No blue skies yet in the South Pacific

Rowan Callick[1]

The 1990s have opened with an avalanche of widely welcomed if as yet semi-digested changes in the way the world works. Thanks to the rapid advances in communications technology, people in the South Pacific have watched these events with considerable fascination. A video library in Port Vila, for instance, early in 1991 chalked up outside the store every latest tape of Gulf battles to lure customers.

But what place is there for the South Pacific in this rapidly changing world—except as a spectator?

The region is now 10–20 years down a largely independent path. The decades before that of mostly benign colonial neglect presented an overhang of guilt and obligation expressed by financial and other assistance on the part of the colonisers that is now for the most part evaporating, especially as other international priorities are emerging. Now the South Pacific must compete for multilateral development capital with Eastern Europe, with Cambodia and probably soon Vietnam, and with African nations shedding their command economies along with their single-party constitutions.

Commercial capital for the region has always been constrained by the comparative cost and difficulty of assessment of such small markets, so distant from metropolitan centres. Now Latin America is rapidly repositioning itself, thanks to rediscovered economic discipline, as a strong target, as to a lesser extent are South Africa and South Asia—while the Australian-based commercial banks, which alone know and understand the South Pacific well, are themselves operating under the constraints generated by a decade of optimistic domestic over-lending in the 1980s. Over the next few years, predicts business economist David Hale of Kemper Securities, Chicago, 'The borrowing and investment needs of the developing countries and of "regions of market re-entry" could expand into the US$100–200 billion range at a time when credit demand in the old industrial countries also will be recovering'.

The prospects for export incomes from the traditional South Pacific tree crops depend very much on the pace and timing of a recovery of the US economy. Barring an uncharacteristic, inflationary dash for higher demand by this US government, commodity prices—including those of copper and gold—are most likely to increase modestly, at best. The region cannot expect a terms of trade windfall.

Gestures are consequently being made in some South Pacific centres to reply to the aspirations–income gap through the practical means available: fiscal tightening, diversification of commodities produced, improving efficiency and output, and attempting to attract secondary industry.

But success is spotty, inevitably so given the cultural inhibitions that continue to dominate regional decision-making. South Pacific societies have traditionally been preoccupied with distribution rather than production (survival of the fairest), and the highest status accorded the greatest distributor. Economic growth has tended to be assumed. And problems have been externalized; for instance, a failure to produce goods or services adequate in quantity, quality or timeliness, is often blamed on the capriciousness of the market, and the reluctance of a foreign investor to agree to conditions laid down by the host government is attributed to greed and a desire to exploit.

Island nations have for a decade focused much of the modest efforts of their trade offi-

1 Rowan Callick is a senior writer with *Time* Australia magazine. He has worked as a journalist in Papua New Guinea for 11 years. He has been leader writer for the *Australian Financial Review*, for which he writes a column on Pacific affairs, and was consultant to the Australian Joint Parliamentary Committee on Foreign Affairs, Defence and Trade in its review of Australia–Papua New Guinea relations.

cials on securing slight enhancements to the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), Canute-like, without apparently detecting that the tide of free trade is surging forward to undercut, eventually, the advantages SPARTECA affords islands exporting to Australia and New Zealand. A revised Australia–Papua New Guinea Trade and Commercial Relations Agreement (PATCRA) was finally signed in 1991 with similar expectations of its ability to effect the improved trade flows it merely facilitates.

The American dream

The external 'saviour' of 1991 has been not President Lyndon B. Johnson, still the subject of a cargo cult in Papua New Guinea's New Ireland, but Johnson's present successor, who met island leaders at a unique summit in Honolulu in October 1990. This followed a visit by congressmen led by the influential Stephen Solarz, whose May 1990 report—archly titled 'Problems in Paradise'—urged an enhancement of the United States' limited economic and educational programs and of its diplomatic representation in the region (in 1989 US aid was only US$17 million, against $369 million from Australia, $103 million from New Zealand, and $93 million from Japan). A persistent theme presented to the Solarz mission, its report stated, was that 'the United States should be doing more to assist the struggling economies of the South Pacific, not only in terms of foreign aid, but also in terms of investment, trade and tourism promotion'. Surprise, surprise.

At the Honolulu summit, President Bush told the assembled island leaders: 'Like the early Pacific navigators, who braved the seas alone so that others could follow, you have shown leadership in promoting democracy and economic progress. We wish you all the best.' Cook Islands Prime Minister Geoffrey Henry responded: 'We in the Pacific have tended to think your country is too far away and too concerned with the problems of other places and you weren't as interested in the problems of the people of our region. You have changed that quite considerably, singlehanded.'

The chief hope to emerge from the Honolulu sojourn was of a Joint Commercial Commission between the United States and the island nations, according to Bush 'to identify and address commercial opportunities and trade concerns'. This Joint Commercial Commission concept was pursued through 1991, especially by Henry and Fiji Prime Minister Ratu Sir Kamisese Mara, who had their differences over its location. Fijian Jioji Kotobavalu, former director of the South Pacific Applied Geoscience Commission (SOPAC), was appointed executive secretary of the commission, which—it appeared to be finally agreed—was to be established modestly within the East–West Center in Honolulu, where the Pacific Islands Development Program is also based (and whose location would act as a salutary reminder of where the real wealth resides in the Pacific: north of the Equator. The current budget for the state of Hawai'i is US$10.5 billion, about three times that for all the South Pacific states, including Papua New Guinea, put together.) The reality of the limited extent of the American commitment has dampened earlier over-inflated hopes, which had involved a desire to find more powerful and prosperous patrons than Australia and New Zealand, who are excluded from the Joint Commercial Commission process. Disappointment at such limits to official US interest in the region was also addressed in September by Papua New Guinea Prime Minister Rabbie Namaliu in observing that it was American enthusiasm for the Saudi Arabian candidate for the presidency of the UN General Assembly that had swung support from Papua New Guinea's own foreign minister, Sir Michael Somare.

