These have effectively shut down most if not all social and economic activities and led to downward revisions of global economic growth figures for 2020 to -4.9% from -3.0% (April 2020 WEO)

2. The Pacific too is already experiencing unprecedented jobs and income losses, closure of businesses, and an overall fall in economic activities. All of this has led to the downgrading of economic growth projections across the Pacific region for 2020 to -4.3%.

3. The key challenge for many FICs is the uncertainty with respect to the duration of the economic closures due to the containment measures imposed as a result of the COVID 19 pandemic. While some countries, including Australia and New Zealand, have or are moving toward fully easing COVID-19 related restrictions, it will take both short-term economic stimulus and social protection measures, as well as long-term commitment to key policy reform efforts by FIC governments to address the negative impact of COVID-19, and the underlying and structural economic challenges.

4. The recovery of FIC economies will to a large extent depend on the global economy, and in particular the recovery of FICs' major trading partners and markets, but it will also require that FICs put in place the necessary measures domestically to support economic activity and consumerism in FICs.

5. *An Overview of the Probable Impacts of COVID19 on Forum Island Countries* (refer **Attachment 1**) seeks to outline the economic fallout of COVID-19 pandemic and negative socio-economic impact on the global economy and the Pacific region. Recent analysis show that a fall in household consumption in the Pacific due to the impact of COVID-19 would result in as high as 40% rise in poverty on pre-COVID19 levels¹.

6. FICs depend on a few sectors for economic growth, which are being impacted, and the notable sectors include the following:

- (a) *Tourism* - the halt to inbound Tourism due to synchronised travel restrictions by key tourism markets and temporary closure of FICs' borders to non-citizens has already severely affected the tourism dependent economies of the Cook Islands, Fiji, Palau, Samoa, Tonga and Vanuatu. Many workers from the tourism sector have been laid off in the region, as tourism businesses shut down. Even, with gradual easing of travel restrictions, the recovery in the tourism sector (& allied sectors) will depend on the FICs' comfort in dealing with possible importation of the COVID-19 virus through asymptomatic tourists, in the context of their ability to institute the necessary measures and procedures: a) to mitigate risks at border control; b) to enforce effective local quarantine measures; c) for access to proper medical treatment facilities; and d) to prevent community transmissions. The institution of such measures will be the key in balancing

¹DevPolicy blog "Poverty and the Pandemic in the Pacific": <https://devpolicy.org/poverty-and-teh-pandemic-in-the-pacific-20200615-2/>

the potential risks against the benefits of opening up the economy.

- (b) *Remittances* - Remittances are an important source of foreign exchange earners for some FICs, and in most cases, the sole source of income for individuals and families in these FICs. Rapidly weakening labour market conditions (measured by increasing unemployment claims and expected increase in unemployment) in FICs' major remittance sending countries (namely, American Samoa, Australia, Canada, New Zealand and USA). Apart from the labour market conditions that drive the remittance trend in these selected FICs, cyclical factors (such as, economic growth in remittance sending countries, costs and channels of sending remittance to FICs, and variations in exchange rate) may affect remittance inflows. Although there have been earlier projections for remittances to the Pacific to fall by more than 20%, but due to subsequent and ongoing mitigative measures, including income support provided by governments in key remittance-source markets such as Australia, New Zealand, US, the UK, and the EU would ensure that remittances continue to flow into the region by the Pacific diaspora, though at a lower rate.
- (c) *Trade/Exports* - Merchandise exports are expected to decline during the containment phase, as demand in export markets decline due to business closures and dwindling transportation capacity and linkages. In the recovery phase, the merchandise exports can recover though gains latter in the year are not expected to compensate the losses experienced during the containment phase, particularly for seasonal perishable exports. The softness in the global commodity markets due to the COVID-19 and disruptions to transport and travel, lower demand in major markets (like, China), slower than expected progress on new gold and copper mines and the envisaged shortages of foreign currency to facilitate trade, would impact on economies which depend on minerals and commodity exports such as Papua New Guinea. Similarly, sharp decline in logging activity and fall in global demand and prices of forest products, as well as delays in the large-scale domestic products would weigh negatively on some economies such as those of the Solomon Islands.
- (d) *Fisheries* – The extent of impact on the economies of Kiribati, Federated States of Micronesia, Republic of Marshall Islands, Nauru, and Tuvalu) will depend on the impact on fisheries revenues, with the restrictive movement of fishing vessels as a direct impact of the COVID-19 measures, which would impact government revenues for expenditure. While Kiribati and Tuvalu may be able to seek additional funds from their trust funds, RERF and TTF, respectively, tightening global financial conditions and heightened uncertainty in financial markets may impact the returns of these sovereign/trust funds in 2020.

B. Policy Context

7. As larger economies rush to cushion the catastrophic economic impact of the COVID-19, with significant economic stimulus packages, the FICs are working on measures to mitigate the COVID-19 contagion whilst working on a number of economic and crucial health policy responses. **Table 1** page 10 in Attachment 1, provides a snapshot of COVID-19 economic stimulus packages undertaken by key trading partners and markets of FICs. Further, Attachment 2 of this paper provides an overview of the measures put in place against COVID-19 by Economic Community of West African

States (ECOWAS), as well as Mauritius and Trinidad & Tobago. This is to highlight how other developing regions and countries have responded to the pandemic and lessons, if any, Forum Members may draw from going forward.

8. FICs' fiscal pockets are not "deep" enough, with most FICs having weak fiscal capacity and domestic resources to deal with the potential risks to their economies from the extensive impacts of the COVID-19 pandemic. Health-care expenditure and investment in health infrastructure are very limited in all FICs, especially in the Smaller Islands States (SIS) in the PIF wherein most secondary medical care cases are outsourced to a third country.

9. However, FICs are employing all available policy response measures, including securing financial support from donors/development partners to prepare and respond to the COVID-19 pandemic (refer Table 2: Page 24 of Attachment 1 for a summary of financial support to FICs). The suite of policy response measures used by FICs include fiscal, monetary, financial and banking, as well as public health measures. A number of FICs' national budgets are due in the coming months. Noting the urgency to manage the wider economic effects, Cook Islands, Fiji, Samoa, Papua New Guinea, and Vanuatu have issued a supplementary budget to respond to their respective ailing economic conditions, and seeking to provide additional resources to their health sector for COVID-19 response, as well as provide financial support to workers and businesses (including SMEs). The region's private sector, including commercial banks, superannuation funds, pension funds, retail, airlines, and pharmaceuticals are also supporting the FICs governments to respond to the COVID-19 pandemic.

10. Further, the region has also come together to respond to the pandemic, including through the PIF Leaders' led Pacific Humanitarian Pathway on COVID-19² (PHP-C), established under the Biketawa Declaration.

C. Analysis of Policy Measures - Defining the Algorithm of Recovery in FICs

11. The COVID-19 response measures which have been adopted are in the following phases. Part IV of Attachment 1 provide a suite of policy responses under the phases:

- i.) **Immediate response** – measures put in place here are containment measures to stamp out the spread of COVID-19, provide economic relief through fiscal/economic support to workers and businesses, and enact appropriate social protection to those affected;
- ii.) **Recovery Phase** – these are measures to revive economic activity together with phased relaxation of (public health) containment measures, as appropriate. This would also include exploring pathways for economic recovery, including putting in place relevant measures and policies by countries to explore regional approaches to support recovery such as *travel bubble* when the pandemic is contained; and
- iii.) **Beyond Recovery** - assuming economic recovery and public health efforts/measures are paying off, measures adopted here would include reviewing the short-term fiscal and monetary measures, as well as public health measures, in the view of either

² Refer here for more on the Pacific Humanitarian Pathway: <https://www.forumsec.org/pacific-islands-forum-foreign-ministers-agree-to-establish-a-pacific-humanitarian-pathway-on-covid-19/>

strengthening such measures, or to wean the economies of these measures. This would also seek to pursue key reform efforts to address the underlying economic challenges, based on lessons learnt, so that countries could respond better to future disasters.

12. Innovative regional approaches need to be explored and further developed by relevant agencies where the benefits are discernible and can outweigh the costs. These would of course require development partners' support with initial investment outlays, as and where needed. Some examples that are already being discussed in various fora, include:

- (i) the setting up of a *travel bubble* in the Pacific especially in partnership with Australia and New Zealand, which would be a huge boost to economic recovery of Pacific countries;
- (ii) further advancing the development of the Digital Economy in the Pacific initiative. The Pacific Trade Invest (PTI) Network's Digital Trade and Digital Tourism strategies were designed to support the Pacific private sector in bridging the digital divide and increase participation in the global digital economy; and,
- (iii) examine opportunities to reset, reform and redesign the regional aviation landscape to strengthen regional collaboration in the industry.

13. Based on the discussions and decisions at the 2020 FEMM, Economic Ministers may wish to issue a Ministerial Statement on the unprecedented economic impact of COVID-19 on the region and the actions taken by Forum Members to respond to the pandemic. A draft of such a statement is included in **Attachment 3** of the paper for consideration of Economic Ministers.

D. Consultation

14. The CROP agencies, representatives of Civil Society Organisations of the region, and offices of the Pacific Trade and Investment network, were consulted on *An Overview of the Probable Impacts of COVID19 on Forum Island Countries*. The assessment reflects key messages from these consultations.

E. Next Steps

15. Based on the Economic Ministers' decision on key issues and recommendations of this paper, which draws on *Attachment 1 (An Overview of the Probable Impacts of COVID19 on Forum Island Countries)*, the Forum Secretariat will work with relevant stakeholders, including CROP agencies and development partners to implement the 2020 FEMM decisions, as appropriate.

F. Regional Governance Implications

16. The 2020 FEMM Action Plan would outline any regional governance arrangements to support the Pacific countries to respond to COVID-19 pandemic, including responsibilities of relevant development partners and CROP agencies, as well as appropriate regional fora and meetings.

G. International Advocacy and Engagement Implications

17. The Secretariat would advocate for and engage with relevant international and regional

stakeholders on appropriate FEMM decisions on any issues covered by this paper, which draws on *An Overview of the Probable Impacts of COVID19 on Forum Island Countries*, and/or other associated 2020 FEMM papers to support FICs' and regional economic responses for recovery to the impacts of the COVID19 pandemic.

Pacific Islands Forum Secretariat
24 July 2020

An Overview of the Probable Impacts of COVID-19 on Forum Island Countries

Executive Summary

Pacific Economies are hard-hit by the consequential impact COVID-19 due to their exposure to the global economy, limited domestic response measures, and their underlying socio-economic challenges.

Forum Island Countries (FICs), are highly vulnerable to exogenous shocks such as disasters and economic shocks, due to the inherent nature of their economies including their openness and dependence on the external (global/regional) economy; dependence on a few sectors of the economy for economic growth, employment and income generation; a large informal sector and limited private sector; high cost of service delivery; and are prone to impact of disasters and climate change.

The global economy is being hard hit by COVID-19. The latest IMF's World Economic Outlook report predicts a contraction in the global economy by 3.0% in 2020, although global growth is expected to rebound strongly in 2021. The FICs' major trading partners and markets are also being hard hit. Australia, New Zealand, the Euro-zone, Japan, UK, US, are projected to record negative economic growth of more than 5.0% in 2020. China and India's economic growth has been downgraded, even though growth remains positive at 1.2% and 1.9%, respectively. These downward revisions are consistent with the intermittent closure of economies as part of COVID-19 containment measures and heightened uncertainty.

The economic impact of COVID-19 is devastating the Pacific region due to shut down of economies and travel of Pacific countries as well as their trading partners and external markets. It is already impacting economic sectors and drivers of growth such as tourism, fisheries and remittances. ADB predicts GDP to contract by 0.3% for the Pacific region.

Further, COVID-19 has amplified and exposed underlying structural impediments to growth of the FICs, which would take both short-term economic stimulus and social protection measures, as well as long-term commitments to hard policy reform efforts by FIC governments to address them.

The economic losses incurred by COVID-19 will lead to a dip in the regional real GDP by almost US\$950 million to US\$37.5 billion in 2020 (equivalent to 2.5% of the regional RGDP), compared to an earlier projected figure of US\$38.4 billion.

With less economic activities in FICs to support government revenue, private sector activities, jobs and family incomes, poverty, inequality, and family hardships are likely to be elevated.

Despite their limited fiscal capacity and ammunition in policy options, FICs are using all available policy measures and initiatives (with support of development partners) to respond to COVID-19, including expansionary fiscal and monetary policies, and easing of financial/banking, and superannuation measures.

Uncertainty with respect to the duration of the economic closures and travel shutdown due to containment measures lingers. It may take years for many FICs which are hard-hit to fully recover.

The recovery of FIC economies will largely depend on the global economy, and their major trading partners and markets. Large economies in the world are taking extraordinary steps and measures to

cushion the catastrophic economic impact of COVID-19. Economic activity for 2021, is expected to rebound by 5%, which is crucial for recovery and growth of Pacific countries.

A regional approach, such as enacting a *travel bubble* in the Pacific especially in partnership with Australia and New Zealand would be welcome to support the economic recovery of Pacific countries.

To support strong growth in the long-run, FICs should also embark on hard policy measures, particularly, to address their underlying structural economic challenges – this would assist them to respond better to future shocks/disasters.

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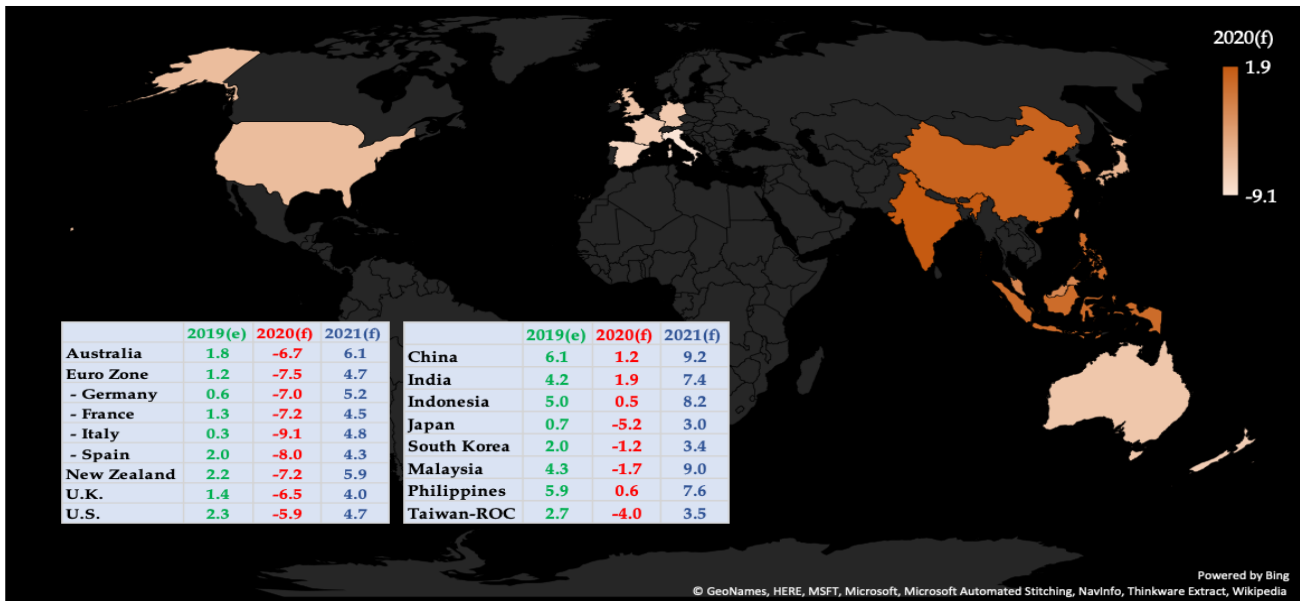
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1.0 Overview of the Global Impact of COVID-19

1.1 Economic Output: Severe Downgrade in GDP Forecast & Increased Uncertainty

1. The outbreak of the Novel Corona-virus (COVID-19) since December 2019 in Hubei Province in China and the spread of COVID-19 in major economies, such as the United States of America (USA), the United Kingdom (UK), Europe, Japan and South Korea, has severely impacted the global economy. The latest (April, 2020) World Economic Outlook (WEO) by the International Monetary Fund (IMF) predicts a contraction in the global economy by 3.0% in 2020 (which is much larger than the impact of the Global Financial Crisis in 2007-2008).

