Small Pacific island states: development of international trade

Colin S. Mellor

This article provides an assessment of a range of issues concerned with the development of international trade for small Commonwealth states in the South Pacific region. The irony for the South Pacific small states is that the worldwide push for a more liberal international trade environment is almost certainly detrimental to their trading prospects, certainly in the short to medium term. With tariff barriers declining throughout the world, current trading advantages enjoyed by the Pacific island nations under SPARTECA and Lomé will dissipate. Appropriate strategies in this context are offered to small island states.

Colin Mellor is a consultant working on the Pacific region. He is a former South Pacific economist with AusAID.

The wide diversity between the South Pacific small states encompasses many factors and perspectives, including natural resources, populations, cultures, and socioeconomic conditions. A measure of this diversity is provided by the UNDP Human Development Index (HDI) for the small states, based on a mix of indicators of GDP per capita, educational status and life expectancy (see box and Table 1).

Regional economic development

In the context of identifying possible future economic development strategies for small states, in particular related to development of international trade, all South Pacific small states are islands, and subject to extreme isolation. As compared to mainland small states which can typically take advantage of infrastructure services, resources and access to contiguous land areas, this is not possible for island small states. Diseconomies of scale are therefore greatly accentuated for island small states, as compared to mainland small states, with powerful implications for identifying successful trade development strategies.

Second, there is evident and extreme diversity between the small states of the South Pacific. In terms of natural land

Table 1 **Commonwealth States in the South Pacific**

	Population (1994)	Area (square kilometres)	GNP, US$ million (1994)
Solomon Islands	366,000	28,370	293
Vanuatu	165,000	14,760	190
Western Samoa	169,000	2,935	164
Tonga	98,000	747	160
Kiribati	77,000	810	56
Tuvalu	9,000	26	7
Nauru	10,000	21	n.a.

Source: These data are best estimates available from the Australian Agency for International Development (AusAID) and should not be taken as precise figures. Solomon Islands is actually outside the category of 'small states' as defined (being more than 25,000 square kilometres in area), but is included for the sake of completeness.

resource endowments, the small states have conventionally been grouped into three categories.

- Comparatively well endowed—Solomon Islands and Vanuatu, with substantial and rich land resources, are generally seen as having adequate natural resources to aspire to sustainable levels of economic development.
- Marginally well endowed—Western Samoa and Tonga, with comparatively rich but limited land resources, are generally considered to be 'borderline' cases, with some prospects for economic development, but likely to need ongoing external support to be sustainable.
- Inadequately endowed—the sparse, atoll island groups of Kiribati and Tuvalu are generally seen as having insufficient natural resource endowments for sustainable economic development (in the absence of permanent international support). In the absence of phosphate resources, Nauru would also fall into this category.

Another element of significant diversity at the regional level in the South Pacific arises from the three recognisable 'cultural areas' within the region, reflecting different cultures and histories.

- Melanesia includes Solomon Islands and Vanuatu, with extreme cultural and linguistic diversity, and where significant interaction with the international community commenced only in the late 19th century.
- Polynesia includes Western Samoa, Tonga and Tuvalu, with populations which are ethnically homogeneous and where contact with the international community began much earlier in the 19th century.

Table 2 **Small island states: GDP per capita and HDI**

	GDP per capita (US$)	HDI (1993)
Solomon Islands	529	0.191
Vanuatu	1,020	0.424
Western Samoa	722	0.572
Tonga	1,396	0.723
Kiribati	461	0.439
Tuvalu	1,068	0.652
Nauru	..	..

Source: World Bank 1996a. *World Development Report*, Oxford University Press, New York.

Country profiles

Solomon Islands

- per capita GNP of US$800 (1994), and static or declining
- population growth rate 3.4 per cent per annum
- all exports derived from primary products, mainly timber (80 per cent), fish, palm oil, copra and cocoa. Total exports f.o.b. of US$131.7 million (1993)
- manufacturing and tourism underdeveloped
- subsistence sector substantial (estimated about 20–40 per cent of GDP)
- Australian aid was A$11.6 million in 1995–96. Other donors include New Zealand, Japan, United Kingdom and World Bank.