The Forum

It is the South Pacific Forum that remains the principal barometer of regional concerns. And although much of the Forum's most important business is transacted by officials, and through Forum programs, nevertheless it is significant that at the 1990 Forum meeting, in Vanuatu, the island leaders did not find time in two days even to discuss economic issues. In 1991 in the Federated States of Micronesia, the Forum merely 'expressed concern at the continuing difficult economic situation facing many member governments', and noted there was 'a key role for regional action'. The question of what such action should be was left chiefly to the imagination of the new Forum secretary general, former Kiribati President Ieremia Tabai, an accountant, who arrives in the job with massive respect and considerable expectations of a stronger, more practical and more technical focus for the organization. The Forum leaders did go on to urge 'all participants in the Uruguay Round to commit themselves to a comprehensive and successful end to the negotiations this year, and underlined the importance of fair trading systems to Forum member countries'. And, of course, a favour-able GATT outcome would benefit island economies—though most are members of the Lomé convention, and thus enjoy privileged access to European markets. Nevertheless, Papua New Guinea—the largest South Pacific nation and the one with most to gain from a Uruguay Round breakthrough—is a member neither of GATT nor of the commodity exporting Cairns Group (of which Fiji is a member).

At the top of Forum agendas for the last three years has been the environment. And the fast growing concern of islanders to protect their fragile world should not be underestimated. It is no coincidence that the Forum's greatest concrete success to date, considerably enhancing its international prestige, has been its success in outlawing drift net fishing. Such a concern clearly relates closely, too, to economic opportunities; the pollution of lagoons, the destruction of rain forests, the loss of fisheries, considerably diminish opportunities for tourism and other sustainable revenue-earning activity.

The Forum countries are only bystanders (via the Forum's secretary general) of the Asia–Pacific Economic Cooperation process largely set in train by Australia; and formal relations with ASEAN have not advanced as rapidly as some Forum members had hoped, although there have been exchange visits of officials. Japanese political and business relations with the ASEAN countries have grown; Japanese interests have acted as catalysts and leading investors. It is possible to envisage ASEAN nations doing the same with those South Pacific countries with adequate tradeable resources.

Doing business

The Forum leaders also called for greater emphasis to be given to 'issues involving the private sector, including trade and investment'. Yet the Forum has had profound problems in communicating effectively with business, or involving business in its activities. In part this is because there is no regional business body. The Pacific Islands Association of Chambers of Commerce flourished briefly, then expired more than two years ago—in part because of its doomed and self-defeating attempts to secure governmental aid. Although there are active business councils promoting private sector contact between Australia and Papua New Guinea, and Australia and Fiji, there are none that cover the smaller island countries. A small step was taken towards regional business cooperation with a meeting in Suva in mid-1991 of 34 participants from 15 countries, invited by Australia to identify their development needs.

Forum leaders, although virtually to a man (there are exceedingly few women in South Pacific politics) interested in benefiting personally from passive business involvements, find the private sector difficult to deal with—in part because in most countries the business worlds retain a high proportion of non-islanders, and in part because their governments have grown accustomed to dominating (as did the colonial administrations before them) their economies; the Papua New Guinea government, for instance, has direct control of a third of the national economy. Traditional leadership in the South Pacific is about control as much as consensus, and a leader who voluntarily steps back to accommodate private sector growth—say by deregulating an industry—inevitably feels more vulnerable. If the companies that are thus freed to grow have a high foreign component, the leader is even more vulnerable—to accusations of 'selling out' to overseas interests; structures have been established with the sub-text of 'defending' countries against trade and investment, rather than fostering it.

Forms of political accountability vary greatly between island countries (in Papua New Guinea it is the shifting sands of the 109 parliamentarians; in Tonga, the royalty and nobles; in Fiji, the army and the Ratus—the chiefs—will continue to exert considerable influence well beyond the 1992 election), and both business people seeking to adopt a regional strategy and economic advisers seeking to recommend one, constantly need to re-adjust their expectations according to the limits of what politicians can deliver. South Pacific rhetoric is almost invariably impressive, and its masters adroitly modify message and delivery according to the audience; but the reality is too often disappointingly different—especially when it comes to implementation, where good intentions, even those of Prime Ministers, are often not good enough. This is a region whose leaders appeal frequently to tradition, with the sense of security it affords, to explain and to modify the approach they take to facing the challenges of the present and future. An understanding of when such appeals are spurious and when genuine is a valuable tool in analysing the region—even when it cannot change irrational or regressive outcomes.

Corruption is another fact of regional life that must increasingly be factored into any account of economic distortions and obstacles to rational investment. Although Australians and New Zealanders—often those who failed in business at home—have been willing to play this game, its occurrence became widespread in the 1980s with the rapid circulation of Asian investors through the region, given a political impetus by Malaysia's official hostility to Australia and by Taiwan's desire to outmanoeuvre China, already gaining recognition by Nauru, the Solomon Islands, Tonga and Tuvalu.

Islands free trade

The Melanesian Spearhead Group—Papua New Guinea, Vanuatu and the Solomon Islands, with as observers the *Front der Liberacion National Kanak a Socialist* (FLNKS), the peak political body of the kanaks of New Caledonia—in 1991 invited Fiji to join it (by year's end there had been no response), and considered establishing a free trade area. This appears at first to be a positive move. But if implemented, it would arouse discussion about erecting commensurate walls to external trade; and what would be traded between the Melanesian nations? Volumes are very low at present. The likely beneficiary would be the Solomon Islands, whose wages are the lowest, considerably so *vis-à-vis* Papua New Guinea; employers would be tempted to shift some operations there, and export back into Papua New Guinea. Intra-Pacific trade is dominated at present by Fiji, with about 80 per cent of the total. Yet overall the prospects are very limited; all intra-island trade is less than 5 per cent of the total, and did not grow during the 1980s. Fiji trade minister Bernado Vunibobo recently made a more interesting proposal: a free trade area linking Fiji with Australia and New Zealand.