Figure 1: Economic Growth Projections for FICs' Major Trading Partners



Data sourced from IMF-WEO, April, 2020

2. The projection for 2020 is premised on the assumption that the COVID-19 pandemic will fade in the second half of 2020. This forecast is strongly contingent on current projections and containment measures by countries, which can be very volatile in the face of a crisis. In 2021, the global economy is expected to rebound strongly at 5.8% with the expectation that economic activity normalises next year (IMF, 2020). However, if the containment measures of the COVID-19 continue to drag on until later this year, these projections are expected not to hold, and growth may dip further.

3. In line with the global impact of the COVID-19, the prospects for Forum Island Countries' (FICs) major trading partners has been severely downgraded by the IMF compared to projections in October 2019 and January 2020 (see [Figure 1: Economic Growth Projections for FICs' Major Trading Partners](#)).

4. Australia, New Zealand, the Euro-zone (including the four largest Euro-zone economies, Germany, France, Italy and Spain), Japan, U.K. and US are projected to record negative economic growth of more than 5.0% in 2020. For China and India, economic growth has been severely downgraded, even though growth remains positive at 1.2% and 1.9%, respectively. These downward revisions are consistent with the intermittent closure of economies (or part of the economy, except for essential businesses and services) as part of COVID-19 containment measures, heightened uncertainty and dwindling consumer spending (on non-essential goods and services) and halt to investment spending by the private sector.

5. Unemployment claims have sharply increased in most advanced economies. The unemployment rate is projected to be high in 2020 and abate slowly in 2021. This will impact productivity and consumer spending in these major developed economies.

6. A major concern for the FICs is the envisaged weakness in the labour market (measured by the projected unemployment rates) of its key remittance-sending economies, namely, Australia (unemployment rate in 2019: 5.2%; 2020: 7.6%; 2021: 8.9%), France (unemployment rate in 2019: 8.5%; 2020: 10.4%; 2021: 10.4%); New Zealand (unemployment rate in 2019: 4.1%; 2020: 9.2%; 2021: 6.8%); the UK (unemployment rate in 2019: 3.8%; 2020: 4.8%; 2021: 4.4%); and the US (unemployment rate in 2019: 7.6%; 2020: 10.4%; 2021: 8.9%) (IMF, 2020).

1.2 *Domino Effects: Disrupted Trade Flows with Heighten Financial & Fiscal Stress*

7. The declaration of COVID-19 health emergency across China had already impacted the global value chains and world commodity prices¹. Contagion of COVID-19 across the major Asian economies and industrial hubs and the spread to Europe and USA have protracted impact on the global financial markets and commodity prices. This in turn will have a both supply- and demand-side shock. Due to the interconnected nature of the global economy, economic activity and growth projections for the short-to-medium terms are being severely impacted in countries across the globe as authorities shut their economies and borders.

8. It has been estimated that global trade will decline between 13 and 32² per cent and that the global economy will contract by 3.23 per cent in 2020. To date, UNCTAD, the WTO and the IMF have forecast that the evolving COVID-19 crisis will have a more severe impact on global trade than the 2008 global financial crisis. The difference between the two crises however is that the economic impacts of the current crisis have been immediately felt by smaller countries like FIC, while the onset of economic impact of the 2008 global financial crisis were delayed and, for the most part, were the result of adverse economic realities in advanced economies.

9. This has been attributed to these countries' high vulnerability to shocks (economic, environmental, etc) as well as the challenges associated with small size including, remoteness, lack of diversification, dependence on a few advanced markets, high dependence on trade, and high levels of indebtedness.

10. In recent months, many governments have imposed protective trade measures or trade restrictions in the form of export prohibitions such as trade bans or export restrictions such as through licensing of exports. The aim of these restrictions is to limit exports to ensure adequate national supplies of medical and pharmaceutical goods for supporting national health services to address COVID-19. Trade restrictions thus far have emerged mainly in relation to medical and pharmaceutical supplies and food exports. These restrictions could reduce access to medical and pharmaceuticals supplies as well as food supplies for many developing countries that are dependent on imports.

11. To date, 231 Covid-19 related measures were notified to the WTO, 53% being trade facilitative in nature and 47% trade restrictive. Technical Barriers to Trade (TBT) measures which are temporary have mainly affected personal protective equipment (PPE), food and medical equipment. The WTO Director General provided 3 key elements for members to i) need to carefully assess their approaches in order to successfully restart economies and regain business confidence; ii) WTO rules

¹ The recent significant drop in crude oil prices was triggered initially by retaliatory increase in supply volumes by Saudi Arabia in response to Russia's unwillingness to restrain production to stabilise the global crude oil prices. This was followed by an extreme demand shock which has reduced the benchmark oil prices further.

² Trade Statistics and Outlook, Press Release, WTO https://www.wto.org/english/news_e/pres20_e/pr855_e.pdf

³ IMF World Economic Outlook, The Great Lockdown; April 2020

are clear on Members rights and obligations and Governments must ensure that emergency measures do not become barriers to trade; iii) to resist policies that disrupt supply chains.

12. The Forum Island Countries (FICs) do not have manufacturing capacity and are heavily dependent on imports for almost all of their medical and pharmaceutical supplies. Many FICs import these products from Australia, India, China, the EU and the USA. Similarly, for food, many FICs are net-food importing countries, reliant on imports for over 60% of their domestic food requirements. Many of their essential food imports are from Australia, New Zealand, Thailand and the USA. FICs could be significantly impacted by the export restrictions which are imposed by their source markets, this could deny them access to essential supplies and subject them to exorbitant prices.

13. However, while WTO rules provide flexibility to impose restrictions for national health emergencies such as these, there is growing concern amongst WTO members on their impact. It is important to support the vital role of the WTO as it monitors trade-related measures implemented by WTO Members in response to the COVID-19 situation, and Members are encouraged to continue notifying the WTO of any such measures as far in advance as practicable. See [Box 1](#).

Alternative Remedial Measures for FIC- Non-WTO members

For Non- WTO FIC members reprieve can be sought through the following trade agreements currently applicable: EU- Pacific Interim EPA; MSG Trade Agreement (MSGTA) and; the Pacific Island Countries Trade Agreement (PICTA) as follows:

1. **PICTA** :Article 10-13 of PICTA generally provides for Safeguard measures that PICTA parties may invoke in the event of an emergency if it is proven upon investigation that the product being imported into a PICTA party's territory from another party is in such quantities as to threaten to cause serious injury to the domestic industry which produces like or directly competitive products; correction of balance of payments; and as a countervailing measure for dumped or subsidized products.
2. **MSGTA** :The MSGTA has provisions on Safeguard measures to protect local industry against surge in imports of up to 10 years for Least Developing Countries(Vanuatu and Solomon Islands) under the title 'Development of Industries', and 5 years for Developing Countries (Fiji and PNG) and; Sanitary and Phytosanitary (SPS) measures, Standards technical regulations and conformity assessment procedures(TBT Measures). Article 8, 12, and 15 can be used under these circumstances.
3. **EU- Pacific Interim EPA**: For Pacific Interim EPA signatories, Chapter 2 of the legal text provides both for bilateral (Article 21) and multilateral (Article 20) Safeguards where it is proven that there is a serious injury to the domestic industry producing like or directly competitive products in the territory of the importing Parties; or disturbances in a sector or industry of the economy, whether of an economic or social nature, or difficulties which could bring about serious deterioration in the economic situation of the importing Parties or Pacific States; or disturbances in the markets of agricultural like or directly competitive products , in this case Agricultural products are defined by the text as products covered by Annex I of the WTO Agreement on Agriculture . In Chapter 6 Exceptions we have Articles 42, Article 43 on Security Exceptions.

Box 1: Alternative Remedial Measures for FIC-Non-WTO members

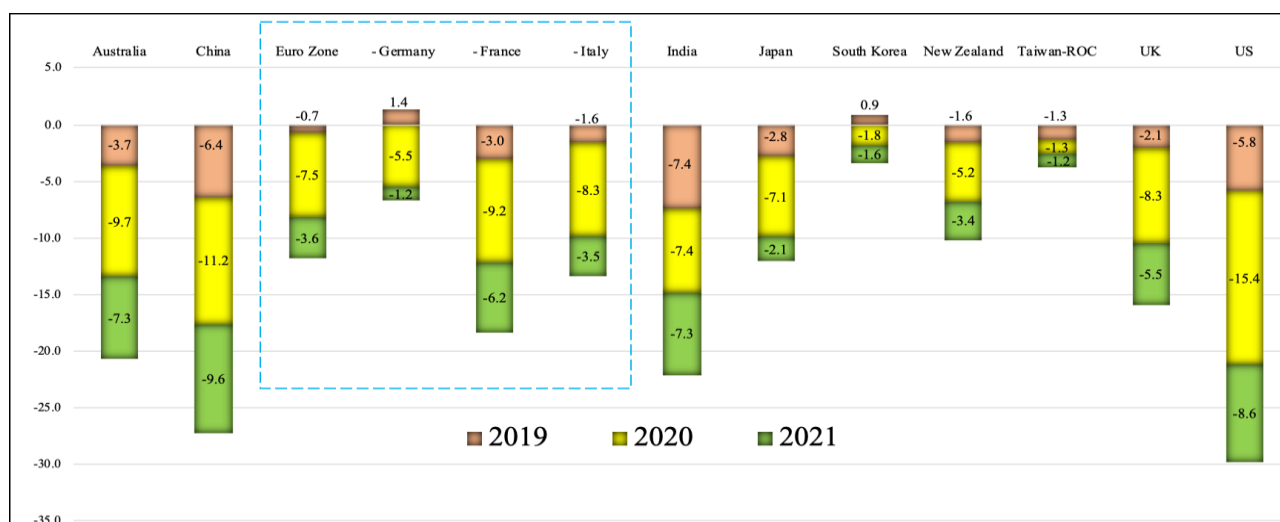
14. In an effort to confine the COVID-19 pandemic, a number of countries have imposed measures on domestic travel, and restrictions and prohibitions on the exportation of certain products. These measures have not only impacted the implementing countries but have also had a negative impact on other countries. The International Trade Centre (ITC) has been tracking these measures. The ITC has developed a page dedicated to monitoring temporary trade measures imposed by government

authorities under the rubric of the COVID-19 pandemic, particularly as they relate to vital medical supplies, and Agro-processed foods.

15. In addition to the sizeable decline in the merchandise trade volumes, the UN World Tourism Organization (UN-WTO) is anticipating a 20-30% decline in tourist arrivals globally due to the impact of COVID-19, compared to -4% and -0.4% experienced during the 2009 Global Financial Crisis and SARS outbreak in 2003. This translates to a decline in international tourism receipts (or tourism services exports) of between US\$300 billion - US\$450 billion, that is, one third of the US\$1.5 trillion generated in 2019 (UNWTO, 2020). These losses equate to between 5-7 years' worth of tourism services exports growth, and this will have profound repercussions on employment and opportunities for women, youth and rural communities, as around 80% of all tourism businesses are Small-and-Medium-Sized enterprises (SMEs) (UNWTO, 2020).

16. Undulating weakness in global financial markets across major hubs are measures of emerging weakness in global consumer and business expectations as a result of uncertainty with regards to the duration of the global pandemic. The latest IMF Global Financial Stability Report (IMF, 2020) alluded to tightening financial conditions and worsening risk sentiments, which are largely attributed to collapse in prices of risk-assets, increased market volatility, and expectations of widespread defaults leading to an increase in costs of borrowing.

Figure 2: General Government Net Lending/Borrowing Requirement (% of GDP)



Source: IMF, World Economic Outlook, April 2020

17. Major central banks around the globe have resorted to: (1) reduction in the benchmark policy interest rates and clear forward guidance of policy interest rates (at least for the next 12 months); (2) liquidity injections into the banking system (including temporary relaxation of capital requirements); (3) credit extension and/or term funding facility to support for epidemic-hit SMEs; and (4) established swap lines with US Federal Reserve for the provision of US dollar liquidity to stimulate the anemic demand and ailing foresight in consumer and business spending.

18. The unprecedented and synchronized economic “sudden stop” has resulted in extra-ordinary fiscal stimulus, restriction of selected medical supplies and equipment (in some countries), and support for the Health sector across the globe.

19. Some of the notable economic response from FICs’ major trading partners are noted in [Table 1: Major Trading Partners’ Economic Response to COVID-19](#). However, these fiscal stimulus packages provided by the FICs’ key trading partner are expected to increase the borrowing requirements and eventually add to the national debt. In 2020, the general government net borrowing

requirements as percent of GDP for all FIC's major trading partners (see [Figure 2: General Government Net Lending/Borrowing Requirements](#)) is expected to more than double (except for India and Taiwan-ROC).

Table 1: Major Trading Partners' Key Economic Response Measures to COVID-19

Economy:	Fiscal Response:	Monetary Response:	Employment Support measures:	Private Sector Support Measures:	Other Measures:
<p>Australia [https://treasury.gov.au/sites/default/files/2020-03/Overview-Economic_Response_to_the_Coronavirus_2.pdf] (RBA)</p>	<p>The Federal Government's consolidated package of \$320 billion represents fiscal and balance sheet support across the forward estimates of 16.4 per cent of annual GDP</p>	<p><u>Key Measures</u></p> <ul style="list-style-type: none"> • Exchange rate allowed to be flexible • Cash rate lowered to 0.25% • RBF board target for yield on 3-year Australian Government bonds is 0.25 per cent, to help lower funding in the economy • Provided a Term Funding Facility for the Banking System, to support lending to businesses • Provided liquidity to the financial system and the government bond market • Established a Foreign Exchange Swap Line to Support US Dollar Funding (for up to A\$60billion) 	<p><u>Key Measures</u></p> <p>The Government announced the \$130 billion JobKeeper Payment to help keep Australians in jobs as we deal with the significant economic impact from the Coronavirus</p> <p><i>Income support for individuals</i></p> <p>Over the next six months, the Government is temporarily expanding eligibility to income support payments and establishing a new, time-limited Coronavirus supplement to be paid at a rate of \$550 per fortnight on top of their existing income support payment. This will be paid to both existing and new recipients of Jobseeker Payment, Youth Allowance, Parenting Payment, Austudy, ABSTUDY Living</p>	<p><u>Key Measures</u></p> <ul style="list-style-type: none"> • Jobkeeper payment (\$1,500 per eligible worker/fortnight for effected businesses) • Cashflow support for SMEs (up to \$100,000 per eligible SMEs) • Temporary relief for financially distressed businesses (increase of threshold at which creditors can issue a statutory demand on a company and the time companies have to respond to statutory demands they receive) • Increasing the instant asset write-off (increase in instant asset write-off threshold from \$30,000 to \$150,000 and expansion in access to include businesses with aggregated annual turnover of less than \$500 million (up from \$50 million) until 30 June 2020) 	<ul style="list-style-type: none"> • Australian Government has agreed with the States and the Territories to share the public health costs incurred by the States in treating the Coronavirus • In relation to aged care, temporary measures will be introduced to support the aged care sector with an additional \$444.6 million. This is in addition to more than \$100 million that the Government previously announced to support the aged care workforce.

