CHAPTER III

ECONOMIC POTENTIALS OF FIJI VIS-A-VIS THE SOUTH PACIFIC
Fiji is one of the wealthiest island nation of the Pacific. Its economy is basically agricultural and dominated by the sugar industry, although, since the early 1980s, tourism has become a principal source of foreign exchange. The agriculture (including forestry and fisheries contributed 17.9 per cent of GDP (at 1989 prices) in 1996 and engaged 43.5 per cent of the economically active population in that year. Between 1980 and 1986 agricultural production increased by an annual average of 30 per cent. During 1987 agricultural production declined by 21.0 per cent and continued to decline until 1992. The other important export crops are coconuts and sugar, although production levels of both crops declined in the early 1990s. Vegetables and fruits are grown for domestic consumption, and rice growing has been particularly encouraged for import-substitution.

The mining and quarrying contributed 3.2 per cent of GDP in 1996 and employed 1.9 of the paid labour force in 1995. The most employed mineral resource is gold. The total production of gold was 4,100 kg in 1996. The country earned F $82 million through exports. The gold exploration activity increased in the mid-1990s, and foreign mining companies expected to open at least two major new gold mines by the late 1990s, in addition to the Mount Kasi and Vatukoula gold mines. The manufacturing sector employed 24.8 per cent of those in paid employment in 1995. The most important activity is food processing and fish canning.

The hydroelectricity is the principal source of power, providing some 90 per cent of Fiji's electricity in the late 1990s. The service industries contributed 57.6 per cent of GDP in 1996, and in mid-1995 engaged an estimated 69.4 per cent of those in paid employment. The most important service activities are associated with the tourist industry. Tourism is the leading economic activity in the Fijian islands.
Over the past several years, there have been a number of studies dealing with the economy of Pacific Island nations, and they tend to stress the same themes. These studies and a series of new papers covering ten countries have been summarized and served as the basis for this review of Pacific economies.

The Pacific island economies face unique problem and specific challenge which are usually overlooked by glossy tourist brochures with their images of paradise and islands in the sun. Differences among the countries in the region also need to be taken into account. While all of the Pacific Islands face constraints to development, some face significantly greater problems than others. Poor soil fertility, lack of resources, natural disasters, diseconomies of scale, wide geographic dispersion and distance from markets combine to create an environment which severely limits economic development. Despite the gloomy picture, considerable effort is being made throughout the region to bring about economic development and to overcome these problems.


Economic indicators

The region is extremely fragmented, consisting of many islands and coral atolls dispersed over a vast area of the Pacific Ocean. Port Moresby, the most western capital of the Pacific islands lies 5,000 kilometres from Alofi, the most eastern. Kiribati, one of the smallest countries in the region (and indeed the world) consists of 33 islands scattered throughout a sea area of 3.5 million square kilometres.

The total population of the Forum Island countries is about 5.3 million people. Seventy per cent live in Papua New Guinea. Fiji has the second biggest population accounting for 13 per cent of the total regional population. This is in sharp contrast to Niue with fewer than 2,500 people or only 0.04 per cent of the region’s population.4

Changes in the size and structure of the population are a concern in many of the island countries. In the Solomon Islands, Vanuatu, Papua New Guinea and the Marshall Islands, the rate of population growth is very high at more than 3 per cent per annum. In Niue, Cook Islands, Western Samoa, Tonga and Fiji, emigration reduces potential growth rates, children comprise a high proportion of the total population, producing relatively high dependency ratios.

There are high population densities in some countries which again causes difficulties. They are particularly high in the small island states such as Nauru and Tuvalu with 400 and 348 people per square kilometre respectively. The highest population density in the entire Pacific region is found in the tiny island of Ebeye, on Kwajalein atoll in the Marshall Islands, where over 7,000 people live on 0.3 square kilometres of land. Next is South Tarawa in Kiribati with an estimated 1,350 per square kilometre.

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The economies of the countries are also relatively small. Traditional unprocessed commodity exports are the prime feature of most Forum Island country economies, for example copper and timber in Papua New Guinea, phosphate in Nauru, copra in Kiribati, sugar in Fiji and coconut oil in Western Samoa. All of these countries are currently experiencing declining terms of trade and their exports are extremely vulnerable to world market fluctuations.\(^5\)

Semi-subsistence agriculture and fisheries, the backbone of many of the economies, have not experienced sustained growth in the 1980s, basically for two reasons: the sharp decline of prices for traditional primary export commodities and costly import substitution policies. With the exception of Nauru, all Forum island countries exhibited a negative trade balance in 1989. Earnings from major crops have been seriously affected by recurring drought and cyclone damage. In recent years negative development was also associated with high dependency on the Australian and New Zealand markets and the downturn of both these economies.\(^6\) In 1989, the trade deficit ranged from US$2 million in Niue to US$250 million in Fiji. Leaving aside Nauru, the excess of imports over exports as a percentage of GDP ranged from 89 per cent in the Cook Islands to one per cent in Papua New Guinea.

