
COVID-19 Borrowings, Fiscal Consolidation, Tax Reforms and Geopolitical Implications for Samoa and Tonga

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The COVID-19 pandemic triggered unprecedented global challenges, leading many countries to resort to extraordinary fiscal measures, including significant borrowings to mitigate the health, social, and economic impacts. Samoa and Tonga, two Pacific Island nations with small, open economies, were not immune to these global pressures. Both countries experienced significant economic disruptions due to the pandemic, particularly in critical sectors like tourism and remittances. These countries resorted to external borrowing to address the immediate fiscal needs of combating the pandemic, sustaining public health systems, and supporting their economies. To address the economic fallout caused by COVID-19, Samoa and Tonga turned to international borrowing, including loans from multilateral institutions such as the International Monetary Fund (IMF), the World Bank, and the Asian Development Bank (ADB). While these borrowings were necessary to address the pandemic's immediate economic and public health challenges, they have significantly increased the debt burdens of both countries. Rising debt levels, economic contraction, and limited revenue sources have strained public finances and heightened their debt levels (and risk of debt distress). To address their levels of debt, both Samoa and Tonga have implemented strategies for prudent debt management, fiscal consolidation, tax reforms, and getting support from the international community for economic recovery. However, the challenges of debt sustainability remain, particularly given the continued vulnerability of these countries to external shocks.

Samoa and Tonga have historically occupied a strategic geopolitical position, often becoming focal points in more significant international power dynamics. Over the last decade, the region has witnessed growing geopolitical competition between the United States and China, with both nations seeking to extend their influence. The COVID-19 pandemic intensified these dynamics due to their increased external borrowings and heightened the risk of debt distress. While the borrowings were primarily for pandemic response, they have broader geopolitical concerns, particularly regarding China's role as a critical creditor in the Pacific and the implications of these debts for the influence of external powers, including the United States. This article explores the linkages between COVID-19 borrowings, fiscal consolidation and high debt levels (and potential debt distress) in Samoa and Tonga- along with suggestions for raising further revenue – and the broader geopolitical tensions between the United States and China.

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1.0 INTRODUCTION

COVID-19 emerged in late 2019 and rapidly escalated into a global pandemic due to its highly contagious nature. In March 2020, the World Health Organisation (WHO) declared it as an pandemic.¹ COVID-19 triggered a health crisis as the virus spread quickly with fatalities leading to overwhelmed healthcare systems worldwide. To control this highly contagious and deadly disease, countries followed suggestions from WHO to adopt mitigation measures that limit social interactions, including closing all businesses, schools and social activities. These measures were supplemented by border closures aimed initially at preventing the virus coming into a country, and later to help manage its spread.

The pandemic has profoundly disrupted every facet of human life, impacting health systems, economies, and social structures worldwide.² While larger nations struggled to contain the virus, small island developing states (SIDS) like Samoa and Tonga were disproportionately affected due to their geographic isolation, dependence on international trade, limited healthcare infrastructure and reliance on external economies.³

Samoa and Tonga, located in the Pacific and part of the Polynesian subgroup of SIDS, share several features that make their experience of the pandemic distinctive. Their geographic isolation initially delayed the arrival of the virus, granting them a crucial window to implement preventive measures before facing local outbreaks. Samoa and Tonga adopted early and stringent measures to mitigate the virus's spread. Samoa's government declared a State of Emergency on 21 March 2020, closing borders and mandating nationwide lockdowns.⁴ Similarly, Tonga adopted aggressive quarantine protocols for incoming travellers and suspended international flights. Even though the virus is highly transmissible and adversely affects health, for Samoa and Tonga, their remoteness initially provided a buffer. Table 1 shows both Polynesian Samoa and Tonga and Melanesian Fiji and Vanuatu had relatively low percentages of cases and deaths due to their geographical isolation. Despite the low possibility of COVID-19 transmission for these Pacific Island countries, this same isolation posed challenges in securing timely medical supplies, testing kits, and vaccines. Unlike countries with robust healthcare infrastructure, these SIDS' dependence on external aid⁵ made their COVID-19 responses heavily contingent on international cooperation.

Table 1: COVID-19 cases and deaths in selected Pacific Island countries as of 18 April 2022⁶

Pacific island country	Total population in 2022	Total cases	Total deaths	% of cases to total population	% of total deaths to total cases
Tonga	105042	9025	11	8.59%	0.12%
Samoa	215261	5947	12	2.76%	0.20%
Fiji	919422	64509	862	7.01%	1.33%
Vanuatu	313046	6332	7	2.02%	0.11%

1 World Health Organisation (2023) *Press Conferences on COVID-19 and Other Global Health Issues* <www.who.int/> .

2 See for example NZ Royal Commission "COVID-19 Lessons Learned" | Te Tira Ārai Urutā Whīiki "Aotearoa: Lessons from COVID-19 to prepare Aotearoa New Zealand for a future pandemic" – *Main Report* Chapter 4 (and other chapters) <www.covid19lessons.royalcommission.nz/>.

3 Aruna Gounder and Carmel Cox "Exploring the role of tourism dependency on COVID-19 induced economic shock in the Small Island Developing States" (2022) 25(7) *Current Issues in Tourism* 1151.

4 Government of Samoa (2020) *State of Emergency Declared* at <www.samoagovt.ws/2020/03/state-of-emergency-declared/>.

5 Ron Crocombe *The South Pacific* (7th ed, IPS Publications: University of the South Pacific, 2008).

6 *Worldometer* at <www.worldometer.info>; Leila Bell, Caroline van Gemert, Onofre Edwin Merilles Jr, Haley L Cash, Mark Stooie and Margaret Hellard "The Impact of COVID-19 on public health systems in the Pacific Island Countries and Territories" (2022) 25 *The Lancet Regional Health-Western Pacific* at 2.

The economic and social ramifications of mitigation measures to contain the spread of the virus were profound. Most of the Pacific Island nations are heavily reliant on remittances, tourism, and imported goods – three sectors severely disrupted by the pandemic.⁷ Tourism, a cornerstone of their economies, came to a standstill. Remittances, a vital source of income for households,⁸ declined as diaspora communities grappled with job losses (due to border closures) and economic downturns in host countries like New Zealand, Australia, and the United States. Furthermore, the high dependency on imported goods⁹ highlighted vulnerabilities in supply chains, leading to increased prices and reduced availability of essential commodities.

Most Polynesian and Melanesian governments including Samoa, Tonga and Fiji have engaged in large fiscal transfers through stimulus packages to maintain economic stability and to support consumption during the COVID-19 period. In SIDS such as Samoa and Tonga, fiscal transfer programs have been much smaller proportionately due to limited fiscal space,¹⁰ owing to their chronic problems with high public debt levels. The pandemic’s unprecedented scale prompted a global scramble for resources and increased external borrowings for Samoa and Tonga. It highlighted Samoa and Tonga’s dependency on external aid and the level of borrowings mean the long-term risks of debt distress remain high.¹¹ Debt distress arises where, due to unsustainable debt levels, “a country is unable to fulfil its financial obligations and debt restructuring is required.”¹²

This article examines the health, economic, and social effects of COVID-19 on Polynesian Tonga and Samoa, providing insights into the challenges and adaptive strategies of these nations. Samoa and Tonga faced unique vulnerabilities due to their geographic isolation, limited healthcare infrastructure, and dependence on tourism and remittances. The multifaceted impacts of COVID-19 on Samoa and Tonga, are examined in this article, leading to insights into the challenges and responses of these nations.

The article is organised as follows. The next section introduces the impacts of COVID-19 on Samoa and Tonga, followed by a discussion on how they addressed the COVID-19 impacts. Section four discusses the financial measures in combating COVID-19, followed by the debt management strategies and fiscal reforms undertaken by these two countries in section five. Building on that discussion, section six explores possible measures to generate additional revenue for the governments of Samoa and Tonga to reduce debt levels. The article concludes in the final section.

2.0 IMPACTS OF COVID-19

In 2020 COVID-19 became a global pandemic. Just like the rest of the world, most of the Pacific Island nations including Samoa and Tonga adopted measures to close their borders and restrict domestic movement.

7 John Connell “COVID-19 and tourism in Pacific SIDS: lessons from Fiji, Vanuatu and Samoa?” (2021) 110(1) *The Round Table* 149.

8 Tiru K Jayaraman, Chee-Keong Choong and Ronald Ravenesh Kumar “Role of remittances in economic growth in Pacific Island countries: A study of Samoa:” (2009) 8 *Perspectives on Global Development and Technology* 611.

9 Siopoe Vakataki ‘Ofa and Asmat Gani “Trade policy and health implication for Pacific island countries” (2017) 44(6) *International Journal of Social Economics* 816.

10 For the purposes of this article the authors have adopted the following definition of “fiscal space”: “In simple terms, fiscal space is the financial wiggle room that a government has to respond to emergencies and pursue new policy initiatives without compromising economic stability”: *What is Fiscal Space?* Economic Policy Innovation Centre at <<https://epicforamerica.org/>>.

11 See for example, International Monetary Fund (2023) *Samoa: Staff Report for the 2023 Article IV Consultation – Debt Sustainability Analysis* at <www.elibrary.imf.org/>.

12 Dahlia Hakura “What is debt sustainability?” (September 2020) *Finance and Development Magazine* 60 at 61.

These extreme measures are important as the health of the citizens is paramount; however, they have also imposed significant (downstream) costs on their economies. Most Pacific Island nations are highly vulnerable and are dependent on major trading partners like Australia and New Zealand. Closing borders meant that the economic loss would be severe and prolonged. In addition to COVID-19, Tonga and Fiji were hit by tropical Cyclone Harold in April 2020.¹³

Samoa and Tonga are heavily dependent on Australia and New Zealand for tourism, remittances and aid grants. Tourism was hit hard due to the prolonged border closure; it contributed significantly to the economic downturn of Samoa and Tonga. The consequence of the closure of resorts and hotels, laying off staff and the stalling of business activity caused economic recession and declines in government revenue.¹⁴ The economic downturn in Australia and New Zealand also contributed to reduced remittances from the expatriates.¹⁵ The economic crunch reduced these two Polynesian governments' revenues which meant less spending and more debt.

The prolonged pandemic made it difficult for most of the Pacific nations. High debt burdens led to weak growth prospects as repayment of loans was prioritised over investments in growth industries. Existing (heavy) indebtedness limited the fiscal space for some Pacific nations. Taking on more debt to finance COVID-19 measures heightened their debt levels.¹⁶ Countries at high-risk of debt distress such as Samoa and Tonga had to resort to a combination of measures including restructuring expenditures, moving resources from critical areas and seeking grant financing and concessionary loans from international banks and organisations. However, the increased influence of China through past loans with conditions for the Belt and Road development projects in the Pacific has changed the geopolitical dynamics of the Pacific.¹⁷ A significant portion of these loans are due for repayment in a few years after the outbreak of COVID-19 and with economic decline and ballooning debt, this makes it hard for the Polynesian countries to repay these loans.

