

Resilience building to COVID-19 in the Pacific: The case of the Cook Islands

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ABSTRACT: As a nation that has placed a strong focus on resilience and institution-building over the past decade, the Cook Islands provides a robust foundation for considering resilience building in an island context. An interpretative case study approach is adopted to explore the steps that the Cook Islands has taken to build resilience in the context of the COVID-19 pandemic and the country's response to the resulting economic shock. The study highlights the strengths of islands in building resilience – adaptability and flexibility, utilising their small size to respond effectively, as well as the challenges that they face, such as population, human resource, and skills constraints. In exploring these strengths and weaknesses, the authors arrive at a key observation – that resilience building in the Cook Islands requires a holistic lens; ad hoc sectoral, policy or infrastructure responses alone are not sufficient – an actively applied and supported integrated approach is the key to successfully building resilience.

Keywords: competition, Cook Islands, COVID-19, policy reform, resilience, small states

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Introduction and background

Introduction

This paper presents an exploratory qualitative case study of the Cook Islands' approach to strengthening the economy and building economic resilience within the context of the unprecedented economic shock brought about by the COVID-19 pandemic. The paper discusses the challenges and strengths of a small island nation's ability to build resilience and respond to shocks in an adaptable and flexible way, building on relevant literature in the context of islands (Baldacchino, 2018; Briguglio, 2018; Weichselgartner & Kelman, 2015). This paper acknowledges the debate over definitions and interpretations of resilience, especially in the context of islands (Kelman, 2020), and understands that resilience is a combination of resourcefulness of islanders and societies (Baldacchino & Bertram, 2009), but is also the result

of an appropriate set of policy measures that authorities have adopted to support resilience building (Briguglio et al., 2009). The paper also sets out to investigate the extent to which the actions undertaken by government authorities have been undertaken in a participatory manner, with the understanding that including local knowledge and stimulating participatory democratic processes enable high quality economic growth (Rodrik, 2000).

The context of the research is the Cook Islands, a self-governing Polynesian island nation in free association with New Zealand that lies midway between Tahiti and Fiji. It comprises 15 islands spread over more than 2 million km² of the South Pacific Ocean. Nearly 75 per cent of the resident population of about 14,800, live on the main island of Rarotonga, 19 per cent reside in the Southern Group of islands and 6 per cent live in the more remote Northern Group (Cook Islands Statistical Office, 2018).

Background: Economic structure and financial performance prior to COVID-19

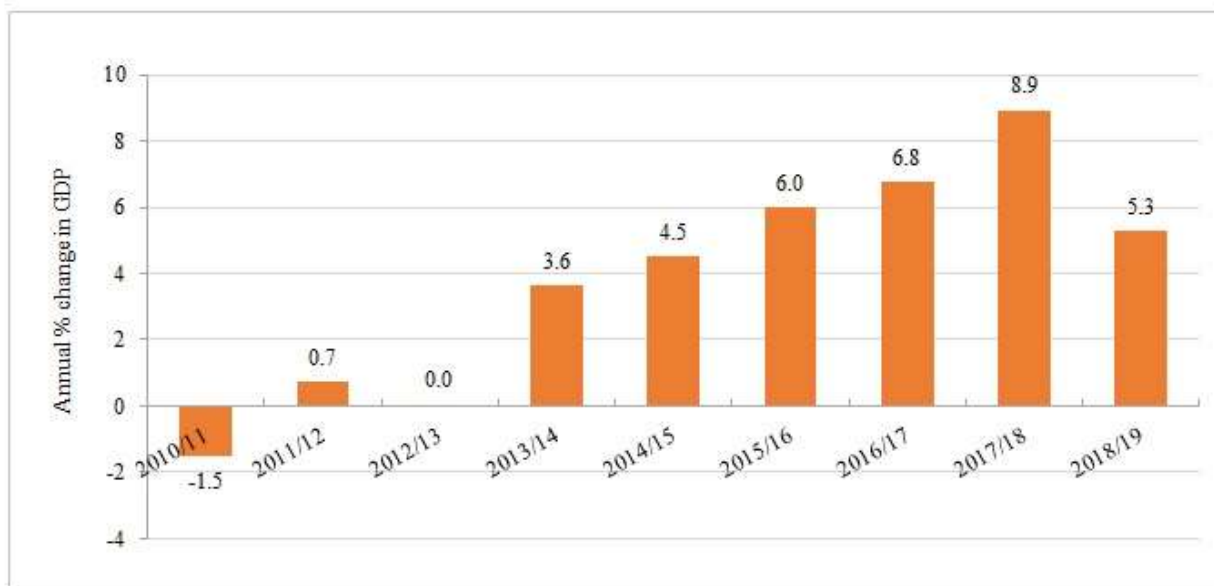
The Cook Islands is a small, open economy, dependent on imports, and whose economic growth is heavily reliant on the export of services to several key partner countries, New Zealand and Australia in particular (Cook Islands Government, 2021c). It has a small domestic market, with the export sector dominated by tourism services, accounting for about 65 per cent of economic output (Cook Islands Government, 2021c). The Cook Islands Government is also a major economic player, employing about a quarter of the Cook Islands labour force, with Government operating and personnel expenditure equivalent to about 30 per cent of annual Gross Domestic Product (GDP) (Cook Islands Government, 2021c). Major Government capital projects are also a key driver of the construction industry. In addition to its remote location, small domestic market, and lack of economies of scale, the Cook Islands economy has several features that impact resilience: including high levels of market concentration and a complicated and costly land tenure system, also common to other small islands (Briguglio, 1995; Briguglio et al., 2018).

