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Statement by the Hon. **KINIKINILAU TUTOATASI FAKAFANUA**,
Governor of the Bank for **TONGA**,
at the Joint Annual Discussion

**Statement By Hon. K. T. Fakafanua
Governor for Tonga
At the 1997 World Bank/IMF Annual Meetings**

I welcome the opportunity to address this gathering of distinguished delegates and esteemed representatives of the World Bank, the International Monetary Fund and other financial institutions. I would like to express my deep appreciation for the hospitality and arrangements made by the Government and the people of Hong Kong-China, and the staff of the World Bank and IMF, for this meeting.

This annual meeting provides us with the opportunity to discuss common interests and problems that link many different people from many different economies and walks of life. We note that despite the recovery of the world economy in recent years, many of the problems and issues facing the smaller **emerging** island countries represented here today remain.

The economic climate for development assistance at the global level has been steadily becoming less favourable with only a handful of donor countries exceeding the United Nations target for ODA of 0.7% of gross national product (GNP). In the face of declining aid flows, most countries of the South Pacific region, including the Kingdom of Tonga, are developing a framework which will encourage foreign direct investment (FDI) as an alternative source of capital for development.

Tonga has experienced an average GDP growth rate of about 1 to 2 percent in the recent past. For the last two years, inflation has remained below 3 percent and despite the rapid decline in the level of Foreign Reserves, this has been stabilized above the benchmark three months of import cover.

Like many small island countries in the South Pacific, Tonga is vulnerable to the effects of natural catastrophes such as cyclone Hina which struck the Kingdom in

March of this year. While the effect of the cyclone is tolerable, it has caused a real setback to the overall economic activity in the agricultural sector. This incident reminds us of the vulnerability of our economic and social development to natural calamities, which can undermine our efforts to sustain economic growth and living standard at a reasonable level.

In addition to consolidating and extending the current public sector reforms, and improving the soundness of the banking system, the government is initiating policies to stimulate economic growth in the future and to focus on improving the climate for private investment.

The government of Tonga considers it important that the government and the private sector must sit together and try to establish the most appropriate way to stimulate investment with the clear understanding that in the final analysis, **economic viability** is the critical criterion to guide investment. While it may be argued that there is no blanket international formula which leads to rapid economic growth - and, whilst that intangible “confidence” of foreign investors is required, that too escapes a global relevant characterisation and definition.

To achieve a level of economic growth acceptable to multilateral development institutions, it is not just a matter of creating an enabling environment nor stabilizing the main macro-economic indicators. There are other important factors in the growth equation such as the linkages between economic growth and **social development** and economic growth within the context of **economic vulnerability** - given our geographical location, size and topographical layout. As you are aware Mr Chairman, the Kingdom of Tonga is located within the world’s largest ocean, there are 515km

between the most northerly and southerly islands of the Kingdom, and Japan, our largest export market, is 12,180km away.

These are linkages we ignore at our peril and at the **risk** of political dislocation and social upheaval. It is the mitigation of this risk, in our view, which ought to be the basis of future programmes of development assistance to our country.

So while we work to strengthen our economy and economic performance, the pressures of structural adjustment as well as implementation of the fundamental changes necessary for the transition to a market-driven economy, to enable us to compete in the new global environment, must not be considered in isolation of our social development and economic vulnerability. For the government and people of Tonga, growth alone is not sufficient - the **pattern** and **quality** of growth are also important considerations.

We look forward, in the course of our regular consultations with the staff of the Bank and the Fund to greater focus being given to addressing the issues of the underlying causes of economic and environmental vulnerability which hinder the achievement of our social and economic developmental aspirations.

To conclude Mr Chairman, I wish the Bank and the Fund another successful year of operations and we look forward to continued future cooperation.