Specifically, there are multifaceted impacts of the COVID-19 on Samoa and Tonga. This includes health, economic and sociocultural which are elaborated in the next subsections.

2.1 Health Impacts

Tonga and Samoa implemented strict border closures early in the pandemic, achieving near-total exclusion of the virus for much of the initial global outbreak.¹⁸ They implemented stringent lockdowns, quarantine measures, and mandated physical distancing. In addition, resources were mobilised to establish quarantine facilities, expand testing capacities, and introduce vaccinations to mitigate the spread of COVID-19. These responses were guided by international best practices and recommendations from the WHO. These measures were effective in delaying community transmission but came at the cost of restricted access to international medical aid and personnel. For example, Samoa recorded its first case

13 Al Jazeera (9 April 2020) *Pacific's Monster Storm Harold Destroys Tourist Resorts in Tonga* at <www.aljazeera.com/>.

14 Government of Tonga "Economic and Financial Update" July 2022-December 2022 – Economic Update.

15 Statistics New Zealand (17 September 2020) *COVID-19 Sees Record 12.2 Percent Fall in New Zealand's Economy* at <www.stats.govt.nz>.

16 Birman Chand Prasad "Responding to COVID-19: time to refocus on Pacific governance" (13 Oct 2020) in <<https://devpolicy.org/>>.

17 Birman Chand Prasad "Responding to COVID-19: time to refocus on Pacific governance" (13 Oct 2020) in <<https://devpolicy.org/>>.

18 WHO "Samoa: Promoting COVID-19 Prevention Among Vulnerable Populations" (23 September 2020) at <www.who.int>.

of community transmission as late as March 2022,¹⁹ highlighting the effectiveness of its containment strategy but also the impact of prolonged isolation.

Despite their proactive measures, the execution of these policies faced logistical and financial hurdles. Limited healthcare infrastructure meant that both nations had to rely on international assistance for advanced medical equipment and vaccine distribution. They faced significant healthcare challenges, not just from COVID-19 cases but also from managing chronic non-communicable diseases (NCDs).²⁰ While strict border controls limited large-scale outbreaks initially, the pandemic diverted resources from essential health services. Routine immunisations, maternity care, and treatment for chronic illnesses were disrupted, creating long-term public health challenges. The limited capacity of their healthcare systems underscored vulnerabilities in pandemic preparedness.

2.2 Economic Impacts

The pandemic severely disrupted economic activities in Samoa and Tonga, exposing their vulnerabilities as small island economies. Tourism, a cornerstone of the economies of both countries, was decimated by international travel restrictions. In Samoa and Tonga, tourism contributed approximately 24.5 per cent²¹ and 10.4 per cent,²² respectively, to GDP pre-pandemic. The closure of international borders and the decline in tourism led to widespread job losses. Hotels, transport services, and cultural tourism sectors were particularly hard hit, leaving thousands unemployed or underemployed. This significantly reduced household income, exacerbated poverty and heightened economic inequalities.

Remittances from expatriate communities are a vital economic lifeline for Tonga and Samoa, accounting for significant portions of GDP – 44 per cent for Tonga and 34 per cent for Samoa in 2022.²³ They fell sharply as diaspora communities faced economic hardships in host countries. The global economic slowdown and job losses in Australia, New Zealand and the United States with large Pacific Islander populations led to declines in remittances,²⁴ further straining household incomes, national economies and increasing poverty amongst families.

Samoa's economy contracted by an estimated 8.6 per cent in 2020,²⁵ while Tonga experienced a 3.1 per cent decline.²⁶ The economic downturn not only reduced government revenues but also forced a reallocation of scarce resources toward emergency measures, leaving other critical sectors such as NCD health management underfunded.

19 Matai'a Lanoula Tusani and Ah Tong "M.O.H. Begins Contact Tracing Following Community Transmission" *Samoa Observer* (18 March 2022) at <www.samoobserver.ws/>.

20 Leila Bell, Caroline van Gemert, Onofre Edwin Merilles, Jr, Haley L Cash, Mark Stoovie and Margaret Hellard "The Impact of COVID-19 on public health systems in the Pacific Island Countries and Territories" (2022) 25 *The Lancet Regional Health-Western Pacific* 1.

21 The Private Sector Development Initiative *Pacific Tourism Sector Snapshot: Samoa – November 2021* (November 2021) at 1.

22 World Travel & Tourism Council (2023) *Travel & Tourism: Economic Impact 2023 (Tonga)* at 2.

23 UN Migration (2022) "Migration and Migrants: A Global Overview: International Remittances" Chapter 2, *World Migration Report* (2022) at <<https://worldmigrationreport.iom.int/>>.

24 Australian Bureau of Statistics "One year of COVID-19: Aussie Jobs, Business and the Economy" (17 March 2021) at <www.abs.gov.au/>.

25 Rachel Bell, Julie Tuiletufuga, Peniamina Muliaina, Lupematasila Fa'ato Sila Falaniko, Raphael Semei "COVID-19 impacts on Samoa economy" (2023) 13(1) *The Journal of Samoan Studies* 64 at 67.

26 Government of Tonga "Economic and Financial Update: July 2022 – December 2022" (2022) at 1.

2.3 Sociocultural Impacts

The closure of borders and the suspension of traditional community gatherings disrupted social cohesion and cultural practices central to Tongan and Samoan identities. Funerals, weddings, and church activities – pivotal in Polynesian societies – were postponed or scaled-down,²⁷ affecting communal well-being. The prolonged economic and social stress tested communal bonds. Traditional safety nets, such as extended family support, came under pressure as financial resources became scarce. Community events and cultural practices were disrupted, affecting social cohesion and collective identity.

The psychological toll of the pandemic was significant, particularly in tightly knit communities where collective gatherings are integral to social life.²⁸ Isolation measures, combined with economic hardship, led to increased rates of anxiety, depression, and domestic violence.²⁹ The stigma associated with COVID-19 infections further exacerbated mental health challenges, highlighting the need for culturally sensitive interventions and expanded mental health services.

Prolonged school closures interrupted education for thousands of children, worsening existing inequalities in access to learning, made all the more serious due to limited access to digital learning tools. Both countries faced challenges in transitioning to online education due to insufficient infrastructure and internet accessibility, particularly in rural areas.³⁰ This digital divide threatened to widen educational disparities and hinder long-term human capital development. The next section discusses the government's responses to the effects of COVID-19 in Samoa and Tonga.

3.0 GOVERNMENT RESPONSES TO THE EFFECTS OF COVID-19

3.1 Healthcare Investments

To address the health impacts of COVID-19, the governments of Tonga and Samoa redirected resources to strengthen their healthcare systems, ensuring adequate preparedness for potential outbreaks. Samoa, for instance, invested in quarantine facilities, upgraded its diagnostic laboratories, and secured medical supplies, including masks, with international support.³¹ Tonga allocated funds to improve its public health infrastructure and enhance training for healthcare workers, ensuring readiness for COVID-19 management.³²

Both Samoa and Tonga demonstrated proactive and comprehensive responses to the COVID-19 pandemic, focusing on prevention, containment, and vaccination efforts. These measures were crucial in managing the spread of the virus and protecting public health. Both nations increased health expenditures to strengthen testing capacities, expand quarantine facilities, and procure vaccines. Investments in healthcare infrastructure, though essential, added pressure to already constrained budgets and raised questions about long-term sustainability.

27 Radio New Zealand “Covid-19 in the Pacific” (7 March 2022) at <www.rms.co.nz/>.

28 Ron Crocombe *The South Pacific* (7th ed, IPS Publications: University of the South Pacific, 2008).

29 Torika Tokalau “Climate Crisis and COVID-19 at the heart of new Pacific mental health survey” *Stuff* (13 September 2022) at <www.stuff.co.nz/>.

30 Yung Nietschke “Building a more resilient education system in Samoa” (1 July 2021) *ACER Discover* at <www.acer.org/>.

31 World Health Organisation “Samoa uses Community Strength, Local Knowledge and Collective Memory to Prepare for COVID-19” (28 October 2020) at <www.who.int/>.

32 World Health Organisation “Tonga Launches New Laboratory to Test for COVID-19 and Other Diseases” (8 December 2022) at <www.who.int/>; UNICEF “ADB, UNICEF and WHO provide medical supplies to Tonga for COVID-19 response” (23 October 2020) at <www.unicef.org/>.

3.2 Financial Support Packages and Industry Investments

To address the economic impacts of COVID-19, both Tonga and Samoa introduced financial relief measures to support vulnerable households and struggling businesses. In April 2020, the Tongan government launched a TOP60 million Social and Economic Stimulus Package, funded largely by development partners (Australia, New Zealand, World Bank and ADB) to support households and businesses affected by the pandemic.³³ One-third of the funding was allocated to health preparedness, including equipment, supplies and health promotion. In addition, this package aimed to alleviate immediate economic hardships while stimulating domestic demand. The package included direct cash transfers to households, tax relief for businesses, and subsidies for essential goods, job creation programs, and support for agriculture and labour mobility.

In May 2020, the Samoan government announced a stimulus package that included a nationwide reduction in electricity tariffs and additional support for households. This package aimed to alleviate the economic burden on citizens and businesses. Samoa rolled out a series of fiscal policies under its COVID-19 Economic Response Plan, providing subsidies for utilities, support for small and medium enterprises (SMEs), and one-off cash payments to affected workers.³⁴ These measures helped cushion households in sectors particularly hard hit, such as tourism and agriculture.

Recognising the importance of agriculture and fisheries for food security and livelihoods, both governments prioritised investments in these sectors. Tonga expanded subsidies for agricultural inputs and provided grants to local farmers to encourage domestic food production. Other assistance included cash transfers, tax relief measures, and loan deferrals in these sectors.³⁵ Samoa launched initiatives to support fishing and farming, including the distribution of seeds, tools, and fishing equipment. These measures aimed to bolster local food systems and reduce reliance on imported goods during the pandemic.³⁶ However, the scope of these measures was constrained by limited fiscal space and reliance on external financing.

Both Samoa and Tonga demonstrated proactive and comprehensive financial strategies to address the challenges posed by the COVID-19 pandemic. These measures were crucial in managing the spread of the virus and supporting economic recovery. The interventions by Tonga and Samoa were largely effective in maintaining social stability and preventing widespread economic collapse. Their ability to launch such significant stimulus packages was based on external borrowings. These borrowings heightened their debt levels as their ability to finance the increased government spending was hindered by limited fiscal space and dependency on international aid. The next section discusses the external borrowings to finance COVID-19 for Samoa and Tonga.