The Cook Islands is dominated by several monopoly industries, including electricity, domestic air services and until recently, inter-island shipping and telecommunications (Cook Islands Government, 2021c). The grocery sector is dominated by just a few firms, and the banking sector comprises three full-service retail commercial banks, highlighting some common economic characteristics of small islands, such as market concentration and a lack of independent regulatory scrutiny, which can result in relatively high electricity prices and commercial lending rates (Briguglio, 1995). The Cook Islands land tenure system is primarily native freehold title, which cannot be sold outright, with increasing fragmentation of ownership as all children equally inherit their parents' land ownership rights (ADB, 2015). Leasehold interests are permitted for a maximum period of 60 years, with the consent of landowners, subject to approval by the Land Court. The leasehold process can be lengthy, complicated, and costly, and is exacerbated by significant absentee land ownership due to substantial outward migration (ADB, 2015).

The Cook Islands economy experienced an enviable run of growth in the lead up to the COVID-19 pandemic, peaking at 8.9 per cent real growth in 2017/18, and falling to a still respectable 5.3 per cent in 2018/19 ([Figure 1](#)) (Cook Islands Government, 2021c). This was driven by two factors: a steady, and what seemed at the time, unstoppable, increase in international tourist arrivals, reaching a new high of nearly 167,000 in 2018/19; and high levels of public and private capital investment (Cook Islands Government, 2020c). Estimates of the Cook Islands output gap at that time showed that the economy was operating above its potential capacity, with capacity constraints showing up in the form of labour, skills, and housing

shortages (Cook Islands Government, 2019a). Thanks to this strong economic growth, and sound financial management, before the pandemic hit, Cook Islands Government finances were healthy (Cook Islands Government, 2021c). In fact, the 2019/20 Half Year Economic and Fiscal Update reported a robust outlook for 2020/21, with net debt to GDP ratio of 17.7 per cent, a fiscal balance of -0.2 per cent of GDP (returning to surplus in 2021/22) and more than 3 months of cash reserves, all well within the Government’s fiscal rules (Cook Islands Government, 2019a). In addition, the Government placed about \$57 million in a new Stabilisation Account, to be drawn down during periods of economic contraction.

Figure 1: Cook Islands Real GDP, annual percentage change



Source: Cook Islands Statistical Office, 2020.

On 1 January 2020, the Cook Islands officially graduated to ‘high income country’ status as determined by the Organisation for Economic Cooperation and Development (OECD), the first Pacific Island to achieve this status. Ascending to this status ended eligibility for Overseas Development Assistance from 1 January 2020. Less than 3 months later Cook Islands borders were closed to international tourists as the COVID-19 pandemic was declared, shutting down 65 per cent of the economy overnight.

The remainder of this paper is structured as follows; section two discusses economic resilience in the context of small island nations, with special attention to the Pacific region and to the steps undertaken by the Government of the Cook Islands to build economic resilience. Section three considers the COVID-19 pandemic, its impact on the economy and discusses Government’s mitigation efforts. A discussion of the lessons learned appears in section four, while section five concludes the paper.

Building economic resilience in small island nations: The case of the Cook Islands

We refer to economic resilience defined as the ability to recover from, or adjust to, the negative impacts of external economic shocks (Briguglio et al., 2006), and adopt the conceptual framework which gives emphasis to policy actions undertaken by state authorities to address vulnerabilities and as a result build economic resilience (Briguglio et al., 2009). In this framework, however, there is little reference as to ‘how’ resilience building can be obtained,

therefore we also expand this framework by looking at how local institutions work actively to include local knowledge and stimulate participatory democratic processes, a factor known to stimulate high-quality growth (Rodrik, 2000), and increasingly understood as key to build long-lasting resilience especially in the face of disasters (Hiwasaki et al., 2014).

Cook Islands: a renewed approach to building economic resilience?

In line with recommendations from the United Nations (2013), the Cook Islands embraced a ‘quality’ growth approach to strengthening the economy and building resilience. This shift also builds on economic literature that acknowledges that ‘quantity’ economic growth cannot be maintained over the long-term without accompanying improvements in the social and environmental sectors (Sachs, 2015), and that active participation is key to ensure quality growth (Rodrik, 2000). Prior to the Cook Islands Economic Development Strategy 2030 (EDS), published in January 2021, there was no specific economic resilience building strategy followed by the Cook Islands Government. While many policy and legislative actions were undertaken that contributed to building economic resilience, as discussed below, until recently these were undertaken in a piecemeal fashion, evolving over time, with Government agencies separately developing actions to build resilience in their sectors. The new EDS 2030 seems to have given attention to local knowledge and actively promoted public participation, which, as discussed below, is also believed to have played a central part in the resilience exhibited in the face of the COVID-19 pandemic.

The EDS reflected the Government’s recognition that various sectoral efforts to strengthen diversity and create a more resilient economy, are better integrated into one whole-of-Government strategy. This ensures policies and actions are properly aligned, any gaps and cross-cutting constraints are identified and addressed, and provides a mechanism to better direct Government funding to identified priority areas.

Several significant reforms leading into the EDS are highlighted below, all of which are believed to have played a key role in building economic resilience, particularly if looking at the level of participation that led to the adoption of such reforms. In the discussion that follows, the policy measures adopted by the Cook Islands are discussed against the resilience conceptual framework developed by Briguglio et al. (2009), and within relevant literature in the context of the Pacific.

Government institutional and financial reform

The Cook Islands Government embarked on widespread Government reform in the last few years, reflecting a focus on strong public financial management.