Vanuatu

- per capita GNP of US$1,150 (1994), and rising only slowly
- population growth rate 2.5 per cent per annum
- principal exports are primary products, mainly copra, beef, veal, cocoa, coffee, timber and kava. Total exports f.o.b. of US$22.7 million in 1993
- limited manufacturing for local market, with significant services sector (government, tourism, financial services)
- fishing is a major subsistence activity
- Australian aid was A$14.9 million in 1995–96. Other donors include United Kingdom, New Zealand, France, China, Japan and the European Union.

Western Samoa

- per capita GNP of US$970 (1994), with limited growth on average over time
- population growth rate 0.5 per cent per annum
- total exports f.o.b. of US$6.4 million in 1993, mainly coconut cream and automotive wiring harnesses (Yazaki car parts plant)
- limited manufacturing for local market, and small-scale ecotourism ventures
- significant mixed subsistence agriculture (forestry and fisheries)
- Australian aid was A$12.6 million in 1995–96. Other donors include Japan, New Zealand and the European Union.

Tonga

- per capita GNP of US$1,640 (1994), rising slowly
- population growth rate 0.8 per cent per annum
- main exports are squash (80 per cent) and vanilla. Total exports f.o.b. of US$20.3 million (1993/94 estimates)
- limited manufacturing for local market, and small scale tourism
- Australian aid was A$11.4 million in 1995–96. Other donors include New Zealand, Japan, European Union, UN agencies and Asian Development Bank.

Tuvalu

- per capita GNP of US$760 (1994), and static or declining
- population growth rate 1.7 per cent per annum
- mixed market, subsistence economy, with 80 per cent of the population involved in fishing and agriculture. Limited exports of copra. Effectively no local manufacturing or tourism
- Australian aid was A$3.9 million in 1995–96. Other donors include New Zealand, United Kingdom, Japan and UNDP.

Nauru

- little comparable data are available on Nauru. Its economy is completely dependent on exploitation of phosphate resources, which is expected to cease in the next 20 years
- disposable household incomes were estimated at around US$4,500 in 1992, based almost entirely on returns from phosphate production. Other primary production is confined to minor plots of tropical fruits and vegetables (including coconuts and pandanus)
- population growth rate 2.9 per cent per annum
- Australian aid to Nauru was A$3 million in 1995–96.

- Micronesia includes Kiribati and Nauru, with populations more culturally and ethnically mixed than Polynesia, including significant affinities with Southeast Asia and longer periods of contact with the international community.

With such evident diversity across the South Pacific region, it is apparent that specific growth and economic development strategies need to be tailored to the prevailing circumstances within each small state (including natural resources, sociocultural and political/economic conditions). For example, in several small island states (such as Kiribati and Tuvalu) traditional island customs militate against conventional 'Western style' private sector development, with their emphasis on communalism.

Constraints to economic development

There are commonly recognised constraints to the development of international trade and investment flows for small states including

- small domestic markets and problems of economies of scale in production
- typically limited natural resource base and narrow human resource base
- many constraints in related infrastructural and institutional areas arising from small size and difficulties of achieving 'critical mass' scale economies.

In the South Pacific region however, these common constraints are accentuated by a host of compounding factors. Indeed, as described by the World Bank, developing Pacific island countries face a 'unique set of development challenges', including

- extreme isolation from major world markets
- archipelagic land resources with difficult internal transport
- vulnerability to natural disasters, particularly tropical cyclones in most states, and earthquakes in several
- political instability in some countries
- high population growth rates in some countries
- high labour costs and low labour productivity
- complex land ownership systems, which can limit conventional capital formation
- 'inherited' colonial practices and policies which may not be appropriate
- fragile ecosystems, including special threats arising to the low-lying island countries from possible future 'greenhouse' ocean level changes (World Bank 1996b).

Taken together, there is wide agreement among analysts that the South Pacific region does face a 'special' set of constraints to conventional economic development focused on increasing international trade and investment flows. Nevertheless there is a broad consensus that the promotion and development of a viable commercial sector is a fundamental requirement for future sustainable economic development in the region.