4.0 FINANCING MEASURES TO ADDRESS COVID-19

4.1 Introductory Comments

To implement all measures affected by COVID-19, the governments of Samoa and Tonga received international support and borrowings from the World Bank, International Monetary Fund (IMF) and the ADB. As for Samoa, the IMF approved a disbursement of USD22.03 million to help address the

33 Australian Government *Tonga COVID-19 Development Response Plan* (October 2020) at 2.

34 Eirenei Ariu and Government of Samoa “Presentation of Government’s Stimulus Package Assistance for Vulnerable Groups” (22 July 2020) at <www.samoagovt.ws/>.

35 Australian Government “*Tonga COVID-19 Development Response Plan*” (October 2020) at 1-5.

36 Eirenei Ariu and Government of Samoa “Presentation of Government’s Stimulus Package Assistance for Vulnerable Groups” (22 July 2020) at <www.samoagovt.ws/>.

pandemic's impact.³⁷ The World Bank approved USD2.9 million in grants for health preparedness and preventative measures³⁸ and a further USD10 million in grants and concessional loans to support Samoa's social and economic recovery from COVID-19.³⁹ Finally, in 2022 the ADB provided a USD10 million grant and concessional loans to help Samoa manage COVID-19.⁴⁰ The funds were for the Samoa COVID-19 Emergency Response Project which focused on strengthening the healthcare system and addressing immediate needs such as medical supplies and equipment. The remainder was for economic recovery efforts including financial assistance for vulnerable businesses and households. These efforts were part of a broader strategy to mitigate the health, economic and sociocultural impacts of the pandemic. As for Tonga, the COVID-19 specific borrowings included a USD29.59 million grant and concessional loan from the Asian Development Fund to finance the government's response to COVID-19.⁴¹ The World Bank also provided USD30 million in loans to strengthen resilience, fight COVID-19 and assist in the recovery from COVID-19 and Cyclone Harold.⁴²

In summary, Samoa borrowed approximately USD43 million for COVID-19 related measures whereas Tonga received around USD60 million from international financial institutions (ADB, 2022) for both COVID and Cyclone Harold's recovery. These funds were used to finance health initiatives and economic recovery programs, ensuring critical services remained functional during the crisis. These borrowings, while crucial, highlighted the limited domestic resources available to address large-scale crises. Both Samoa and Tonga received support from international organisations such as the IMF, World Bank, and ADB to manage their debt levels and support economic recovery. In addition, technical support was received to help the countries navigate the economic challenges posed by the pandemic.

Before the pandemic, Samoa's public debt stood at 44.29 per cent of GDP,⁴³ while Tonga's was at 41.3 per cent in 2019.⁴⁴ These figures already signalled vulnerabilities to external shocks, limiting the countries' ability to absorb further debt sustainably. High debt levels constrained fiscal policy flexibility and heightened reliance on external aid. By 2022, Samoa's debt-to-GDP ratio remained almost unchanged at a high 43.7 per cent,⁴⁵ while Tonga's climbed to 45.4 per cent.⁴⁶ The high debt-to-GDP ratios underscore the significant financial strain imposed by pandemic-related borrowing, raising concerns about debt sustainability and the risk of fiscal crises. The sizeable (and growing) debt burden also limited each government's capacity to invest in recovery and long-term development projects.

37 International Monetary Fund "IMF Executive Board Approves a USD22.03 million Disbursement to Samoa to Address the COVID-19 Pandemic" (24 April 2020) at <www.imf.org/>.

38 World Bank Group *COVID-19 Strategic Preparedness and Response Program: Report Number PAD3883* (2 April 2020) at 2 and 3.

39 World Bank Group "Support for Economic Recovery and Strengthening Resilience in Post-Pandemic Samoa" (1 June 2023) at <www.worldbank.org/>.

40 Asian Development Bank "ADB Provides \$10 million Grant to Help Samoa Manage COVID-19" at (25 April 2022) <www.adb.org/>.

41 Asian Development Bank "Asian Development Bank Member Fact Sheet – Tonga" (April 2021) at 1.

42 World Bank Group "\$30 Million in Support for Tonga's Most Vulnerable" (16 December 2020) at <www.worldbank.org/>.

43 International Monetary Fund *Samoa – Staff Report for the 2023 Article IV Consultation – Debt Sustainability Analysis* (21 February 2023) at 3; Pacific Islands Forum Secretariat *2024 Forum Economic Ministers Meeting, Suva Fiji. Agenda Item 3: Regional Update on Economic State of Play and Outlook* at 8.

44 Pacific Islands Forum Secretariat *2024 Forum Economic Ministers Meeting, Suva Fiji. Agenda Item 3: Regional Update on Economic State of Play and Outlook* (1-2 August 2024) at 8.

45 International Monetary Fund *Samoa – Staff Report for the 2023 Article IV Consultation – Debt Sustainability Analysis* (21 February 2023) at 4.

46 Pacific Islands Forum Secretariat *2024 Forum Economic Ministers Meeting, Suva Fiji. Agenda Item 3: Regional Update on Economic State of Play and Outlook* (1-2 August 2024) at 8.

By 2019, and before the COVID-19 pandemic, Samoa's external debt was high as a percentage of GDP because the government had been investing in large construction projects funded through foreign loans, especially after the 2009 tsunami and Cyclone Evan in 2013. The IMF had continued to assess Samoa to be at high risk of external debt distress⁴⁷ since 2019 to 2023 due to the fiscal deficits and increased in borrowings for the COVID-19 pandemic.⁴⁸

Tonga's borrowing levels before the pandemic were relatively stable, with external debt making up a significant portion of its public debt. The country had been working on various development projects funded through loans from international organisations and bilateral partners including China.⁴⁹ The COVID-19 pandemic also affected Tonga's economy. The country experienced increased borrowing to manage the economic fallout from the pandemic. The IMF and other international organisations have been working with Tonga to manage its debt levels and ensure fiscal sustainability.

4.2 Debt Distress Post-COVID

Before the pandemic, both Tonga and Samoa were classified as at a high risk of debt distress by the IMF and World Bank due to their small, vulnerable economies and heavy reliance on external financing. As noted in 2019 Tonga's public debt stood at approximately 41.3 per cent of GDP, driven largely by concessional loans from China for infrastructure projects. Similarly, Samoa's debt was 44.29 per cent of GDP, with a substantial portion owed to multilateral institutions.⁵⁰

The high debt-to-GDP for Samoa and Tonga has increased pressure on the country's fiscal sustainability. The IMF continues to classify Samoa and Tonga as high risk for external debt distress. The IMF's Debt Sustainability Analysis (DSA) highlights that Samoa and Tonga's debt remains sustainable over a 20-year period, but the higher fiscal deficits due to COVID-19 have increased the risk of debt distress⁵¹ due to a decline in government revenues and increased spending.

COVID-19 loans and grants were provided on concessional terms, with low interest rates and extended repayment periods, reflecting Samoa and Tonga's classification as low-income countries. While these loans were concessional, their cumulative effect has worsened. In addition, Tonga has faced multiple shocks, including the COVID-19 pandemic, Tropical Cyclone Harold,⁵² and the Hunga Tonga–Hunga Ha'apai volcanic eruption.⁵³ The IMF and World Bank continue to classify Tonga as high risk for debt distress.⁵⁴

The concessional terms of the loans from the IMF and ADB (lower interest rates, longer repayment periods, and grace periods before repayments began) were aimed at alleviating the debt burden while enabling Tonga and Samoa to meet immediate their fiscal needs. The IMF's loans came with minimal

47 International Development Association and International Monetary Fund *Joint World Bank-IMF Debt Sustainability Analysis – Samoa* (1-2 August 2024) at 1.

48 "Samoa at high risk debt distress: IMF" (9 May 2023) at <<https://islandsbusiness.com/>>.

49 International Monetary Fund *Tonga – Staff Report for the 2023 Article IV Consultation-Debt Sustainability Analysis* at 1-20.

50 Pacific Islands Forum Secretariat *2024 Forum Economic Ministers Meeting, Suva Fiji. Agenda Item 3: Regional Update on Economic State of Play and Outlook* (1-2 August 2024) at 8.

51 International Monetary Fund *Samoa – Staff Report for the 2023 Article IV Consultation – Debt Sustainability Analysis* (21 February 2023) at 1-20; International Monetary Fund *Tonga – Staff Report for the 2023 Article IV Consultation-Debt Sustainability Analysis* (21 February 2023) at 1-20.

52 Elisabeth Du Parc and Nacanieli Bolo Spieth *Tropical Cyclone Harold and COVID-19: A Double Blow to the Pacific Islands* (24 April 2020) Internal Displacement Monitoring Centre at <www.internal-displacement.org/>.

53 National Centres for Environmental Information (15 January 2022) "January 15, 2022 Tonga Volcanic Eruption and Tsunami" at <www.ncei.noaa.gov/news/>.

54 International Monetary Fund *Tonga – Staff Report for the 2023 Article IV Consultation-Debt Sustainability Analysis* at 1-20.

policy conditionalities, focusing primarily on transparency and accountability in fund utilisation.⁵⁵ Borrowing countries were required to publish detailed reports on spending and ensure that funds were used for COVID-19-related expenses. Similarly, ADB's loans required recipient nations to demonstrate fiscal discipline and a commitment to post-pandemic economic reforms, such as enhancing public financial management systems.⁵⁶

The following discussion outlines the debt levels (and composition of the debt) of the governments of Samoa and Tonga, based on available information. The Samoa Government debt (post-COVID-19) as at the end of June 2024 totalled WST 762.1m, comprised as follows:

- World Bank WST 260.5 million
- ADB WST 160.9m
- WST 13.1m to OPEC
- WST 2.1 m to the European Investment Bank
- WST 2.4m International Food Agricultural Development Organisation
- Peoples Republic of China (PRC) \$274.5m (EXIM Bank)
- Japanese Government WST 48.6m – these are bilateral agreements between the government of Samoa and the two countries.⁵⁷

These debt levels compare with pre-COVID levels, as at the end of September 2020, totalling WST 1,027.8m, comprised as follows:

- World Bank WST 303.8m
- ADB WST 224.1m
- OPEC WST 20.9m
- European Investment Bank WST 3.4m
- International Food Agricultural Development Organisation WST 3.1m
- PRC WST 385.6m (EXIM Bank)
- Japan WST 86.9m⁵⁸

While Samoa's overall debt level has reduced from 2020 issues of debt distress and debt sustainability remain, as indicated by Table 2 which outlines the differing types of debt instruments and their terms in the December 2016 quarter.

55 International Monetary Fund *Samoa – Staff Report for the 2023 Article IV Consultation – Debt Sustainability Analysis* (21 February 2023) at 1-20; International Monetary Fund *Tonga – Staff Report for the 2023 Article IV Consultation-Debt Sustainability Analysis* at 1-20.