In 2016, the Government was the first Asian Development Bank (ADB) member to sign a contingent loan agreement with the ADB, worth \$13.95 million. The agreement can be triggered in the event of a disaster, with the aim of reducing the transaction time to a matter of days if called upon, allowing the Government to quickly respond to any disaster in the knowledge that it had access to financial resources. The prompt availability of funds that can support a quick response to an emergency is key to avoiding adverse outcomes in the short run, but also to plan for the recovery in the medium and long-term (Attary et al., 2020).

In 2018, the Government developed the Cook Islands Fiscal Framework which included the Medium-term Fiscal Strategy (MTFS) (Cook Islands Government, 2018). The MTFS reflected a shift in the Government’s budget policy, shifting towards a greater focus on the

impacts of fiscal policy on the economy and the relationship with the Government's annual budget, over a four-year forward period. The result was a slowdown in the growth of Government expenditure to reflect the overheating economy. Funds not spent by the Government were shifted into a Stabilisation Account, newly developed as a savings mechanism, designed to be accessed only in the case of an economic downturn, or to pay down debt in periods of positive growth. These actions stimulate the creation of those fiscal buffers that are particularly useful in the context of small economies in Pacific Island Countries (PICs) (Nischizawa et al., 2019), while also conforming to the assumptions developed by Briguglio et al. (2009), where fiscal prudence plays a key feature in strengthening economic resilience.

The MTFS also included a Government commitment to develop a sovereign wealth fund to capture profits from potential seabed mineral harvesting. Work on the sovereign wealth fund has commenced; however, timelines have been extended due to resource constraints and the impact of COVID-19 (Cook Islands Government, 2021c).

Apart from the MTFS, the Cook Islands Fiscal Framework included reforms to the national budget process, to improve efficiency and increase the integration between national priorities and the budget over the medium-term. A key aspect of this was a Public Expenditure Review, which assessed the funding requirements of all Government ministries and statutory agencies. The review found that many were underfunded and unable to efficiently undertake the work required within their annual budgets. In addition, the review found that public sector salaries were not competitive, limiting the ability of most Government departments to attract the necessary skilled personnel. Work commenced on addressing these shortfalls in the 2019/20 Budget but was halted due to the impact of the COVID-19 pandemic on the nation's finances (Cook Islands Government, 2020c).

Competition and business reform

In 2017, the Cook Islands Government started implementing a package of competition and business regulatory reforms. The aim was to improve economic efficiency, by introducing competition where feasible, establishing independent regulatory oversight of key monopoly service providers, and ensuring an efficient and supportive business environment. This is in line with the conceptual framework developed by Briguglio et al., which identifies the limits placed on the ability of a small island state to recover from an external shock where markets are unable to rapidly reallocate resources in the economy (Briguglio et al., 2009). This seems to be a key priority among Pacific Island nations, where regulatory systems need reforms to effectively improve or provide services, especially in remote areas (Dorman, 2014; Preston et al., 2020).

The first reforms targeted the business sector, with legislative reforms including the *Companies Act 2017* and *Personal Property Securities Act 2017*, along with a new online registry service that launched in December 2019. The online service includes a registry for Companies, Incorporated Societies and another for Personal Property Securities and can be accessed at: <https://registry.justice.gov.ck/Index.aspx>. The goal of these reforms was to improve the business environment by making it easier to open, close and maintain a business, and will facilitate access to credit by making it easier to pledge movable assets to stand surety for a loan (Ministry of Justice, 2019).

In 2019, the Government opened the Cook Islands telecommunications market, then serviced by a single retail service provider, to competition, under the supervision of a new independent economic regulator. The *Competition and Regulatory Authority Act 2019*

established the regulator, and the *Telecommunications Act 2019* set out the competitive framework that now governs telecommunications service providers (Cook Islands Government, 2019b). At the same time, the Government established the Manatua submarine cable, the first for the Cook Islands, which links the two main islands of Rarotonga and Aitutaki to the world via Tahiti and Samoa. In addition to providing reliable, high-capacity bandwidth, the cable introduced competition in the wholesale broadband market, previously only serviced by satellite and is expected to drive down prices for consumers.

Since the 2019 telecommunication reforms, the Competition and Regulatory Authority (Authority) has licensed Avaroa Cable Limited, the operator of the Manatua Cable, to provide wholesale telecommunications services to licensed retailers, and issued four new internet service provider licenses (Competition and Regulatory Authority, 2021).

In early 2021, the Government commenced the policy and legislative process to extend the Authority's remit to the monopoly provision of electricity and water and sewerage services on Rarotonga (Cook Islands Government, 2021b), to ensure that these monopoly utility services are provided efficiently in the long-term interests of consumers. As a future phase, the Government also committed to considering the merits of the Authority taking on a broader national competition role. This would see the Authority assuming economy-wide responsibility for competition, pricing, and trade practices, along with other economic regulatory and licensing functions currently carried out by Government agencies, ensuring that other industry sectors served by few providers are not engaging in anti-competitive practices.

The Pacific has seen an ICT revolution since 2003 following deregulation and reform which drove down prices and encouraged an increase in mobile phone use. This has spurred an increase in access to services such as mobile money, distance education and telehealth (Cave, 2012), and while Pacific Island nations are undertaking reforms in this sector in order to increase access and efficiency, the key question still remains, how will governments be able to effectively implement an equitable transition of this sector (Beschoner, 2008; Raina, 2017)?

Infrastructure reform

Well maintained, cost effective essential infrastructure: such as roads, transport services, telecommunications, electricity, water, sanitation, and solid waste services, underpin the ability of the Cook Islands private sector to run businesses. In 2018, the Cook Islands Government identified that the existing disaggregated approach to infrastructure planning, delivery, and management, spread across several agencies and legislative instruments, was resulting in poor natural and built environmental outcomes, poor customer service and economic inefficiencies. Moreover, the evidence suggested that public and private developments were being approved without adequate regard for their impact on public infrastructure such as roads, stormwater, sanitation, and water networks.