Future economic prospects

It is apparent that the South Pacific region remains heavily reliant on aid flows from the international community. But it is widely acknowledged that the island economies have performed poorly in recent years, especially in terms of per capita income. In 1993, developing island countries of the South Pacific reportedly received an estimated aid total of US$350 million (approximately 13 per cent of their GDP). However, real GDP per capita growth has been low, estimated to average only 0.4 per cent per annum over the period 1983 to 1993.

This situation of indifferent economic performance despite high levels of external assistance, adequate natural resource endowments in some island states, and relatively prudent economic management, was labelled as the 'Pacific Paradox' in 1993 by the World Bank. Other observers find these results as less paradoxical given the array of development constraints faced by the South Pacific small states. Moreover, these regional level economic results combine together the performances of a diverse range of small island countries, some of which face far greater constraints to growth than others.

With respect to future economic growth prospects in the South Pacific small states, there are broadly two views

- cautious optimists—the more-or-less conventional wisdom is that the Pacific island states are making some progress, albeit slow and decidedly patchy, towards building sustainable economies. As expressed in the recent World Bank survey of the region (1996b), they are building a 'resilient economic base for the 21st century'.

- pessimists—another view of the real economic prospects of the island economies, in conventional export-led growth terms, is far less sanguine. This pragmatic view holds that in general the small island economies are inherently 'uncompetitive' in their current forms, and future international aid support on an indefinite basis is unlikely to be long-lasting. In this view, these economies are going out backwards, and prone to major and fundamental 'corrections' to adjust to the newly emerging economic realities of the global marketplace. A current example of such fundamental change is now taking place in Cook Islands, with a planned 60 per cent reduction of public sector employment begun in mid-1996, as well as salary cuts exceeding 60 per cent for remaining public sector employees.

Irrespective of this divergence of views, there is general agreement that a practical focus on development of international trade and investment opportunities in the small island economies is extremely important (if not crucial) for their future economic well-being. Marginal gains can always be achieved by addressing specific obstacles to developing trade and investment (while recognising that major gains may necessitate more fundamental realignments of the economic structures of these small states).

Supply constraints

While future growth requires an orientation towards international trade and investment, it is apparent that limited resources (both natural and human) dictate that labour-intensive agriculture and manufacturing strategies (which have been successful elsewhere) show little promise. Rather, the general principles of comparative advantage suggest a twin approach to future growth

- maintain and intensify the development focus on available natural resources —fisheries in all states, forestry and mineral resources where they exist, and land-based agriculture for at least the domestic market combined with some specialist agricultural exports and agro-processing. While there have undoubtedly been many 'failures' in this context in the

South Pacific, there have also been some 'successes', such as fresh fish exports from Solomon Islands; prime beef and veal exports from Vanuatu; squash exports from Tonga; and tuna jerky production in Kiribati.

- diversify the economic base of the small island states into services, in particular tourism—it is evident that, despite various difficulties, tourism offers considerable potential to the small states for employment and foreign currency earnings. Recent growth throughout the South Pacific has been encouraging, though most of the tourist arrivals have been in other South Pacific nations (primarily Fiji). For the seven Commonwealth small states, only Vanuatu currently has a significant tourist industry.

- Solomon Islands needs air access to Australia upgraded to activate various tourism ventures in the country. Definite tourist potential is based on range of natural and special interest attractions (such as World War II relics and battlefields).

- Western Samoa has considerable tourism potential subject to appropriate investment strategies and air access.

- Tonga has reasonable tourism potential, though limited by small size of the country, and air access restrictions.

- Kiribati has some specialist tourism prospects (World War II relics and battlefields), Christmas Island (fishing and bird watching) and eco-tourism.

- Tuvalu and Nauru have minimal prospects.

Concerning commodity manufacturing, there appears little or no scope for significant growth in this field, except for selected import substitution activities. The array of factors militating against conventional manufactured exports is daunting, including high labour costs, low productivity, high transport costs, high input costs such as utilities, and lack of raw materials and a supporting industrial infrastructure.

