



Foreign Investment to benefit the Cook Islands

Overview

When revenues drop dramatically, as they have during the COVID-19, businesses resort to using their savings to survive. The consequential reduction in private sector savings combined with high forecast inflation and higher borrowing costs in the Cook Islands is expected to result in relatively low levels of private investment in the short term. Attracting appropriate levels and types of foreign investment may be a source of continued economic development and growth – particularly through the recovery period.

This project will review the investment rules with the effects of the pandemic in mind, reassessing what the best investment levels and types are, as well as updating the regulatory environment surrounding foreign investment, with review and analysis is being undertaken into the current levels of investment and the rules affecting it. This will provide a starting point to assess potential changes to ensure the rules best serve the Cook Islands economy.

Any changes to the rules will aim to strike a balance between attracting desirable investment from overseas, and ensuring our local entrepreneurs get opportunities to innovate and grow their businesses.

What is the benefit of foreign investment?

Investment into the Cook Islands from abroad provides an important source of economic stimulus as the economy recovers from the pandemic. This investment can provide demand for workers and locally produced goods and services that otherwise wouldn't be available – an important component of the economic recovery.

For a small economy such as ours, this can help in financing large-scale investment in particular, as this is often difficult to find investors for locally. Foreign investment is also a means by which ventures with a higher degree of risk can be funded. By allowing investors from overseas to take these risks, new sources of employment and economic activity may be brought into the country.

What about the risks of foreign investment?

While the benefits of foreign investment are laid out above, there are trade-offs to consider – or there would be no reason to impose any conditions or restrictions on investment coming from foreign sources. A key trade-off for the Cook Islands is that foreign investors may crowd out

opportunities for local entrepreneurs, and use comparatively larger resources to out-compete smaller players.

A more direct trade-off is that the inflow of foreign investment initially is linked to an outflow of returns on that investment (profits) over time, or there would be no reason to invest – so the Cook Islands will continue to see outflows of cash into the future. This money flowing out of the economy will not be spent locally, so some of the benefits of local activity is missed out upon, but in this specific regard this is offset by increased economic activity elsewhere in the market through job creation and the purchase and consumption of local goods and services.

Project

This programme has two projects within it:

1. Reconsidering the barriers to foreign investment and reviewing the foreign investment environment to identify how this can be improved to provide clear gains for all parties, and
2. Attracting foreign investment in key industries to drive our current and future economy. It is expected that it will take some time to identify areas of interest and how best to attract foreign investment.

The first phase will lead directly into the second phase as it will identify areas where the rules and regulations as they currently stand are no longer a good fit for the Cook Islands economy and may be reducing the level of investment.

Engagement

This project will be led by Government agencies including:

1. Business Trade and Investment Board,
2. Ministry of Finance and Economic Management.

Any substantial changes to regulation will be consulted on as well, to ensure they reflect a range of community values and viewpoints.

Estimated Cost

Costs associated with this workstream are anticipated to be confined to those related to consultation. These are not expected to be substantial, and will be funded from the Economic Recovery Roadmap administered payment.

For further information contact

Economic Planning Division

Ministry of Finance and Economic Management

PO Box 120, Avarua, Rarotonga, Cook Islands

Telephone: +682 29511 ext. 7208

Email: mfem.economics@cookislands.gov.ck

Website: www.mfem.gov.ck

Disclaimer

While all care has been taken to ensure that information contained in this publication is true and correct at the time of publication, changes in circumstances after the time of publication may impact on the accuracy of the information. The Government of the Cook Islands gives no warranty of assurance and makes no representation as to the accuracy of any information or advice contained in this publication, or that it is suitable for your intended use. You should not rely upon information in this publication for the purpose of making any serious, business or investment decisions without obtaining independent and/or professional advice in relation to your particular situation. The Government of the Cook Islands disclaims any liability or responsibility or duty of care towards any persons for loss or damage caused by any use of reliance on the information contained in this publication.