			Allowance, Farm Household Allowance and Special Benefit. The Government is also temporarily expanding access for the <i>JobSeeker Payment</i> by relaxing the partner income test.	<ul style="list-style-type: none"> • Backing business investment (15-month investment incentive for 3.5million businesses) • Supporting apprentices and trainees • Support also provided for Not-for-profit organisations, and sole traders 	
<p>China</p> <p>[Official Announcements and news agencies https://www.thestar.com.my/news/regional/2020/03/25/china-ups-support-to-firms-to-ensure-employment-amid-covid-19-epidemic]</p>	<ul style="list-style-type: none"> • An estimated RMB 3.6 trillion of fiscal measures or financing plans announced. • Key measures include: (i) Increased spending on epidemic prevention and control. (ii) Production of medical equipment. (iii) Accelerated disbursement of unemployment insurance. (iv) Tax relief and waived social security contributions. 	<ul style="list-style-type: none"> • The PBC provided monetary policy support and acted to safeguard financial market stability. Key measures include: (i) direct liquidity injection into the banking system via open market operations of RMB4.2 trillion, (ii) expansion of re-lending and re-discounting facilities by RMB 1.8 trillion to support manufacturers of medical supplies and daily necessities MSME firms and the agricultural sector at low interest rates, (iii) reduction of the 7-day and 14-day reverse repo rates by 30 and 10 bps, respectively, as well 	<ul style="list-style-type: none"> • cut 123.9 billion yuan (about US\$17.7 billion) in social security premiums for companies nationwide in February, with the sum from February through June expected to top 500 billion yuan • 1.46 million micro, small and medium-sized enterprises have received 22.2 billion yuan in refunds of unemployment insurance premiums, which aimed at encouraging companies to minimise layoffs, with the number of benefitted companies exceeding that of last year as a whole 	<ul style="list-style-type: none"> • (i) delay of loan payments and other credit support measures for eligible SMEs and households, (ii) tolerance for higher non-performing loans (NPLs) for loans by epidemic-hit sectors and SMEs, (iii) support bond issuance by financial institutions to finance SME lending, (iv) additional financing support for corporates via increased bond issuance by corporates, (v) increased fiscal support for credit guarantees, (vi) flexibility in the implementation of the asset management reform, and 	<ul style="list-style-type: none"> •

		<p>as the 1-year medium-term lending facility rate by 10 bps, (iv) targeted RRR cuts by 50-100 bps for large- and medium-sized banks that meet inclusive financing criteria which benefit smaller firms, an additional 100 bps for eligible joint-stock banks, and 100 bps for small- and medium-sized banks in April and May to support SMEs, (v) reduction of the interest on excess reserves from 72 to 35 bps, and (vi) policy banks' credit extension to micro- and small enterprises (RMB 350 billion).</p>	<ul style="list-style-type: none"> • The State Council, China's cabinet, issued a guideline last week calling for fast-tracking targeted tax and fee reductions and increasing the amount and coverage of unemployment insurance premium refunds. • The guideline also urged wider recruitment from state-owned enterprises and public institutions, as well as more incentives for smaller companies to hire college graduates 	<p>(vii) easing of housing policies by local governments.</p>	
<p>Euro-zone (ECB, and European Commission)</p>	<ul style="list-style-type: none"> • €540 billion (4 percent of EU27 GDP) includes (i) allowing the European Stability Mechanism (ESM) to provide Pandemic Crisis Support (based on existing precautionary credit lines) up to 2 percent of 2019 GDP for each euro area member 	<ul style="list-style-type: none"> • Key European Central Bank (ECB) packages include: (i) asset purchases of €120 billion until end-2020 under the existing program (APP), and (ii) providing temporarily additional auctions of the full-allotment, fixed rate 	<ul style="list-style-type: none"> • Of creating €540 billion package, a temporary loan-based instrument (SURE) of up to €100 billion created was to protect workers and jobs, supported by guarantees from EU member states. 	<ul style="list-style-type: none"> • Of the €540 billion, €25 billion in government guarantees to the European Investment Bank to support up to €200 billion to finance to companies, with a focus on SMEs • €37 billion Coronavirus Response Investment Initiative to provide 	

	<p>(up to €240 billion in total) to finance health-related spending;</p> <p>(ii) providing €25 billion in government guarantees to the European Investment Bank to support up to €200 billion to finance to companies, with a focus on SMEs; and (iii) creating a temporary loan-based instrument (SURE) of up to €100 billion to protect workers and jobs, supported by guarantees from EU member states.</p> <ul style="list-style-type: none"> • Also provided EU Budget (about €37 billion and 0.3 percent of 2019 EU27 GDP). 	<p>temporary liquidity facility at the deposit facility rate and more favorable terms on existing targeted longer-term refinancing operations (TLTRO-III) between June 2020 and June 2021. Moreover, additional €750 billion asset purchase program of private and public sector securities (Pandemic Emergency Purchase Program, PEPP) until end-2020, an expanded range of eligible assets under the corporate sector purchase program (CSPP), and relaxation of collateral standards for Eurosystem refinancing operations.</p>		<p>liquidity to small businesses and the health care sector</p>	
Japan	<ul style="list-style-type: none"> • On April 7, the Government of Japan adopted the Emergency Economic Package Against COVID-19 of ¥108.2 trillion (20 percent of GDP) and subsumed the remaining part of the previously announced packages (the December 2019 stimulus 	<ul style="list-style-type: none"> • On March 16, the Bank of Japan (BoJ) announced a comprehensive set of measures to maintain the smooth functioning of financial markets (notably of U.S. dollar funding markets), and incentivize the provision of credit. These include 	<ul style="list-style-type: none"> • Included in April package. 	<ul style="list-style-type: none"> • Included in April package. 	<ul style="list-style-type: none"> • The government expanded the volume of concessional loan facilities (interest free without collateral) primarily for micro, small and medium-sized businesses affected by COVID-19 through the Japan Finance Corporation and other

	<p>package (passed in January 2020) and the two COVID-19-response packages announced on February 13 and March 10 respectively). The April package aims at five objectives, including to:</p> <ul style="list-style-type: none"> (i) develop preventive measures against the spread of infection and strengthen treatment capacity (expenditure of 0.5 percent of GDP), (ii) protect employment and businesses (15.1 percent of GDP), (iii) regain economic activities after containment (1.6 percent of GDP), (iv) rebuild a resilient economic structure (3 percent of GDP), and (v) enhance readiness for the future (0.3 percent of GDP). The key measures comprise cash handouts to affected households and firms, deferral of tax payments and social security contributions, and concessional loans 	<p>targeted liquidity provision through an increase in the size and frequency of Japanese government bond purchases, special funds-supplying operation to provide loans to financial institution to facilitate financing of corporates, an increase in the annual pace of BoJ's purchases of Exchange Traded Funds (ETFs) and Japan-Real Estate Investment Trusts (J-REITs), and a temporary increase of targeted purchases of commercial paper and corporate bonds. The BoJ has provided lending support through the special funds-supplying operation, and made purchases of Japanese government securities, commercial paper, corporate bonds, and exchange-traded funds.</p>			<p>institutions. The government will also enhance access to loans with the same conditions from local financial institutions, such as local banks. To support borrowers during this period of stress, the Financial Services Agency has reassured that banks can assign zero risk weights to loans guaranteed with public guarantee schemes, use their regulatory capital as needed to support funding of affected businesses, draw down their capital conservation and systemically important bank buffers to support credit supply, and draw down their stock of high-quality liquid assets below the minimum liquidity coverage ratio requirement.</p>
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<p>New Zealand [https://treasury.govt.nz/news-and-events/news/covid-19-economic-package-updated] [https://www.beehive.govt.nz/speech/parliament-economic-response-covid-19]</p> <p>(Reserve bank of NZ)</p> <p>https://treasury.govt.nz/publications/efu/budget-economic-and-fiscal-update-2020</p>	<p>from public and private financial institutions.</p> <ul style="list-style-type: none"> Total fiscal stimulus of NZ\$62.1 billion (21.3 percent of GDP) through FY2023-24, of which NZ\$20.5 billion will be disbursed by end-June. This includes NZ\$50 billion COVID-19 Response and Recovery Fund. Already specified fiscal measures include: (i) healthcare-related spending to reinforce capacity (NZ\$0.5 billion or 0.2 percent of GDP); (ii) a permanent increase in social spending to protect vulnerable people (total NZ\$2.4 billion or 0.8 percent of GDP); (iii) a lump sum 12-week wage subsidy to support employers severely affected by the impact of COVID-19 (NZ\$15.2 billion or 5.2 percent of GDP); (iv) income relief payment to support people who lost their jobs (NZ\$3.1 billion or 1 percent of GDP); (v) a permanent change in business taxes 	<p>Key Measures</p> <ul style="list-style-type: none"> Official Cash Rate lowered from 1 percent to 0.25 percent for the next year \$60 billion in total Large Scale Asset Purchases programme over 12 months Ensure financial stability, and adequate liquidity, and work effectively with government on COVID-19 response The RBNZ has been providing liquidity in the FX swap market and re-established a temporary US dollar swap line (US\$30 billion) with the U.S. Federal Reserve. 	<ul style="list-style-type: none"> \$2.8 billion income support package for our most vulnerable, including a permanent \$25 per week benefit increase and a doubling of the Winter Energy Payment for 2020 •\$1.6bn for the trades and apprenticeships training package •\$1bn environmental jobs package 	<ul style="list-style-type: none"> \$5.1 billion in wage subsidies for affected businesses in all sectors and regions \$2.8 billion in business tax changes to free up cash flow, including a provisional tax threshold lift, the reinstatement of building depreciation and writing off interest on the late payment of tax Of the 14th May budget, \$4bn business support package, including a targeted \$3.2bn Wage Subsidy Scheme extension 	<ul style="list-style-type: none"> \$100 million redeployment package Initial \$500 million boost for health \$126 million in COVID-19 leave and self-isolation support \$600 million initial aviation support package <p>Of the 14th May budget:</p> <ul style="list-style-type: none"> \$3bn infrastructure investment and 8,000 public housing build programme, to boost productivity and create jobs •\$3.3bn new funding to strengthen core services, including health and education •\$79 million boost to social service providers •\$36 million in grants for community groups •\$22 million for family violence services
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	to help cashflow (NZ\$2.8 billion or 1.0 percent of GDP); (vi) infrastructure investment (NZ\$3 billion or 1 percent of GDP); (vii) a temporary tax loss carry-back scheme (NZ\$3.1 billion or 1.1 percent of GDP); and (viii) support for the aviation sector (NZ\$0.6 billion or 0.2 percent of GDP).				<ul style="list-style-type: none"> • \$20 million to ease impacts of COVID-19 on rural and fishing communities • \$20 million tertiary student hardship fund for 2020 • \$15 million boost to Fruit in Schools and digital sales platforms for food producers
<p>United Kingdom</p> <p><i>[https://www.gov.uk/government/publications/guidance-to-employers-and-businesses-about-covid-19/covid-19-support-for-businesses]</i></p> <p><i>[https://www.pillsburylaw.com/en/news-and-insights/uk-government-economic-stimulation-measures-in-</i></p>	<ul style="list-style-type: none"> • On 17 March, the Chancellor announced an unprecedented package of government-backed and guaranteed loans to support businesses, making available an initial £330 billion of guarantees – equivalent to 15% of GDP. 	<p><u>Key Measures</u></p> <ul style="list-style-type: none"> • Bank of England reduced interest rate to 0.1% • Bank of England provide support to banks to cut interest rates on their lending • Bank of England provide support to banks to continue lending to UK borrowers 	<ul style="list-style-type: none"> • Government announced £30 billion of additional support for public services, individuals and businesses experiencing financial difficulties because of COVID-19 • Bank of England also supports large businesses by offering them cash for their corporate debt, which will help them keep paying wages and their suppliers, even if they have serious cash flow problems. 	<p>Package of measures to support businesses including:</p> <ul style="list-style-type: none"> • a Coronavirus Job Retention Scheme • deferring VAT and Self-Assessment payments • a Self-employment Income Support Scheme • a Statutory Sick Pay relief package for small and medium sized businesses (SMEs) • a 12-month business rates holiday for all retail, hospitality, leisure and nursery businesses in England 	<p>A new £5 billion COVID-19 Response Fund to provide any extra resources needed by the NHS and other public services to tackle the virus</p>

response-to-covid-19.html]

[Bank of England]

- small business grant funding of £10,000 for all business in receipt of small business rate relief or rural rate relief
- grant funding of £25,000 for retail, hospitality and leisure businesses with property with a rateable value between £15,000 and £51,000
- the Coronavirus Business Interruption Loan Scheme offering loans of up to £5 million for SMEs through the British Business Bank
- a new lending facility from the Bank of England to help support liquidity among larger firms, helping them bridge coronavirus disruption to their cash flows through loans
- the HMRC Time To Pay Scheme

<p>USA</p>	<ul style="list-style-type: none"> • An estimated US\$2.3 trillion (around 11% of GDP) Coronavirus Aid, Relief and Economy Security Act (“CARES Act”). The Act includes (i) US\$250 billion to provide one-time tax rebates to individuals; (ii) US\$24 billion to provide a food safety net for the most vulnerable; (iii) US\$100 billion for hospitals, (iv) US\$150 billion in transfers to state and local governments and (v) US\$49.9 billion for international assistance (including SDR28 billion for the IMF’s New Arrangement to Borrow). • US\$483 billion Paycheck Protection Program and Health Care Enhancement Act. The legislation includes (i) US\$321 billion for additional forgivable Small Business Administration loans and guarantees to help 	<ul style="list-style-type: none"> • Key Monetary policy responses include: Federal funds rate were lowered by 150bp in March to 0-0.25bp. • Purchase of Treasury and agency securities in the amount as needed. • Expanded overnight and term repos. • Lowered cost of discount window lending. • Reduced existing cost of swap lines with major central banks and extended the maturity of FX operations; • Broadened U.S. dollar swap lines to more central banks; and • Offered temporary repo facility for foreign and international monetary authorities. 	<ul style="list-style-type: none"> • US\$250 billion to expand unemployment benefits; • US\$359 billion in forgivable Small Business Administration loans and guarantees to help small businesses that retain workers; 	<ul style="list-style-type: none"> • US\$510 billion to prevent corporate bankruptcy by providing loans, guarantees, and backstopping Federal Reserve 13(3) program. • US Senate passed US\$484 billion bill to support small businesses and hospitals on 21 April 2020 	<ul style="list-style-type: none"> • Fannie Mae and Freddie Mac have announced assistance to borrowers, including providing mortgage forbearance for 12 months and waiving related late fees, suspending reporting to credit bureaus of delinquency related to the forbearance, suspending foreclosure sales and evictions of borrowers for 60 days, and offering loan modification options.
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	<p>small businesses that retain workers; (ii) US\$62 billion for the Small Business Administration to provide grants and loans to assist small businesses; (iii) US\$75 billion for hospitals; and (iv) US\$25 billion for expanding virus testing.</p>				
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Source: IMF (<https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#C>); Treasury Websites of Australia, China, Euro-Zone, Japan, New Zealand, U.K., U.S.