The prominence of Papua New Guinea and Fiji within the thirteen countries is clearly demonstrated by a few figures. Together, these nations account for 85 per cent of the region's GDP, 92 per cent of all exports and 80 per cent of the imports. The smaller island nations (Niue, Tuvalu, Cook Islands, Kiribati, Marshall Islands and Tonga) have few natural resources and contribute a mere 4 per cent to the region's GDP.


A closer look at the GDP figures reveals that most Forum Island countries are heavily dependent on primary production. Despite a significant upswing during the past decade, the manufacturing sector remains modest and relatively undeveloped in most Forum island countries. Especially in the smaller island nations, the service sector (particularly trade and government services) plays a dominant role.

Due to transportation and communication problems, improving economic performance will not be easy. These difficulties exist within the islands, among islands of the same nation and among the Forum island countries as a group. Nevertheless, there is prospect for improvement with structural adjustments and strengthening of the private sector now underway almost everywhere. These changes are increasing the potential for a new investment, notably in the labour intensive, export-oriented, resource-based industries processing agricultural, marine and forestry products. However, such development will only become a reality if the existing market distortions (e.g. import restrictions, high tariffs, price controls and agricultural subsidies) are further reduced.

It is important that Forum island countries expand their foreign markets, identify and use market niches, diversify their product range and attract foreign investment. Linked with these considerations is the need to improve management and to create favourable conditions for private sector development. Failure to do so will lead to economic stagnation, if not decline, and the continuation of dependency on large amounts of foreign aid and remittances from citizens living overseas.

**Resources and Economic Potential**

From the viewpoint of resource endowment and development potential, the Pacific islands can be divided into four major categories. The first comprises the relatively large island groups, Papua New Guinea, Fiji, Solomon Islands and Vanuatu. These islands have the...
resource potential and together account for an estimated 90 per cent of the region's total population. Each possesses extensive land areas suitable for agriculture and has control over a large exclusive economic zone. These resources provide the basis for major development in agriculture, forestry, fisheries, tourism and, in one or two cases, minerals. Much progress has already been made in developing this resource potential, and this has contributed to a relatively high degree of diversification and economic growth.

These countries are capable of achieving financial and economic independence. For them, steady economic growth without continuing large injections of grant aid is feasible provided appropriate domestic policies are put in place. These policies include:

- exposure of the domestic economy to outside competition with the aim of increasing domestic efficiency
- allowing market mechanisms to determine resource allocations
- removal of barriers to exports
- containment of the public sector's role in the production of goods and services
- encouraging the private sector to play a greater role in economic activities
- deregulating the financial sector to encourage domestic savings, thereby increasing investments which yield the highest returns to the economy
- adoption of macroeconomics policies which will assure financial stability at all times.

The second group are the middle-sized islands, represented by Western Samoa and Tonga. These islands have modest resource bases.
Agricultural potential is present but constrained by limited land areas.\(^9\) Exclusive economic zones are small (Western Samoa has the smallest in the region), commercially exploitable minerals are absent, and tourism has only limited scope. Paucity of raw materials and small domestic markets restrict industrialization and also limit economic diversification.

Exports from Tonga and Western Samoa consist largely of agricultural products. They run trade deficits which are financed through aid and remittances. In Tonga, remittances are as high as three times the value of exports or half that of imports. Similar orders of magnitude for remittances are current in Western Samoa.\(^10\) The bulk of development expenditures are financed through aid. Tonga and Western Samoa are capable of achieving economic viability in the long term without continuing, large aid inflows. However, this calls for domestic policies similar to those mentioned earlier and lower standards of living will perhaps need to be accepted temporarily.

The third group comprises the small, remote and resource-poor islands of Kiribati, Tuvalu, Niue and Cook Islands. Except for Niue and Cook Islands, whose people have free access to New Zealand, all have relatively high population growth rates, limited land-based resources, and lack the capacity to exploit their exclusive economic zones although they are among the largest in the region. Agricultural output is small and restricted almost entirely to subsistence production. Opportunities for industrial development are negligible and only Cook Islands has tourist potential. Economic diversification is rudimentary with exports dominated by a single traditional crop, copra.