The political merry-go-round

In Papua New Guinea, the Solomon Islands, Vanuatu and Fiji, new central bank buildings preceded parliament buildings—but this cannot be taken as a symbol of economic discipline driving the political process; the reverse has tended to be the case.

The region is now in the middle of a process of political turmoil that will determine whether as the 1990s progress, it will be led by a new breed of South Pacific technocrats hungry for economic change, or by the cunning old foxes who are manoeuvring for a come-back. The outcome will make more difference than a tonne of research or a regiment of advisers.

The two major countries, Papua New Guinea and Fiji, both go into elections in 1992. The 'technocratic' ticket is represented essentially by Namaliu and by Fiji's finance minister, Josevata Kamikamica. Vanuatu is already in the throes of considerable change after the ousting of founding father Walter Lini by younger Vanua'aku Party leaders, among the most capable in the region, but themselves being edged out at the national election in December 1991. Geoffrey Henry and Bernard Dowiyogo bring an element of educated energy, if also of unpredictability, to the Cook Islands and Nauru respectively. Tongan Crown Prince Tupouto'a, already Foreign Affairs and Defence Minister and taking on increasing responsibilities, has one of the best-trained and most perceptive minds in the South Pacific. And the Forum secretariat itself is set for change with the arrival of Tabai, who introduced Kiribati to independence with a degree of order and common sense, balancing the recurrent budget with domestic revenue while tailoring the development program to the external funds available, including revenue from the trust fund established to ensure long-term benefits from the proceeds of the now closed phosphate mine on Ocean Island.

In the 'old foxes' corner might be located Gaston Flosse, re-born to the embarrassment even of France, in French Polynesia; Solomon Mamaloni, whose very identity appears to mystically reflect an element of Solomon Islands' personality and enable him constantly to defy the odds in surviving; Ratu Mara, who—if he becomes President—would retain a considerable degree of his awesome authority in Fiji; Sir Michael Somare, returning to the election fray for the sixth time, waiting and eager to take the lead again should Namaliu slip up; and Sir Robert Rex, Prime Minister of Niue since self-government in 1984. Tofilau Eti, another apparently indestructible leader, has surprised many observers in moving Western Samoa cautiously but substantially towards a more open democratic and economic regime. Both Nauru and the Cook Islands might prove somewhat wild cards through the 1990s: as Nauru's phosphate resource dries up, and it seeks new sources of revenue, in part to compensate for many ill-advised investments of the past (it is suing Australia for compensation, for a higher share of earlier mining revenues); and as the Cook Islands turns towards the French Pacific (its people speak the language of the Tahitians), in part in nervousness of the unravelling of the New Zealand economy with which it is enmeshed.

To follow the background of decisions—or indecision—of their governments and to be able to make reasonably astute predictions, involves comprehending the intricate patterns of political debts and personal, regional and (usually to a considerably lesser degree) party loyalties intertwine. Investors are, of course, only too aware of this requirement for working intelligently and hopefully also profitably in the region, for factors beyond the narrowly economic account, for the most part, for the difference between success and failure. They are rightly sensitive to such factors as provincial government incompetence and crime in Papua New Guinea, and the lack of a constitutionally elected government in Fiji.

As David Hale points out, 'Economic comparative advantage at the end of the 20th century is increasingly a function of public policy in the area of taxation, education and business regulation, not inherited natural resource endowment or the invisible hand of random market forces'. This should be a matter for tremendous encouragement for the largely resource-starved South Pacific. But the battle to rationalize taxation and business regulation still hangs in the balance everywhere except, arguably, in Fiji (though the electoral outcome in 1992 might yet swing the country back into its protectionist cocoon). And the rapid expansion of school enrolments in the 1960s and 1970s has meant that, generally, quality has suffered despite the comparatively large resources devoted to the sector. At the level of higher education, this is emerging as a considerable issue both in Fiji, where the administration of the University of the South Pacific has walked a tightrope since the 1987 coups between provoking a government clamp-down, and abandoning the traditional academic freedoms; and in Papua New Guinea, where the universities in Lae and Port Moresby have found it increasingly difficult to hire staff of the calibre they have sought, and where localization of teaching and research—as pronounced by the new vice-chancellor in Port Moresby, Joseph Sukwianomb—is now the priority. The graduates sought most highly by employers are those from non-government tertiary institutions: the Adventist and Divine Word colleges in Papua New Guinea, and the Atanasi Institute in Tonga.

In the case of the South Pacific, Hale might have added to his list of the functions of comparative economic advantage, access to land. The effective impossibility for cultural reasons of the alienation of land, and thus the difficulty of its use as collateral—it is for most islanders their one and only material security—presents severe constraints to development and growth, while of course holding out on the positive side the continuing if decreasingly attractive option of subsistence survival.

Aid and advisers

The comparative ease of obtaining aid in the 1970s and 1980s tended to encourage statism—an over-dependence on government—and the growth of a class of professional aid seekers, with some of the characteristics of an under-class in an industrialized country dependent on welfare. Aid inflows tend to drive up wages, maintain high values for currencies, and crowd out credit that might have been available for business (though in some countries, aid workers and consultants provide an important element of revenues for the luxury end of the hospitality industry). The South Pacific has suffered no shortage of advice, a proportion of it sound. Consultants have become especially welcome since, if externally funded, their heavy costs do not appear in domestic budgets and they do not upset the sensibilities or promotional ambitions of the host public servants. Even if their analyses and recommendations have been presented many times before, they can act as circuit-breakers—merely by providing their advice on cue, at a fortuitous time in the political cycle for its implementation, providing the justification for overdue reform that politicians and senior bureaucrats in the islands require if they are to change people's lives. Rationality alone is rarely sufficient justification for reform, especially when accountability and debate via the media are minimal. Nevertheless, in practical terms it is not so much consultants as experienced line officers (ideally seconded from their positions in their home countries) who are desperately needed in many countries, as either the private sector or the brain drain have siphoned off some of the best local staff. The process of learning—on both sides, islander and outsider—is most effective over a period of years, not weeks or months. Perhaps the answer is a moratorium on all consultancies for three years. That might allow some time for reading the previous ten years' output.

