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FOREIGN INVESTMENT IN THE SOUTH PACIFIC

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'Waving palms, golden sand, sparkling seas': this is the tourist image of the islands of the South Pacific. From the islanders' view point both palms and sea have provided the basis of their subsistence economy. Recently these natural endowments have provided an entry to the modern economy through copra and fishing related export industries and tourism. The islands have added exotic crops to their inventory of earning activities - sugar, vanilla, cocoa, coffee, oil palm and rubber. Agriculture has provided a reasonable income for island economies, but there is a growing need for island governments and private sector entrepreneurs to seek new options for employment creation.

The island nations are increasingly becoming integrated into the world economy. Prices for their primary produce are subject to the fluctuations of world markets. In some instances income fluctuations, downward ones in particular, are protected by such devices as STABEX, special entry to the markets of developed countries through agreements such as SPARTECA, PATCRA and the Lome Convention. Island governments have smoothed prices to growers through domestic stabilization funds but it is more important to seek private investment capital in new and existing industries than to prop up agriculture.

Domestic saving within the island states is limited. The national provident funds are the major sources in Fiji, Western Samoa, Solomon Islands, Vanuatu and Papua New Guinea but for the most part these funds are directed to meet government and semi-government activities. Foreign sources provide the only viable option for vital new investment in the private sector.

In order to review options for the island states to encourage foreign and private investment, the Commonwealth Secretariat and the National Centre for Development Studies (with financial support from AIDAB and the World Bank) held a workshop in Canberra in March 1988. Participants included representatives of the bureaucracies and private sectors of the island states. The structure of the workshop relied more on debate and exchange of ideas than academic papers. At the workshop there was a consensus that sources of new foreign investment existed for the region and that the challenge was to create a climate to attract them.

Despite the attraction of the islands of the South Pacific for tourists it does not follow that the same attraction exists for the private investor. As Vincent Cable (Commonwealth Secretariat) pointed out in his opening address, the Pacific countries

have to be aware that they are competing with the rest of the world in any attempts to attract foreign investment.

Recognizing the constraints to economic development faced by the island states - their small market size, isolation and limited resources (both natural and human), there are a number of specific issues to be addressed if foreign and private investment is to be encouraged:

- The macroeconomic climate: stability is of major concern to investors. Currency, fiscal policy, financial and other controls must not vary unreasonably so that investors can be certain that their investments cannot be at risk at the whim of political leaders.
- Countries that have pursued import substituting policies have failed to achieve reasonable levels of economic growth. If the private sector is to thrive and attract reasonable levels of investment, policies encouraging an export orientation are important. Over-regulation to protect the local manufacturer must be avoided. Governments can assist through the provision of reasonable infrastructure and sensible education and training policies but initiatives must not be stifled by bureaucratic controls, however well meaning they may be.
- Labour markets must be flexible and trade unions must avoid wage levels that lead to uncompetitive pricing. The garment industries in Fiji and Tonga have shown island workers can compete in the production of quality products but unreasonable wage demands could have serious effects on these industries.

- Tax incentives and concessions are not critical in investment decisions. While investors may look for attractive incentives these are not regarded as important as the prospects of satisfactory pre-tax rates of return and macroeconomic stability. Access to land for light industry, mining or agriculture on the basis of reasonable, consistent occupancy rights with realistic rentals was stressed as important.
- The provision of infrastructure is important: good roads, airports, clean water and effective communications all add to the confidence of the potential investor. The Pacific countries are distant from markets but the provision of efficient domestic services can help them survive external shocks.
- Small open economies are often prey to unscrupulous business venturers or persons with little regard for custom or local culture. The temptation to accept the 'foreign dollar' at the expense of loss of local values must be resisted, but at the same time rejection of foreign investment cannot be justified on the grounds of retaining cultural purity, if island states are to keep pace with developments taking place elsewhere.

Despite the natural attraction of the South Pacific, these are the issues that the Pacific island nations must address if they are to attract investment. If the islands are to provide the living standards their people aspire to then foreign investment is not only desirable but essential.