56 Asian Development Bank “ADB Provides \$10 million Grant to Help Samoa Manage COVID-19” at < www.adb.org/ >.

57 Samoa Bureau of Statistics *Government Finance Statistics – September Quarter 2024* (2024) at 10.

58 Samoa Bureau of Statistics (2021) *Government Finance Statistics – December Quarter 2020* (2024) at 10.

Table 2: Characteristics of debt instruments in the existing debt portfolio for Samoa as at December quarter 2016⁵⁹

Creditor	Category	Cost Characteristics
IDA – World Bank	Multilateral – Highly Concessional	Interest rate: 0.75% fixed Maturity: 40 years including 10 years grace period (GP)
ADB	Multilateral – Highly Concessional	Interest rate: 1% fixed during GP and 1.5% thereafter – fixed Maturity: 32 years including 8 years GP
IFAD	Multilateral – Highly Concessional	Interest rate: 1% Maturity: 40 years including 10 years GP
JICA	Bilateral – concessional	Interest rate: 0.45% – fixed Commitment fee: 0.1% pa Maturity: 30 years including 10 years GP
EXIM Bank of PRC (China)	Bilateral semi-concessional	Interest rate: 2% – fixed Commitment fee: 0.25% pa Management fee: 0.25% (upfront) Maturity: 20 years including 5 years GP
OPEC	Multilateral non concessional	Interest rate: 3.6% pa (average rate of existing loans) Service fee: 1% pa Maturity: 20 years including 5 years GP

Tables 3 and 4 outline the composition and characteristics of external debt for Tonga.

Table 3: Creditor composition of debt outstanding at the end of FY 2020 - Tonga (30 June 2020)⁶⁰

(in millions TOP)	Amount outstanding	% total of all external debt
External debt	418.4	85.7% of all debts
ADB	64.3	15.37% (13%)
IDA – World Bank	99.3	23.73% (23%)
IFAD	9.4	2.25% (2%)
EXIM Bank of China	245.4	58.65% – total of 85.7% of all debts cumulatively (57%)
Domestic Debt	70 m	14.3% of all debts

59 Ministry of Finance – Government of Samoa *Medium Term Debt Management Strategy FY 2021/22 – FY 2025/26* (2021) at 13.

60 Ministry of Finance – Kingdom of Tonga *Medium-Term Debt Strategy Fiscal Years 2021-2025* 9 (2021) at 9.

Table 4: Debt characteristics of external debt and cost of funding – Tonga as at 30 June 2020⁶¹

Creditor	Maturity - years	Grace Period - years	Interest rate
ADB	40	10	1%
IDA – World Bank	40	10	0.75%
IFAD	40	10	1%
IMF	10	5	0%
EXIM Bank of China	20	5	2%

Like most of Tonga’s debt, the initial EXIM loan signed in November 2007 was taken on for the purposes of reconstruction following the 2006 Nuku’alofa riots to rebuild Nuku’alofa CBD. In February 2010 Tonga contracted a second loan from EXIM for a national program of road building. The combined loan had a total face value of \$88 m (or around 30 per cent of GDP at the time), a 2 per cent interest rate, a five-year grace period, and a 20-year maturity. The loan also included conditionality related to using Chinese contractors for the reconstruction of buildings and undertaking of works.⁶² While specific terms were not always disclosed, such loans typically required repayment in the form of direct monetary payments or tied projects that mandated the use of Chinese contractors and materials. These terms have raised concerns about the potential long-term implications for sovereignty and fiscal independence.⁶³ About 55 per cent of the loan was on-lent by the government to private-sector businesses whose premises were damaged or destroyed by the riot, and the SOE ports authority for the construction of the wharf.⁶⁴

Three consecutive Tongan governments unsuccessfully lobbied the Chinese government and EXIM for the forgiveness of that loan. Instead, EXIM has extended the grace period twice from 5 to 15 years resulting in Tonga having to repay much of the loan from 2023 to 2028 rather than the initial agreed period of 2013 to 2028.⁶⁵ Due to this, Tonga’s high repayment obligations began in 2024, following the end of the extended grace periods. On average, debt service is equivalent to over 11 per cent of government revenue from 2014 to 2026.⁶⁶

As can be seen above, the EXIM Bank (China) is the largest creditor for Samoa and Tonga. This is significant as pre-pandemic loans from China, while concessional, carried stricter repayment schedules and were tied to the use of Chinese contractors for funded projects. This has raised concerns about the strategic implications of Chinese lending in the region. As for the other COVID-related loans to Tonga, they are largely concessional and have favourable terms and repayment schedules.

The pandemic underscored and deepened the reliance of Tonga and Samoa on bilateral lenders, particularly China. In both Samoa and Tonga, Chinese loans, which constituted over 50 per cent of each

61 Ministry of Finance – Kingdom of Tonga “Medium-Term Debt Strategy Fiscal Years 2021-2025 (2021) at 20.

62 Lano Fonua and Binura Seneviratne “Breaking the cycle of debt in Small Island Developing States: the Tonga experience” (2024) *ODI Case Study* at 8 <<https://odi.org/>>.

63 Andreas Kern, Bernhard Reinsberg, Patrick E. Shea (April 2022) *IMF Programs, Chinese Lending, and the Political Economy of Leader Survival Working Paper 118 AID Data* (April 2022) at 1-33.

64 Lano Fonua and Binura Seneviratne “Breaking the cycle of debt in Small Island Developing States: the Tonga Lano Fonua and Binura Seneviratne “Breaking the cycle of debt in Small Island Developing States: the Tonga experience” (2024) *ODI Case Study* at 8 <<https://odi.org/>>.

65 Lano Fonua and Binura Seneviratne “Breaking the cycle of debt in Small Island Developing States: the Tonga experience” (2024) *ODI Case Study* at 9 <<https://odi.org/>>.

66 Lano Fonua and Binura Seneviratne “Breaking the cycle of debt in Small Island Developing States: the Tonga experience” (2024) *ODI Case Study* at 9 – 10 <<https://odi.org/>>.

country's external debt even before the pandemic, are required to be repaid as the grace period has lapsed or is lapsing. The high dependency percentage of Chinese loans further entrenched their financial dependency on these semi or non-concessional loans.

The COVID-19 pandemic significantly exacerbated the potential for debt distress in Samoa and Tonga, primarily due to economic contractions, increased public spending, declining government revenues and high debt-to-GDP percentages. Both countries experienced severe economic contractions due to the pandemic. Samoa's GDP fell by 7.1 per cent in the fiscal year 2020/2021,⁶⁷ while Tonga's GDP fell by 2.31 per cent in the 2020/2021 fiscal year.⁶⁸ The closure of borders and restrictions on international travel severely impacted tourism, a major source of revenue for both nations (constituting around 20 per cent of GDP in Samoa and Tonga, respectively).⁶⁹ In addition, a significant decline in remittances⁷⁰ and increased public spending led to a rise in borrowings. The increased borrowing and economic contraction led to higher debt-to-GDP ratios for both nations.

Increased debt levels in Samoa and Tonga mean greater debt servicing obligations which are key indicators of debt distress. Rising debt levels limit the fiscal autonomy of Tonga and Samoa, as an increasing share of government revenue is allocated to debt servicing.⁷¹ Such financial constraints can reduce policy flexibility limiting the government's ability to fund other critical sectors, such as healthcare and education, and leave governments more susceptible to external influence. While concessional loans from the World Bank and ADB have favourable terms, the absolute increase in debt volume has raised debt servicing costs and made debt repayments more difficult.

Although both nations are currently servicing their debts, continued borrowing without significant economic recovery raises the risk of default. Any default would make further borrowings more difficult to secure. The elevated debt levels have made both Tonga and Samoa more vulnerable to future external shocks, such as natural disasters or global economic downturns, and which could further strain their already fragile fiscal positions.

As noted above, the high debt dependency has other geopolitical implications. Chinese loans often come with conditions including repayments through infrastructure agreements which create the potential leverage for geopolitical influence.⁷² The fear of "debt-trap diplomacy"⁷³ has been raised in both nations, although evidence of this remains contested. The geopolitical dimension from COVID-19 borrowings is further discussed briefly in the next subsection.

67 Central Bank of Samoa "Press Release on State of Samoa's Economy and Outlook for FY2022/2023 – Friday, 16th December 2022" (21 December 2022) at <www.samoagovt.ws/>.

68 Tonga Statistics Department *National Accounts Statistics Bulletin – Financial Year 2022-2023* (2024) at 6.

69 John Connell "COVID-19 and tourism in Pacific SIDS: lessons from Fiji, Vanuatu and Samoa?" (2020) 110(1) *The Round Table* 149.

70 Dung Doan and Kirstie Petrou *Labor mobility and remittances in the Pacific during COVID-19*" (World Bank 24 February 2022) at <https://blogs.worldbank.org/>>.

71 Ministry of Finance – Kingdom of Tonga *Medium-Term Debt Strategy Fiscal Years 2021-2025* (2021) at 9; Ministry of Finance – Government of Samoa *Medium Term Debt Management Strategy FY 2021/22 – FY 2025/26* (2022) at 1.

72 Mihai Sora "Geopolitical Competition Among the Larger Powers in the Pacific" (2022) 74(2) *Microstates and Small Island States in International Affairs* 111.

73 Michal Himmer and Zdeněk Rod "Chinese Debt Trap Diplomacy: Reality or Myth?" (2022) 18(3) *Journal of the Indian Ocean Region* 250.

4.3 Geopolitical Dimensions of COVID-19 Borrowing

The Pacific region has become a focal point for strategic competition among major powers, particularly China, the United States, Australia, and New Zealand. These countries are vying for influence through economic aid, infrastructure projects, and diplomatic engagements. The US and its allies are concerned about China's expanding influence through lending and debt repayment, which they see as a threat to their strategic interests in the Pacific region. Pacific Island nations like Tonga and Samoa are leveraging geopolitical rivalries to maximise development benefits. By engaging multiple partners, these nations can secure diversified financing and technical assistance, reducing reliance on a single creditor. They are also negotiating better deals and aid packages from both traditional and non-traditional partners.⁷⁴

Understanding these geopolitical dynamics in the Pacific is crucial for ensuring the economic stability of Pacific Island nations. China's engagement in the Pacific aligns with its broader Belt and Road Initiative (BRI), which seeks to enhance connectivity and economic integration. Beyond economic influence, China's activities in the Pacific have also led to speculation about potential military basing rights in the Pacific, which has heightened regional tensions. Through economic assistance, China has sought the political backing of Pacific nations in multilateral forums, particularly on issues such as Taiwan and the South China Sea disputes.⁷⁵

The increased debt burdens of Tonga and Samoa have placed them at the centre of this competition. The geopolitical dynamics in the Pacific have become increasingly complex due to the risk of debt distress faced by Samoa and Tonga (and other nations) and its geopolitical impact. For example, the inability to meet their financial obligations to China (and other lenders) could see Samoa and Tonga forced to enter debt restructuring arrangements with China thereby creating greater debt dependency on that country. The strategic location of Samoa and Tonga make them important players in maritime security and regional stability, further amplifying the geopolitical stakes of their financial ties.⁷⁶

Debt arrangements involving infrastructure projects have raised concerns about control over key assets. For example, in other nations, Chinese-funded projects have led to negotiations over strategic assets like ports and airstrips.⁷⁷ While no such scenarios have materialised in Tonga or Samoa, the potential for similar situations remains a geopolitical concern. Rising debt levels raised concerns about repayment capacity, especially given limited economic diversification and slow recovery in key sectors of the economy like tourism. Debt servicing obligations consume an increasing share of national budgets,⁷⁸ reducing funds available for critical investments.