The World Bank

While considerable public attention has been paid to relations with the United States, while the Forum remains the focus of whatever consensus emerges on political issues, and while the attentions of the Japanese government and investors remain the subject of excited hyperbole, the body growing most substantially in influence in the South Pacific is the World Bank. The Bank division that covers the region also has on its agenda the giant which casts a shadow over Papua New Guinea and the rest of the islands: Indonesia. And the remarkable turnaround in Indonesian economic fortunes from a closed system over-dependent on oil, to a comparatively open economy registering remarkable sustained growth in GDP and jobs, thanks chiefly to investment in manufacturing industry, has clearly given this Bank section a spirit of renewed evangelism based on a big success story born of the classic World Bank restructuring formula: a 'realistic' exchange rate, a system relatively free of distortions, market oriented interest rates, no subsidized capital, a wages policy related to labour productivity, public investment in infrastructure and skills, and a framework attractive to private investors.

The Bank has seven South Pacific members: Papua New Guinea (subject to a separate and intense program of its own), Fiji, Kiribati, the Solomon Islands, Tonga, Vanuatu and Western Samoa. In January the Bank reported on the performance during the 1980s of the six island countries excluding Papua New Guinea. Its report, if produced by any bilateral aid donor or even by an institution such as the National Centre for Development Studies, might have been expected to produce a considerable defensive reaction. As it was, the members later, at a meeting convened by the Forum, felt able to discuss its frequently harsh prescriptions—and proscriptions—quite amiably. Perhaps it is the very multinational derivation of the Bank, with its UN aura, that has led to this level of acceptance.

The chief problem, the Bank reported, has been 'sluggish' growth. The six members recorded an average growth rate over the decade of just 0.6 per cent of GNP, while their populations grew at an average 2 per cent per year. Thus 'there was a significant decline in per capita income'. This is sharply contrasted with similar island countries in the Caribbean—whose economies grew by more than 5 per cent a year on average—and in the Indian Ocean (nearly 7 per cent). Natural disasters and political upheavals helped pin back growth in the Pacific (but not in 1991, when all countries experienced a comparatively benign cyclone season)—but this was balanced by 'massive aid flows'.

In turn this growth problem has been chiefly caused by the region's inability to stimulate private investment in productive sectors. Macroeconomic management has largely been sound, but 'the islands' inward-oriented development has not produced satisfactory results'. Protecting what industries already exist in the islands has driven up local costs so Pacific businesses cannot compete internationally, says the Bank. Government owned businesses have been a burden on the public pocket; over-regulation has stifled growth; and so potential investors have set up their operations in more congenial climes.

In Papua New Guinea's case, the relationship with the Bank developed from the mid-1980s as pressures deriving from the lack of jobs for the country's 50,000 annual school leavers became more keenly felt, chiefly through a soaring crime rate. The country's growth rate had been woeful, and senior economists and politicians sheeted home their problems to Papua New Guinea's founding 'eight aims' which stressed equity and distribution. New planning mechanisms were introduced, including the World Bank-devised public investment program. The country was also then growing anxious about its prospects for overseas support as it needed unprecedented inflows of funds to develop its burgeoning resources industry (in which the government has itself taken major equity stakes, using up all its own access to commercial borrowings). Along with new concessional loans, Papua New Guinea obviously gained a new line of strong external advice; and the Bougainville debacle that led to the closure of the copper mine there in mid-1989 reinforced this growing relationship with the Bank—which brokered fresh loans and corralled donors into a series of annual meetings to review Papua New Guinea's progress and their own roles in it.

The Bank's report to donors for the consultative group meeting in Singapore in May 1991 awarded good marks for 'major progress in all areas of structural reform during 1990 and early 1991'. Wages rose by only 3 per cent in 1990, while inflation was 7 per cent. And the 'special intervention program', part of the new 'caring' face of the Bank (along with its environmental concerns) was praised for minimizing the negative social effects of the post-Bougainville adjustment program. It forecast the country's mineral boom would be of a 'risky and transitory nature', and strongly questioned the state purchase of equity (at 22.5 per cent, the state will be the largest partner in the Chevron-managed Kutubu petroleum joint venture, due to pump oil in the second week of July 1992). It forecast that agriculture prices would continue to be depressed. It blasted the government's failure to spend money on operating and maintaining its hospitals, schools and roads: 'The spending priorities of the government have been oriented towards consumption rather than investment'. It called for privatization, a consumption tax, user-pays fees for urban services, wage rates to be cut adrift from the consumer price index, an end to import protection, and deregulation of transport. The main barriers to growth in Papua New Guinea, the Bank said, are: investment, domestic pricing and transport regulations, and access to land and land regulations.

In Papua New Guinea's case the rhetorical distance between Bank and government is narrow, but implementation is something else. In policy terms, Prime Minister Namaliu understandably declines to follow the Bank's urging and scrap the commodity stabilization funds that have provided a buffer for the great majority of the 3.7 million population that depend solely on agricultural exports for cash—in part because the rural sector is in catastrophic decline, and in part aware that such a course would be suicidal in an election year. But in other areas, policy agreement does not necessarily precipitate action, for example privatization, transport deregulation (Air Niugini retains its monopoly over main trunk routes), a moratorium on new logging permits (the forests minister, Jack Genia, has re-assumed powers to exempt projects from the moratorium at his own discretion, and in November 1991 granted five new permits).

It is difficult to know at this stage whether—despite its growing success rate—the Bank still fails too frequently to take into account political and social factors in assessing the viability of its South Pacific strategies, accepting smooth islands rhetoric and credible capital-city paperwork at face value—or whether it is in fact astutely working a long-term game to win and maintain the confidence of decision makers.