The only known manufacturing export success story in the region is Yazaki in Western Samoa which provides automotive wiring assemblies to the Australian market. This factory commenced operations in May 1991, and now reportedly employs more than 3,000 people and is undoubtedly the largest single private sector employer in the region. Few details are available on this venture, such as the financial incentives offered by the Government of Western Samoa for its establishment. Without further detailed knowledge on the project it is difficult to comment on its real economic value-added and sustainability, and on the potential for replication of such sizeable employment-generating activities elsewhere in the region.

Infrastructure constraints

Basic infrastructural constraints constitute major impediments to the development of international trade and investment in the small island states, and there are few grounds for optimism that these constraints can be quickly addressed. Evident problem areas relate to 'hard' infrastructure (such as transport facilities, power generation utilities, communication networks, and so on) as well as 'soft' infrastructure (such as supportive commercial structures, market intelligence, export promotion services, and so on).

There are at least three successful strategies which the small states in the region have adopted.

As technology advances occur, it is possible to overcome at least some of these infrastructural constraints. For example, telecommunications within the region have improved markedly in recent years, partly addressing the inherent difficulties of extreme isolation. In some instances, the small size of states can actually be an advantage in this context, making easier the introduction of new technology and having the ability to 'leap frog' over conventional hurdles to change arising from entrenched systems by adopting 'state of the art' technology where appropriate.

By pooling resources and adopting a regional approach, the South Pacific small states have made some progress in important sectors such as shipping and air services. Nevertheless, it is evident that much more might be done to upgrade regional airline operations (such as reviving the Air Pacific regional airline concept) and enhancing regional shipping operations through Pacific Forum Lines.

Specific commercial initiatives can be taken in support of economic development, such as the recently established Pacific Islands Investment Facility (PIIF). This fund was set up by IFC specifically to address the shortage of equity or risk capital in the region, and is aimed at supporting commercially viable projects in the range of US$0.5–5 million. This fund has had a rapid take-up in the first two years of operation, and appears likely to attract strong further support from international donors keen on promoting viable commercial ventures in the South Pacific.

Administrative constraints

Undoubtedly there are many examples of administrative constraints in the South Pacific small states. Examples quoted by the World Bank's Foreign Investment Advisory Service include excessively detailed application procedures for new investment proposals, and cumbersome customs clearance procedures. Other such constraints are even more fundamental, such as the antiquated business licensing system in Tonga. Appropriate strategies to address such constraints include

- ongoing efforts to streamline existing systems to minimise the impediments to trade development efforts
- where possible, complete abolition of unnecessary administrative constraints on commercial enterprises (such as general business licensing schemes)
- promotion of active dialogue between government and the private sector to allow problem areas to be identified and improvement options to be explored.

Institutional capacity constraints related to trade agreements

The irony for the South Pacific small states is that the worldwide push for a more liberal international trade environment arising from the Uruguay Round multilateral trade agreement and establishment of WTO is almost certainly detrimental to their trading prospects, certainly in the short to medium term. That is, the Pacific island nations have enjoyed a free trade environment for some time, with essentially tariff-free access to Australia and New Zealand under the SPARTECA agreement, and considerable preferential treatment on exports to European Union countries through the Lomé Convention.

With tariff barriers declining throughout the world, current trading advantages enjoyed by the Pacific island nations under SPARTECA and Lomé will dissipate. In addition, there is a strong possibility that the overall terms of trade of the island countries will deteriorate in the context of a wider global competitive market. That is, prices for traditional commodity exports (such as tropical tree crops) are likely to diminish, while prices for imported goods to the islands could increase in relative terms. A related difficulty for the island nations is the considerable reliance by governments on public revenue from tariffs (and export taxes), which can be expected to decline under a liberalised trade regime.

Appropriate strategies for the small states in this context include

• reinforcing an economic diversification push into the non-traded services sector, notably tourism

• exploring alternative public revenue raising options, primarily consumption taxes

• adopting a regional approach to international trade negotiations, through the established South Pacific Forum, and regional coordination of trade policies

• consideration of unilateral adoption of parallel trade and investment liberalisation measures, such as promulgated by dynamic new trading blocs (particularly APEC), rather than attempting to obtain formal membership of such regional groupings. In this way, the small states can partly avoid being marginalised by exclusion from the major new trade groupings.