Substantial trade deficits which cannot be sustained without continuing large inflows of aid are experienced every year. Remittances

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\(^10\) Ibid, p. 118.
are very important, but the high levels of consumption and welfare are underwritten by aid.\textsuperscript{11}

The other sources of foreign exchange for these countries include rent on fishing rights granted to the vessels of other nations and sales of artifacts. Earnings from commemorative stamps were once important in Tuvalu and Cook Islands.\textsuperscript{12} The public sector, the activities of which are to a large extent supported by aid, dominates the economies. Gross domestic product, government revenue, the national import bill and the movements in the external accounts are all highly sensitive to public sector expenditures. The small private sectors depend heavily upon the goods and services which they supply to the governments.

Long term financial and economic independence is a difficult target for this group of countries. Sharpened skills in rent seeking, emigration arrangements with metropolitan countries or closer association with other countries are some of the strategies available.

The fourth group comprises those island economies that enjoy some singular advantage that compensates for otherwise poor economic prospects. These special-case economies include Nauru, which is dependent on lucrative (though soon to be exhausted) phosphate deposits and the Federated States of Micronesia and the Marshall Islands whose strategic value to the United States has enabled them to benefit from large financial subsidies. Through the exploitation of these special assets, these countries have been able to raise their living standards to levels that are among the highest in the region.

For all three countries, there is considerable uncertainty about their long-term future. In the case of the Federated States of Micronesia and the Marshall Islands, reduced support from the United States is already beginning to have an impact. In many respects, the situation of

\textsuperscript{12} Ibid, p. 19.
the Federated States of Micronesia and the Marshall Islands is very similar to that of the countries included under the third group.

**Economic Growth**

The Asian Development Bank Outlook (1992) revealed that island countries of the South Pacific registered an average growth rate of 6.1 per cent in 1991. However, this was mainly due to a dramatic economic turnaround in Papua New Guinea. The remaining countries included in the review, showed decelerating growth for reasons including the slowdown in the world economy, internal policies and adverse weather conditions.

As noted, economic prospects for a number of the island economies were dependent to a large extent upon weather conditions, primary commodity prices and, in the case of Papua New Guinea, on activities in mineral related projects. Even if normal weather conditions prevail over the next two years, economic growth in the region is expected to decelerate in 1992 and recover in 1993.\(^\text{13}\)

Such fluctuations in growth are mainly attributable to Papua New Guinea where mineral projects initiated in 1992 will not start full production until the end of the year. Following a full year of petroleum exports, economic growth in Papua New Guinea is expected to accelerate sharply in 1993.\(^\text{14}\) Fiji will also show improvement in its economic growth during the next two years. Recovery will come from the resumption in growth of tourist arrivals and related services. In the Solomon Islands, the forestry and fishing sector should continue to grow but a serious fiscal imbalance will limit growth in the industrial and service sectors. In Tonga, growth is projected to decelerate as agricultural exports, particularly squash and vanilla, will slow down. Cyclone damage will require large public expenditures for rebuilding and

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\(^{14}\) Ibid, p. 61.
rehabilitation in Vanuatu and Western Samoa over the next two years and, as a result, prospects there are uncertain.

The international economic situation continues to affect the development prospects of Forum island countries. While it is difficult to quantify the practical impact of global macroeconomic trends on the relatively small economies means they are very susceptible to external changes. Development assistance flows remain linked to political, strategic and other considerations, while foreign investment, tourism and trade flows are based directly on financial and economic considerations.

The current prospects for development and economic growth vary considerably throughout the region. Some economies have grown in recent years while others have stagnated. There remains, nevertheless, an underlying optimism that prospects are bright in the longer term, not least through the harnessing of the region’s marine resources.

Comparison with other regions

The World Bank noted that as a group, Fiji, Kiribati, Solomon Islands, Tonga, Vanuatu and Western Samoa recorded an average growth of real GNP of 0.6 per cent per annum over the period 1980-88. This is in sharp contrast to over 5 per cent growth in the Caribbean and 6 per cent in the Maldives and Mauritius over the same period (World Bank 1991).15

Priorities for the region

In reviewing the region’s priorities it is recognized that for some of the larger countries in the region, there is already significant mining, maritime, forestry, agriculture and associated processing activity, together with other manufacturing activity; to have confidence in their

achieving longer-term self-sustaining growth. The prospects for such growth among the smaller economies is far less certain.

The region remains extremely susceptible to natural disasters. These have, in recent years, had a tremendous impact on economic development. While the international community remains responsive to the hardship caused, rebuilding programs in most situations merely restore the status quo rather than contribute to economic growth and improved living standards.