Either way, it remains important for the islands to maintain a close relationship with the Bank. Prospects for increased bilateral support are thin, and a World Bank seal of approval has come to be seen as a key to large-scale projects in the developing world. Tough economic prescriptions such as the Bank's have been written before, but the pills found too bitter to swallow. But today, the gap between islanders' expectations and the reality of national incomes is so large that the Bank holds most of the aces. It has a growing body of support among frustrated businesspeople, and even some bureaucrats and politicians who may yet find it useful to be able to pin the blame on an external 'foreign devil' like the Bank if they are to push through reforms that they have long sought but found illusory. Western Samoa, Papua New Guinea and Fiji are cases where Bank strategies have already made a significant mark.

Labour reform

Along with political and economic stability, and an adequate transport, communications and power infrastructure, human input is obviously critical for growth. Education and health indices differ considerably within the region, but labour structures tend to follow broadly that of the dominant industrial powers, Australia and New Zealand, with central wage bargaining, minimum wages and arbitration commissions with statutory powers, and with unions that essentially only cover the minority industrial sectors, and thus represent urban semi-élites (though unions are virtually absent from Polynesia).

The International Labour Organisation in 1991 began a project aimed at strengthening the administrative capacity of labour departments through the islands, involving 20 consultants—a move which certainly needs to be coordinated with whatever response the islands governments make to the World Bank's urging of labour deregulation as an element of attracting investment. It would be useful for the ILO to include within its remit for 1992 the conduct of state-run pension schemes. The National Provident Funds in Papua New Guinea and elsewhere (with the shining exception of Fiji) have on balance played an inhibiting role to growth—damaging public confidence in savings and investing according to short-term political needs rather than long-term economic strategy.

Taro for tourists

Around the region, two industries appear to be moving ahead in sensible tandem: horticulture and tourism. The market for the former is largely in temperate countries, especially during their winters, and premiums are paid for high quality chilled produce—whether orchids, passion fruit, pumpkins, pawpaw or taro. The planes that bring tourists are needed to transport the produce. It is surely time to start pulling the pin on copra more quickly. Its price is only stable at present because the market leader, the Philippines, is in such strife; once production again picks up, the price will continue to slump inexorably. Tourism is now the largest foreign exchange earner for Fiji, Vanuatu and Tahiti. The international quango, the Tourism Council of the South Pacific, actually appears to be doing its job, and smaller nations too are picking up their game. It is a fragile business, though, and requires political and social stability more than almost any other industry. Poor Papua New Guinea received only 8,000 genuine tourists in 1990, chiefly as a result of crime and of the Bougainville rebellion.

Exporting people

While all island countries—led by the Solomon Islands—record some of the highest population growth rates in the world, emphasizing their need to improve their economic growth performance all the more, the answer of much of Polynesia has been to export its excess population. This is hardly a new phenomenon. Hawai'i and New Zealand were probably populated by Polynesians from what is now French Polynesia. For many years, however, the major source of foreign revenues for both Western Samoa and Tonga has been remittances. In 1991 questions were raised as to how long this can continue. While Australia, Canada and the United States, also targets for migration, were all in recession through 1991, New Zealand, source of the highest proportion of remittance revenues, was plunged into particularly deep economic gloom, and one in three Pacific islanders living there is out of work; the loss to Western Samoa is estimated to be a likely NZ$6 million in 1991. In fact, the New Zealand dependency Tokelau recorded a unique net gain in migration through 1991. The new user-pays approach to the severely pruned welfare state is also likely to hit islanders in New Zealand heavily. And the jobs in the tuna canneries, that have long absorbed Western Samoan migrants to neighbouring American Samoa, look less secure as Thai domination of the sector is reinforced.

A slowdown of such migration may not, in any case, be entirely negative from the long-term economic perspective. It has tended to rob Polynesia of many of its best and brightest, who might otherwise be available at home to help develop growth industries. Some of the same issues occur with intra-regional migration; Tuvalu will lose 600 jobs held by its workers on Nauru as the phosphate mine there runs out during the 1990s.

Tax havens

Arguably the fastest growth industry in the South Pacific is tax havens—which their patrons prefer to have coyly described as 'finance centres'. Vanuatu's was established by its French–British colonial rulers in 1971, followed by the Cook Islands' in 1982. More recently, Western Samoa, Tonga and Nauru have sought to get in on the action, with cheap rates for offshore bank registrations. In March 1991 Vanuatu's centre was employing 389 people, about 300 of them ni-Vanuatu. Its ship registry has almost doubled in three years, attracting custom chiefly from Panama and Liberia. Both Vanuatu's and the Cooks' centres have more than 1,000 companies on their books—chiefly from Asia, but increasingly from all over the world. Australia and New Zealand have acted to cut off most of their domestic companies from making use of the havens. The Vanuatu centre earned about 3 billion vatu in foreign exchange in 1990 (of which about 20 per cent probably found its way into government revenues), but it is doubtful whether the smaller centres are yet providing much national income. As even the Swiss and British banks begin to accept—in the wake of the BCCI fiasco—a degree of previously unheard-of official surveillance, it is possible that some nervous customers may shift to the other side of the globe. The Cooks' monetary board has considerable authority, but only minimal resources with which to discharge it: a staff of two. In the financial year to March 31 1990, the Cooks' centre was expected to attract fees and licences worth NZ$1.4 million. This year both a US congressional committee and the head of New Zealand's serious fraud squad have expressed concern about elements of the South Pacific finance centres and would-be centres. A case might now be made that their very existence could be seen as a deterrent to more active investors.

