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Covid-19 impact on Pacific Island Countries

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Multilateral funding agencies including Asian Development Bank (ADB), International Monetary Fund (IMF) and World Bank have issued their tentative 2020-Outlook reports in early April, based on March end data. They will be updated in mid May.

Forecasts on world growth prospects, assessing the impact of the deadly virus known as the Covid-19 on all future human endeavors and survival of mankind in all countries are gloomy. The simple reason is there is no vaccine available yet. The only way open to advanced and developing countries is to impose shutdowns on production centers and lockdowns of urban center's educational and non-essential activities through voluntary adoption of social distance, and quarantining oneself, including staying home for containing and controlling the spread.

The economic impact is expected to be immensely disastrous. The jobless number rose to the highest in the US, in addition to loss of lives due to poor health preparedness to meet the virus menace, as well as delayed response such as lockdowns and social distancing. The jobless are 26.4 million, more than 15% of the US work force, which has wiped the gains made on the employment during the last ten years. The unemployment is much more than what it was during Great Depression of the last century. Although President Trump, who is seeking reelection, is eager to re-open the economy, so his election prospects in the midst of rising unemployment would improve, the medical experts are against lifting the lockdown.

2020: The Great Lockdown

Aptly giving the subtitle to the first of its bi-annual *Economic Outlook Report* as the "Great Lockdown", IMF has given the gloomiest economic forecast: the world economy would shrink to 3%. Major economies of the world would record negative growth rates: the United States (-6.1%), Germany (-7.0%), France (-7.2%), Italy (-9.1%), and United Kingdom (-6.5%). Australia and New Zealand, not only geographically the closest countries to Pacific island countries (PICs), but also the closest development partners ever since the independence of PICs, serving as export markets for their limited range of products such as fruits and vegetables as well as source markets for tourism earnings and inward remittances, would also experience negative growth rates. That is really bad news.

There has been at least one lifeline out of two, proven and tested as reliable to PICs all these years for supporting their economies for growth in incomes and jobs for rising numbers of the youth. They are tourism and remittances. With improved airline services three decades ago and with the beginning of economic liberalization in the mid 1990s of the world economies, PICs have benefited by growing globalization facilitated by the fast spread of new technologies introduced by international communication technology. The latter is now hailed as the Fourth Industrial Revolution. As a result, tourism has been flourishing. Table 1 illustrates the high dependency on tourism earnings for at least 6 PICs. Tourism earnings of Vanuatu amount to 48% of GDP, followed by Fiji (38.9%), Samoa and Tonga (20%), Kiribati (18.8%) and Solomon Islands (12.5%)

Table 1. Tourism receipts by PICs (USD billion): 2010-2018

	2010	2015	2016	2017	2018	2018-% of GDP
Fiji	0.6	0.8	0.9	0.9	1.0	38.9
Kiribati	0.005	0.002	0.003	0.004	0.0	18.8
Samoa	0.1	0.11	0.1	0.2	0.2	20.0
Solomons	0.04	0.1	0.11	0.13	0.14	12.5
Ton	0.01	0.03	0.1	0.04	0.03	20.0
Van	0.2	0.2	0.21	0.3	0.31	48.0

With income levels falling due to lockdowns and loss of jobs, preference for leisure activities would be the last in the priority lists for the middle class working families with children and for the senior citizens who are concerned with health related problems associated with Covid-19 this year and in the next year as well. Until a vaccine is found, tested and accepted by all, tourism travel would not revive. Keeping in mind, the IMF says in its report of March 30, on *East Asia* *and Pacific: Countries Must Act Now to Mitigate Economic Shock of COVID-19* the outlook for 2020 is subject to "substantial risks due to their PICs' reliance on tourism.

Reliance on tourism

The *ADB's Development Outlook April 2020* says total output in the sub region of the Pacific would decline by 0.3% in 2020. Countries that rely heavily on tourism and commodity exports will be particularly vulnerable. Fiji's dependence on both will cause the steepest decline, with GDP contracting by 4.9%. The Cook Islands, Palau, Samoa, and Vanuatu, which heavily depend on tourism, will see their output shrink this year. The ANZ Bank's *Pacific Insight* study released on March 30 reports that Fiji would experience fall in tourist numbers by 67% or around 602, 000 which would amount to loss of FJ$1.4 billion**.** Economies of Vanuatu, Samoa, Cook Islands and Tonga are expected to decline. Vanuatu's economy growth would decline: (-13.5%), Samoa (-18.7%), Cook Islands (-60.4%) and Tonga (-7.9%).

A tentative finding by an ongoing research study by us (Jayaraman and Makun) based on 30 year panel data of 5 major tourism dependent PICs on asymmetric nature of relationship between tourism and growth is that one percent fall in tourism earnings would reduce the growth rate by 3.8% in the region.

Tale2. Remittances received by PICs (US $ Million): 2010-2019

	2010	2015	2016	2017	2018	2019	2019-% of GDP
Fiji	176	251	269	274	285	288	5.0
Kiribati	16	14	16	18	20	20	10.9
Samoa	139	130	130	136	142	147	16.2
Solomon Is	14	19	20	16	19	19	1.3
Ton	74	150	126	159	183	183	37.6
Tuvalu	4	4	4	4	4	4	9.7
Vanuatu	12	104	81	26	35	35	3.7

Source: World Bank Migration and Remittances Development Brief April 2020

Remittances

The other lifeline is remittances. Though IMF did not refer to remittances, the World Bank's *Development Brief 32* looked at the economic crisis "through a migration lens". In its last week Report on international migration and remittances, it is predicted that global remittances would fall to $572 billion in 2020, from $714 billion in 2019. Remittance flows to low- and middle-income countries, including PICs would decrease by 20% this year to reach $445 billion from $554 billion in 2019. Seven PICs figure in the East Asia's ten top most recipient dependent economies (Table 3). Three others are from Southeast Asia. Tonga ranks number one, followed by Samoa.

Table 3. East Asia and the Pacific: Ten Top Most Remittances Dependent Countries

Rank	Country	Remittances as % of GDP
1	Tonga	37.6
2	Samoa	16.2
3	Marshall Islands	14.3
4	Kiribati	10.9
5	Philippines	9.9
6	Tuvalu	9.7
7	Vietnam	6.5
8	Micronesia	6.1
9	Cambodia	5.9
10	Fiji	5.0

Source: World Bank (2020)

It is expected that all PICs would be affected as the immediate neighbours, Australia and New Zealand would have negative growth rates. Fall in incomes and loss of jobs would result in reduced inflows of remittances to PICs.

Our panel study on asymmetric relationship between remittance and growth in PICs shows that one percent fall in remittances as proportion of GDP would result in 0.32 percent reduction in the growth rate of PICs.

It is apparent PICs will be hit very hard. The IMF Report subtitled, *the Great Lockdown* observes in the altered economic landscape, PICs are helpless. The duration of crisis will last longer if no vaccine is found.

The IMF observes that advanced economies are better placed with well-equipped health care systems. With the privilege of issuing reserve currencies, they are better placed to weather this crisis. Developing economies including small island countries are "without similar assets and confronting simultaneous health, economic, and financial crises. They will need help from international funding agencies and bilateral partners".

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