In the South Pacific, regional cooperation is sometimes considered an appropriate vehicle for pursuing development strategies as a means for attaining national economic, political and social objectives. Such cooperation need not necessarily be pursued through formal regional bodies, though it often is, and in all cases regional strategies are designed to complement national goals.

Benefits which accrue from regional cooperation include economies of scale, increased weight in securing concessions in trade and aid negotiations and for ensuring that the region's views are at least listened to in the various international economic and political fora. Regional cooperation implies that individual members may occasionally have to divert themselves of a component of their sovereignty in the interest of the region as a whole; this requires a lot of political will and, not surprisingly, is sometimes very difficult to accept politically.

Accordingly, the areas where a regional approach is taken in pursuit of national and group objectives must be chosen carefully. That said, in the South Pacific these have included a wide range of areas, for example, transportation, civil aviation, telecommunications, higher education, tourism, agriculture, trade, energy, exploration within the exclusive economic zones, the environment, economic issues, nuclear testing, security and political developments in the Pacific region.\(^{16}\)

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High population growth rates affect the level of resources required to maintain adequate health and education standards and limit employment prospects. The importance of enhancing opportunities for all people to contribute to the maximum extent possible to the development process is being increasingly recognized and human resource development programs are being developed towards this end.

As part of establishing an appropriate policy regime and stable macroeconomic environment, governments in the region are now recognizing the need to encourage the development of policies that promote private sector development, trade and joint ventures. Efforts are also being directed to promoting linkages at the private sector level between the region and Asia and other parts of the world, recognizing that to be effective contact cannot only be government-to-government. Emphasis is also being placed on investment and trade missions.

In terms of Pacific island country-donor relations, the importance of policy dialogue between countries and their development partners is receiving greater acceptance. Such policy dialogue encompasses policies relating to trade, tourism, foreign investment and private sector participation.

An effective and efficient civil service is also recognized as a prerequisite to the formulation of appropriate development policies and for ensuring effective linkages with the private sector. As many countries in the region seek to encourage the development of the private sector and/or reduce the role of the public sector, public sector reform is assuming greater importance.

Telecommunications, air services and shipping are also important in developing the region's links with the rest of the world and in promoting inter-regional communications. The region continues to face a wide range of problems in ensuring effective communications. The development of new technologies is also placing pressure on the region due to the need for more training to maintain and operate the new
technology. In addition, as the region imports all its fuel requirements, the efficient use of energy resources remains a priority as this impacts on all major economic activity.

The region's marine resources offer considerable scope for further development and, for a number of smaller Forum island countries, offer the greatest potential for resource-based economic development. Experience shows that, in general, issues relating to the activities of Distant Water Fishing Nations operating in the region are most effectively addressed at the regional level. This is also true of activities designed to identify the economic potential of non-living marine resources of the region.

**Priority Areas in Development**

**Sustainable Development**

The region increasingly recognizes the importance of sustainable development and the need to halt environmental degradation. Major global threats include the depletion of the ozone layer and the greenhouse effect. The small atoll states, with heavy pressure on available land and high dependence on fragile marine ecosystems, are particularly vulnerable. Climate change and sea level rise are particular threats. The region is also vulnerable to an increase in the number and severity of tropical storms and changes in their patterns. Environmental degradation caused by local factors also requires urgent attention.

It is increasingly recognized that the environment is crucial to development. For example, the sustainable rate of development is determined by the ability of the physical and social environment to continue to renew itself. These inter-linkages were a key theme of the 1992 United Nations Conference on Environment and Development, or Earth Summit, where developing countries, including the South Pacific,

17 Ibid, p. 68.
18 Ibid, p. 72.
were concerned to secure additional financial and technical assistance to promote ecologically sustainable development.

Population

Family planning strategies require greater attention by many of the forum island countries, not just the smaller ones. The aim of family planning is to reduce population growth to levels that the island economies can sustain and support. This is a controversial and emotionally charged issue. However, it touches and is touched by so many other facets of development that it cannot be ignored.19

The macro-economic frameworks of Forum island countries are also undergoing change. In most, economic growth has not kept pace with population growth. Most governments are attempting to make their public services more efficient by cutting back both staff and expenditure. International assistance has also been directed away from social services to private sector development. This has led to structural adjustment policies in many countries. Children, particularly amongst lower income families, are often the first victims of such adjustments through the reduction of health, education and social services.