The coming of VAT

The collection of income tax is prevented, impeded or distorted by the existence of such havens. But in any case, large sections of Pacific populations remain beyond the income tax net. To extend the tax base—on both economic and socio–political grounds (no representation without taxation?)—the World Bank broadly urges a shift towards greater use of indirect taxes that do not discriminate across productive sectors. The value added/consumption/goods and services tax is the Bank's preferred option, at least for the larger countries with more sophisticated collection agencies. Fiji is to go ahead with its 10 per cent VAT on July 1 (the country's new government permitting; and aspiring Prime Minister Sitiveni Rabuka has already said he will review the proposal if he takes the top job after the election likely in April). But Papua New Guinea, despite the presentation of strong arguments for such an impost at a tax summit in October

1991, is not yet ready for such a change—even given the backing publicly by former Prime Minister Sir Julius Chan.

Asian enmeshment

If a painstaking researcher were to plot the journeys of the islands' élites over the last ten years, he or she would undoubtedly register a relentless increase in the travel to and from Southeast and North Asia. This is a highly positive development, opening up the possibility of building—from good personal relations among leaders—new sources of advice and of concessional and commercial capital for the region. However, the South Pacific has yet to demonstrate that the real lessons of the dynamic Asian economies are being learned. Arguably, this is because the relationship to date has been based primarily on constant Asian demand for access to new resources. Investment has then been limited principally to logging ventures, fishing (with the only land activity Taiyo's, in the Solomon Islands) and project aid in the form of prestigious public buildings. The most active engagement has been Japan's in the tourism sector, via EIE's F$300 million Denarau project near Nadi in Fiji, its golf course now gradually emerging; the purchase of the previously erratically managed government owned Mendana Hotel in Honiara; and a considerable spread of involvements in Port Vila, from major hotels to retirement villas. The articulation in 1987 by Japan's then foreign minister, Tadashi Kuranari, of a new South Pacific policy—respect for island nations' independence and autonomy, support for regional cooperation, preservation of political stability, assistance towards economic prosperity and promotion of human exchange—certainly cleared the way for substantial events in 1992 to mark, in a harmonious spirit, the fiftieth anniversary of the most bitter battles of the Pacific War, such as at Guadalcanal and at the Kokoda Trail—and then later, for instance, at Tarawa. It would already seem, however, that such opportunities—which might have done much to kick-start tourism in isolated areas, and to provide positive publicity—are most likely to go begging. However, in May 1991 the region received a significant boost in terms of an enmeshment with North Asian success: Toyota Tsusho Corp bought (for about A$30 million) a 25.5 per cent stake in Burns Philp's century-old operations in the South Pacific, which Burns Philp is seeking to sell down as it transforms itself into an international food group. Toyota—whose vehicles Burns Philp distributes through the region—has an option to take another 24.5 per cent in three years.

No blue skies

The overall prospects for rapid growth in the South Pacific are clearly constrained at present. (Oddly, although Fiji is the nation most clearly eager to start racing, it has in 1991 suffered disappointments in its major revenue earners—sugar and tourism—where others, with less overt commitment to growth, have somehow contrived to move ahead.) This is not yet a region where investors can look to blue skies. But living standards are maintained at an acceptable if disappointing level through the persistence of subsistence affluence through most of the islands. How are the World Bank members in the region surviving the competitive 1990s?

Papua New Guinea

Papua New Guinea began to see something new in 1991: a reformist Prime Minister, able to push long-postponed legislative change through a previously fractious parliament, as the country prepares for an election in mid-1992. Winners will preside over an overflowing pork barrel; gold, copper and oil receipts are set to peak in 1993 and 1994 at about US$2.5 billion per year, compared with 1990's $630 million, and an annual budget of $1.3 billion.[2] With judicious and self-disciplined leadership, this could initiate the broad-based take-off that the country has been desperately awaiting as its unemployed youth grow into an army, and as rural incomes collapse.

The 1991 reforms included giving new governments 18 months' grace from votes of no confidence; a range of changes to the electoral system aimed at reducing the game-playing and aiding quick, honest outcomes; outlawing compensation threats, principally over land use; attacking crime through re-introducing the death penalty, passing a Vagrancy Act to enable unemployed youths to be sent to their home villages, and changing the onus of proof in tribal fighting cases to the defence; simplifying the work permit and visa processes for expatriate staff; replacing an onerous training and localization requirement with a 2 per cent training levy from which credits can be deducted through expenditure on training; partial deregulation of the transport sector; permitting 50–50 joint ventures with foreigners to be registered as local companies; and—

2 See David Parsons and David Vincent, 'High stakes: mineral and petroleum development in Papua New Guinea' in this issue of the *Bulletin*.

though yet, significantly, to be fully enacted—the replacement of the obstructionist old National Investment and Development Authority with an Investment Promotion Authority.[3]

Prime Minister Namaliu is convinced that such economic and political structural reforms will provide the right platform to attract non-mining investment beyond Port Moresby real estate, the glue to which such investment has stuck for the past few years. He claims the World Bank-initiated public investment program will further help build the confident climate required for such investment decisions, by providing 30,000 jobs over the next three years, chiefly in infrastructure projects contracted out to private companies.

His number-one headache started to shift, in 1991, from the rebel island of Bougainville where a softly-softly approach appeared to be gradually winning round, one by one, different areas to the need to re-establish an administrative arrangement with the Papua New Guinea government (although the island's infrastructure, in 1988 the country's most sophisticated, cannot be as quickly re-established; the lion's share of re-investment in agriculture had, tragically, gone into Bougainville before the rebellion began in late 1988).