The growing debt dependency on China has raised concerns about the erosion of policy autonomy. The high proportion of debt owed to China has led to fears that Samoa and Tonga may face pressure to align their policies with Chinese interests, particularly on contentious international issues. The continued reliance on concessional loans and grants risks creating a cycle of dependency, limiting each nation's ability to

74 Meg Keen and Alan Tidwell *Geopolitics in the Pacific Islands: Playing for Advantage* (Lowry Institute, 31 January 2024).

75 W Hu and W Meng "Geopolitics, Domestic Politics, and Risks of War in the Taiwan Strait" (2023) 23(4) *China Review; Special Issue: External and Internal Factors Shaping the Outcomes of 2024 Elections in Taiwan* 17.

76 Reuters "World Powers' Strategic Rivalry Threatens to Overwhelm Pacific Islands, Think Tank Warns" (22 August 2024) at <www.reuters.com/>.

77 Archana Shukla & Mariko Oi "Sri Lanka Crisis: Colombo Reaches Debt Deal with China" (13 October 2023) *BBC News* at <www.bbc.com/>.

78 Lano Fonua and Binura Seneviratne "Breaking the cycle of debt in Small Island Developing States: the Tonga experience" (May 2024) *ODI Case Study*.

achieve fiscal sustainability. Geopolitical rivalries could lead to the militarisation of the Pacific, potentially drawing Tonga and Samoa into broader strategic conflicts.⁷⁹

The United States (US) has expressed concerns about China's increasing influence in the Pacific through "debt-trap diplomacy".⁸⁰ This term refers to the practice of extending excessive credit to countries, often tied to infrastructure projects, with the alleged intention of extracting economic/political concessions or ceding strategic assets when they become unable to meet their debt obligations.⁸¹ As a consequence, the US has ramped up its diplomatic and economic engagement in the Pacific through the Pacific Pledge, which aims to provide alternative sources of financing and promote sustainable development in the region (and counter China's growing influence in the region).⁸²

5.0 DEBT MANAGEMENT STRATEGIES AND KEY FISCAL REFORMS

The governments of Samoa and Tonga have proactively undertaken several strategies to address their high debt levels to avoid the risk of debt distress. They include having a national plan, fiscal consolidation and working alongside international organisations like the IMF, World Bank and the ADB for debt management and support. Samoa and Tonga have adopted a Medium-Term Debt Strategy (MTDS) to manage their debt levels effectively. Samoa's strategy Medium-Term Debt Strategy 2022-2026 aims to reduce the debt-to-GDP ratio to 32.1 per cent by the end of the financial year 2023-24.⁸³ This involves committing to not contracting for any non-concessional loans. This means the country will focus on securing loans with more favourable terms, such as lower interest rates and longer repayment periods.

Tonga has also developed a Medium-Term Debt Strategy 2021-2025 to ensure sustainable debt levels.⁸⁴ The strategy aims to meet government financing needs at the lowest possible cost with minimal risk. With this, the government is committed to maintaining sovereign debt within sustainable levels involving regular monitoring of debt levels against debt targets established by multilateral institutions. Tonga is committed to prudent debt management, linking borrowing with macroeconomic policy and maintaining sustainable debt levels.

To enhance revenue generation, the Tongan government implemented measures to broaden its tax base and improve tax administration. The government introduced modest increases in value-added tax (VAT) rates, which had been a significant source of domestic revenue. Exemptions on certain luxury goods were also reduced, generating additional revenue without disproportionately impacting low-income households.⁸⁵ The government also strengthened enforcement measures, such as digital tax filing systems and audits, aimed to curb tax evasion and increase collection efficiency.⁸⁶

On the expenditure side, Tonga prioritised essential spending while rationalising non-critical expenditures. Subsidies given for non-essential industries were gradually reduced, with the savings redirected toward

79 Iati Iati "Navigating Geopolitical competition in the Pacific" (May/June 2024) *New Zealand International Review*.

80 Iati Iati "Navigating Geopolitical competition in the Pacific" (May/June 2024) *New Zealand International Review*.

81 Michal Himmer and Zdeněk Rod "Chinese Debt Trap Diplomacy: Reality or Myth?" (2022) 18(3) *Journal of the Indian Ocean Region* 250.

82 US Department of State "US Engagement in the Pacific Islands: 2020 Pacific Pledge" (1 October 2020) at <<https://2017-2021.state.gov/>>.

83 Ministry of Finance – Government of Samoa "Medium Term Debt Management Strategy FY 2021/22 – FY 2025/26" (2021) at 1.

84 Ministry of Finance – Kingdom of Tonga *Medium-Term Debt Strategy Fiscal Years 2021-2025* (2021) at 9.

85 International Monetary Fund *Tonga – Staff Report for the 2023 Article IV Consultation-Debt Sustainability Analysis* (2 October 2023) at 1.

86 International Monetary Fund *Tonga – Staff Report for the 2023 Article IV Consultation-Debt Sustainability Analysis* (2 October 2023) at 1.

health and education. They also undertook public sector reform by streamlining public sector employment. This included introducing wage freezes for high-income earners in government roles to manage recurrent expenditures more effectively.⁸⁷ Tonga also focused on improving fiscal governance by adopting the Public Financial Management (PFM) Systems. Enhanced PFM systems were introduced to improve budget transparency and accountability. These reforms included mandatory audits of public spending related to COVID-19 borrowing.⁸⁸

Samoa pursued similar revenue mobilisation strategies, emphasising structural reforms in tax policy and administration.⁸⁹ Tax revenues have increased from 20 per cent of GDP in 2011 to over 25 per cent of GDP in 2022.⁹⁰ Tax policy changes have included an increase in the VAT rate in 2011 to 15 per cent (from the previous 10 per cent), increases in various excise taxes including some fatty meats and unhealthy products, and reduction in personal income tax exemptions. Samoa has also made revenue administration improvements, strengthened its filing and paying taxes function and built risk-based compliance capabilities with the help of the IMF.⁹¹ Samoa also rolled out electronic fiscal devices under the Tax Invoicing and Monitoring System in 2020 which boosted both the VAT and corporate income tax revenue. Instead of raising further the VAT rate, which at 15 per cent, is the highest rate in the Pacific, Samoa intends to reduce VAT zero-rating and exemptions for water and electricity, medical and educational supplies. They have also raised business licence fees on small businesses instead of implementing a small business tax regime due to the administrative challenges of taxing small businesses. Future considerations include moving towards a full self-assessment tax system which would reduce the need for physical assessment and checking of returns.⁹²

To strengthen fiscal governance, the Samoan government adopted a performance-based budgeting approach, linking funding allocations to specific outcomes.⁹³ This reform aimed to ensure that public spending delivered measurable results. Debt Transparency Initiatives were undertaken whereby Samoa enhanced the publication of debt reports, detailing loan terms and usage to increase creditor and public confidence in its fiscal management practices.⁹⁴

Despite the above strategies, the debt to GDP percentage for both Samoa and Tonga remain high due to the ongoing climate changes, natural disasters, economic shocks and their small economies. This means that more needs to be done to reduce the high debt levels of both countries. The next section suggests some recommendations to generate additional revenue and promote economic activity to alleviate the debt burden for these two countries.

87 Ministry of Finance – Kingdom of Tonga *Medium-Term Debt Strategy Fiscal Years 2021-2025* (2021) at 1.

88 International Monetary Fund *Tonga – Staff Report for the 2023 Article IV Consultation-Debt Sustainability Analysis* (2 October 2023) at 1.

89 International Monetary Fund: Asia and Pacific Dept *Samoa: 2023 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Samoa* (2023) at 110.

90 International Monetary Fund: Asia and Pacific Dept *Samoa: 2023 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Samoa* (2023) at 39.

91 International Monetary Fund: Asia and Pacific Dept *Samoa: 2023 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Samoa* (2023) at 39.

92 International Monetary Fund: Asia and Pacific Dept *Samoa: 2023 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Samoa* (2023) at 40.

93 Ministry of Finance – Government of Samoa *Medium Term Debt Management Strategy FY 2021/22 – FY 2025/26* (2021) at 1.

94 Ministry of Finance – Government of Samoa *Medium Term Debt Management Strategy FY 2021/22 – FY 2025/26* (2021) at 1; Central Bank of Samoa “Press Release on State of Samoa’s Economy and Outlook for FY2022/2023 – Friday, 16th December 2022” (21 December 2022) at <www.samoagovt.ws/2022/12022/>.

6.0 LOOKING TO THE FUTURE: STRATEGY RECOMMENDATIONS - FOOD FOR THOUGHT

The challenge for the governments of Samoa and Tonga (and other SIDS) is to increase their revenue in a sustainable manner. Revenue is needed to provide for the needs of the population (health, education etc), develop future infrastructure, build reserves to protect against future external shocks and (the focus of this article) reduce debt levels and the risk of debt distress. However, as noted, SIDS tend to be small, often geographically isolated countries, particularly vulnerable to economic shocks and reliant on limited sources of revenue (such as tourism and aid monies).

As outlined in Section 5 Tonga and Samoa have undertaken some debt management strategies and implemented a range of fiscal reforms during the COVID period. Looking forward, and to a degree building on existing reforms, the following briefly outlines potential strategies for Samoa and Tonga to strengthen and expand their revenue bases. A detailed evaluation of the strategies is beyond the scope of this article.

6.1 Taxes and the Tax System

Both Samoa and Tonga have consumption-based taxes at a comparatively high rate (for the Asia-Pacific region) of 15 per cent, so arguably there is little scope for increasing that rate without impacting their economy and resident population, with such taxes having a regressive impact. However, the IMF Departmental Paper *Funding the Future: Tax Revenue Mobilisation in the Pacific Island Countries* (September 2022) observes that revenue gains can come through other adjustments such as reducing exemptions, some of which Samoa and Tonga have already undertaken. The IMF cautions against tax exemptions on the basis that they tend to be costly, both financially and economically.⁹⁵ They also:⁹⁶

“...complicate revenue administration and encourage higher tax rates, which decreases the efficiency of the tax system, reduce tax compliance (by making the tax system even more complex), and generally, undermine transparency. Tax exemptions also lead to large forgone tax revenues.”