Private Sector Development

Private Sector development leading to greater trade and investment is increasingly regarded as the key to bringing about sustained economic development20. At the Forum Secretariat Pacific Island Countries/Development Partners Meeting held in March 1992, it was recommended that the basic strategy for promoting private sector development should focus on:

- economic policy dialogue between public and private sectors regarding the business and investment environment, privatization,

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corporatization, management contracts, restructuring, private supply of public services, regional dialogue and harmonization of foreign investment promotion, incentives schemes, duty-free zones, taxation, etc.

• training in the public and private sectors in policy dialogue, development banking, trade and investment promotion.

• entrepreneurship and basic business skills.

• micro-enterprises and small business development including the provision of wide-ranging small business services to cooperatives and the encouragement of new indigenous entrepreneurs at the community and village level.

• finance and credit such as equity lines for development banks, small credit schemes integrated with business support services, venture capital enterprises, funds for development equipment leasing firms, better credit coordination between commercial and development financial institutions, trade and investment agencies, export financing and insurance schemes.

• improved regional clearing and distribution of information in a detailed, timely and practical manner, of private sector support through training and financing schemes and the diffusion of one-step business-service agencies.

New Technologies

In a paper presented at the 48th Session of ESCAP, particular attention was paid to the implications of new technologies on economies. New technologies are revolutionizing production techniques and creating new opportunities. ESCAP predicts that in the 1990s, most countries' productive sectors will continue to use conventional technology with new technologies making gradual inroads. Therefore no sudden shifts in international trade patterns or in the location of industry are likely to
take place during this period, although on the domestic front significant shifts will take place with increasing frequency as the decade proceeds. Pressures will also build up on producers in a wide range of industries to adopt new technologies to remain competitive.

The advent of new technologies does not herald a breakthrough for Forum island countries into a situation in which almost any product can be made cheaply and economically on a very small scale.\(^{21}\) If anything, it reinforces the advantage of large-scale producers in the developed countries in most industries. Nevertheless, with new technologies there are greater opportunities for cutting costs. In the Pacific, this has been demonstrated by the introduction of microcomputer equipment in the service sector particularly in the areas of managerial activities and data processing.\(^{22}\)

Another area of opportunity is the commercial application of services based on new technology which can be provided at low marginal cost in such areas as satellite telecommunication and remote sensing services. Remote sensing services are useful in both the production and management of primary products, including those in the forestry and fisheries sectors, as well as for weather forecasting, which is very important in a region subject to frequent severe cyclones. The extension of telecommunications networks to isolated rural areas or outlying islands is seen as a high priority in reducing urban drift and improving the quality of life for all people in the region.

Lastly, new technologies are used not as complete systems in themselves but are blended with traditional technologies. Unlike the large-scale use of new technologies in manufacturing where new technologies constitute the whole process, blended technology takes what is good in existing technology and increases its efficiency by

\(^{21}\) Ibid, p. 22.
\(^{22}\) Ibid, p. 28.
grafting on new technological elements.

In order for Forum island countries to take full advantage of these new technologies, there is a need for continued training and specialization. While a large proportion of development assistance is already directed towards education and training, this is not expected to reduce significantly in the immediate future given the need to keep pace with technological change. There is, however, a need to ensure that the training is effective and compatible with the introduction of new techniques and procedures. At the regional level, a useful service can be provided to countries in monitoring new developments, researching their applicability to the region and advising on the scope for utilization.

**Macro-economic Policy Environment**

Policy and planning remained at the top of the agenda of regional bodies and the major multilateral institutions active in the region. The strategic approach to policy formulation and planning has gained significant momentum and the Forum Secretariat, together with other institutions in the region, provides technical support. The work carried out by multilateral agencies in analyzing economic performance and prospects in the region was the key agenda item at the 1993 Pacific Island Countries/Development Partners Meeting.

**Provision of Development Assistance**

It is clear that greater attention is being paid to how effective aid has been to the region in the past. The World Bank Regional Economic Report (1994) expressed concern that despite the high levels of aid provided to the region the majority of island countries registered little or no growth in gross national product per capita over the last decade.

A number of suggestions have been made for improving aid

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21 Ibid, p. 43.
utilization through improved planning, greater levels of policy dialogue and improved implementation and reporting procedures. The 1991 South Pacific Forum said it was pleased to note the firm resolve shown by all those interested in South Pacific development to foster greater levels of cooperation, coordination and policy dialogue.\(^\text{25}\)

At the regional level efforts were being made to clearly identify the region's priorities as directed by the Forum. This required the development of a framework for establishing a regional strategy. The aim of the strategy was to allow Pacific island countries to determine which programs should be pursued at the regional level and what priority they should be accorded. It was established how, when and by whom, proposals for activities should be developed and implemented and it was provided donors with a basis for supporting regional activities based on the region's own areas of emphasis.