Namaliu was now confronted with a rural catastrophe extending over the whole country. Export taxes on primary produce and import duties on agricultural inputs (and on manufacturing, fisheries and tourism inputs) were suspended due to the continued collapse of prices for Papua New Guinea's chief commodities. In the June quarter of 1991, the coffee price was down 8.5 per cent on the corresponding period of 1990; cocoa, down 4.2 per cent; copra, down 11.2 per cent; tea, down 19.4 per cent. Palm oil bucked the trend, though, as did logs (because of an improvement in quality). Terms of trade fell 6 per cent overall in 1990, following a 16.1 per cent decline in 1989. Chiefly as a result of the discouragement caused by these poor prices, Papua New Guinea's increasingly smallholder-based rural industries recorded even greater drops in export volumes. Coffee exports in the June quarter, compared with the same period in 1990, fell 66.2 per cent; cocoa, 50 per cent; copra, 83.2 per cent; palm oil, 30.1 per cent; tea, 92 per cent; logs, 7.4 per cent. No wonder Namaliu declined to swallow the World Bank medicine fully, and abolish the stabilization funds. He said: 'We can't just cut those funds off, especially now when prices are so low. The process has to be clearly explained to growers, and that takes time'. More than a third of the whole population—which was assessed by the 1990 census at 3.52 million without Bougainville's 180,000 or so, considerably lower than many observers had assumed—depend on coffee as their major source of cash income.

The country's dangerous dependence on mining was underlined by a slump in the share of non-mineral exports in total exports, recorded in the June quarter, 1991, to 14.7 per cent—against 42 per cent in the same period of 1990. While attempts to reshuffle programs of capital support for the agricultural sector continued uncertainly in 1991, the government merged its own support agencies for the key coffee sector into a Coffee Industry Corporation, which it said would become a model for other commodity corporations. A Spice Industry Board was established to foster agricultural diversification in this promising direction; cardamom, for instance, has already proved a successful and profitable new crop in Papua New Guinea. The government allocated K8 million to subsidizing interest rates on agricultural loans, pegging them at 8 per cent.

Meanwhile, the resources sector continued to power along (the major theme of Papua New Guinea's stand at the Seville Expo in 1992 is to be 'Papua New Guinea: El Dorado of the South Pacific'), the Porgera mine producing more then 1 million ounces of gold in its first full year of production, Ok Tedi increasing its copper output sufficiently to raise expectations of its paying company taxes for the first time in 1992 or 1993, Misima performing smoothly, the Hides gas field—Papua New Guinea's first, opening up exciting new horizons (its proven reserves can power Porgera for another 1,000 years)—being completed, and Kutubu's 265 kilometre oil pipeline being built to schedule ready for production at 128,000 barrels a day in early July 1992. The development of the Lihir prospect, considered the largest gold find in the world this century, remains uncertain. The 80 per cent owner, Kennecott, is a subsidiary of Rio Tinto Zinc, the major shareholder in CRA Ltd, in turn the owner of Bougainville Copper Ltd. Kennecott has been given until March 31 by the government to decide whether it wishes to proceed. The company may yet be waiting to see if there is any prospect of a return to production on Bougainville; it will, if so, be waiting a long time. Exploratory talks were held

3 See Frank Jarrett, 'Set in concrete? The proposed cement clinker plant in Papua New Guinea', in this issue of the *Bulletin* for a description of changes to tariff regulation procedures.

between foreign minister Sir Michael Somare and Chicago-based investor Jay Pritzker about replacing CRA as the mine's owner. But little progress was made; Pritzker would in any case have to have found an operating company, and CRA is internationally regarded as one of the most efficient. The continuation of the Bougainville fiasco led Papua New Guinea's commercial banks to take their losses there on the chin, writing off loans in their 1990 profit sheets. The overall return to bank shareholders' funds consequently fell from 12.3 per cent on 1989 to negative 4.2 per cent in 1990. And the prolonged recession began to take its toll in receiverships, including major distributor and retailer Sullivan's, manufacturer Papua New Guinea Pharmaceuticals, grower and exporter Pangia Coffee, and retail lending house Inter Pacific Finance.

A constitutional challenge by lawyer Peter Donigi which would have had the effect of replacing the British common law vesting of minerals ownership in the state, with the American principle of vesting it in the landowner, ultimately failed—to the collective relief of the mining and oil majors producing or exploring, at huge expense, in Papua New Guinea. (K20 million is common for an exploratory oil well; the Kutubu joint venture is spending K1 billion on construction.)

In the first half of 1991, Papua New Guinea's balance of payments shifted into K95 million deficit, against a K59 million surplus in the same period of 1990, chiefly due to lower foreign borrowings by the government, and higher service payments. Bank of Papua New Guinea Governor Sir Henry ToRobert, perhaps the longest serving central bank boss in the world (18 years and still going strong) castigated the government for a lack of fiscal control in 1990. He said its overspending 'reflects the government's inability to monitor, control and restrain its fiscal operations as intended.' He also expressed concern about government failure to draw down the concessional finance available to it from overseas—chiefly due to public service incompetence. The resulting shortfalls, he said, together with an unplanned K41 million offshore commercial loan, left a domestic financing requirement of K80 million, met by the central bank itself. The public sector debt figure was high enough in 1991 to cause the World Bank to commend continuing abstinence from commercial borrowing for the budget. The overall debt service ratio was expected to decline in 1991 from 1990's massive 45.7 per cent to 34.1 per cent, figures chiefly driven by borrowings for the large new resources projects.

The 1992 budget, handed down by finance minister Paul Pora in November 1991, resisted most of the usual electoral temptations—but also resisted both overdue spending cuts in some areas, and the implementation of the long-announced privatization process (perhaps simply because of the lack of sufficient domestic savings, indicated by the somewhat modest response to a float of very promising shares in a Papua New Guinea-registered oil company). The budget assumed 5.5 per cent inflation (similar to 1991); real growth of 5–6 per cent (from 9 per cent in 1991); no increase in real wages; a stable kina; lower interest rates; and 4 per cent private sector growth (about 7,000 jobs). It introduced no new taxes, but cut the business withholding tax from 17 per cent to 10 per cent; set up a new first home ownership scheme; provided tax exemptions on interest to encourage savings; and introduced a new credit facility for infrastructure development associated with resource projects.

The K50 million Yonki hydro-electric project in the Eastern Highlands, built by Korean giant Hyundai, was opened in February 1991. If Papua New Guinea's massive resources of gas can be intelligently marketed, Yonki should be the last of a series of such expensive hydro generated power stations that Papua New Guinea will need.