General policy constraints

There is a host of issues which can be addressed by small states in this context to reduce evident constraints on trade and investment growth. Typical examples include

• high rates of taxation, and direct taxes on exports

• absence of various financial support measures to exporters

• lack of an export culture, and inappropriate industry policies with respect to import substitution and export promotion.

However, one issue of special significance to many South Pacific states is prevailing foreign exchange rate policy. Many observers view the comparatively strong local currencies in many states as being unrealistic. Strong exchange rates have been supportable primarily due to inflows of funds from aid grants and soft loans, as well as from remittances from foreign workers in some countries. However three of the small states (Kiribati, Tuvalu and Nauru) do not have separate currencies, and use the Australian dollar.

Undoubtedly there are strong domestic political reasons for maintaining strong local currencies in the other states (Solomon Islands, Vanuatu, Western Samoa and Tonga), given the high import content of local consumption. Nevertheless, a managed depreciation of local currencies over a reasonable period would appear a prudent strategy, to give extra support to develop service industries such as tourism as well as additional incentives to exporters. Such a deliberate strategy would also provide a signal to the international community that the small states of the South Pacific are cognisant of global realities, including a realistic assessment regarding the likelihood of the indefinite continuation of international aid funding to the island nations in general.

Export promotion services

In general, the seven small states of the South Pacific provide only minimal or non-existent export promotion services at the national level. This situation clearly reflects one of the many constraints on developing international trade in small states arising from the lack of economies of scale.

At the regional level, however, some progress has been achieved through the South Pacific Forum, in particular the Secretariat's Trade and Investment Division based in Fiji. The Forum now coordinates the South Pacific Trade Commission activities, with offices in Australia (Sydney) and New Zealand (Auckland). Late in 1996, a new office was opened in Japan (Tokyo). Services provided cover three main areas: trade and business development; investment facilitation and promotion; human resource development.

Further assistance with export promotion at the regional level is provided by the South Pacific Project Facility (SPPF) based in Australia (Sydney). SPPF's focus is on developing productive small and medium-sized private sector enterprises in the South Pacific, and has activities in all states except Tuvalu and Nauru. Emphasis is given to projects with the potential to stimulate export earnings and productive employment. This IFC initiative was established in 1991, and has recently received an extended mandate for another five years of operation, and can be considered a successful regional initiative in this context.

Niche markets

Considerable efforts have been expended over many years to identify product ranges and niche markets that can serve as a basis for developing sustainable trade for the South Pacific small states. There have been mixed results in this regard, ranging from new agricultural exports (coffee, cocoa, spices, tobacco, and so on) with varying degrees of success and failure, attempts at new marine exports (black pearls, seaweed), and some spectacular failures, such as large scale aquaculture (including the Christmas Island shrimp farming fiasco in Kiribati in the 1970s).

One approach has been to promote activities which exploit the remoteness and isolation of the small island states, including

- military bases, weapons testing, chemical and hazardous waste storage
- transhipment of dangerous cargoes
- offshore quarantine establishments
- satellite communications stations, and wireless and cable relay stations
- rocket launching facilities along the equatorial belt
- prisons and penal settlements
- biological conservation stations, and baseline monitoring and scientific research
- export of pathogen-free crops or livestock
- export of unique products (such as flora and fauna) and manufactures (such as handicrafts)
- philately and coins.

All of these activities, and many others, have been promoted and/or attempted in the South Pacific, with mixed success. For example, at one time during the 1980s, the value of Tuvalu's exports of stamps was greater than for copra, and the island's Philatelic Bureau (a joint venture between the government and a UK firm) was the largest employer in the country.

Other island countries have promoted the planting of high-value tropical hardwoods (such as mahogany) which in the South Pacific area are free from pathogens which affect these timbers in other tropical regions. Most of the South Pacific small states (with the probable exception of Nauru) already achieve modest export earnings from local handicraft production unique to each island state. Some of the other activities however (such as weapons testing and storage of hazardous wastes) attract minimal enthusiasm.

Part of the difficulty with concentrating on niche markets and products is that, once a 'winner' is found, it is likely that lower-cost international competitors will soon arise to capture the market. A current case in point is the recent success story of squash exports from Tonga to Japan. Reportedly due to recent supply problems in Tonga (from a drought period), it is understood that Mexican producers are in the process of capturing this specific market.