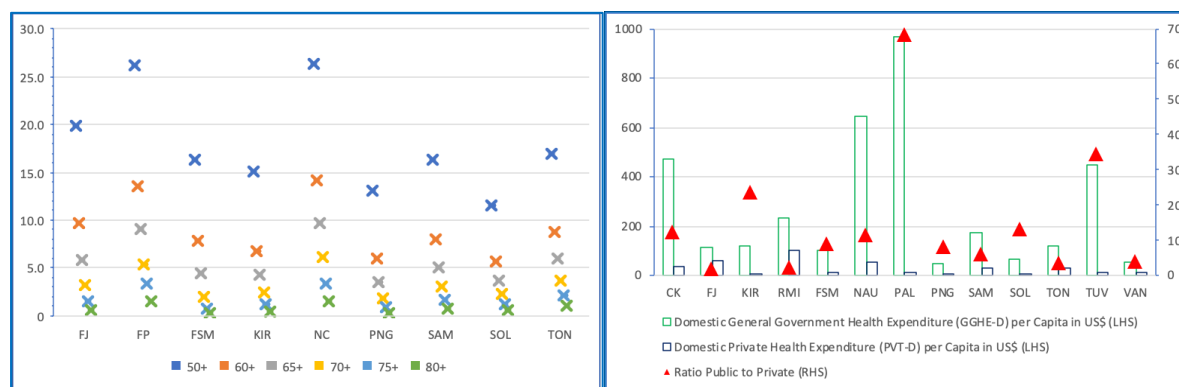
2.0 The Nature of the COVID-19 Shock and Implications for the FICs' Economies

2.1 What we Know and its Potential Risks to FICs?

20. COVID-19 is still evolving rapidly around the world. Despite this moving target, there are a few known facts. These are (VOX, 2020):

1. The uniqueness of the COVID-19 virus and its impact lies in its asymptomatic conditions during the infection incubation period;
2. The basic reproduction number (R_0) of the COVID-19 is between 2.0-2.5 (i.e. a sick person can infect up to 2047 people in a 10 round simulation) compared to the seasonal flu, $R_0 = 1.3$ (i.e. one sick person can infect up to 56 people in a 10 round simulation);
3. The mortality rate (i.e. 1-3%) is at least 10 times higher than Flu (which has a fatality rate of 0.1%);
4. Global cases generally indicate that people above the age of 50 are at higher risk (particularly those with underlying health conditions, such as heart disease, diabetes, high blood pressure, lung disease, cancer, etc.);
5. Around 20-31% of COVID-19 patients need to be hospitalised compared to around 2% for people suffering from Flu;
6. Physical distancing is the most effective measure to contain the rapid spread of COVID-19; and
7. If not managed and contained carefully countries can expect a second and/or third wave of infections.

Figure 3: Population At-Risk by Age Group (2020 est.) (LHS) & Government and Private Health Care Expenditure (in US\$ per Capita, Average: 2013-2017) (RHS)



Source: UNCTAD & WHO Database

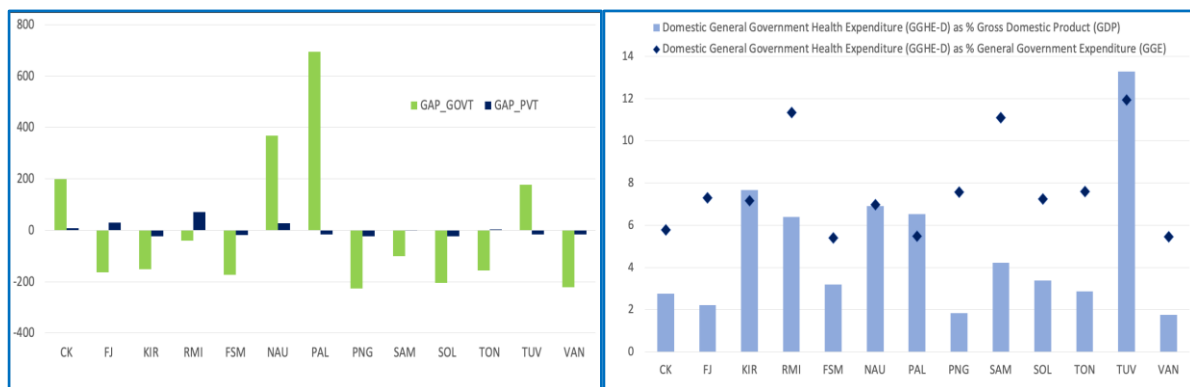
21. So far, six Forum Member countries (namely, Australia, Fiji, French Polynesia, New Caledonia, New Zealand, and Papua New Guinea) have reported positive cases, and these countries have swiftly responded with appropriate containment measures and increased support and resources for their health sector. In most FICs, based on the current demographics coupled with the high incidence of underlying health conditions (such as Non-Communicable Diseases (NCDs)), the 50+ age group remains at high risk in event of any local transmission. This is a key reason why all FIC governments took decisive actions to put in place strict containment measures.

22. [Figure 3](#) (Left Hand Side (LHS) Graph) highlights the percentage of highly at-risk population (by age group) in selected FICs. More specifically, 50+ age group (as a percentage of the total population) is relatively higher in French Polynesia (26.3%), New Caledonia (26.4%), followed by Fiji (19.8%), Tonga (17.0%), Federated States of Micronesia (16.4%), Samoa (16.3%), Kiribati (15.1%).

23. These population risks are compounded by the high burden on fiscal expenditure for health care costs in FICs. In all FICs (in [Figure 3](#) Right-Hand Side (RHS) Graph), the government health care expenditure (per capita) out-weighs private health care expenditure, which indicates limited cost sharing by the private sector (or individuals). Consequently, any potential widespread contagion of COVID-19 in FICs will place significant fiscal burden on the central governments.

24. On a relative basis, governments of Palau, Nauru, Cook Islands and Tuvalu (all of which are PIF-SIS with high rates of NCDs and smaller population size) spend the most on health care (on a per-capita basis) and well above the regional average of US\$275 per capita. Melanesian Countries (i.e. Papua New Guinea, Vanuatu, Solomon Islands, and Fiji) with a relatively larger population, are significantly below the regional average. In these countries, government expenditure on health care (on average) ranges from just US\$49 to US\$100 per capita per year.

Figure 4: & Gap in Government and Private Per Capita Expenditure vis-à-vis Regional Average (LHS) & Domestic Government Health Expenditure (% of General Government Expenditure & Nominal GDP) (RHS) (in US\$, Average: 2013-2017)



Source: PIFS Calculation based on WHO Database

25. Hence, the relative gap in health care expenditure (vis-à-vis regional average, see [Figure 4](#), LHS) is evident in all FICs (except Cook Islands, Nauru, Palau & Tuvalu). Similarly, the government health expenditure as a percentage of Nominal GDP and as a percentage of total expenditure of FICs (in [Figure 4](#), RHS) illustrates significant variation across countries. Most countries are below the regional average of health expenditure as percentage of Nominal GDP (around 8%) and of total expenditure (around 5%).

2.2 Why COVID-19 is different from the Analog of Recent Financial Crises?

26. Globally, as larger economies rush to cushion the catastrophic economic impact of the COVID-19, the FICs are working on measures to mitigate the COVID-19 contagion from affected countries whilst working on a number of economic and crucial health policy responses. A number of FICs' budgets are due in the coming months. Noting the urgency to manage the wider economic effects, Cook Islands, Fiji, Samoa, Papua New Guinea, and Vanuatu issued a supplementary budget to respond to the ailing economic conditions as well as to provide additional resources to the health sector for COVID-19 response.

27. Inherently, FICs are highly susceptible to global economic shocks. The economic impact of COVID-19 will be extremely hard-hitting noting the: (1) systematic impact across the globe (including FICs' key development partners, trading partners, and markets); (2) limited capacity and ability to respond to this crisis given the limited fiscal resources of FICs; and (3) uncertainty with respect to the duration of the economic closures due to containment measures.

2.2.1 Systematic Impact Across Borders

28. Compared to other previous economic and financial shocks in recent history of the global economy, COVID-19 has systematically not spared any country, which means that almost every country (especially most of FICs' largest donors and trading partners and markets) have limited financial and non-financial resources to spare or share with FICs, which may result in reallocation of funding from current ODA programmes/funds. As illustrated in [Figure 1](#) and [Figure 2](#), all key FICs' Trading partner economies and markets are expected to be in recession and their required additional budgetary resources are also substantial to cushion the immediate losses in the form of economic and income support to households and businesses.

29. In addition, the weakening labour market and strict containment restrictions (including closures of non-essential businesses) in trading partners will also have negative flow-on impact on FICs in the form of lower tourist arrivals, lower demand for export products, possibility of decreased remittance flows for family and friends in FICs. These will have added flow-on effects across the FICs' economies, especially the informal sector which traditionally have limited buffers for a crisis of this magnitude.

30. Consequently, there are limited external safety-nets to call upon for FICs in time of such global distress (compared to other previous situations, such as, in the aftermath of natural hazards or spillover-effects of global financial crisis). Furthermore, unlike the filtered effects and exposure of the 2007-2008 financial crisis through our key trading partners, the FICs (like other countries) economic fallout of COVID-19 is more direct and pronounced given the limited domestic capacities to respond. Nevertheless, Table 2 provides a snapshot of the special support provided by the donors (including MDBs) to FICs.

2.2.2 Fiscal Capacity to Respond by FICs

31. Most FICs have weak fiscal capacity and domestic resources to deal with potential risks from the extensive impact of COVID-19 in their economies. Health-care expenditure and investment in health infrastructure are very limited in all FICs, especially in the PIFS' Smaller Islands States (SIS) where most secondary medical care cases are outsourced to another country. In addition, FICs' fiscal pockets are not "deep" enough as compared to their developed neighbours (Australia and New Zealand) or larger Asian economies to draw on additional domestic resources when needed. This makes it exceptionally difficult for FICs to respond with extra-ordinary fiscal measures.

32. In the absence of a regional development bank (like the comparable Caribbean countries), external loans from Multilateral Development Banks and Private International Banks/Lenders are some of the options that are currently available to FICs. However, the additional borrowing to cushion impact will result in high debt-to-GDP ratios. If not well-managed overtime, this may perpetuate economic contractions in the future for FICs. Apart from debt financed instruments, FICs, such as Fiji and Papua New Guinea, are instituting measures for domestic burden-sharing of the COVID-19 economic costs to address heightened fiscal risks with individuals and private sector⁴.

⁴ Relaxing legislation on partial withdrawal of provident/superannuation funds for affected low-income earners and reduction on compulsory provident/superannuation deductions from gross income for individual by 3% and similar reduction for employers to decrease cost of doing business and improving businesses' liquidity.

2.2.3 *Protracted Economic Sudden-Stop*

33. A distinguishing feature of the COVID-19 is the unprecedented “economic sudden stop”-almost all economic activities abruptly ceased as governments shut down all non-essential domestic activities and closed all international passenger travel to protect lives⁵. A tradeoff between saving lives as opposed to sustaining livelihoods. The wholesale closure of economies has “frontloaded” economic impact for most economies. In addition, the protracted economic disruptions and closures will invariably affect the governments’ ability to raise additional revenue (from taxes and other non-tax measures) to invest in immediate needs to contain the spread and impact of COVID-19.

34. In addition, the duration of the protracted economic shutdown is also crucial in understanding the policy challenges, designing appropriate responses (that is, for stabilization (immediate survival) and recovery (medium-term stimulus phases), and impact on the economy.

⁵ With the exception of repatriation of returning nationals and essential cargo, in most countries.

Table 2: COVID-19 Additional Financial Support for the FICs from MDBs and Bilateral Donors

Country/MDB:	International Monetary Fund (IMF)	World Bank Group (including IFC) (WBG)	Asian Development Bank (ADB)	Key Bilateral Support/Pledges
<p>Global Pledges for all Members</p>	<p>The IMF made available about \$50 billion through its rapid-disbursing emergency financing facilities for low income and emerging market countries that could potentially seek support. Of this, \$10 billion is available at zero interest for the poorest members through the Rapid Credit Facility.</p> <p>[https://www.imf.org/en/News/Articles/2020/03/04/sp030420-imf-makes-available-50-billion-to-help-address-coronavirus]</p> <ul style="list-style-type: none"> • Catastrophe Containment and Relief Trust [https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/16/49/Catastrophe-Containment-and-Relief-Trust] 	<p>Key measures relevant to the region</p> <ul style="list-style-type: none"> • IBRD/IDA increased Allocation for COVID-19: US\$14bn for fast-track package <ul style="list-style-type: none"> ○ IDA Funding: US\$6bn ○ IBRD Funding: US\$6bn 	<ul style="list-style-type: none"> • ADB provides US\$20billion to its developing member countries in Asia-Pacific which includes: <ul style="list-style-type: none"> ○ \$13 billion - ADB's Countercyclical Support Facility for DMCs ○ \$2 billion – private sector Loans and guarantees ○ \$2.5billion – concessional loan and grant resources 	<p>The United Kingdom announced a package of measures to respond to the economic challenges of coronavirus, including that it will contribute £150 million to the International Monetary Fund's Catastrophe and Containment Relief Trust (CCRT), which provides debt relief to countries hit by catastrophic events including public health disasters. The contribution will be in the form of a £75 million grant directly to the trust, plus additional £75 million earmarked in the budget and contingent to demand.</p>
<p>Pacific Pledges</p>	<ul style="list-style-type: none"> • 		<ul style="list-style-type: none"> • 	<ul style="list-style-type: none"> • EU to provide EUR 119mil for the region • As at end of May 2020, US has provided more than US\$45.8m in total to the region to benefit 12 Pacific Island countries: Federated States of Micronesia,

				<p>Fiji, Kiribati, Nauru, Palau, Papua New Guinea, Republic of the Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.</p> <ul style="list-style-type: none"> • China provided FJ\$4.3million to Pacific countries, and created China-Pacific Island Countries Joint COVID-19 Response Fund. • New Zealand: NZ\$10million made available for Pacific countries • Australia: Committed \$100million for Pacific countries to respond to COVID-19.
1. Cook Islands	•	•	•	<ul style="list-style-type: none"> • New Zealand: NZ\$ 7million
2. Fiji	•	<ul style="list-style-type: none"> • US\$5.5 million from COVID-19 facility 	•	<ul style="list-style-type: none"> • Australia:F\$15.4million budget support, in addition to an initial F\$1.5 million (\$AUD1.06 million) provided to Fiji’s Health Ministry and \$F299,000 (A\$0.204m) to the Republic of the Fiji Military Forces to assist in their COVID-19 response. • Australia: A\$10.5million (as part of A\$100mil committed for Pacific countries) • New Zealand: NZ\$3million • China: as part of the \$4.3million for regional support

3. FSM	•	•	• US\$ 0.47million	<ul style="list-style-type: none"> • US: US\$16.3million (as part of US total assistance to the region) and Compact Funding to FSM • Also US\$27.5 million provided by US for Palau, FSM and RMI (freely associated states). • China: US\$0.1million
4. Kiribati	•	•	•	<ul style="list-style-type: none"> • Australia: A\$4.5million (as part of A\$100mil committed for Pacific countries)
5. Nauru	•	•	• US\$0.32million	<ul style="list-style-type: none"> • Australia: US\$3million + A\$4.5million (as part of A\$100mil committed for Pacific countries)
6. Niue	•	•	•	•
7. Palau	•	•	•	<ul style="list-style-type: none"> • Taiwan:US\$1million • US\$27.5 million provided by US for Palau, FSM and RMI (freely associated states)
8. PNG	•	<ul style="list-style-type: none"> • US\$20million from WBG's global covid-19 response package 	•	<ul style="list-style-type: none"> • Australia: PGK1.7million and A\$20.5million redirected from existing aid funding (as part of A\$100mil committed for Pacific countries), as well as deferment of repayment of debt; \$10million pledged for Bougainville & PNG; K0.4million provided Australia & NZ • China: US\$0.3million • US: US\$3.2million (as part of US total assistance to the region)