The output of this exercise was threefold.

- Formulation of a statement of strategy.
- Development of a supporting regional database.
- Establishment of an on-going process for monitoring regional priorities, determining how they can most effectively be met and modifying the strategy.

**Human Resources Development**

Human resources development is of paramount importance for improving economic and social conditions. Population growth, basic education and health care, as well as employment prospects for the high numbers of young people in many Forum island countries, are a major preoccupation of governments in the region. In the United Nations Children's Fund submission on the state of the Pacific's children, particular attention was given to the need for the region to respond to

health, education and population issues if the living standards of children were to improve.

Recent studies have shown that there remains a continuing imbalance between the demand for and supply of skills in the Forum island countries. Despite heavy investment in human resource development, there are few signs of improvement. Serious shortfalls in domestic skills availability persist, partly due to weaknesses in training programs and partly due to substantial emigration. At the same time, demand for these skills continues to exceed the capacity of national and development-partner financed training programs.

Institutional deficiencies including uncompetitive wage/salary structures, over-extension of activities undertaken by the public sector, inappropriate staffing structures and constraints on training institutions remained. Also, the operational weaknesses impaired the skill-creating potential of technical assistance and training programs. Excessive reliance on certain approaches to training, lack of attention to private sector training and deficient project management are further concerns.

At the Pacific Island Countries/Development Partners Meeting in March 1992, it was generally agreed that appropriate guidelines for the design and appraisal of technical assistance and training projects needed to be developed and the Forum Secretariat was requested to coordinate this work in collaboration with relevant bodies, such as the University of the South Pacific.

The World Bank's report on Pacific Region Post Secondary Education Study was based on detailed reviews in six Forum Island countries. It highlighted the need for a stocktake to be taken of the education opportunities being offered by 35 education institutions in the region. The report identified three key areas as needing attention.

26 Ibid, p. 32.
First, rationalisation of management of post secondary programs and institutions at the national level. This would include attention to planning, budgeting and operational procedures conductive to national sectoral strategies fitting the economic scale of the Forum island countries should assess which training programmes, scholarships and technical assistance would alleviate skill shortages at the national, regional and rim countries levels to improve the responsiveness, cost effectiveness, efficiency and sustainability of programs.

Second, attention to the quality of programs through the upgrading of staff, particularly in mathematics and the sciences. And third, the Forum island countries and donors rationalizing financial allocations and directing support to priority needs and only to viable and sustainable programs.28

Some member governments are placing particular emphasis on human resources development in general and higher education in particular. Some have recently adopted National Higher Education Plans. These address issues such as reduction of the number of higher education institutions. The remaining institutions will be more economically viable in size, leading to improved cost-effectiveness. Reform of the system of student financing is also being addressed.

In 1993, the United Nations Development Programme produced a Pacific Human Development Report which addressed human development in fifteen Pacific Island countries. Attention was given to the current state of human development in the region with the identification of strategies and priorities for the future. A special focus was given on the inter-relationship between population and human development.

**Relationships with Larger Countries and International Groupings**

The forging of closer relationships with larger countries and

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28 Ibid, p. 33.
international groupings is also of major importance for the region, both to smaller and larger Forum Island countries. This process requires the fostering of closer integration with countries such as Australia, France, the United States and New Zealand. Closer integration can be attained by developing special economic relationships, such as preferential trading arrangements and common currency systems, or through constitutional and political change. For island countries, such integration can mean a more predictable basis for securing aid, trade and emigration concessions. However, close integration with metropolitan countries can lead to the erosion of national identity and cultural integrity and ultimately the loss of political sovereignty. Therefore, Pacific island countries are likely to view this as a feasible option.

In addition, the islands must participate more actively in Asia-Pacific regional cooperation, working with regional organizations such as the Association of South East Asian Nations (ASEAN) and Asia Pacific Economic Cooperation (APEC) initiative. So far, the Pacific island countries have had minimal involvement in these wider regional initiatives. The countries of ASEAN are part of the dynamic East Asian regional economy that is experiencing unequalled economic growth and socio-economic structural change. Closer cooperation with these countries and associated regional groupings could offer trade, aid and training opportunities for the Pacific islands. Similarly, active participation in the APEC process would, among other things, gain a wider regional audience for island interests and development opportunities.

**Smaller Island States**

The development predicament of the smaller islands in the region has resulted in heavy dependence on foreign aid, high overseas

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30 Ibid, p. 84.
migration, a heavy reliance on remittances from overseas and heavy
dependence on imported foodstuffs and other raw materials. There is
also concern that the economic and social costs associated with such
dependence may exceed the apparent benefits. Aid dependency can
seriously undermine national initiative and has serious distorting effects
on the economy, preventing the efficient allocation of resources.