Another broad approach to promoting sustainable development in the small states has focused on new and emerging technologies. For example, new power generation methods (solar, wave, wind, geothermal, OTEC—Ocean Thermal Energy Conversion) may all have long-term applications of benefit to the islands, though success to date has been confined to some small-scale solar powered units in isolated locations.

There has also been excitement generated from time to time with new mining exploration and extraction technologies, including harvesting of offshore polymetallic nodules. Some considerable success has been achieved in new gold exploration theories, in particular epithermal gold deposits with potential benefits in the volcanic islands (Solomon Islands, Vanuatu and possibly Western Samoa). Tonga has persisted in efforts to locate commercially viable petroleum resources based on identified trace deposits, without success to date. The atoll states of Kiribati, Tuvalu and Nauru have minimal prospects in this context (apart from mainly completed extraction of natural phosphate deposits).

Clearly, the island nations alone do not have the technical and financial resources to provide the research and development effort required to establish these new technologies and processes. However, with international support, it seems feasible that some advances can be made which might benefit island nations over the medium to long term.

Yet another approach to developing a sustainable economic base for some South Pacific states has focused on the provision of financial services, including offshore banks, tax shelters, and related services (including vessel registers, passports for foreigners, and so on). Vanuatu has achieved some success in this regard, primarily with respect to adding modestly to public revenues, but creating little employment in the country. The Tongan scheme of providing passports for foreigners has been of dubious merit. The broad conclusion with respect to the future prospects of the exotic financial services industry in the South Pacific is not promising. Metropolitan states worldwide are tightening international tax arrangements, making legitimate tax havens generally obsolete. This is particularly the case for Australia, which has in the past been a major source market for tax havens in the South Pacific.

Another mooted activity in this context is the gaming industry, including casinos, offshore gambling, and specialist lotteries. However, this industry is now opening up worldwide and particularly in Australia and New Zealand, and the 'windows of opportunity' in the South Pacific region for such operations, which may have existed in the past due to legislative constraints in mainland jurisdictions, appear limited to relatively small-scale activities in association with other established tourist attractions.

On balance, it appears the small states need to maintain the focus on sustainable exploitation of natural resources (both land based and marine) and take maximum advantage of specialist agricultural and marine exports, agro-processing, and minerals where possible. States should also seek to obtain higher returns from such activities (through access fees paid by fishing nations, royalties on timber; and so on). Second, the diversification of their economies into services, particularly tourism, needs primary attention. The small states can also benefit from some 'exports' of labour, such as seamen from Kiribati and Tuvalu working for foreign lines and remitting income to their countries. However, Tonga's recent enthusiasm for more general 'guest worker' schemes with mainland states has not been reciprocated.

Attracting inward investment

Each of the South Pacific small states (with the possible exception of Nauru) makes modest efforts at the national level to facilitate business development, and where appropriate to attract inward investment. Needless to say, the inherent constraints of small size and diseconomies of scale militate against such efforts. However at the regional level there is a reasonable institutional framework to support inward investment promotion, including

- Forum Secretariat, Trade and Investment Division
- South Pacific Trade Commission
- South Pacific Project Facility.

In addition, there are various other organisations which play a role in this context, including the Asian Development Bank, UNIDO, ILO, Centre for the Development of Industry of the European Union, bilateral aid agencies, non-government organisations and various private sector organisations.

Further institutional support for attracting inwards investment is provided to South Pacific small states (except Tuvalu and Nauru) by the World Bank's Foreign Investment Advisory Service based in Sydney. The most significant constraints to attracting foreign direct investment are seen to be

- access to land, with problems of gaining secure titles in customary land ownership regimes
- investment approval mechanisms can be tedious and complex, lacking transparency and consistency
- restrictions on hiring expatriate workers by investing foreign companies.

Various strategies can be adopted to address these complaints, ranging from gradual approaches to simplifying and codifying procedures and regulations, to more fundamental approaches such as abolition of the work permit system for foreigners. General land reform measures are clearly more problematic, but governments can usually assist in these matters when the will exists to do so (such as by provision of dedicated industrial land for foreign investors, and by targeted negotiating support with traditional landowners for major investment proposals, such as tourism resort ventures).