9. RMI	•	<ul style="list-style-type: none"> • US\$2.5m grant for an emergency project to focus on prevention and detection of coronavirus and strengthening of the country's health system 	<ul style="list-style-type: none"> • US\$6.37million 	<ul style="list-style-type: none"> • Taiwan (ROC): US\$1.17m • IOM: US\$0.68m • EU: US\$2.7m • Japan (NPG): US\$0.269m • US: US\$11.75m (as part of US total assistance to the region) • US\$27.5 million provided by US for Palau, FSM and RMI (freely associated states)
10. Samoa	•	<ul style="list-style-type: none"> • World Bank IPF, CATDDO – US\$7.1million 	<ul style="list-style-type: none"> • Contingency Disaster Facility – US\$8.2million • Samoa received a \$US2.9 million grant from ADB for support toward government's COVID-19 response 	<ul style="list-style-type: none"> • New Zealand: Budget Support – \$9.1million • Japan: \$1,8million • Australia: A\$10.5million (as part of A\$100mil committed for Pacific countries)
11. Solomon Islands	<ul style="list-style-type: none"> • Solomon Islands is one of 25 countries provided debt service relief by IMF as announced by IMF April 2020 	•	<ul style="list-style-type: none"> • Pledged US\$3million 	<ul style="list-style-type: none"> • Australia, New Zealand, US, and China have provided bilateral support to Solomon Islands in cash and kind (details of specific \$ amount of support is not available at this stage). • Australia: A\$13.5million (as part of A\$100mil committed for Pacific countries) • China: \$300,000 for medical equipment; and another \$2.5million to support government's COVID-19 response
12. Tonga	•	•	<ul style="list-style-type: none"> • US\$6 million (13.9 million pa'anga) grant provided from its Pacific Disaster Resilience 	<ul style="list-style-type: none"> • New Zealand: NZ\$4million as budget support; NZ\$1million to

			Program (Phase 2) to help finance the Government of Tonga's response to COVID-19 pandemic.	Ministry of Health; NZ\$0.1million initial support • A\$10.5million (as part of A\$100mil committed for Pacific countries)
13. Tuvalu	•	•	• US\$ 0.37million	• Australia: A\$3million (as part of A\$100mil committed for Pacific countries)
14. Vanuatu	•	•	•	• China: US\$0.1 million • Australia: A\$13million (as part of A\$100mil committed for Pacific countries)
OCTs:				
15. French Polynesia				•
16. New Caledonia				•

Source: Asian Development Bank; World Bank, US Government; The Australia Pacific Security College, ANU, and various government websites of FICs, news media, and regional agencies.

3.0 Assessing the Economic Impact on the FICs

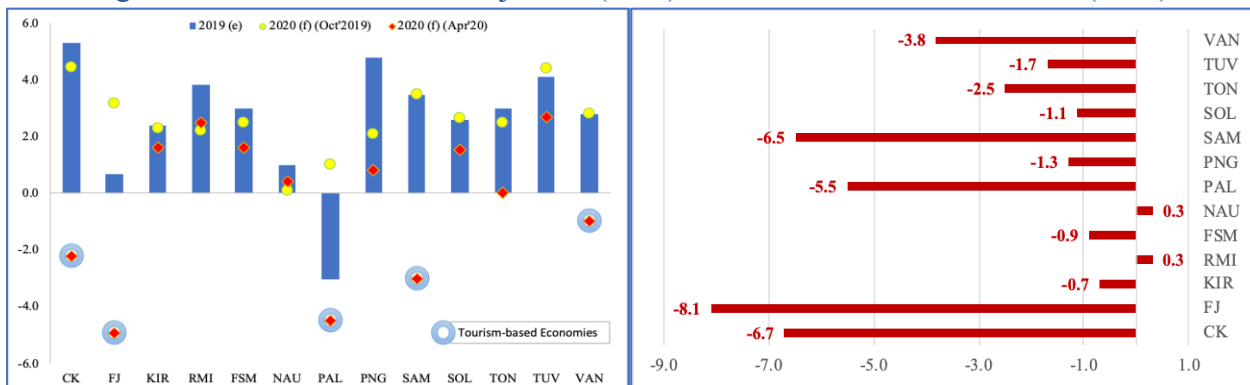
35. This analysis is an exploration of a fast-evolving economic landscape as a result of the global COVID-19 pandemic. Just three months prior, no one predicted a crisis of such a global magnitude and deep impact across the financial and commodities market. It is evidently clear that no country will be spared. Even countries that have not reported any positive COVID-19 cases in-country will be severely affected by the downturn in global economic activity and temporary disruptions to trade links.

36. The frontline impact of the COVID-19 pandemic will be felt strongly on the national economies of the FICs, as this affects a multitude of sectors and industries in the local economy and as international transactions, trade and investment dissipate rapidly during a synchronized economic closures across FICs’ major trading partners.

3.1 2020 Economic Growth Projects & Revisions

37. The recent forecast related to the FICs by MDBs/IFIs (such as ADB & IMF) and private financial institutions (e.g. ANZ Bank) clearly depict a downward revision. The downgrade is significantly larger for countries with high dependence on tourism, due to the halt in tourism as countries have closed borders as a part of the containment measures for COVID-19.

Figure 5: Economic Growth Projection (LHS) & Forecast Revisions for FICs (RHS)



Source: ADB – Asian Development Outlook, 2020 (April) & 2019 (Oct.)

38. The latest outlook for FICs (see [Figure 5](#)) by the Asian Development Bank (ADB, 2020), predicts a severe contraction in Real Gross Domestic Product (RGDP) of almost all FICs, except Nauru and Republic of Marshall Islands. Tourism-dependent economies, Cook Islands, Fiji, Palau, Samoa, Tonga, and Vanuatu⁶, exhibit the largest declines in economic growth in 2020. The decline in tourism will also intensify fiscal pressures with lower than expected collections in tax revenues from tourism and allied industries (such as, wholesale, retail, restaurants and departure tax) will impact the ability of these economies increase government expenditure to stimulate economic growth.

39. Papua New Guinea, the largest economy in the region, is expected to remain weak given the softness in the global commodity markets due to the COVID-19 and disruptions to transport and travel, lower demand in major markets (like, China), slower than expected progress on new gold and copper mines and the envisaged shortages of foreign currency to facilitate trade. Similarly, sharp decline in

⁶ Gross output of services sectors less the corresponding value of intermediate consumption, expressed as a percentage of GDP is **89% in Cook Islands** (as at 2018), **67% in Fiji** (as at 2017), **88% in Palau** (as at 2018), **76% in Samoa** (as at 2018), **62% in Tonga** (as at 2018) and **66% in Vanuatu** (as at 2017). Services includes wholesale and retail trade, transport and storage, accommodation and food service activities, financial and insurance activities, real estate, and professional and technical services (ADB, 2020).

logging activity and delays in the Tina hydro-project coupled with limited fiscal capacity to stimulate economic activity will weigh negatively on the Solomon Islands.

40. The economic outturn for selected PIF-SIS (namely, Kiribati, FSM, RMI, Nauru, Tuvalu) will depend on the impact on fisheries revenues with the restrictive movement of fishing vessels as a direct impact of the COVID-19 measures, which will seep into lower government revenues for expenditure. While Kiribati and Tuvalu may be able to seek additional funds from the RERF and TTF, respectively, tightening global financial conditions and heightened uncertainty in financial markets may impact the returns of these sovereign/trust funds in 2020.

3.2 Deciphering the Headline Economic Losses

41. The economic forecast revisions can be used to quantify the initial headline impact to gauge the FICs domestic underlying conditions. Before delving deeper on the COVID-19 impact, it must be noted the larger FICs' 2020 economic growth was revised downwards late last year (i.e. in October 2019) compared to the earlier forecast (i.e. in April 2019), in light of weakening global and domestic economic conditions.

42. The headline impact of the COVID-19 is calculated as the downgrade in RGDP for 2020 as at April, 2020 (ADB, 2020) compared to the forecast for 2020 as at October, 2019 (ADB, 2019). [Table 3](#) below summarizes the economic losses and contribution to growth of the economic losses. The economic losses will lead to a dip in the regional RGDP by almost US\$950 million to US\$37.5 billion in 2020 (equivalent to 2.5% of the regional RGDP), compared to an earlier projected figure of US\$38.4 billion. However, it is important to note that PNG and Fiji constitute 86.4% of the regional RGDP. Excluding PNG, the largest economy and outlier in terms of its' economic magnitude, the regional loss is around 5.9% or a loss of US\$605 million over regional RGDP of US\$10.5 billion.

43. Excluding Fiji and PNG, the economic losses (estimated by revisions in RGDP forecast) for selected countries in [Table 3](#) are valued at US\$164 million in 2020 (compared to their combined RGDP of around US\$5.1 billion (or 3.2% of their RGDP). Similarly, the economic losses for the PIF-SIS (excluding Niue) is estimated at 2.9% percentage of their combined GDP, that is, a loss of US\$46 million over a RGDP of US\$1.6 billion.

44. These figures are initial preliminary (or headline) indicators of losses. This is expected to deepen further as new revised estimates of RGDP will be reported by the FICs and MDBs. In addition, the sources of economic growth are driven more by external factors, such as tourist arrivals, resumption of external supply chains for exports (e.g. logging, LNG, etc.), fisheries license fees and vessel day schemes (VDS), remittances, and the overall strengthening of recovery in our major trading partner economies.

Table 3: FICs' Economic Losses from COVID-19 (Based on Forecast Adjustment)

Country	Economic Losses (RGDP, US\$ millions)		Eco. Loss/Revised GDP (%)		Contribution to Eco. Loss (%)	
	2020 (Oct'19-Apr'19) (Forecast Adjustment - Prior to COVID-19)	2020 (Apr'20-Oct'19) (Impact of the COVID- 19)	2020 (Oct'19-Apr'19) (Forecast Adjustment - Prior to COVID-19)	2020 (Apr'20-Oct'19) (Impact of the COVID- 19)	2020 (Oct'19-Apr'19) (Forecast Adjustment - Prior to COVID-19)	2020 (Apr'20-Oct'19) (Impact of the COVID- 19)
CK	0.0	-26.6	0.0%	-6.9%	0.0%	2.8%
FJ	-16.0	-441.4	-0.3%	-8.5%	5.7%	46.3%
KIR	0.0	-1.3	0.0%	-0.7%	0.0%	0.1%
RMI	0.0	0.7	0.0%	0.3%	0.0%	-0.1%
FSM	0.0	-3.4	0.0%	-0.9%	0.0%	0.4%
NAU	0.0	0.3	0.0%	0.3%	0.0%	0.0%
PAL	-5.5	-15.2	-2.0%	-5.8%	2.0%	1.6%
PNG	-269.6	-348.3	-1.0%	-1.3%	96.6%	36.5%
SAM	4.3	-56.5	0.5%	-6.7%	-1.6%	5.9%
SOL	4.7	-13.6	0.4%	-1.1%	-1.7%	1.4%
TON	3.0	-12.4	0.6%	-2.5%	-1.1%	1.3%
TUV	0.0	-0.8	0.0%	-1.7%	0.0%	0.1%
VAN	-0.1	-35.3	0.0%	-3.9%	0.0%	3.7%
Regional	-279.2	-953.6	(Avg) = -0.13%	(Avg) = -3.0%	100.0%	100.0%

3.3 Transmission Channels of the COVID-19 Impact

45. The transmission of the COVID-19 economic impact in the FICs will be through a number of key external sectors filtering into the domestic sectors, for example, lower remittances will have impact of domestic consumption and economic activity. Hence, it is prudent to analyse the transmission impact of the COVID-19 from the external sector to domestic economic activity and key macro-fundamentals, especially the Fiscal sector and unemployment.

3.3.1 External Trade & Tourism

46. Global containment measures have (to a large extent) extremely slowed the global supply chains and transport system. FICs' trading activity (i.e. exports & imports of goods and services) is reliant on the extensive transportation system with its' key trading partners, Australia, New Zealand, China, Japan, USA and European countries.

47. **Merchandise Exports** of the FICs are contingent on a number of factors – demand and affordability of consumers in destination market(s), relative price of product vis-à-vis other close substitutes, costs and ease of transport, storage and distribution logistics. Merchandise exports are expected to decline during the containment phase, as demand in export markets decline due to business closures and dwindling transportation capacity & linkages. In the recovery phase, the merchandise exports can recover though gains latter in the year are not expected to compensate the losses experienced during the containment phase, particularly for seasonal perishable exports.

48. The recovery process will require FIC governments to consider and develop a **Trade finance** Strategy or roadmap to enable a revamp of continual regional trade flows. This would further mitigate risks involved with international or regional trade transactions post COVID-19.

49. **Three important risks** will be key considerations in the development of a trade finance strategy: (i) payment risk which infers on whether the exporters will be paid in full or on time and whether importers will receive the goods requisitioned (value for money); (ii) country /member risk which is the collection of risks associated with doing business with a foreign country such as exchange rate risk, political risk and sovereign risk and ; (iii) corporate risk which is the risk associated with the company (both for importing and exporting), for instance their credit rating and history of non – repayment.

50. Halt to inbound **Tourism** due to synchronized travel restrictions by key tourism markets and temporary closure of FICs' borders for non-citizens has already severely affected the tourism dependent economies of Cook Islands, Fiji, Palau, Samoa, Tonga and Vanuatu. Even, with gradual easing of travel restrictions the recovery in the tourism sector (& allied sectors) will depend on the FICs' comfort with dealing with possible importation of COVID-19 through asymptomatic tourists, appropriate measures and procedures to mitigate risks at border control, local quarantine/medical treatment facilities, and community transmissions. These will be the key in balancing the potential risks against the benefits of opening up the economy.

51. The closure of borders and restrictions on travel in an effort to confine the spread of the disease have obviously resulted in tourism being one of the most negatively impacted services sectors in the crisis emerging from the COVID-19 pandemic. **Box 2** captures the recent United Nations World Tourism Organisation (UNWTO) account of the global impact on tourism. FICs such as Cook Islands, Fiji, Palau, Samoa and Vanuatu depend on tourism as the single biggest source of revenue, source of employment and contributor to gross domestic product with many other sectors relying directly or indirectly on the tourism sector. The measures imposed by countries have had a significant impact on trade in services. For many FICs, tourism is the main source of revenue and employment. It is estimated that the value added from the tourism value chain accounts for nearly 30 percent of FICs GDP and in some individual cases it can account for in excess of 40 percent of GDP.

Summary of UNWTO recent Report The United Nations World Tourism Organization (UNWTO) reported that during the first quarter of 2020 \$80 billion were lost in export revenues from tourism and there were 67 million fewer arrivals as compared to the same period of last year. Moreover, by April 2020 100% of worldwide destinations had put travel restrictions in place. According to the UNWTO's current scenarios, international tourist arrivals could decline between 58% and 78% in 2020, which would translate into a loss of up to \$1trillion in international tourism receipts. The International Air Transport Association's (IATA) figures confirm this drop off, reporting an 80% fall in flights by early April. The World Travel & Tourism Council calculates that over 100 million jobs in tourism and travel are currently at risk.