The IMF specifically identifies the Tongan VAT system as an example of where reform could occur. Tax exemptions accounted for 30 per cent of total tax revenue in 2019-2020, “given the gaps in coverage of VAT (17 per cent), customs (7 per cent), and excise duties (5 per cent)”,⁹⁷ amounting to a loss of 6.5 per cent of GDP.⁹⁸ The IMF suggests that Tonga should review and possibly remove the following tax exemptions to reduce market distortions and administrative complications: “exemptions granted to the electricity sector, namely Tonga power, tourism, transport, and to specific projects”⁹⁹

There is also scope for Tonga to broaden its coverage of excise taxes along with increased rates on existing duties. The IMF favours excise taxes for low-income countries (LICs) and emerging markets on the basis

95 Mouhamadou Sy, Andrew Beaumont, Enakshi Das, Georg Eysselein, David Kloeden, and Katrina R Williams IMF Departmental Paper *Funding the Future: Tax Revenue Mobilisation in the Pacific Island Countries* (September 2022) at 15.

96 Mouhamadou Sy, Andrew Beaumont, Enakshi Das, Georg Eysselein, David Kloeden, and Katrina R Williams IMF Departmental Paper *Funding the Future: Tax Revenue Mobilisation in the Pacific Island Countries* (September 2022) at 15.

97 Mouhamadou Sy, Andrew Beaumont, Enakshi Das, Georg Eysselein, David Kloeden, and Katrina R Williams IMF Departmental Paper *Funding the Future: Tax Revenue Mobilisation in the Pacific Island Countries* (September 2022) at 32.

98 Mouhamadou Sy, Andrew Beaumont, Enakshi Das, Georg Eysselein, David Kloeden, and Katrina R Williams IMF Departmental Paper *Funding the Future: Tax Revenue Mobilisation in the Pacific Island Countries* (September 2022) at 32.

99 Mouhamadou Sy, Andrew Beaumont, Enakshi Das, Georg Eysselein, David Kloeden, and Katrina R Williams IMF Departmental Paper *Funding the Future: Tax Revenue Mobilisation in the Pacific Island Countries* (September 2022) at 32.

that their benefits are “easily implementable and could be levied on a multitude of products”.¹⁰⁰ Tonga has excise taxes on fuel (a fixed rate), vehicles (depending on cylinder capacity), tobacco products (a differing rate depending on whether domestically produced or imported), liquor, lard & soft drinks.¹⁰¹ There may be scope for increasing these rates and also including the telecom sector.¹⁰² The average rate of customs duty in Tonga is 15 per cent. Goods for agriculture and fishing are duty-free. Other concessions include goods imported for charity, donor funded goods, goods for His Majesty, goods for electricity generation, live animals and meat.¹⁰³ Such exemptions and concessions could be removed entirely or reduced to increase government revenue.

Along with the highest VAT in the Pacific region, Samoa’s excise taxes are among the highest in the Pacific region and again therefore there is arguably limited (if any) scope to increase VAT or excise tax rates to raise tax revenues in the future for Samoa.¹⁰⁴

In respect of personal income tax (PIT), both Samoa and Tonga have tax-free thresholds below which income is not subject to tax. The IMF suggests countries with tax-free thresholds raise the level of the thresholds. While on the face of it this runs counter to efforts to increase tax revenue, raising the threshold would improve the progressivity of the tax system,¹⁰⁵ as a “relatively low tax-free threshold puts the tax burden on low-income earners and could discourage businesses from hiring lower skilled workers.”¹⁰⁶ Higher tax-free thresholds could reduce financial stress on lower income households.

Fiscal strategies also need to future proof the tax system. The OECD in 2022 highlights significant threats to VAT revenues from e-commerce and online sales by offshore sellers which are not taxed under the existing system (as well as the negative impact of competition with domestic suppliers). The OECD suggests “the internationally agreed standards and guidance for addressing the VAT challenges of digital trade developed by the OECD may provide the appropriate basis for VAT policy reform of SIDS”.¹⁰⁷

Transfer pricing has been identified as a contributor to revenue losses for some Pacific Islands.¹⁰⁸ “While not identifying countries, the IMF observes that: “Moving together toward deemed export prices for resource stocks (for example, timber) could help to protect tax revenue.”¹⁰⁹

100 Mouhamadou Sy, Andrew Beaumont, Enakshi Das, Georg Eysselein, David Kloeden, and Katrina R Williams IMF Departmental Paper *Funding the Future: Tax Revenue Mobilisation in the Pacific Island Countries* (September 2022) at 19. See also the OECD 2022 report, at 26.

101 Ministry of Revenue and Customs <www.revenue.gov.to/>.

102 The IMF recommends generally excise taxes on products such as fuels, tobacco, alcoholic and non-alcoholic drinks, and cars, and on the telecom sector: Mouhamadou Sy, Andrew Beaumont, Enakshi Das, Georg Eysselein, David Kloeden, and Katrina R Williams IMF Departmental Paper *Funding the Future: Tax Revenue Mobilisation in the Pacific Island Countries* (September 2022) at 19.

103 Ministry of Revenue and Customs at <www.revenue.gov.to/>.

104 International Monetary Fund: *Asia and Pacific Dept Samoa: 2023 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Samoa* (2023) at 40.

105 Mouhamadou Sy, Andrew Beaumont, Enakshi Das, Georg Eysselein, David Kloeden, and Katrina R Williams IMF Departmental Paper *Funding the Future: Tax Revenue Mobilisation in the Pacific Island Countries* (September 2022) at vi.

106 Mouhamadou Sy, Andrew Beaumont, Enakshi Das, Georg Eysselein, David Kloeden, and Katrina R Williams IMF Departmental Paper *Funding the Future: Tax Revenue Mobilisation in the Pacific Island Countries* (September 2022) at 13.

107 Talita Yamashiro Fordelone, Piera Tortora and Jingjing Xia “Recovering from COVID-19: How to enhance domestic revenue mobilisation in small island developing states” (OECD, 2022) at 26. See the following OECD publications at <www.oecd.org/>: “Mechanisms for the Effective Collection of VAT/GST” (June 2017) ; “The role of the digital platforms in the collection of VAT/GST on online sales” (June 2019); “The Impact of the Growth of the Sharing and Gig Economy on VAT/GST Policy and Administration” (April 2021).

108 Mouhamadou Sy, Andrew Beaumont, Enakshi Das, Georg Eysselein, David Kloeden, and Katrina R Williams IMF Departmental Paper *Funding the Future: Tax Revenue Mobilisation in the Pacific Island Countries* (September 2022) at vi.

109 Mouhamadou Sy, Andrew Beaumont, Enakshi Das, Georg Eysselein, David Kloeden, and Katrina R Williams IMF Departmental Paper *Funding the Future: Tax Revenue Mobilisation in the Pacific Island Countries* (September 2022) at vi.

6.2 New Revenue Sources

Pacific nations should also consider revenue streams currently not utilised, such as sectors in the sustainable ocean economy, and environment-related taxes and charges (eg, on energy use, pollution and natural resource extraction), including carbon pricing.¹¹⁰ As an example of what can be achieved, the OECD in 2022 commented in respect of environmentally related taxes (e.g. on energy) on average, these revenues reached 1.9 per cent of GDP in the relevant SIDS surveyed, compared to the average for OECD countries (2.2 per cent of GDP).¹¹¹ The use of environmentally-related taxes “would have the advantage of both increasing domestic revenues and incentivising the more sustainable use and conservation of natural assets, by encouraging consumers to consider the environmental cost of their behaviour.”¹¹²

Tonga and Samoa could levy tourist taxes, for example, a tax levied at the border (as an arrival or departure tax), and/or on accommodation providers (bed tax).¹¹³ Such taxes come with benefits but also carry risks. PwC in a report for the European Commission report observes that “Tourist taxes provide a significant source of revenue for many governments, particularly those which are heavily reliant on tourism.”¹¹⁴ Gooroochurn and Chris¹¹⁵ similarly argue in favour of the imposition of tourism taxes for tourism-dependent economies, because they are a socially efficient means of generating tax revenue. Tourist taxes can also be employed to develop areas and facilities for tourists and manage the potential impacts of overtourism. In the 2002 study of Cárdenas-García et al¹¹⁶ of a mass tourism destination, three out of four respondents were in favour of paying tourist taxes and/or fees “to contribute to the improvement of sustainability and the experience in the destination.” However, care needs to be taken in setting the tax rate(s) as the tourism industry is susceptible to high price elasticity¹¹⁷ and excessive rates could deter overseas visitors,¹¹⁸ encouraging them to travel elsewhere.

110 Talita Yamashiro Fordelone, Piera Tortora and Jingjing Xia *Recovering from COVID-19: How to enhance domestic revenue mobilisation in small island developing states* (OECD, 2022) at 26.

111 Talita Yamashiro Fordelone, Piera Tortora and Jingjing Xia *Recovering from COVID-19: How to enhance domestic revenue mobilisation in small island developing states* (OECD, 2022) at 26.

112 Talita Yamashiro Fordelone, Piera Tortora and Jingjing Xia *Recovering from COVID-19: How to enhance domestic revenue mobilisation in small island developing states* (OECD, 2022) at 26.

113 The United Nations World Tourism Organisation list of tourism taxes includes: entry and exit taxes such as visas, travel permits or resident departure taxes; air travel tax such as air passenger duty or airline fuel tax; airports, seaports and road border charges; road taxes, gambling; value-added taxes on restaurants, coaches, car rental, visitor attractions, training, and hotels, or accommodations such as bed tax and occupancy taxes; and environmental taxes: UNWTO *Tourism Taxation: Striking a Fair Deal* (Madrid 1998) at 32.

114 PricewaterhouseCoopers (LLP) *The Impact of Taxes on the Competitiveness of European Tourism* (European Commission, Belgium, October 2017) at 155.

115 Gooroochurn Nishaal and Chris Milner “Assessing Indirect Tax Reform in a Tourism-Dependent Developing Country” (2005) 33(7) *World Development* 1183–200.

116 Pablo Juan Cárdenas-García, Juan Ignacio Pulido-Fernández, José Luis Durán-Román, Isabel Carrillo-Hidalgo “Tourist taxation as a sustainability financing mechanism for mass tourism destinations” (July 2022) 24(4) *International Journal of Tourism Research* 565.

117 PricewaterhouseCoopers (LLP) *The Impact of Taxes on the Competitiveness of European Tourism* (European Commission, Belgium, October 2017) at 15.

118 Of changes in tourist tax rates, in a study of the Maldives, an island nation heavily dependent on tourism and which derives up to 70 per cent of total government revenue from tourism taxation, the authors find that a 10 per cent increase in tourism tax reduces demand by 5.4 per cent: Festu Fatai Adedoyin, Neelu Seetaram, Marta Disegna and George Filis “The Effect of Tourism Taxation on International Arrivals to a Small Tourism-Dependent Economy” (2023) 62(1) *Journal of Travel Research* 135 <<https://doi.org/10.1177/00472875211053658>>.