In response, the Government developed a national infrastructure policy (Infrastructure Cook Islands, 2018) and promulgated the *Infrastructure Act 2019* (Cook Islands Government, 2019c). The Infrastructure Act, which strikes a balance between the public interest in having good infrastructure, and the constitutionally protected property rights of owners and occupiers who are affected by network infrastructure, sets out a clearer, more effective, and efficient approach to planning, delivering, and maintaining quality essential infrastructure.

The Government also took steps to improve the planning and delivery of its major capital projects. This included establishing a Major Projects and Procurement Support division in the central economic and finance ministry to provide better coordination and management of major projects to ensure that projects are delivered in a timely and cost-effective manner.

Although literature is still scarce in this regard, a review of evidence from SIDS showed that effective reforms of the public sector can indeed stimulate innovation in further sectors of small island economies (Ismail, 2019), including in key infrastructural areas.

Ensuring future economic resilience: Developing the seabed minerals sector

The Cook Islands Government has long believed that deep sea nodules contained in the Cook Islands Exclusive Economic Zone (EEZ) have the potential to provide long-term economic benefits to the nation. It has been estimated that there are approximately 12 billion tonnes of mineral rich manganese nodules in the Cook Islands EEZ (Cronan, 2013), providing the opportunity for significant financial gain if they can be extracted in a safe, environmentally responsible, and efficient manner. The Government enacted the *Seabed Minerals Act 2019*, supported by the *Seabed Minerals (Exploration) Regulations 2020*, to provide a best practice framework for the responsible exploration and harvesting of seabed minerals.

In 2020, the Seabed Minerals Authority launched a tender for exploration licenses in the Cook Islands EEZ (Seabed Minerals Authority, 2020). In the meantime, work is being undertaken on drafting the *Seabed Minerals (Harvesting) Regulations 2020*, to ensure a best practice framework is in place for the harvesting stage.

It is understood, however, that the development of this sector must also consider the long-term sustainability of the use of ocean resources, and the involvement of communities in decisions that might, in the short-term, only advantage a few entities while potentially put in danger coastal areas that are dependent on a fragile ecosystem equilibrium. In this regard, activities that favour ecosystem-based measures, using a set of economic instruments (Moncada et al., 2018), with the active involvement of communities, could represent an added value for all the actors involved, and evidence from the Pacific confirms this view (Keen, et al, 2018; Phelan et al., 2020).

Environmental reform

Environmental matters have long been a priority for the Cook Islands Government: this is an island nation with strong cultural environmental values, facing threats from rising sea levels and increased and more extreme climate events, whilst being reliant on a pristine natural environment to support tourism as the principal economic growth driver. This stance has been reflected in several significant policy actions and reforms.

In 2012, the Cook Islands, which is heavily reliant on expensive and polluting diesel electricity generation, committed to a 100 per cent renewable energy target (Cook Islands Government, 2012). Since then, substantial progress has been made towards the target, reaching about 26 per cent of electricity generated from renewable sources in 2019. This resulted from the installation, in collaboration with major donor partners, of hybrid systems comprising solar photovoltaic generator systems, batteries and diesel generators, that provide about 95 per cent renewable energy across the Southern and Northern Group islands. Another signature achievement was the Cook Islands accreditation under the United Nations Global

Environment Facility as a National Designated Authority (Ministry of Finance and Economic Management, 2021a).

The Government also identified shortcomings and coordination problems with existing environmental management legislation in the Cook Islands. Two key issues stand out, both of which, if unaddressed, risk future environmental sustainability.

First, there is a lack of strategic land-use planning in the Cook Islands, with applications for land development considered on an individual and site-specific basis. There is no mechanism for permitting authorities to assess external impacts of individual developments, for example on drainage, nor are there any land zoning controls to assess whether larger commercial or residential developments are appropriate in certain locations. Second, the current legislation does not provide a robust framework to assess projects and is limited to certain areas of the Cook Islands, at present only covering 6 islands, which does not include Suvarrow, the Cook Islands only national park. It also assesses projects on an individual basis rather than taking a holistic approach, limiting the ability, for example, to protect wetlands on Rarotonga, the ‘lungs of the island’, which in turn compromises the quality of water runoff into the lagoon.

In 2020, the National Environment Service started consulting on a draft National Environment Policy, which will be given effect by a new National Environment Act, which will provide a best practice environmental management framework that promotes economic growth in harmony with our environment.

The Government also commenced the development of an effective and environmentally sustainable mechanism for solid waste management through the Solid and Hazardous Wastes Bill 2021. This bill, which includes a ban on single use plastics, will provide a comprehensive standalone legislative framework for waste management in the Cook Islands for the first time.

Social sector reform

The Cook Islands has one of the most extensive formal social protection systems in the Pacific region (UNICEF Pacific et al., 2020), administered under the *Welfare Act 1989*, which started with the introduction of the old age pension in 1965. In addition, most of the benefits are not means tested and are universal or near universal. Ad-hoc amendments have been made to the system since 2015, mainly focused on increases to payments and coverage.

What has become clear through recent assessments undertaken by the United Nations, and throughout the COVID-19 pandemic, is that there is a need for a more comprehensive reset of the policies underlying the social welfare system. This is, in part, required to address gaps in policy and processes, in particular the need to clearly document the objectives of the benefits provided (UNICEF Pacific et al., 2020), but also as seen throughout the pandemic, to address the gaps in coverage and to ensure the Government can utilise the welfare system to stabilise the economy and provide support in the case of economic shocks, for example the provision of aged care services and unemployment benefits.