Box 2: Summary of UNWTO recent Report

52. Women make up the bulk of mainly low-skilled workers in the tourism industry on FICs. The impact of the COVID-19 pandemic on women working in the tourism industry in FICs is disproportionate but so is the emerging policy response which lacks an explicit gender component.

3.3.2 Income flows: Remittances & Fishing License Fees

53. **Remittances** are an important source of foreign exchange earners for some FICs, and in most cases, the sole source of income for individuals and families in these FICs. Rapidly weakening labour market conditions (measured by increasing unemployment claims and expected increase in unemployment) in FICs' major remittance sending countries (namely, American Samoa, Australia, Canada, New Zealand, USA). Apart from the labour market conditions that drive the remittance trend in these selected FICs, cyclical factors (such as, economic growth in remittance sending countries, costs and channels of sending remittance to FICs, and variations in exchange rate) may affect remittance inflows.

54. **Figure 6** illustrates the remittance inflows in the FICs in 2018 and 2019. In terms of absolute volume of remittances inflows (i.e. in US\$ millions), French Polynesia, New Caledonia, Fiji, Tonga and Samoa are the largest recipients amongst the FICs. However, remittance inflows are crucial to Tonga and Samoa, in terms of their immense contribution to economic growth. Overall, the FICs share

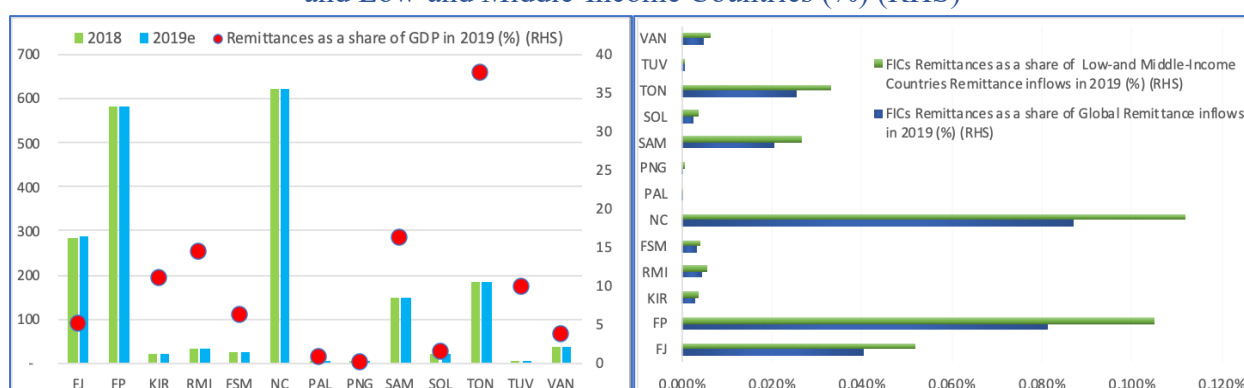
of the total world remittance inflows are around 0.3% (around 0.1% percent excluding French Polynesia and New Caledonia) while they constitute around 0.4% (0.1% excluding French Polynesia and New Caledonia) of the share of remittances received by low-and middle-income countries (WBG, 2020).

55. In Fiji, Samoa, and Tonga, the remittance inflows have exceeded official aid and major merchandise exports. Hence, remittances are a crucial driver of economy via household consumption and investment expenditure.

56. Based on bilateral remittance figures for 2017 (WBG, 2020):

- i. 96% of Fiji’s remittance inflows were from Australia (34%), Canada (14%), New Zealand (25%) and USA (23%);
- ii. 99% of Samoa’s remittance inflows were from American Samoa (23%), Australia (19%), New Zealand (45%) and USA (12%);
- iii. 99% of Tonga’s remittance inflows were from American Samoa (3%), Australia (19%) New Zealand (38%) and USA (39%);
- iv. For the other key remittance receiving FICs,
 - a) USA contributes to around: 64% in French Polynesia; 47% in Kiribati; 94% in RMI; 72% in FSM, 56% in Palau; of the total remittances received;
 - b) Australia contributes to around 86% and 82% of the total remittances received in PNG and Solomon Islands, respectively;
 - c) New Caledonia and Australia contribute to 61% and 18% (respectively) of the total remittances received in Vanuatu;
 - d) French Polynesia and Australia contribute to 50% and 27% (respectively) of the total remittances received in New Caledonia; and
 - e) New Zealand contributes to around 45% of the remittance inflows in Tuvalu.

Figure 6: Remittance Inflows to FICs (US\$m) & Share of GDP (%) (LHS) and FICs Share of Global and Low-and Middle-Income Countries (%) (RHS)



Source: World Bank Group

57. **Fisheries** license revenues are also a key source of revenue for the PNA (Parties to the Nauru Agreement) Countries (namely, FSM, Kiribati, RMI, Nauru, Palau, PNG, Tuvalu, and Solomon Islands). Access fee revenue of around US\$550 million contributed more than 30% of total government revenue (excluding grants) in six countries/territories who are PNA members (SPC, 2019). Uncertainty related to impact on fishing revenues (noting that Vessel Day Scheme days for 2020 were already sold in 2019) and/or processing (or value adding), as it is too early to predict the combined impact of fisheries revenues from longline and purse-seine, and coastal fisheries for local consumption.

Box 3 further elaborates on available headline indicators of the potential impacts of Covid to the fisheries sector in the region.

Key indicators of the Economic Impacts of COVID-19 on the Fisheries Sector in the Pacific

- In 2018, total government revenue generated by access fees to Pacific Island Forum Fisheries Agency (FFA) members was estimated at USD550 million, according to Dr. Chris Reid, FFA Director of Fisheries Development. Of this amount, It is estimated that USD534 million (or about 97%) of this total amount was collected from purse seine fleets with around USD16 million collected from longline fleets and a small amount (around USD250,000) from pole and line fleets.
- Despite the evidence of increased demand for canned tuna since the outbreak of covid-19, prices on the Bangkok market seemed to decrease over the past months with skipjack (4-7.5lbs, c&f) prices at the end of May being reported at USD1,200/mt below that seen at the end of March (USD1,500/mt) (ThaiUnion, 2020). The future demand for access is likely to have profound impact on government revenues of a number of PICTs and their economies.
- Revenues generated from tuna export revenues for non-PNA countries (with predominantly longline fleets) is estimated at USD16 million (Fiji), USD2 million (Samoa), USD3.5 million (Tonga) and USD0.8 million (Vanuatu) (Gillett, 2016). Boarder closures have impacted these export revenues as they heavily rely on airfreights to transport their fresh tuna products to the sushi and sashimi markets. Reduction in demand for fresh tuna exacerbates the risk to countries losing millions of dollars in export revenues.

Box 3: Key Indicators of the Economic Impacts of COVID-19 on the Fisheries Sector in the Pacific

58. Shipping carries most of world trade, and fishing provides essential food. The pandemic impacts the safety and well-being of seafarers and fishers, their ability to join their vessels and return home, and the future of their jobs. Seafarers on cruise ships, which have often been barred from entering port, are particularly hard hit. The ILO is working to protect these key maritime workers as the world seeks to protect public health. Based on available estimates of the cost per annum of having observers on all fishing vessels operating in FIC economic zones, the temporary exemption to having observers onboard will result in loss of income to observers estimated at USD2 million over six months period.

59. The maritime fishing sector, which employs tens of millions of fishers, is a major supplier of food, and particularly animal protein. Many fishing vessels are unable to leave port and the demand for many seafood products is substantially reduced. The COVID-19 crisis is affecting the personal safety, and health of seafarers and fishers, their conditions of work and their ability to join and leave their vessels, with a consequent impact on their capacity to perform their key role in ensuring transport by sea, serving passengers and harvesting seafood.

3.3.3 Foreign Aid Inflows (for budget support & country (thematic) programmes)

60. Delays or lower-than-anticipated aid inflows from development partners, especially for most of the PIF-SIS countries that largely depend on budget support and to finance other development expenditure (such as, the Compact funds for Federated States of Micronesia, Republic of Marshall Islands, Palau).

61. It is likely that current donor/ODA funds to FICs will be redirected and reallocated to assist FICs respond to COVID-19. Examples include Australia⁷ and EU ODA⁸ to the region.

3.3.4 *Foreign Direct (& Portfolio) Investment*

62. FDI are long-term decisions of investors for physical assets to be established in a country and hence there may be delays in the inflows. Typically, the FDI/Portfolio investments are highly correlated to buoyant global economic activity and financial markets.

63. UNCTAD report on Investment Trends Monitor updated economic impact estimates and earnings revisions of the largest multinational enterprises (MNEs) now suggest that the downward pressure on FDI could be -30% to -40% during 2020-2021. The pandemic, coupled with mitigation measures and lockdowns that governments are forced to impose are affecting all components of FDI. Real capital expenditures, greenfield investments and expansions are being hampered by physical closure of sites and production slowdowns. While the global supply chain shock that initially appeared to be the main concern for FDI prospects has now clearly been overtaken by the expected worldwide recessionary effects of Covid-19, the damage done to global value chains may well have the more persistent effects in the long term.

3.3.5 *Domestic Economy, Business in the Formal and Informal Sector (i.e. SMEs)*

64. The real sector impact for each of PICs are subject to internal and external economic shocks generated by the COVID-19. In order to assess the nature of the individual country/sector impact it is critical to note that not all countries/sectors will be affected homogeneously rather the channels of shock transmission is more heterogeneous and depended on a few factors. These are:

- i. Degree of dependence on external supply chains and/or demand vis-à-vis local demand and supply;
- ii. Characteristics of the key players in sector/industry with respect to size - that is - a well-established and capitalized firm/business versus Micro, Small & Medium Enterprise (SME) and dependence on the external supply/demand versus local demand/supply; and
- iii. Sector-specific (or industry-specific) existing safety nets for the businesses (if there are any), especially the capitalization and working capital buffers for businesses.

65. There's been significant impacts COVID-19 pandemic has had on people and businesses, in particular on those that operate as Micro, Small and Medium-sized Enterprises (MSMEs) in economies at all levels of development. Further action is necessary to help MSMEs' involvement in international trade and promote that supply chains remain open and connected. In cooperation with other international organizations and stakeholders, exploring solutions and share good practices to facilitate trade, accelerate efforts towards trade digitalization, including access to digital tools, as well as improve MSMEs' access to trade finance and to trade-related information through online platforms. It is clear that timely and accurate information on COVID-related trade measures reduces uncertainty and allows MSMEs to make informed decisions.

⁷ <https://www.abc.net.au/radio-australia/programs/pacificbeat/pac-aus-budget/12265352>

⁸ <https://fijisun.com.fj/2020/04/10/european-union-to-mobilise-and-redirect-e119million-to-aid-pacific-combat-covid-19/>

Table 4: Informal Labour Market Indicator (2016)

	Labour Force ('000)	Labour Force Participation Rate (%)	Informal Employment (%)
Fiji	348	54	60
Papua New Guinea	3,461	70	84
Samoa	51	41	68
Solomon Islands	244	67	85
Tonga	43	68	10
Vanuatu	123	71	40

Data for PNG is for 2014 and 2012 for Samoa.

Source: *A Study on the Future of Work in the Pacific*, ILO, May 2017

66. Domestic-market focused SMEs/Businesses (& their multiplier effects): Most (non-essential) economic activity has been temporarily suspended (and/or restricted) by most PICs to contain the spread of COVID-19 to wider (at-risk) population, hence the informal sector⁹ (depended solely on the local demand/supply and with almost zero safety-nets (in terms of cash/liquidity buffers), will be negatively impacted. Furthermore, households that are largely dependent on living from casual occupations or part-time employment (see [Table 4](#)), will be fragile in their ability to cope with economic downturn of such a magnitude and if its effects linger for an extend period of time. In addition, the depressed domestic demand attributed in sectors leveraged on external trade and tourism will also have a contagion effect on the informal sector and casual/part-time employment with limited demand for their goods and services, as consumers will be hesitant to incur any unnecessary expenses in times of uncertainty.

67. Externally focused Businesses (and their allied industries/sector): PICs' businesses largely dependent on external sources of revenues and production (or value adding) to the domestic economy¹⁰, will witness a substantial collapse of production and sales revenue (including unavailability of intermediate inputs) as a result of supply disruptions induced by the synchronized closure of key trading partner economies. These impacts are further exacerbated by the inherent regional limitations in infrastructure and utility services support including the areas of digital economy of scale (See [Box 4](#)) and aviation transport. The uncertainty with respect to timelines for containment measures and restrictions of day-to-day activity has contributed to rapidly changing consumption patterns in these markets. These direct substantial losses will be amplified through the dependence of other allied local businesses. Consequently, the combined losses (i.e. total direct and indirect output and/or value adding) will lead to:

- a. **immediate-to-short-run:** lower domestic consumption expenditure and government revenues; and
- b. **medium term:** heighten potential risks of cascading household and business debt-stress (especially for households and business with limited savings and thin cashflows) and could resulting lower-than-expected private investment expenditure.

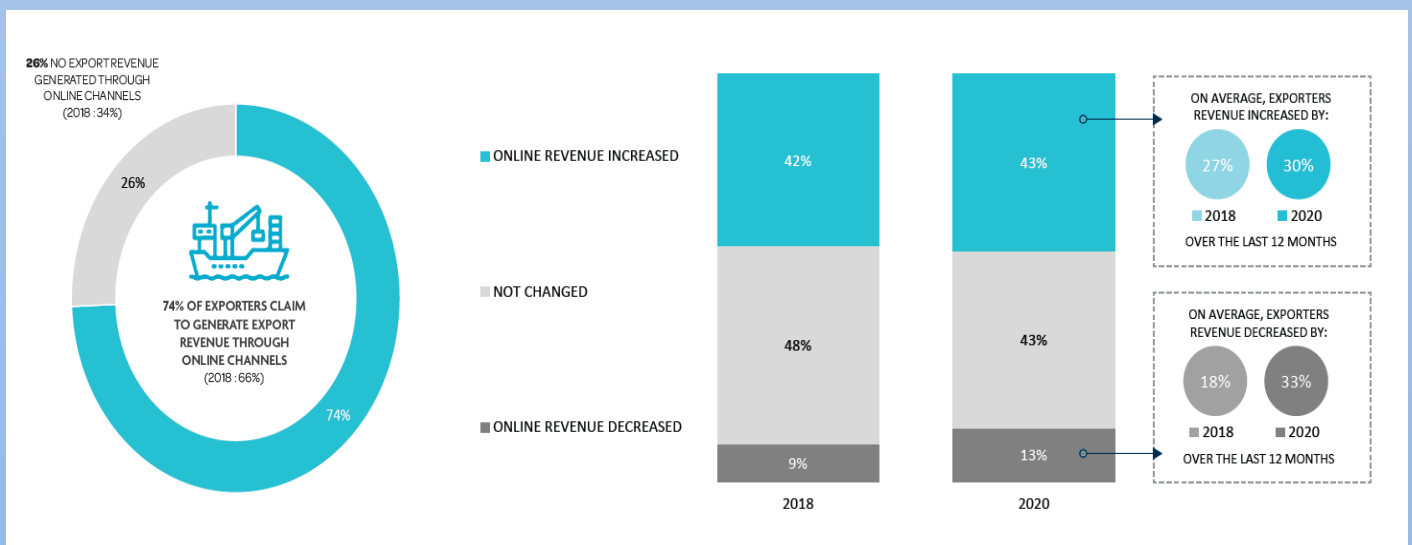
⁹ That is, Micro, Small and Medium Enterprises (MSMEs), which represent substantial percentage of almost all PICs' GDP.