6.3 Tax Administration

As noted in Section 5, both Samoa and Tonga have been active in reforming and developing their tax administration and processes. Revenue administration reforms in Tonga have included “introducing information technology (IT) and data management capabilities to manage volumes, and enhancing audit capability.”¹¹⁹ However, tax administration risks remain. The key issues facing tax administration in Tonga identified by the IMF included the “slow pace of filling vacant positions and lack of funding for the tax administration [and] ... lack of capability to deal with multinational company tax avoidance/evasion.”¹²⁰

The Ministry of Customs and Revenue in Samoa has similarly continued to strengthen its core tax administration (including filing and payment) and build risk-based compliance capability, as well as strengthening audits. Industry partnerships to tackle compliance problems in high-risk industries have also been developed.¹²¹ However, the IMF observes that improvements to core tax functions and management of operations have been constrained by a lack of adequate IT system support.¹²² It is also worth noting that while seeking to be removed from the EU blacklist of non-cooperative countries¹²³ Samoa is still listed.¹²⁴

Of the larger Pacific Island Countries or PICs the IMF notes generally the “difficulties [of PICs] to deal with tax avoidance and evasion, as well as international tax and other complex tax issues that require specialised expertise”.¹²⁵ The IMF recommends “implementing improved mechanisms to increase the capability [of the revenue authorities] to audit large and international corporations”¹²⁶ and ensure compliance with the domestic tax system (and protect the tax base).

6.4 Tax Incentives and Concessions?

Nations often utilise tax incentives to stimulate investment and the growth of priority sectors. The eligibility for these tax incentives typically depends on the specific sector in which the business operates, as well as the size and nature of the investment. The key sectors that are typically targeted for these incentives include agriculture, tourism, manufacturing and renewable energy.

Both Tonga and Samoa have utilised incentives and concessions. Tax incentives in Tonga can be grouped as follows: Corporate Income Tax Reduction, Import Duty Exemptions, Consumption Tax Exemptions and

119 Mouhamadou Sy, Andrew Beaumont, Enakshi Das, Georg Eysselein, David Kloeden, and Katrina R Williams IMF Departmental Paper *Funding the Future: Tax Revenue Mobilisation in the Pacific Island Countries* (September 2022) at 31.

120 Mouhamadou Sy, Andrew Beaumont, Enakshi Das, Georg Eysselein, David Kloeden, and Katrina R Williams IMF Departmental Paper *Funding the Future: Tax Revenue Mobilisation in the Pacific Island Countries* (September 2022) at 46.

121 Mouhamadou Sy, Andrew Beaumont, Enakshi Das, Georg Eysselein, David Kloeden, and Katrina R Williams IMF Departmental Paper *Funding the Future: Tax Revenue Mobilisation in the Pacific Island Countries* (September 2022) at 45.

122 Talita Yamashiro Fordelone, Piera Tortora and Jingjing Xia *Recovering from COVID-19: How to enhance domestic revenue mobilisation in small island developing states* (OECD, 2022) at 18.

123 See further Mouhamadou Sy, Andrew Beaumont, Enakshi Das, Georg Eysselein, David Kloeden, and Katrina R Williams IMF Departmental Paper *Funding the Future: Tax Revenue Mobilisation in the Pacific Island Countries* (September 2022) at 45. Samoa is on the blacklist as it “has a harmful preferential tax regime (Offshore Business) and has not resolved this issue yet.”: Pacific Islands Forum Secretariat Information Paper 7: *EU List of Non-Cooperative Jurisdictions for Tax Purposes* (10-12 August 2022) at 2. International companies (IC) registered under the International Companies Act 1987 and foreign companies registered under that Act are exempt from any tax liability and pay no taxes of any description in Samoa.

124 EU list of non-cooperative jurisdictions for tax purposes <www.consilium.europa.eu/>.

125 Mouhamadou Sy, Andrew Beaumont, Enakshi Das, Georg Eysselein, David Kloeden, and Katrina R Williams IMF Departmental Paper *Funding the Future: Tax Revenue Mobilisation in the Pacific Island Countries* (September 2022) at 13.

126 Mouhamadou Sy, Andrew Beaumont, Enakshi Das, Georg Eysselein, David Kloeden, and Katrina R Williams IMF Departmental Paper *Funding the Future: Tax Revenue Mobilisation in the Pacific Island Countries* (September 2022) at 27.

Accelerated Depreciation.¹²⁷ Samoa provides tax incentives to tax resident investors in the tourism sector,¹²⁸ import duty exemption on approved goods, and VAT refund on specified inputs during the construction period.¹²⁹

Should Samoa and Tonga pursue tax incentives to encourage growth and development in their economies? There is an intuitive appeal to such incentives as they allow the government to target potentially high-growth opportunities (for example, infrastructure projects) and sectors (such as tourism). However, the IMF Departmental Paper *Funding the Future: Tax Revenue Mobilisation in the Pacific Island Countries* cautions against Pacific nations offering sizeable tax exemptions to incentivise foreign and domestic investment as this “erodes the tax base and encourages other investors to seek exemptions as well.”¹³⁰ Rather than increasing economic development and encouraging jobs, there is a risk exemptions can instead “encourage the development of legal and illegal rent-seeking practices”.¹³¹ These practices have the potential to erode confidence in a country’s entire investment climate, resulting in a “permanently lower economic growth path.”¹³² Further, the need for sizeable tax holidays or other incentives to encourage investment “may indicate that the tax regime facing businesses is too punitive and needs to be relaxed for all potential investors, not just those that have pressed for an exemption.”¹³³

Noting the IMF’s concern, the authors believe there may still be a place for limited and carefully targeted exemptions or incentives. For example, there may be an argument for generous depreciation allowances to encourage businesses to invest in plant and equipment (and thereby encourage economic development).

6.5 Remittances and the Pacific – Risks and Rewards

As noted in Section 2 remittances are a significant contributor to the economies of Samoa and Tonga. In 2022-23 some 5,459 and 5,102 workers were recruited from Samoa and Tonga, respectively for the predecessor to the Pacific Australia Labour Mobility (PALM) programme in Australia and New Zealand Recognised Seasonal Employer (RSE) scheme.¹³⁴ This comprised 6.40 per cent and 11.40 per cent, respectively of the Samoan and Tongan total working population,¹³⁵ or 11.5 per cent and 20 per cent respectively of male workers (who comprise the majority of those in the programmes).¹³⁶ In the PICs “they often represent the single most prominent component of national incomes”,¹³⁷ reaching levels rarely found elsewhere.¹³⁸

127 See further at Tonga Tax Obligations Detailed at <www.rivermate.com/>.

128 Orbitax “10. Incentives and Special Regimes” at <<https://orbitax.com/>>.

129 The Tax Credit Scheme, established in 2003 by the Government of Samoa to create a hospitable business climate for foreign investment, was abolished in 2018.

130 Mouhamadou Sy, Andrew Beaumont, Enakshi Das, Georg Eysselein, David Kloeden, and Katrina R Williams IMF Departmental Paper *Funding the Future: Tax Revenue Mobilisation in the Pacific Island Countries* (September 2022) at vi.

131 Mouhamadou Sy, Andrew Beaumont, Enakshi Das, Georg Eysselein, David Kloeden, and Katrina R Williams IMF Departmental Paper *Funding the Future: Tax Revenue Mobilisation in the Pacific Island Countries* (September 2022) at 25.

132 Mouhamadou Sy, Andrew Beaumont, Enakshi Das, Georg Eysselein, David Kloeden, and Katrina R Williams IMF Departmental Paper *Funding the Future: Tax Revenue Mobilisation in the Pacific Island Countries* (September 2022) at 25.

133 Mouhamadou Sy, Andrew Beaumont, Enakshi Das, Georg Eysselein, David Kloeden, and Katrina R Williams IMF Departmental Paper *Funding the Future: Tax Revenue Mobilisation in the Pacific Island Countries* (September 2022) at 25.

134 Apisalome Movono, Regina Scheyvens, Sophie Auckram *NZ wants more seasonal workers – but Pacific nations no longer want to be the ‘outposts’ that ‘grow’ them* (The Conversation, 17 November 2023).

135 Apisalome Movono, Regina Scheyvens, Sophie Auckram *NZ wants more seasonal workers – but Pacific nations no longer want to be the ‘outposts’ that ‘grow’ them* (The Conversation, 17 November 2023).

136 Apisalome Movono, Regina Scheyvens, Sophie Auckram *NZ wants more seasonal workers – but Pacific nations no longer want to be the ‘outposts’ that ‘grow’ them* (The Conversation, 17 November 2023).

137 John Connell and Richard PC Brown *Remittances in the Pacific – An Overview* (Asian Development Bank, 2005) at vii.

138 John Connell and Richard PC Brown *Remittances in the Pacific – An Overview* (Asian Development Bank, 2005) at vii.

New Zealand, like Australia, faces critical labour shortages in some sectors including viticulture and horticulture, with real implications for future economic performance.¹³⁹ Prime Minister Christopher Luxon has pledged to double the RSE intake while ACT's David Seymour wants the cap on these workers lifted completely – emulating the Australian approach.¹⁴⁰ NZ First is in favour of recruiting more migrant workers in all fields facing shortages.¹⁴¹

Despite the clear benefits of remittances to PIC families and the economy, and demand for workers in New Zealand and Australia, concerns have been expressed on the impact of these schemes, particularly whether there is a sustainable (maximum) number of workers on these schemes. Is it feasible for the number of scheme participants to continue to grow? Pacific island businesses lament the loss of experienced and well-trained workers, especially in tourism.¹⁴² Migrant work can also have real implications for the wellbeing of workers given the long periods of separation from families, as well as mental and physical burnout.¹⁴³ In 2022 there were serious allegations in New Zealand about unacceptable working and living conditions.¹⁴⁴

In 2022 there were serious allegations in New Zealand about unacceptable working and living conditions:¹⁴⁵ As noted by one analyst “Vulnerable workers are at risk of exploitation, underpay, and modern slavery conditions.”¹⁴⁶ In 2023 the OECD¹⁴⁷ reported there is “limited upskilling” of these workers and the anticipated transformative effect on the Pacific private sector had not eventuated.¹⁴⁸ Samoan prime minister Fiaame Naomi Mata’afa has expressed concern that Pacific countries are perceived as mere “outposts” which “grow” labourers for Australia and New Zealand.¹⁴⁹

In response to criticism of the schemes Australia and New Zealand have reviewed and reformed their respective seasonal worker policies. Improvements include greater investment in pastoral care and skills training as well as more benefits for employees.¹⁵⁰ However, it seems doubtful “that this will fully address the growing imbalance between who benefits and who bears the cost of these schemes.”¹⁵¹ Meanwhile, the Samoan government in September 2023 approved a new labour mobility policy, which among other things,

139 Apisalome Movono, Regina Scheyvens, Sophie Auckram *NZ wants more seasonal workers – but Pacific nations no longer want to be the ‘outposts’ that ‘grow’ them* (The Conversation, 17 November 2023).