A study completed for the Forum Secretariat in 1992 suggests
that for those countries which are highly dependent upon remittances, it
was unlikely that this situation was sustainable in the longer term. It
was concluded that remittances were unlikely to grow at a sufficiently
rapid pace to enable even a modest growth in living standards in the
highly remittance dependent Forum island countries. Overseas
migration has led to the loss of talented people with technical skills and
experience. Some Forum island countries have special employment
schemes with international shipping and fishing companies. However,
the problem with these is that they can always be withdrawn at relatively
short notice.

It is essential that the Forum island countries, particularly the
smaller ones, explore other possible strategies that are more likely to
achieve sustainable growth in the longer term. In the case of Tuvalu, a
trust fund has been established with the assistance of a number of aid
donors. Under this fund, investments are made and managed overseas
and the return, after allowing for annual administrative expenses and
maintenance of fund value in real terms, is available to the Government
of Tuvalu to support its recurrent budget. It is a pioneer scheme aimed
at ensuring the economic viability of a small country with limited
production base. The Kiribati income Equalization Scheme, started with
returns on phosphate exports, offers similar support to that country’s
annual budget.

32 Ibid, p. 34
The smaller Forum island countries should also consider giving greater recognition to subsistence activities as a complement to the monetary economy. Subsistence activity is still substantial in many Forum island countries. According to the study completed for the Forum Secretariat in 1992, 80 per cent of the population of Kiribati and Tuvalu still received a major part of the basic needs from non-monetary subsistence produce. The subsistence sector, in its mixed subsistence/cash mode, was the source of the majority of the Forum island countries greatest comparative advantage. Argument was made that it was largely that mode which enabled them to remain economically and politically independent. It was also the basis of their culture and identity.

These are just some of the key issues facing Forum island countries as they seek to realize their long term development aspirations. These are issues which have received specific attention at recent South Pacific Forum meetings and other major conferences in the region.

**Future Economic Prospects**

It is clear that the prospects will vary enormously from one country to another, and also between sectors within the Pacific Islands. The impact of changes in the world economy, including moves to liberalise international trade, will continue to be felt by Pacific Island countries. Economies could become further marginalised by such developments. The trade interests of New Zealand, as a member of the Cairns Group that seeks better trade access in agricultural products, are not necessarily identical to the interests of Pacific Island countries that rely on preferential prices for sugar, copra and other agricultural products. But the Cairns Group does recognise the need for special measures to protect the trade of developing countries.33

The challenge to the Pacific Island countries with greater natural resources, particularly in Melanesia, will be to develop the
human and national skills to deal with the increasing resource development that will occur in the 1990s. If these skills are not developed, the risk is 100 that these countries will find themselves more dependent than ever on foreign investment and inputs with consequent stress on social harmony. For the smaller countries with fewer resources, population pressures would appear to be the major concern for the future.

**Agriculture and Fisheries**

Agriculture and fishing, including subsistence and cash activities, will remain the economic and to some extent social foundation of most Pacific Island countries. The record of agricultural development in the Pacific is mixed. Agricultural investment has concentrated on export crops at the expense of subsistence activities. Yet subsistence agriculture will continue to sustain the large majority of Pacific people in the foreseeable future. The agricultural import substitution must command high priority for Pacific Island countries to feed their populations, reduce foreign exchange demand and reduce the incidence of health problems such as diabetes exacerbated by growing reliance upon imported foodstuffs. At the bottom line this is more important than export oriented agricultural development.

Some Pacific Island countries appear to take past failures in agricultural development and marketing as evidence that the sector has no future apart from subsistence production. Potential for growth of agricultural commodity prices (eg, copra, coffee, sugar), diseconomies of scale, climatic constraints, freight problems and inconsistent government policies. The agricultural work ethic is not always strong, there are opportunities for export of high value, high quality agricultural products. Part of the problem in the past appears to lie in the fact that export agriculture has been production rather than market led. Some

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Pacific Agriculture Ministers and private sector representatives feel that this can be overcome by strengthening of quality control, and by encouragement of joint venture participation between the Pacific Island producer and the marketing organisation.\textsuperscript{35}

Fisheries plays the major part in subsistence economies of the Pacific. It is also a major commercial industry. The market value of unprocessed tuna caught in the region is estimated around $300 million a year. But the region receives only a small part of this. There are few Pacific Island countries which receive benefit from the industry except through licensing and royalty agreements. Fiji, Solomon Islands and American Samoa have joint venture industries, and Kiribati has its own commercial fishing company. Other countries are on the threshold of establishing industries. The employment and added value potential are widely appreciated.