¹⁰ Like tourism, merchandise exports, imports of intermediate goods for production of local finished products, etc. (and their correspondent sectors/industries - for instance, retail sales, transportation for hotels, airports, etc.).

Digital Economy

Pacific Trade and Investment (PTI) Network’s Digital Trade and Digital Tourism strategies were designed to support the Pacific private sector in bridging the digital divide and increase participation in the global digital economy. The success of PTI’s Digital Trade and Digital Tourism programs and the importance of the digital economy can be seen in the results of PTI Australia’s Pacific Island Export Survey Report 2020.

The report found an increase in exporters from the Pacific using online channels, with three quarters of exporters using online channels to generate revenue. Of those exporters that generated revenue from an online channel, 43% of respondents said their revenue had increased. The increased online export revenue is driven by businesses in the Manufacturing industry – not surprising as they report higher confidence and expect an increase in orders over the next 12 months. Manufacturing businesses are also more likely to recognise a wider range of positive factors impacting e-commerce activities, especially improved shipping methods, which has allowed them to successfully increase revenue generated through online channels.



Globally digital and e-commerce platforms are now an essential element of doing business, particularly in the tourism industry. While the lack of an affordable online payment system (36%) remains a key barrier for using e-commerce channels as noted in PTI Australia’s Pacific Island Export Report 2020.

Box 4: Digital Economy

3.3.6 Fiscal Sector and Debt

68. Higher fiscal burden due to diminishing tax revenues (and increased flexibility on late payment of taxes for businesses to manage mass private sector losses) and bulging expenditures to support livelihoods for the low-income & vulnerable (and those affected) and increase resources for containment of the COVID-19. This will have implications for the national debt (if the government budget deficits are financed by local or international debt instruments and/or a lower-than-anticipated government budget support grant from donors). The hallmark for PICs recovery to this current impact is rooted in the fiscal response by the PICs.

69. There is a need for advocacy and collaboration with other international institutions for the incorporation of a “natural disaster/major crisis clause” for FICs in new debt instruments (both in the domestic and in the external debt restructuring) to allow for capitalization of interest and debt relief support during major natural disaster or crisis. It is important that programmes aimed at limiting debt-servicing costs of FICs through, inter alia, debt restructuring and a combination of debt relief,

forbearance and debt swaps, are aimed at reducing the risks of developing balance of payment crises as a result of the pandemic.

4.0 Defining the Algorithm of Recovery in FICs

70. Apart from Australia and New Zealand, FICs which have laid Covid-response budget and/ policies (including easing of monetary, fiscal, banking and superannuation measures), include: Cook Islands, Federate States of Micronesia, Fiji, Palau, Republic of Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu¹¹. The covid-19 responses by FICs have been supported by some assistance provided by international development partners and donors, both via bilateral and regional channels. Australia and NZ have gone on to announce their 3rd and 2nd wave of COVID-19 response measures.
71. COVID-19 response measures have been adopted in the following phases:
1. **Immediate response** – measures put in place here are containment measures to stamp out the spread of COVID-19, provide economic relief, and enact appropriate social protection to those affected;
 2. **Recovery Phase** – these are measures to revive economic activities together with phased relaxation of (public health) containment measures, as appropriate; and
 3. **Beyond Recovery** - assuming economic recovery and public health efforts/measures are paying off, measures adopted here would include reviewing the short-term fiscal and monetary measures, as well as public health measures, in the view of either strengthening such measures, or to wean the economies of these measures. Also, this phase would include pursuit of key reform efforts to address the underlying economic challenges, based on lessons learnt, so that countries could respond better to future disasters.

4.1 Immediate Responses: Containment Measures

72. The most immediate measures put in place by countries around the world, including Forum Members, is the adoption of Containment measures to halt further spread of COVID-19. These containment measures included:
1. Complete national lockdown including stoppage of all airline passenger flights and cruise ships whilst a heightened level of attention by airline and ship carriers are investing heavily in logistics systems for freight service
 2. Selective zoning lockdown and restricted movements of people;
 3. Closure of schools, public transport, parks, sporting events, entertainment events and family gatherings and allowing only essential services in the public service and commercial sector to remain open;
 4. Cordoning off high risk areas;
 5. Tracing and testing of high-risk segments of the population;
 6. Provision of tax relief on medical supplies;
 7. Prioritisation of resourcing of health sector services in the areas of prevention, testing and infection control, treatment/recovery facilities; and
 8. Ensuring that global supply chains remain open and connected so that international markets can continue to function in supporting the movement of critical items designed to tackle COVID-19 must be targeted, proportionate, transparent, and temporary, and not create

¹¹ COVID response budgets passed some FICs include: Fiji (FJD1billion), Cook Islands (NZD61million), Vanuatu (FJD74m), Samoa (\$66.3million tala), Papua New Guinea (PGK5.6billion), and Tonga (US\$25.5 million).

unnecessary barriers to trade or disruption to global supply chains. Any such measures are to be consistent with WTO rules.

73. Together with the Containment measures, countries have also adopted policies to support livelihood social protection, which include the following:

1. Superannuation withdrawal of savings by affected members;
2. Employer subsidization of salaries of affected employees;
3. Removal of tax and duties on basic food items;
4. Establish labour-based work schemes; and
5. Reduced internet/telecommunication charges.

74. To help with keeping the economy ticking in the containment phase, governments have provided support to directly-affected businesses in terms of:

1. staggering of tax dues
2. relief from mandatory employer contributions to employees' superannuation
3. speeding up or clearing outstanding refunds of VAT and income taxes due to businesses
4. waive regulatory fees for SMEs

4.2 The Recovery Phase

75. The aim of governments under in this phase is to stabilize the economy. Measures would include those that would help economic activities, as well as to support social protection. These measures would include the following:

1. Provision of fiscal stimulus by governments (with support of development partners/international donors), which include direct income support, tax relief, and funding allocation to support critical public services such as health, policing/security, and emergency services;
2. Tax relief to businesses;
3. Household income injection to generate consumption demand;
4. Moratorium on loan terms and conditions;
5. Commercial rent moratorium;
6. Easing of monetary policies, and banking support by commercial banks, and other financial institutions;
7. Relief from employers' contributions to their employees' superannuation;
8. Direct government support to SME-level businesses;
9. Socio-economic assessment of the ability of FICs to achieve the Sustainable Development Goals (SDGs) albeit against exacerbated and new challenges faced; and
10. Develop policies to prevent job losses in tourism for both men and women employees/workers.
11. A regional approach to NZ and Australia to increase the number of employees that can be deployed under the Seasonal Workers Scheme

4.2.1 Governments' Fiscal Capacity

76. Fiscal capacity of many governments of FICs is very limited for FICs, where fiscal space is constrained for most governments¹². Fiscal space can be measured at four levels¹³:

¹² **Fiscal space** is commonly defined as the budgetary room that allows a government to provide resources for public purposes without undermining **fiscal** sustainability

¹³ IMF, *Assessing Fiscal Space: An Update and Stocktaking*. 2016. Fiscal Affairs Department.

1. cash reserves that government's have stocked up, in anticipation of such unforeseen contingencies;
2. low to moderate risk debt stock levels;
3. the extent to which the government can expect to have access to market funding at reasonable rates; and
4. sustainability--the extent to which public debt and annual financing needs (composed of the budget deficit and repayment of debt coming due) of the government remain sustainable.

77. In this context the capacity of the countries to bear additional fiscal burden varies for a number of reasons. Smaller FICs may have reserves by way of sovereign funds or donor-supported trust funds but in principle these are usually not set aside for disaster shocks but for good reason intended more for:

1. revenue stabilization - Kiribati, Cook Is.
2. cyclical financing gaps - FSM, RMI, Palau (under Compact)
3. long term development investments in health, education and infrastructure - Nauru, Tuvalu

78. For larger FICs, there is tighter limited space because such reserves can be of relatively smaller amounts and in most cases tied up for pre-designed purposes.

79. One way to look at fiscal space is the government's fiscal operating balances. This gives an indication of how governments can sustain their own operations from their own resources, and how much they can actually finance their longer-term development programmes. For FICs, most of these longer-term aspirations are donor funded through debt or grant financing.

80. Noting recent analysis by IMF¹⁴, without grants more of FICs have negative balances, thus inhibiting any flexibility within their financing structure to absorb additional expenditure demands, let alone substantive and extensive ones imposed by the likes of Covid-19.

81. The pandemic has therefore brought to the fore, limitations faced by FICs on the fiscal front. FIC governments will have to bear most if not all of the cost of covid19 responses, so their already weak fiscal capacities will need immediate, huge and consistent financial support in the short to medium-term.

82. In this regard, relationships with donors are likely to change in order to be more effective in what will be a significantly changed development assistance landscape. It will require bold, and unprecedented measures, that should be reinforced with hard and decisive commitments. FICs would have to adhere to a raft of practical and prudent conditions that normally accompany these measures, but this should be considered a necessary commitment that would only strengthen their fiscal capacity now and into the future.

- i. Negotiate for debt relief with bilateral and multilateral donor partners. This has a double effect that reduces both debt stock and repayments. It creates space for more spending in other essential areas as well as more borrowing room for much needed investments in the future.
- ii. Frontloading of existing donor programs and project pipelines by moving forward financial commitments to current year and next two or three years. This would result in increased investment and economic activity in FIC economies and supports their recovery efforts;

¹⁴ IMF. Article IV Staff Reports (2015-2018). Fiscal Affairs Department.

- iii. Seek general budget support (concessional loans and grants) to supplement operating balances. This can help in the rebuilding of fiscal buffers as well as more investment spending by FIC governments.
- iv. Relook at expenditure structures in government budgets, in consideration of opportunities for: (a) increased efficiencies in delivery of essential services and policy implementation; (b) more productive spending in critical priorities like education, health and infrastructure; (c) reducing wastage and unnecessary overheads in non-essential expenditures; (d) operational efficiencies in treasury management of expenditure payment and revenue collections.
- v. Strengthen revenue base: (i) broadening revenue base to have more optimal balance between indirect and direct taxes; (ii) explore opportunities for increasing non-tax revenues; (iii) targeted and time-bound incentives to support economic lifeline sectors and industries, and SMEs; (iv) increase tax collection efficiencies.
- vi. Reassess fiscal contingencies. Some FICs have utilized state-owned entities and statutory bodies like central banks, superannuation funds, development banks and etc. to facilitate Covid responses. This is understandable and appropriate in these circumstances. However, these entities oblige a fiscal contingency, which can entail a huge financial burden on governments, should they be allowed to become insolvent. It is therefore critical that governments: (a) reassess the level and degree of fiscal risk inherent in these entities; (b) accurately reflect these contingency risks in their accounts; (c) monitor their performance closely and (d) provide fiscal support as necessary.
- vii.
- viii. Collectively, FICs might want to collectively clarify their support for regional solutions like: (a) Pacific Humanitarian Pathway as a regional platform to provide the first line of responses against pandemics; (b) regional bulk buying of pharmaceuticals and medical supplies; (c) the Pacific Resilience Facility (PRF). The PRF should clarify that preparing for the onset of pandemics falls within its scope of disaster preparedness at community level. These can include construction of evacuation centers that can also host quarantine and medical supplies storage; (d) regional approach to tourism travel bubbles so that all tourist-dependent FICs can benefit to some extent.

4.3 Looking Beyond the Recovery

83. COVID-19 has amplified and exposed underlying structural impediments to growth of the FICs. It will therefore take both short-term economic stimulus and social protection measures, as well as long-term commitment to hard policy reform efforts by FIC governments to address the negative impact of COVID-19, and the underlying economic challenges.

84. Uncertainty with respect to the duration of the economic closures due to containment measures lingers – it may take years for many FICs which are hard-hit to fully recover.

85. The recovery of FIC economies will largely depend on the global economy, particularly FICs' major trading partners and markets, together with efforts domestically to support economic activity and consumerism. Large economies in the world taking extraordinary steps and measures to cushion the catastrophic economic impact of the COVID-19. Economic activity for 2021 is expected to rebound by 5%, which is crucial for recovery and growth of Pacific countries.

86. Innovative regional approaches need to be explored and further developed by relevant agencies where the benefits are discernible and can outweigh the costs e.g. establishment of a Pacific endowment Trust Fund (which could be considered and discussed by Economic Ministers along current regional initiatives such as the Pacific Resilience Facility). These would of course require

development partners' support with initial investment outlays, as and where needed. Some examples that are already being discussed at various fora, include:

- (i) the setting up of the *travel bubble* in the Pacific especially in partnership with Australia and New Zealand, would be a huge boost to economic recovery of Pacific countries;
- (ii) further advancing the development of ICT Infrastructure Services, Trade Logistics and Trade facilitation, Payment Solutions, Legal and Regulatory Frameworks, E-commerce Skills Development, and Access to Financing of the Digital Economy as a regional strategy. PTI Network's Digital Trade and Digital Tourism strategies were designed to support the Pacific private sector in bridging the digital divide and increase participation in the global digital economy. To illustrate the potential in this initiative Box 4 contains a summary of the results recent surveys.
- (iii) examine opportunities to reset, reform and redesign the regional aviation landscape should be explored to strengthen regional collaboration in the industry.

87. Furthermore, to support strong growth in the long-run, FICs should also embark on hard policy measures, particularly, to address their underlying structural economic challenges – this would assist them to respond better to future shocks/disasters.

Response to COVID-19 pandemic: The case of ECOWAS¹, Mauritius and Trinidad & Tobago

The following table provides a snapshot of economic responses to the COVID-19 pandemic by a region (ECOWAS – the Economic Community of West African States), and two island economies (Mauritius, which depends largely on tourism, and Trinidad & Tobago which depends on tourism and oil exports) for comparison purposes. Key lessons include the following:

- Regional collaboration and coordination of actions on COVID-19 is essential to support countries in their effort to respond effectively to the COVID-19 pandemic;
- Effective and swift decisions by governments including early public health measures and swift lockdown and social distancing measures ensured low infection rates and containment of the virus; and
- Development partners support are critical not only for technical support and medical equipment, but also for fiscal and financial support given limited resources of developing economies.

Table 1: A Brief outline of Responses to COVID-19 by ECOWAS, Mauritius, and Trinidad & Tobago

Country/Region	Fiscal (key measures)	Monetary (key measures)	Employment Support/Social Protection (key measures)	Private Sector Support (key measures)	Others (key measures)
<p>ECOWAS – Economic Community of West African States</p> <p>To-date the ECOWAS Commission and West African Health Organisation (WAHO) have provided to Member States technical and financial support in</p>	<p>Based on April 2020 ECOWAS Summit on COVID-19:</p> <ul style="list-style-type: none"> • Develop jointly, a response plan taking into account the fight against the spread of the pandemic and a post-pandemic 	<p>Based on April 2020 ECOWAS Summit on COVID-19:</p> <ul style="list-style-type: none"> • Issue long-term treasury bills and bonds to finance critical investment needs, to support the private sector 	<p>Based on April 2020 ECOWAS Summit on COVID-19:</p> <ul style="list-style-type: none"> • Provide substantial support to the social sectors (distance learning tools, strengthening of health systems and facilities, easy Internet access, 	<p>Based on April 2020 ECOWAS Summit on COVID-19:</p> <ul style="list-style-type: none"> • Deploy through the Central Banks, tools, means and significant liquidity to support: <ol style="list-style-type: none"> (i) the financial sector, in particular banks and financial institutions, 	<p>Based on April 2020 ECOWAS Summit on COVID-19:</p> <ul style="list-style-type: none"> • Support the African Union’s initiative to negotiate with partners for cancellation of Public debt and restructuring of private

¹ ECOWAS is a regional political and economic union in West Africa. The ECOWAS was formed in 1975. Its 15 member states are Benin, Burkina Faso, Cabo Verde, Cote d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo.