140 Apisalome Movono, Regina Scheyvens, Sophie Auckram *NZ wants more seasonal workers – but Pacific nations no longer want to be the ‘outposts’ that ‘grow’ them* (The Conversation, 17 November 2023).

141 Apisalome Movono, Regina Scheyvens, Sophie Auckram *NZ wants more seasonal workers – but Pacific nations no longer want to be the ‘outposts’ that ‘grow’ them* (The Conversation, 17 November 2023).

142 Apisalome Movono, Leilani Faaiuso, Regina Scheyvens *Underpaid at home, vulnerable abroad: how seasonal job schemes are draining Pacific nations of vital workers* (The Conversation, 29 November 2022).

143 Apisalome Movono, Leilani Faaiuso, Regina Scheyvens *Underpaid at home, vulnerable abroad: how seasonal job schemes are draining Pacific nations of vital workers* (The Conversation, 29 November 2022).

144 Apisalome Movono, Leilani Faaiuso, Regina Scheyvens *Underpaid at home, vulnerable abroad: how seasonal job schemes are draining Pacific nations of vital workers* (The Conversation, 29 November 2022).

145 Apisalome Movono, Leilani Faaiuso, Regina Scheyvens *Underpaid at home, vulnerable abroad: how seasonal job schemes are draining Pacific nations of vital workers* (The Conversation, 29 November 2022).

146 Apisalome Movono, Leilani Faaiuso, Regina Scheyvens *Underpaid at home, vulnerable abroad: how seasonal job schemes are draining Pacific nations of vital workers* (The Conversation, 29 November 2022).

147 OECD *Addressing Policy Trade-Offs: New Zealand’s Pacific Regional Labour Mobility Scheme* (October 2023) at 1.

148 OECD *Addressing Policy Trade-Offs: New Zealand’s Pacific Regional Labour Mobility Scheme* (October 2023) at 1.

149 Apisalome Movono, Regina Scheyvens, Sophie Auckram *NZ wants more seasonal workers – but Pacific nations no longer want to be the ‘outposts’ that ‘grow’ them* (The Conversation, 17 November 2023).

150 Apisalome Movono, Regina Scheyvens, Sophie Auckram *NZ wants more seasonal workers – but Pacific nations no longer want to be the ‘outposts’ that ‘grow’ them* (The Conversation, 17 November 2023).

151 Apisalome Movono, Regina Scheyvens, Sophie Auckram *NZ wants more seasonal workers – but Pacific nations no longer want to be the ‘outposts’ that ‘grow’ them* (The Conversation, 17 November 2023).

will prioritise those who have been unemployed for more than six months.¹⁵² This is in line with the view of the OECD, ie, to prevent the schemes undermining human development in Pacific countries unskilled workers must be a priority.¹⁵³ In April 2023 the Tongan government “launched the Labour Mobility Supply Management Strategy, which provides a framework to better manage and co-ordinate the supply of Tongan workers offshore.”¹⁵⁴

It remains to be seen to what extent these initiatives address concerns on the impact of remittances. However, without change, continued, unlimited growth of remittances is not sustainable for PICs and their societies. Further, as COVID demonstrates, this form of revenue is very susceptible to external shocks and PICs need to be less reliant on remittances.

6.6 Encouraging Remote Work and Flexible Work Options

Digital technology presents opportunities for SIDS, in part countering their geographic isolation, for example allowing employees and self-employed persons to work remotely. Remote work arrangements could be either short-term or longer-term. Samoa and Tonga could introduce a digital nomad visa that would allow employees to live short-term in Samoa or Tonga while continuing to work for their overseas employer.¹⁵⁵ Typically, the digital nomad visa is longer than a traditional tourist visa and permits the individual (nomad) to work remotely and without breaching the conditions of their visa. Holders of such a visa may also benefit from tax concessions depending on the scheme.

In terms of longer-term strategies, to remove barriers to recruiting skilled people from overseas and to encourage such individuals to migrate to Samoa and Tonga to live and work (remotely) measures similar to New Zealand’s transitional resident provisions could be adopted. New Zealand provides an exemption for 48 months (effectively 4 years) from New Zealand taxation on most forms of foreign income derived by new migrants (and returning individuals who have been tax non-resident for at least 10 years).¹⁵⁶ The measures provide exemption from income tax on overseas income including interest and dividend income, certain foreign employment income (including bonus and stock option income), and certain other foreign passive income. Such income is classified as “exempt income”.¹⁵⁷ The exemption does not extend to foreign employment or foreign service performed during the exemption period – these will be subject to New Zealand tax. To encourage skilled migrants’ variations to the New Zealand transitional rules could be made, for example extending the period of exemption, exempting foreign employment or foreign service income from tax (or taxing at a concessional rate).

In facilitating the activities of remote workers robust technological infrastructure is essential,¹⁵⁸ including reliable internet connectivity (eg, high-speed internet access), communication tools (eg, video conferencing platforms and secure communication channels) and cybersecurity measures to protect company data and ensure safe remote access.¹⁵⁹ Tonga and Samoa need to invest in technology to ensure reliable affordable high-speed internet access.

152 Apisalome Movono, Regina Scheyvens, Sophie Auckram *NZ wants more seasonal workers – but Pacific nations no longer want to be the ‘outposts’ that ‘grow’ them*” (The Conversation, 17 November 2023).

153 Apisalome Movono, Regina Scheyvens, Sophie Auckram *NZ wants more seasonal workers – but Pacific nations no longer want to be the ‘outposts’ that ‘grow’ them*” (The Conversation, 17 November 2023).

154 Christine Rovi “Pacific to review seasonal work schemes to ‘protect the economy’” (10 August 2023) at <www.stuff.co.nz/>.

155 See for example *Tonga - Remote and Flexible Work Options* at <www.rivermate.com/>.

156 The relevant legislation is outlined in Income Tax Act 2007 (NZ) s HR 8(1) to (7).

157 Income Tax Act 2007 (NZ) s CW 27.

158 *Tonga - Remote and Flexible Work Options* at <www.rivermate.com/>.

159 See further *Tonga - Remote and Flexible Work Options* at <www.rivermate.com/>.

7.0 CONCLUSION

Samoa and Tonga's experience with COVID-19 highlights the intricate interplay between health crises, economic vulnerabilities, geographic isolation and geopolitical influences. While their proactive measures mitigated immediate health impacts, the pandemic's economic and social fallout necessitated significant borrowing raising both debt levels and the risk of debt distress. Addressing these challenges requires innovative fiscal strategies, robust international cooperation, and investments in long-term resilience. For these nations, balancing fiscal responsibility with developmental aspirations will be key to navigating the post-COVID era and ensuring sustainable growth.

The COVID-19 pandemic has underscored the vulnerabilities of SIDS and the Pacific region while revealing their remarkable adaptability in the face of global crises. The health, economic, and sociocultural impacts demand a re-evaluation of development strategies to prioritise resilience and sustainability. By addressing these challenges through collaborative and innovative approaches, the Pacific nations including Tonga, Fiji and Samoa can emerge stronger and better prepared for future uncertainties.

The governments of Tonga and Samoa demonstrated commendable adaptability in responding to the economic and social challenges of the COVID-19 pandemic. By implementing targeted financial relief, and supporting key sectors, they aimed at minimising the impact on their populations. Moving forward, strengthening regional integration and developing sustainable economic models will be crucial for enhancing the resilience of SIDS against future challenges for the Pacific region.

The COVID-19 pandemic (and resulting borrowing and risk of debt distress) highlights fiscal pressures on Polynesia and the need for governments to both increase tax revenue and broaden their tax base. While remittances are a significant contributor to the Pacific Island nations, there are limitations as they are susceptible to external shocks like COVID-19 and do carry with them negative impacts on the Pacific Island economies and societies. Along with the potential to reduce VAT exemptions and broaden the scope of coverage of excise taxes, other revenue streams should be explored, such as tourist levies and the sustainable ocean economy and environmental taxes. Appropriately designed tourist-based levies would provide funds to further develop tourist facilities. While tax incentives and concessions are not generally favoured the authors believe carefully targeted incentives may be appropriate, and at least worth exploring, such as generous depreciation allowances to encourage development.

The Pacific Island nations should also consider imposing environmental taxes given the adverse effects of climate changes in the region. Climate changes have adversely affected the Pacific region and therefore need immediate attention to reverse and alleviate some of the adverse impacts on their land and livelihoods. Consequently, climate change funding is another pressure point on the Pacific nations. Given its importance and urgency, we suggest climate funding as an area for future research to raise greater awareness of this significant issue facing the Pacific region.

Samoa and Tonga have been active in reforming and developing their tax systems, introducing information technology and enhancing their audit capacity. Constraints to continued improvement in the tax administrations identified by the IMF include the inability to recruit staff and funding pressures (Tonga) and lack of IT support (Samoa). The digital environment – and the ability for remote work arrangements – provides opportunities for these countries, such as a digital nomad visa.

While the governments of Tonga and Samoa demonstrated commendable adaptability, their reliance on international aid underscores the vulnerability of SIDS to external shocks. The limited fiscal space and

dependence on borrowing highlight the need for long-term strategies to enhance economic self-sufficiency and healthcare resilience. The experiences of Samoa and Tonga in addressing COVID-19 through borrowings offer several valuable lessons for other small nations. Here are some key takeaways:

- (1) **Proactive Measures:** Both Samoa and Tonga took early and decisive actions to prevent the spread of COVID-19. Samoa, for instance, closed its borders early on, which helped avoid community transmission. A proactive approach is crucial for small nations with limited healthcare resources.
- (2) **Diversified Funding Sources:** Samoa and Tonga secured funding from various international organisations, including the IMF, World Bank, ADB, and bilateral partners. Diversifying funding sources can provide more flexibility and reduce dependency on a single lender.
- (3) **Debt Management Strategies:** Both countries developed Medium Term Debt Strategies (MTDS) to manage their debt levels effectively. These strategies focus on maintaining sustainable debt levels, improving revenue collection, and controlling expenditures.
- (4) **International Support and Collaboration:** Samoa and Tonga leveraged international support and collaboration to address their economic challenges. Working with international organisations and development partners can provide technical assistance, financial support, and capacity-building opportunities.
- (5) **Economic Recovery Plans:** Both countries focused on economic recovery plans to boost growth and reduce reliance on borrowing. This includes investing in infrastructure projects, supporting key sectors like tourism, and enhancing domestic revenue generation, and better governance structures.
- (6) **Transparency and Accountability:** Maintaining transparency and accountability in the use of borrowed funds is essential. This helps build trust with lenders and ensures that funds are used effectively for their intended purposes.

Understanding these lessons is crucial for other small nations and regions facing similar challenges. By adopting proactive measures, diversifying funding sources, and implementing effective debt management strategies, small nations can better navigate economic crises and build resilience against future shocks. Additionally, leveraging international support and focusing on economic recovery plans can help these countries achieve sustainable development and improve the well-being of their citizens.

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