Aquaculture also offers good prospects for export diversification. A number of countries have embarked on commercial ventures in farming of seaweed, giant clams, prawns and pearl oysters. The Review Group was told in many places that Pacific Island countries would welcome New Zealand joint venture participation in commercial fisheries. There is scope for greater fish processing in the region.

The realisation that fisheries is a key sector for development is reflected in the growing collective concern for the management of the region's resource. The support for the Forum Fisheries Agency, for regional approaches to resource management and collective bargaining with outside fishing countries attest to this.

It was observed at the first hand that timber offers potential for value added export production in several countries, from raw milling operations for exotic timbers to furniture manufacture using indigenous species. Sustainable forestry development is the key.\textsuperscript{36} Short term

\textsuperscript{35} Ibid, p. 29.
\textsuperscript{36} Ibid, p. 29.
benefits of forestry exploitation may otherwise be outweighed by long term costs. Adding value to Pacific Island timber resources is both economically sound and environmentally prudent because it will slow the rate of extraction.

Manufacturing and Services

Manufacturing and services are comparatively new sectors in the Pacific. The main manufacturing centre is Fiji, which has competitive production costs (mainly labour), and shipping and airfreight cost advantages for the Australian market. Reduction in domestic protection against imports and the establishment of generous tax concessions impel the export orientation. Other Pacific Island countries have not promoted these policies, but many are following Fiji's strategy with interest. Tonga has also developed a successful manufacturing sector for export. The comparative advantage labour force offers the means of creating employment in the Pacific. Whether more countries will seek to move down this path will depend on entrepreneurial drive and government encouragement, on niche marketing and other strategies.

Tourism

Tourism will offer good prospects for some countries, but will not be a panacea for the collective development of the region. It is a highly competitive and volatile industry. High infrastructure costs mean that the major projects are often owned by overseas investors, as evidenced by widespread Japanese hotel investment in the region. Many Pacific Island countries evince concerns about the impact of tourism on traditional social and cultural values and on the environment. There is scope for developing new forms of tourism based on distinctive landscapes, forest and marine ecosystems and the promotion of 'nature tourism' in conjunction with the establishment of protected areas on customary land. There is also scope for developing small and medium scale low impact tourism enterprises which are increasingly owned and
operated by the village people themselves. The returns from this sort of tourism will not, of course, parallel the mass market enterprises of, say, Hawaii.

**Mining, Oil and Gas**

In Papua New Guinea, further prospects for gold, copper, and other minerals and oil and gas are excellent (although the Bougainville crisis has halted production on that island). Fiji also earns valuable foreign exchange from gold, while nickel production is the mainstay of the New Caledonian economy. Solomon Islands has developed bauxite and gold mining.\(^\text{37}\)

Outside Melanesia, however, prospects for new mining are not immediately promising. Extensive seabed and coastal geological exploration in the Pacific has demonstrated that prospects (such as seabed mining for manganese and cobalt) are not likely to become commercially or technologically viable until into the next century. The Marshall Islands is probably ahead in the seabed mining area compared with other Pacific Island countries. Such mining will present new challenges for Pacific Island countries in dealing with the major companies that will seek to exploit these resources based on their hold on the technologies. In such circumstances the need for sound advice, adequate legal framework and good negotiating skills will be essential if Pacific Island countries are to derive the benefits. There is an important role for SOPAC in this regard, and New Zealand should be prepared to continue to support a regional approach to this issue.

**Public Sector**

Public expenditure ranges from 30 to 85 per cent of GDP in Pacific Island countries. The relatively high per capita income of many Pacific Island countries is, to a considerable extent, due to public expenditure, a large part of which is financed by overseas aid. It serves

to crowd out private sector activity. Reducing the size of public sectors which were largely inherited from colonial administrations would therefore have a major effect on domestic economies. The need for restructuring is most evident with regard to the substantial investment tied in state owned enterprises (such as supply divisions, hotels, airlines, and productive activities in agriculture, fisheries and forestry), many of which lack accountability. An increasing interest was observed by Pacific Island governments in privatisation of these enterprises. 38

At the same time, rapidly growing populations are putting pressure on social services. In a number of Pacific island countries the public service is also the main source of paid employment. As a general rule it would be concluded that unless the size and cost of the public sector in the region is restrained, it will hold back growth of employment in other sectors.

38 Ibid, p. 29.