A final comment regarding the institutional framework existing in South

Pacific small states for promoting trade and development is the widespread phenomenon of 'aid overload'. That is, it is readily apparent in the small states that considerable time and resources are 'wasted' in the process of handling the many, generally well-intentioned, aid agencies, investigatory missions and similar interventions by the international community. It is an unfortunate fact that skilled and competent decision-makers in both the public and private sectors of the small states are in limited supply, and these key people tend to be 'swamped' by the many calls on their time generated in this context. There are still substantial gains to be made through better coordination of the diverse efforts of the international aid agencies, as well as greater focus and concentration of aid efforts to achieve coherent results rather than dissipating efforts over too many separate activities.

Recommendations

It is important to recognise the considerable diversity between South Pacific small states, including natural resource endowments, cultures, population sizes and socioeconomic conditions. Estimated income levels are modest, ranging from under US$500 per capita GDP in Kiribati to nearly US$1,400 per capita GDP in Tonga (see Table 2). However, income statistics from the South Pacific need to be interpreted with considerable caution, due to widespread participation in subsistence production activities and also constraints on data collection and precision.

In addition to the common constraints found in all small states, the South Pacific small states have to confront further constraints to international trade development, including extreme isolation, archipelagic land resources, vulnerability to natural disasters, complex land ownership systems, fragile ecosystems, and a range of other constraints.

Economic growth performance in the South Pacific small states has been generally poor in recent years, with real GDP per capita estimated to have increased only 0.4 per cent per annum for the region over the period 1983–93. The conventional wisdom is cautiously optimistic that progress towards self-sustaining economies is being made, albeit slowly. Other observers are more pessimistic, and see the need for the South Pacific small states to undertake fundamental economic restructuring to adjust to the emerging realities of the global market. Nevertheless, there is general agreement on the importance of further attention to international trade development in the small states.

Three strategies are suggested for addressing the wide range of constraints related to provision of infrastructure, both 'hard' and 'soft'.

- Small states can take advantage of major technological advances in some infrastructure, often more easily than larger states.
- By pooling resources and adopting a regional approach, some essential services can be better provided (such as air and shipping).
- Specific commercial support initiatives, such as the Pacific Islands Investment Facility, can address shortages of equity and venture capital in the region.

With the array of administrative constraints impeding international trade development, three strategies for success may be to continue efforts to streamline existing systems; abolition of unnecessary administrative constraints where feasible; and promoting more active dialogue between government and the private sector to address constraints.

The small states have little option to adopting a regional approach to international trade negotiations, and may need to adopt unilaterally parallel trade and investment measures to 'join' in major trade blocs, particularly APEC.

Considerable efforts have been expended by the small states to identify and exploit niche markets. There are also opportunities for the productive application of new and emerging technologies, such as in power generation and mining. Prospects for successful growth of financial services industries and gaming activities appear to be limited.

Significant attention is already provided to promote inward investment to the South Pacific small states. However, some key constraints are gaining access to land in customary title regimes; complex investment approval mechanisms; and restrictions on hiring expatriate workers.

A general institutional problem for South Pacific small states is 'aid overload', and there are still substantial gains to be made from better coordination and great focus of international aid efforts.

Note

This article is based on a brief review of recent literature readily available on trade and economic development in the South Pacific small states. Interviews were also conducted with relevant officials of AusAID in Canberra, and with officers of three specialist international agencies dealing with trade and investment activities in the South Pacific as follows

- Foreign Investment Advisory Service, World Bank, Sydney (covering all small states except Tuvalu and Nauru)
- South Pacific Project Facility, IFC, Sydney (activities in all small states except Tuvalu and Nauru)
- South Pacific Trade Commission, South Pacific Forum, Sydney (covering all small states).

For the purposes of this article, a 'small state' is generally defined as having a population less than 5 million, an area below 25,000 square kilometres, and GNP below US$6 billion. There are seven Commonwealth small states in the South Pacific region (see Table 1).

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