Economic Development Strategy 2030

In 2019, the Cook Islands Government commenced work on the EDS. The strategy is designed to address crosscutting economic issues, with the aim of creating an economic environment that supports sustainable economic development over the next 10 years, by moving from ‘quantity’ to ‘quality’ growth. In practice, it brings together all policy plans being worked on by Government, bridging the gap between the high-level national plan, the National Sustainable Development Plan, and the various policies and activities being undertaken by Government agencies. It also provided an opportunity for the Government to identify gaps in implementation and strengthen top-down budgeting to ensure that public funds are spent effectively and efficiently.

Nation-wide consultations were undertaken in the development of the EDS, with a team travelling to all accessible outer islands, and the hosting of the *Economic Development Conference: Working together to build quality growth* in November 2019. The COVID-19 pandemic put a temporary halt to EDS activities, as the small team responsible for its development turned their attention to the Government’s pandemic response. In July 2020, following the release of Phase II of the Economic Response Plan, work on the EDS resumed, including widespread online consultations in November and December 2020, with the final strategy released in January 2021.¹

The EDS provides a decision-making framework for the Government to pursue quality economic growth, through five key objectives, each with a set of associated actions: (1) improving equity and access for all; (2) transforming our economy; (3) developing our people and culture; (4) investing in our islands; and (5) greening our economy.

This integrated approach acknowledges the importance of broader and deeper analysis when considering the constraints faced by a nation in achieving long-term economic growth. By strengthening these areas, the Government is working towards not only economic prosperity, but also increased national resilience.

The active involvement of communities, including from remote areas, in discussing, and deliberating on key areas that were then selected to be the pillars of the new economic development strategy seems to be an important improvement from previous evidence, where there was a negative public perception from local communities of Government’s capacity to effectively include communities in decision making (Glassie, 2018).

COVID-19 and its economic impact

In this section, we discuss the actions taken by the Government of the Cook Islands in response to the COVID-19 pandemic, and in line with the interpretative qualitative case study approach, we identify challenges and questions that merit further research. We also discuss the actions undertaken by government authorities in line with the economic resilience framework developed by Briguglio et al. (2009), and additionally try to assess the level of public participation in these actions.

¹ Further information on the consultation and the strategy are available at <http://mfem.gov.ck/economic-planning/economic-development-strategy>.

The impact of COVID-19 on the Cook Islands economy was swift. The Government responded strongly on the health front, ceasing flights from Australia and the United States of America in early March 2020. New Zealand then announced a closure of their border to all arrivals and issued a ‘Do Not Travel’ warning on 19 March 2020 (New Zealand Government, 2020), advising New Zealanders not to travel overseas.

While international visitor arrivals in February 2020 were above 2019 figures, by March 2020, arrivals were almost 50 per cent below March 2019, before dropping to zero arrivals in two consecutive months: April and May (Cook Islands Statistics Office, 2021). In January 2021, a ‘one-way border’ was opened with New Zealand allowing those in the Cook Islands to enter New Zealand without quarantine (Cook Islands Government, 2021a). At the time of commencement of the one-way border it was expected that a two-way travel bubble, which would allow the recommencement of tourism, would be opened by the end of March 2021. The bubble eventually commenced in May 2021, with arrivals in July amounting to approximately 67 per cent of July 2019 arrivals. Following an outbreak of COVID-19 in Auckland, the travel bubble was suspended at the time of writing.

The Government developed an extensive economic and social support package in response to the impact of COVID-19, with three objectives. The first was to stimulate demand through support to local business to ensure that the economy was able to continue to operate, even at a reduced level, during the period of extreme uncertainty surrounding COVID-19. The second was to support the livelihoods of those likely to be most affected by the economic fallout, including those required to self-isolate, those that lost their jobs and the elderly and infirm. The third objective was to achieve the first two objectives in a fiscally responsible manner that did not undermine the Government’s ability to undertake further fiscal intervention over the longer-term, should that prove necessary (Ministry of Finance and Economic Management, 2020b).

The stimulus package evolved after the first announcement of Phase I support, responding to the changing impacts of the pandemic.

Economic response: Phase I

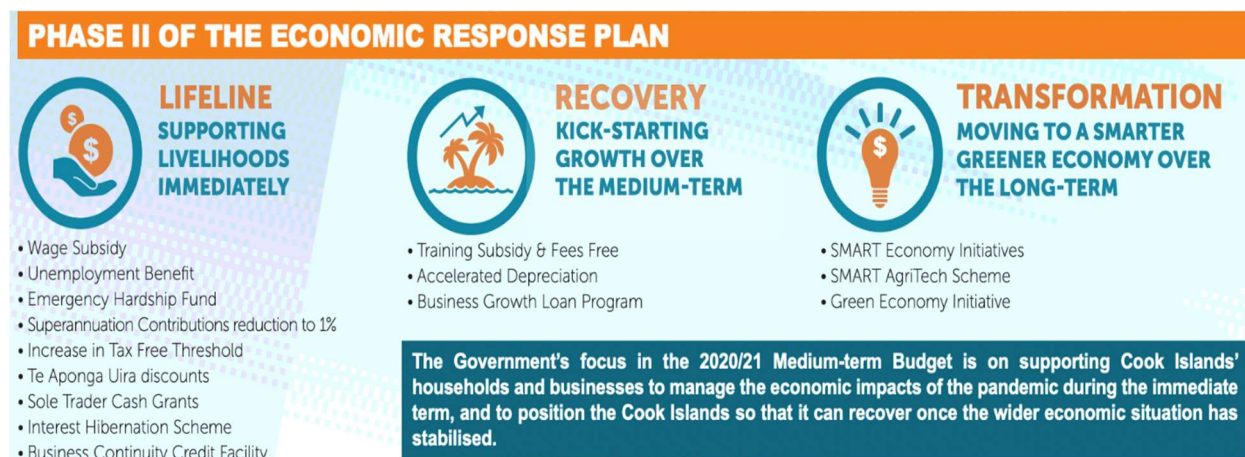
Following the closure of the border with Australia and the United States, the Cook Islands announced the Economic Response Plan (ERP) Phase I on 18 March 2021. This included a framework for responding to the pandemic based on varying levels of economic impact. At that point, it was assumed that borders with New Zealand would remain open, but with substantially reduced arrivals and that the pandemic may result in a decrease in GDP of around one per cent in 2020/21 (Cook Islands Government, 2020b). It is important to note that the closure of the border with New Zealand was unexpectedly announced at the same time as the Cook Island’s Minister of Finance announced the Phase I support, effectively invalidating the economic assumptions.