<p>coordination, training of personnel, and financial support as well as provision of diagnostic test kits and critical medical supplies.</p> <p>Key Timeline of Events</p> <p>Jan 2020: WAHO issues statement on outbreak of COVID-19 in China.</p> <p>Feb 2020: Emergency meeting of Assembly of Health Ministers - a high-level regional coordination meeting to urgently discuss, coordinate, and harmonise regional preparations and responses.</p> <p>March 2020: WAHO sought to further strengthen the individual capacities of member states to prepare themselves and respond to the pandemic.</p> <p>April 2020: Extraordinary</p>	<p>economic recovery plan.</p>	<p>and revive economies.</p>	<p>etc.) and for the most disadvantaged segments of society (social safety nets).</p>	<p>in providing assistance to the private sector, especially small and medium-scale enterprises (SMEs).</p> <p>(ii) microfinance institutions in providing support to the informal sector;</p>	<p>debt of African countries.</p> <ul style="list-style-type: none"> • Implement urgent measures to support the local production of consumer goods, including agricultural products, thereby reducing the import bill for these goods. • Avoid the imposition of import restrictions on other ECOWAS countries, particularly with regard to essential goods (drugs, food, etc.).
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<p>teleconference of the ECOWAS Heads of State and Government Summit on COVID-19. ECOWAS appoints Nigeria's President as their COVID-19 Champion, set up Ministerial Coordination Committees on Health, Finance & Transport, and ECOWAS leaders reaffirmed their commitment to continue their joint and coordinated efforts in the determined fight against COVID-19 and to take the appropriate measures to contain the impact and revive the economies.</p> <p>May 2020: African Development Bank (AfDB) mobilises US\$22 million for Low Income ECOWAS states to support their COVID-19 response.</p> <p>June 2020:</p> <ul style="list-style-type: none"> • Ministerial Coordinating Committee Meeting 					
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<p>of the Ministers of Health;</p> <ul style="list-style-type: none"> • ECOWAS committed US\$25m at the Global Goal Summit for COVID-19 relief & recovery in West Africa. • The ECOWAS Ministerial Coordinating Committee for Transport, Logistics, Free Movement and Trade and validated the recommendations on ease of trade and movement of goods and services during the Covid-19 period. <p>July 2020 – proposed gradual opening of borders by ECOWAS Member States</p>					
<p>Mauritius</p> <p>The Mauritius economy has been severely affected by the crisis mainly as tourism activities stopped.</p>	<ul style="list-style-type: none"> • Set up COVID-19 Solidarity Fund to provide support to those affected by the COVID-19. • Raise general public health spending by Rs1.3 	<ul style="list-style-type: none"> • Key Repo Rate reduced from 3.35% to 1.85 %. • Reduction of the cash reserve ratio from 9% to 8%. 	<ul style="list-style-type: none"> • Workers’ rights will not be impacted if they are forced not to work. • Both public and private sector encouraged to work from home. 	<ul style="list-style-type: none"> • State Investment Corporation raise Rs4 billion (0.8% of GDP) to make equity investments in troubled firms, including SMEs. • The Development Bank of Mauritius Ltd to provide 	

<p>Mauritius reported its first cases on March 18, 2020. It has recorded 335 positive cases and 10 deaths as of June 1, 2020.</p> <p>Government started reopening the domestic economic and social activities in a phased approach, with schools to reopen in August, while the borders to remain closed until end of August.</p> <p>Mauritius has been successful in containing COVID-19 because the government introduced early public health measures and swift lockdown and social distancing measures which ensured low infection rates and containment of virus.</p>	<p>billion (0.28 % of GDP)</p> <ul style="list-style-type: none"> • Government committed 2 billion rupees (US\$300 million) to support businesses & workers • Mauritius Revenue Authority impose no penalty and interest for late filing by taxpayers. • Government enacted the COVID-19 (Miscellaneous Provisions) Bill which includes deductions for contribution to the Solidarity Fund, and zero rate (0%) instead of 15% VAT on certain medical equipment. 	<ul style="list-style-type: none"> • Special credit line of Rs5 billion (1 % or GDP) through commercial banks for affected firms to meet their cash flow and working capital requirements. • 6-month moratorium by banks on capital repayment for existing loans of affected economic operators. • Easing of supervisory guidelines on handling credit impairments. • 6-month moratorium on household loans at commercial banks, and the central bank to bear interest payments for low-income households 	<ul style="list-style-type: none"> • All companies in Mauritius can apply for Wage Assistance subsidy to alleviate the employee cost for the month of March ranging from 15 days basic wage bill to MUR 12,500 per employee. • Workers from the informal sector given 50% of the prevailing minimum wage if they register with the revenue authority during the COVID19 lockdown. • Extension of the Government Wage Assistance Scheme (GWAS) for employees drawing a monthly basic wage of up to MUR 50,000 subject to a cap of MUR 25,000 of assistance per Employee. • Extension of Self-Employed Assistance 	<p>Rs200 million (0.04 % of GDP) in credit for firms short on cash.</p>	
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		<ul style="list-style-type: none"> • Special Foreign Currency (USD) Line of Credit (\$300 million) targeting operators having foreign currency earnings, including SMEs; • Swap arrangement to support import-oriented businesses (initial amount \$100 million) • Waiver of ATM fees. • Setting up the Mauritius Investment Corporation Ltd (MIC) as a Special Purpose Vehicle to (1) mitigate contagion of the ongoing economic downturn to the banking sector, thus limiting macro-economic and financial risks; (2) secure and enhance financial wealth for current 	<p>Scheme (SEAS) where individuals were entitled to receive an amount of MUR 5,100 for one-month.</p>		
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		and future Mauritian.			
<p>Trinidad & Tobago</p> <p>Impacted by COVID-19 and fall in global commodity prices (low oil prices)</p> <p>Early May 2020, the Government introduced a 6-phase approach to reopen the economy. Schools to reopen in September 2020.</p> <p>Trinidad & Tobago has been successful in the fight against COVID-19 as it led to low infection rates and containment of virus because the government introduced early public health measures and swift lockdown and social distancing measures.</p>	<ul style="list-style-type: none"> Allowed import duty and VAT waivers on imports of certain medical and emergency supplies. Provided VAT and income tax refunds to individuals and SMEs. Government paid all persons who are owed income tax refunds of \$20,000. Government provided \$100 million to the Credit Union movement to allow them to provide loans to their members at favourable interest rates with a long repayment period. 	<ul style="list-style-type: none"> Central bank reduced the policy rate by 150 bps to 3.5%, and the reserve requirement on commercial bank deposits by 300 bps to 14%. Commercial banks agreed to provide a 1-month moratorium on mortgages and instalment loan payments, without any penalty; and to waive penalty interest on overdraft facilities, also offered automatic deferrals for a period of up to 6 months on loans or credit card payments due Money lenders allowed deferred payments and reduced interest rates. 	<ul style="list-style-type: none"> Provided salary relief for up to 3 months to workers who are temporarily unemployed or have reduced income; (ii) Provided food, rental and income support for low-income vulnerable groups Set up criteria for sending employees into technical unemployment and minimum income ensured for freelancers working in industries where activity is reduced or interrupted due to the pandemic. Set up conditions for granting free paid days to parents, to supervise their children during the temporary closure of educational establishments. 	<ul style="list-style-type: none"> Provided liquidity support to individuals and small businesses via credit union loans at reduced interest rates and long repayment periods; Offered grants to hoteliers to upgrade of their facilities; 	

		<ul style="list-style-type: none"> • Reduced interest rates and increased credit limits on credit cards 	<ul style="list-style-type: none"> • Allowed online submission of the documentation needed in order to gain access to social benefits. • Introduced measures for ensuring continuity in the granting of return to work incentives and child-care allowance, as well as for facilitating access to medical leave and medical leave indemnities for quarantined persons. 		
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Source: ECOWAS commission; WAHO; IMF; KPMG

FORUM ECONOMIC MINISTERS STATEMENT ON A REGIONAL RESPONSE TO COVID-19

Forum Economic Ministers, at their virtual meeting on 11 and 12 August 2020, expressed grave concerns about the severe and disproportionate impacts of COVID-19 on the lives and livelihoods of people around the world, including the small, isolated and vulnerable economies of the Blue Pacific region.

2. Ministers acknowledged the leadership taken by Pacific Islands Forum Leaders in invoking the Biketawa Declaration to respond to the unprecedented crisis and recognised the positive outcomes achieved and foundations set through the Pacific Humanitarian Pathway on COVID-19 (PHP-C) and the regional protocols for the movement of medical and humanitarian supplies across the region. The PHP-C demonstrates the benefits of regionalism and multilateralism by providing the enabling political environment and Members' adherence to science informed advice to guide political responses to the pandemic.

3. Ministers acknowledged that the containment measures adopted by Forum Members have been largely successful in the Pacific, with relatively low numbers of COVID-19 cases compared to other parts of the world. However, it is recognised that the strictly-imposed border restrictions have had substantial flow-on economic impacts on the movement of people, trade and essential goods and services across the region, all of which have adversely affected levels of employment across key economic sectors.

4. Ministers also acknowledged the steps and measures taken by development partners, CROP agencies and other regional entities in realigning their programmes, activities and resources to focus on improving data, understanding and supporting the mitigation of the pandemic's impacts on Forum Members, including through innovative use of online technologies for conferencing, technology transfer and programme delivery.

5. Tourism in the region has essentially come to a complete standstill since the border closures in late March. Many Forum Island Countries (FICs) are highly dependent on tourism flows for employment, incomes and both public and private sector revenues. Some countries highly dependent on tourism, have lost between 30%-40% of national incomes with Small and Medium Enterprise (SME) tourism businesses disproportionately impacted. The consequential slump in domestic demand for goods and services and its effects on economic activity overall continues to deteriorate in most FICs, but it is becoming clear that the worst is yet to be discerned.

6. Employment levels have declined substantially in directly and indirectly affected sectors, where household incomes have also plummeted, while informal sector activity has increased as displaced and newly-unemployed families seek other sources of income and livelihood. Remittance inflows to the region, as well as export revenues from key sectors including: fisheries, minerals, logging and agricultural primary commodities are likely to drop significantly in 2020,

thereby exerting significant additional pressure on government revenues, foreign reserves, public social services and family incomes. Sound and timely data is essential for understanding and monitoring these impacts and developing responses and mitigation measures.

7. Social challenges are expected to escalate as the economic effects take their toll at household and individual levels. Gender based violence, which is already a major social and economic challenge in the region is again on the rise as families struggle to survive in this new context. While most FICs' education authorities have initiated extended breaks and have put in place alternative learning modes, maintaining the quality and sustainability of education systems is critical to safeguard the future of our youth and skilled workforce.

8. Public health systems will need considerable investment and resourcing to develop robust standards and infrastructure that will effectively strengthen Members' preparedness for re-opening and addressing the onset of any future pandemics or similar external shocks.

9. Ministers recognised that understanding the challenges and appropriately planning and resourcing responses and mitigation measures can only be achieved through the compilation and analysis of data and information on all aspects of the impacts. Ministers therefore continue to stress the need to invest in data (core collections, dissemination of microdata and relevant administrative data and data for the SDG indicators) without-which there is no way of tracking needs and progress towards achievement of goals and objectives.

10. Ministers commit to work together as a region to:

- i. effectively facilitate uninterrupted trade and flows of essential supplies, goods and services in the region, including tourism;
- ii. continue to collaborate on practical approaches to ensure effective border controls for containment purposes;
- iii. work towards creating synergies and efficiencies in ensuring sustainable aviation and shipping services across the region;
- iv. work collectively to explore and support economic diversification opportunities, including value creation through digital empowerment and inclusion, and innovation in the private sector, including through public private partnerships.
- v. support the adequate resourcing of core census and survey statistical collections and the dissemination of suitable licenced microdata and key economic data and indicators derived from the administrative data regularly collected by government ministries and agencies to provide timely data for monitoring macroeconomic and socio-economic indicators of pandemic impacts;
- vi. share timely and verifiable information on the continuing COVID-19 impacts on their demographics;
- vii. collectively support and further explore regional solutions such as:

- (a) Pacific Humanitarian Pathway on COVID-19 as a regional platform to provide the first line of responses against pandemics;
 - (b) regional bulk buying of pharmaceuticals and medical supplies; and
 - (c) the Pacific Resilience Facility (PRF).
- viii. develop measures to mitigate the loss of income of affected employees through initiatives such as social protection measures, direct income transfer; and financing/tax/regulatory concessions for employers;
- ix. consider support for addressing gender-based violence as a prevailing development challenge and particularly with the increasing prevalence since COVID-19;
- x. seek development partner support for resourcing and technical assistance in improving public health standards and capacities, including treatment facilities;
- xi. commit to prudent and transparent public financial management policies and practices to strengthen national fiscal capacities and build resilience in the medium to longer term;
- xii. align COVID-19 recovery plans and funding mechanisms with the goals of the Paris Agreement and to promote and accelerate global low emissions development.

11. The inherent vulnerability of Forum Members to economic shocks is exacerbated with increased exposure to climate change, disasters and pandemics. These pose insurmountable pressures on the region's limited fiscal capacities.

12. Ministers, therefore, make a strong concerted plea for the support of development partners – including bilateral, international, multilateral, regional and development agencies – in their quest for:

- i. Debt relief from bilateral, multilateral donor partner and private creditors in line with the April 2020 G20 decision;
- ii. Flexibility in development financing modalities and priority areas of focus, including frontloading of existing donor programs and project pipelines and reprioritising of current donor focal areas;
- iii. International and regional financial institutions to utilise all available instruments and reassess grant and loan eligibility policies and quota limitations so that FICs can fully benefit from their support;
- iv. IMF to promptly consider the allocation of Members' special drawing rights, and enhance access for Members having difficulties in meeting essential external commitments;
- v. General budget support (concessional loans and grants) to supplement operating balances. This can assist in the rebuilding of fiscal buffers as well as in stimulating investment spending by FIC governments; and
- vi. Capitalisation of the PRF as a funding source that will be regionally available to FICs for building economic resilience and strengthening disaster preparedness.

13. The COVID-19 pandemic has brought to the fore the limitations faced by FICs on the fiscal front, further straining revenues and national budgets. FICs require immediate, and consistent financial support in the short to medium-term to overcome fiscal challenges arising from COVID-19. It is also crucial, where possible, for these regional solutions to be implemented through CROP agencies and regional systems with the appropriate resourcing provided, to ensure that outcomes have a long-term and sustainable impact in building and strengthening the economic resilience of the region.

14. Ministers, therefore, unanimously and unequivocally acknowledge that the burden of COVID-19 responses and recovery ultimately falls on the governments of the region, but this burden can only be met with support and assistance from the region's development partners and donors. It is also recognised that closer coordination and collaboration between Forum Members, CROP agencies, the region's private sector, civil society and development partners is essential to urgently implement the above measures in the short to medium term in order to protect the future of our Blue Pacific people.