Phase I support provided business grants ranging from \$5,000 to \$15,000, grants to sole traders, a wage subsidy for a period of three months to eligible businesses, self-isolation support payments, the provision of an unemployment benefit, reduced superannuation contributions, electricity discounts and one-off welfare payments. The support was provided during the period April to June 2021.

Phase II

In May 2020, the Deputy Prime Minister announced the second phase of the ERP, which commenced in July 2020. Phase II acknowledged that the economic impacts of COVID-19 were going to be far more severe than that expected during the development of Phase I, providing more comprehensive support to businesses and individuals. The support was broken into three parts: Lifeline, Recovery and Transformation, with the aim of supporting livelihoods, kick-starting growth, and moving to a smarter, greener economy (Figure 2).

Figure 2: Phase II of the Economic Response Plan



Source: Cook Islands Government, 2020d.

Modifications were made to Phase II between September and December 2020, reflecting the ongoing border closure with New Zealand and the continued impact on businesses and households, such as a further extension of the wage subsidy.

Phase III

Following the continued closure of the border with New Zealand, the Prime Minister announced in his New Year's speech that the Cook Islands Government would be releasing Phase III of the ERP. This included additional business grants, an extension of the wage subsidy and an extension to the Fees Free Initiative.

The economic support provided by the Cook Islands Government (direct and indirect) was initially budgeted at \$137 million, \$61 million in Phase I (Cook Islands Government, 2020b, p. 6) and \$76 million in Phase II (Brown, 2020, p. 1). Government reporting indicates that the full appropriated budget was not spent during Phase I. The \$76 million announced for Phase II was prior to the extension of Phase II support and Phase III, and additional direct budget was shifted from other expenditure lines in 2020/21 to increase the budget for that year to \$81 million. At present it is unclear how much was spent on the ERP in total, however preliminary reporting suggests that there was direct expenditure of \$54 million between July and March 2021 (Cook Islands Government, 2021d), suggesting that a total of approximately \$72 million had been spent on direct support (that is, excluding the cost of electricity discounts, superannuation contribution reductions and tax decreases) to March 2021.

Impact of the support

The extended closure of the border is reflected in national income data released by the Government, with nominal GDP decreasing by 19.3 per cent in 2020 when compared to 2019 (Cook Islands Statistics Office, 2021b). Other economic data suggests that businesses have suffered more than the GDP figures suggest, with business turnover down on average 45 per cent and a 170 per cent increase in inactive businesses.

The Government has developed a monitoring and evaluation tool to gauge the success of the ERP. In the six months to December 2020, on average 2,664 employees received the wage subsidy, approximately one third of the labour force. Total wages paid to employees across the economy are estimated to have dropped by 17 per cent, a close reflection of the drop in GDP. It is estimated that total wages would have dropped by a minimum of 38 per cent had the ERP not been implemented. The ERP is also likely to be the reason for the low unemployment recipient numbers – averaging just 42 recipients each month between April and December 2020.

Apart from the lifeline support, the ERP resulted in significant increases in student enrolments at local tertiary institutes, with an increase of some 1,600 domestic students: about 20 per cent of the labour force. This support will ensure that the Cook Islands has the ability to increase labour force productivity once the economic recovery commences.

As for a sample of other ERP initiatives, a total of 151 low interest rate loan contracts were issued to Cook Island businesses, with a total value of \$6.9 million under the Business Continuity Credit Facility. The SMART Economy Initiative, which provided a mix of grants and tax credits to support commercially viable business ventures that will provide new or scaled-up innovative ICT applications and services to businesses and consumers, was also well subscribed, with 28 businesses approved for grant funding totaling \$1.95 million. The initiative is supporting a wide range of ventures, from developing a prototype for a remotely operated, unmanned commercial barge service in outer islands, to a new Esports Centre and new digital wallet for the Cook Islands. See <http://www.mfem.gov.ck/economic-planning/erp-phase-ii#smart-initiatives> for more information.

The Cook Islands suffered a significant financial crisis in 1996, which resulted in substantial depopulation, as families relocated to New Zealand and Australia. The Cook Islands resident population did not start to increase again until 2017. Despite the apparent success of the ERP, since the opening of the ‘one-way border’ with New Zealand, departures from the Cook Islands by residents have increased, with a net decrease of 690 residents between January and July 2021 (Cook Islands Statistics Office, 2021), almost five per cent of the resident population. Anecdotal evidence suggests that the increase in departures of Cook Islands residents was related to increased demand for seasonal workers from the Cook Islands by New Zealand. Whilst this is common amongst other Pacific Islands, it has not traditionally been a source of income for the Cook Islands - and given the small population and tight labour market creates risks that are less present in other Pacific Islands. Whilst there was a positive flow of residents into the Cook Islands in the months of May and June, in line with the opening of the travel bubble, of concern is that the returns were not sizable enough to counter the negative flows of January to April, and the negative flow returned in July 2021. As noted by the Government (Cook Islands Government, 2020a), this creates the risk of long-term impacts on productivity and weakens the Cook Islands ability to rebound from the pandemic.

Lessons learned

The experience in the Cook Islands provides a platform for assessing the importance of different policy responses and the extent to which these conform to the conceptual framework adopted by Briguglio et al. (2009) when strengthening resilience, and for considering the possible implications for other small island states.

A 19.3 per cent fall in GDP in 2020 due to the COVID-19 pandemic is a strong result given the fact that 65 per cent of the economy is directly reliant on tourism and there were no tourist arrivals for more than three quarters of that year. While the Government would have been unlikely to be able to stem the economic loss for much longer than a year without reaching unsustainable debt levels for a small island state, the fact that it provided such broad support and prevented further losses can be attributed to the Government's resilience building efforts prior to the pandemic. This seems to be confirmed by literature that assessed, and predicted, economic losses in the Pacific region, finding that the Cook Islands faced high exposure to economic losses due to tourism, but had a relatively high resilience to respond to the immediate losses (Noy et al., 2020).

Adaptability and versatility

The pandemic has highlighted several key points for policy makers and academia to consider. The first is that small island states by their very nature are both highly susceptible to economic shocks, but are also adaptable and versatile. The Cook Islands Government was able to announce their response and commence payments to businesses and the community in a matter of weeks, well in advance of some much larger developed countries in the region (Herr, 2021). This quick response drove increased confidence from both households and businesses, helping to stem the losses in the first phase of the pandemic.

Resource and skills constraints and opportunities

If the adaptability and versatility of small island states can be argued to be one of their greatest strengths, then their resource and skills constraints should be acknowledged as their greatest weakness (Reddy, 2007). One consequence of small, adaptable policy teams in small island nations is a lack of depth in skills and expertise to deliver the more complex policy and legislative reforms. Another is continuity and corporate knowledge, what could be described as a 'key person' problem, a particular concern should key personnel leave. This is exacerbated by the difficulty in recruiting locally for key positions, with a limited range of skills and expertise available given the small populations. Thus, the question must be asked, at what point does a nation's population prevent it from developing into a complex and dynamic economy? Further work is required to develop human resource models for small island nations to implement if required and to consider how these models can contribute to building economic resilience (Briguglio, 2009).

One alternative is a model for external expert support along the lines of the Pacific Private Sector Development Initiative (PSDI), a technical assistance project of the Asian Development Bank and the Governments of New Zealand and Australia, which the Cook Islands utilised to deliver several of its signature competition and business reforms. See: <https://www.adbpsdi.org/> for more information on PSDI.

The PSDI model offers expertise in both policy and legislation, assisting with drafting and developing policy and the legislation to give effect to that policy, and has the potential to solve some of these resourcing issues. While in many countries technical assistance is provided by donors in the form of an individual relocated for a number of years, or funding to procure short-term assistance, this model differs in the breadth and expertise of the support provided. This support covers the entirety of the project in a more holistic and dedicated fashion. While this was a successful model in the Cook Islands for the competition and business reforms, it has the potential to be extended to other public policy sectors such as social and environmental.

It is important to note though that skilled staff are still required on the ground to lead the implementation of such changes and to provide information on the local context. Without responsible staff that have bought into the project, and with the skills to critically analyse the solutions proposed, major projects are at risk of failure – as has been seen throughout the developing world for decades.

Financial self-reliance and strong public financial management

The Cook Island Government's focus on strong public financial management was also key to its success in the early stages of the pandemic. The Government only had the ability to provide support quickly and easily because it was financially self-reliant, largely a result of the pre-pandemic reforms. It had access to sufficient reserves, without requiring long and drawn-out loan negotiations with various multilateral organisations. These conversations did eventually take place, but the significant reserves meant that they were not required until after the first two phases of support had commenced. The ADB also granted special approval to the Government to access the existing contingent loan for the purpose of COVID-19.

This, together with the Government's adaptability and its decision to create a new Stabilisation Account to be drawn down during periods of economic contraction, resulted in increased confidence in the Government's ability to respond to the pandemic, reflecting a key characteristic required to build long-lasting economic resilience (Briguglio et al., 2009).

Community and business relationship

Crucial to the Government's response was its close relationship with the community. Consultation is required for all Government policy decisions in the Cook Islands – big and small. Consultations generally take place with the business community, the broader public, the Religious Advisory Council, the Opposition Party, and key stakeholders. In the early stages of the pandemic, the Government increased its consultation, particularly with the Chamber of Commerce, holding weekly meetings. This ensured that the Government was able to respond quickly to the rapidly changing economic landscape and tailor the ERP accordingly. Improvements from previous evidence (Glassie, 2018), and the active involvement of local communities in the design of key economic development strategies, reflect important criteria to stimulate long-lasting quality growth (Rodrik, 2000).

Unfinished structural reforms

Structural issues that the Cook Islands Government had acknowledged, and which were due to be resolved, impacted the Government's response to the pandemic. A key issue concerned high interest rates, resulting from the small banking sector and complicated land tenure system.

From an economic growth and business perspective, the major concern was the high cost of credit compared to New Zealand. The Cook Islands does not have a central bank and uses the New Zealand Dollar as its currency, and therefore is not able to use monetary policy as a tool to directly influence domestic interest rates.

In 2012, the Government commissioned a banking review to assess options to lower the cost of banking for businesses operating in the Cook Islands (Knowles, 2012). The review found that the small-scale high-cost model of the domestic banks, together with shortcomings in the collateral framework, especially the land leasing process, exacerbated by a lack of buyers of property leases in a market restricted to residents and approved business applicants, are key drivers of the cost differential. The review made several structural reform recommendations, including more efficient processes of obtaining consents of landowners for leases, reviewing land laws to establish a property category better aligned to banking collateral requirements, and allowing integration of New Zealand and Cook Islands banking licenses.

For a range of reasons, including lack of banking and legal expertise and resources, and the inherent difficulties of tackling even minor land tenure reform, high interest rates remain a concern today for the business community and have limited the Government's ability to stimulate investment through low interest rates, in sharp contrast to the options available to most other countries. This required the Government, in its Economic Response Plan, to design and implement several banking initiatives that either provided direct relief from high interest payments or extended lower cost loans to businesses.

As outlined above, one cause of the high interest rates is the land tenure system and the difficulties faced by banks in claiming the collateral. The size of the Cook Islands and the close relationship between voters and their politicians is a key reason for the delay in the implementation of reforms. The tenuous land laws have consequences for a range of Government policy responses, in addition to banking, such as land use planning.

These incomplete structural reforms, and their subsequent impacts on the Government's ability to effectively respond to the COVID-19 pandemic, evidence the need for integrated resilience building. To enable the Government to complete these crucial reforms, the required skills and expertise are needed, together with a close relationship with the New Zealand Government with respect to banking. Both banking reform and reform to the land tenure system have been outlined as key action items in the EDS 2030.

Social sector policy reform

Nations across the globe have been required to prioritise social welfare support to citizens throughout the pandemic to ensure that livelihoods are protected. The COVID-19 pandemic highlighted shortcomings in the Cook Islands social welfare system, emphasizing the need for a comprehensive welfare system which includes support for those facing hardship.

Following the development of the ERP unemployment benefit measure in March 2020, several families came forward indicating that they were unable to receive support under the policy due to ineligibility, however they were facing significant hardship and were unable to receive any Government support. These cases fell through the cracks of the pre-pandemic welfare system, however the implications of this were only understood by the Government once the pandemic hit. Due to these gaps in the welfare system, the Emergency Hardship Fund was developed, and the original unemployment benefit policy was adjusted. This is in line with

recent evidence, showing that only few PICs, including the Cook Islands, have formulated new, or strengthened existing schemes, to support social protection benefits (Bright & Abbott, 2021).

While there is often an expectation that in small islands (Baldacchino, 2005), particularly in the Pacific, the role of social capital is significant and that the community will support each other, this can only be relied on so far before it has flow-on welfare implications, especially where national income drops. It is crucial that post-pandemic, countries develop welfare systems that are comprehensive, accounting for a range of circumstances.

Conclusion

The steps taken by the Cook Islands to build resilience, and the lessons learned since the COVID-19 pandemic highlight the importance of a key point made throughout this paper, that reforms should be approached from a holistic perspective, representing a key pre-requisite to build long-lasting economic resilience as highlighted by the approach developed by Briguglio et al, (2009). The Cook Islands response to the pandemic was exceptional for a small island state because it responded in a comprehensive manner to both the social and economic impacts of the pandemic. However, it would not have been so strong without the adaptability and flexibility of the Government's response, or the public financial management reforms that had taken place in the years prior.

Despite this, the response could have been stronger had key structural reforms taken place prior to the pandemic – banking, land tenure and social welfare – all of which require access to highly skilled labour and are intrinsically tied to the political economy, and to characteristics of small island states, which are at times difficult to reform (Briguglio, 1995).

Furthermore, the EDS reflects Government's acknowledgement that individual agencies following Sustainable Development Goals on their own is not sufficient as an 'integrated approach' to development or building resilience. A whole-of-government integrated economic development and resilience strategy, closely aligned with the Government planning and budgeting cycle, one which identifies key action points and responsibilities, is required to ensure that the social and environmental sectors are not left behind.

The actions undertaken by the Cook Islands pre-pandemic increased economic resilience and protected public finances during a time when the overall economic performance was favourable, strengthening all of the factors that are believed to positively affect resilience (Briguglio et al., 2009). The EDS, the key economic development strategy put forward by government authorities in the period pre-pandemic, was undertaken by actively involving local communities and with public participation levels that intentionally reached all the islands communities of the archipelago. This is a key element that increased the likelihood of producing high-quality growth (Rodrik, 2000). This level of involvement and public participation seems to have continued in the period where measures to withstand the consequences of the COVID-19 pandemic were taken, although in a less active manner due to the constraints brought about by the pandemic. This approach permitted the majority of economic sectors, and the highest number of citizens, to be supported by the policy measures.

Building resilience pre-pandemic was key to ensuring a satisfactory *rebound* when the shock caused by COVID-19 hit the Cook Islands. However, the participatory manner in which these policy measures were undertaken, pre- and during the pandemic, also ensured a relatively high level of social cohesion, potentially making economic resilience even more sustainable.

This interpretative case study has also highlighted existing gaps that remain, and which could not be addressed in this research. In particular, how countries can move forward with reforms in key areas, such as land tenure and social welfare, and the replicability of such reforms in the context of other small islands. Finally, further research is needed to identify the factors that are capable of enhancing resilience in the context of small islands states, including investigating the role of governance that seems to be central in the case of the Cook Islands, but that could not be explored, nor effectively measured, in this specific research.

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