It is another Korean company, Halla, with which Papua New Guinea has become most bafflingly—if also typically—associated in an extraordinary cement project, with the Papua New Guinea government providing half the K40 million capital and guaranteeing the rest. Clinker will be imported and ground up to produce cement at Lae, in a factory set to employ 20–30 people. The project will be protected by tariffs on imports. The price will be set to guarantee a post-tax profit on sales of at least 15 per cent. Thus, as with the ill-conceived Ramu Sugar project up the Markham Valley from Lae, long-buried import substitution concepts are being dragged from the grave, to the considerable cost of the Papua New Guinea consumer and business world.[4]

The mystery of such an aberrant move—and the strange delay in implementing the Investment Promotion Authority—may be

4 See Frank Jarrett, 'Set in concrete? The proposed cement clinker plant in Papua New Guinea', in this issue of the *Bulletin*.

unravelled in the Department of Trade and Industry. For, just as former Prime Minister Paias Wingti believed he could foster agricultural growth by increasing funds to the agriculture department, so influential trade and industry minister John Giheno appears to believe that government spending can form the basis for Papua New Guinea's missing manufacturing sector. The 1992 budget quadruples his department's resources, from K4 million to K16 million. It also replaces import quotas by remarkably high tariffs. Part of the plan is to build industrial estates in Lae and Port Moresby. Whatever the rest of the rhetoric, this is clearly highly protectionist, and marks a return to previous failed policies of the 1970s and 1980s. One of the aims has been recorded as encouraging food processing. Yet the very output of the agricultural sector is in dire straits; there is no merit in attempting to establish a secondary industry to complement primary production which is fast shrinking. The most hopeful construct is that this aspect of the budget is purely a one-off election special, providing some reciprocity for supporters. A similar observation might be made about the government's budgetary intention to spend K82 million from the Mineral Resources Stabilization Fund in 1992, when it expects to receive only K72 million; perhaps it is not too late to consider again, ways to sterilize more effectively the resources earnings due to rush into Papua New Guinea, before it registers the long-predicted symptoms of the booming sector, the Dutch disease. Can Papua New Guinea not learn here from tiny Kiribati, whose offshore development fund established from phosphate earnings has proven such a success? (Even tinier Tuvalu, with a 10,000 population, is beginning to look less ruritanian with its investment fund, A$27 million when established five years ago, now swelling to about A$38 million.) And is the high exchange rate—set to soar further in the mid-1990s—still such a subject of dogma that it will not be allowed to slide even by the extent of the crisis in the agricultural sector?

A tax summit held in Port Moresby in October considered options for reform—most prominently, that of a broad-based goods and services tax. One of the New Zealanders largely responsible for the implementation of such a tax in that country six years ago presented the largely positive New Zealand experience. Administratively, a broad-based goods and services tax would be a taxing experience for Papua New Guinea, with its basic infrastructure and the disarray of its public service. More importantly, sales taxes reside at present with the 19 provincial governments, which impose them in very different ways (trade store owners frequently drive long distances down the Highlands Highway to buy their goods inside the province which currently has the lightest sales tax). No early changes are likely.[5]

The World Bank concluded in its report to donors in May that Papua New Guinea was 'coping well in difficult economic circumstances'. Perhaps the most positive sign of this is the style of the terms of reference of the Minimum Wages Board established in November 1991 to lay down national guidelines for the next three years. The Board, according to these terms, will take into account: prospects for growth; continuing unemployment, especially among youth; the 'substantial fall' in employment since the last Board hearings in 1989, created by the Bougainville situation and depressed rural prices; budgetary implications for growth, job creation and law and order; equitable income distribution; and the need to attract investment.

Papua New Guinea is exquisitely poised between success and failure. Much will depend on the quality of leaders elected for parliament in 1992, and on their ability to reverse the nationwide disillusionment with governments and politicians, who appear to many Papua New Guineans too obsessed with dividing up (in advance) the mineral and oil spoils to notice the depths of the rural recession. Unusually, today it is the private sector—whose support made the South Pacific Games in Port Moresby and Lae such a remarkable success in September 1991—that tends to take the lead in nation building.

Fiji

Fiji has, since early contact with the West, taken the economic lead in the South Pacific. Its infrastructure, its secondary and tourist industries and its skilled labour force have developed faster and further than the other island nations. In part, this is because of its geographic location, at a crossroads for shipping and—with the arrival in the 1950s of jet airliners—a vital refuelling stop for air traffic too; this was the early impetus for its tourism industry. It is also because of its cultural and racial mix. The Fijian community combines features of both Polynesian and Melanesian cultures, while the Indian community has saved, re-invested, focussed on educating its

5 See Brian Brogan, 'Taxation policy issues for Papua New Guinea', in this issue of the *Bulletin*.

children and worked hard to build businesses without a basis of land, capital or control of strategic industries.

With the coups of 1987, the region stared, at first aghast, in anxiety to see which economic direction this trend-setter would take. To the surprise of some, it has moved more rapidly towards economic rationalism, essentially following World Bank prescriptions for restructuring, than any other regional country. Still a trend-setter. But unfortunately for Fiji, 1991 did not provide the confirmation of the correctness of this course for which its government had hoped in the lead-up to the 1992 election. Its two biggest foreign exchange earners, sugar and tourism, suffered unexpected setbacks. Sugar production was expected to fall from 461,000 tonnes in 1989 and 408,000 tonnes in 1990 to 400,000, chiefly because of industrial disputes that delayed harvesting by two months. Tourism arrivals were also expected to decline—from 278,000 in 1990 to 264,000—principally because of the recession in Fiji's two major markets, Australia and New Zealand, and because of the boost to domestic Australian tourism provided by the deregulation of air transport there. Gold production declined substantially, due to industrial turmoil over the recognition of a union; the company in effect won this battle, but the war may not be over (there were also debilitating board-room battles for control of the operating company, Emperor Mines Ltd). And timber did not do as well as was hoped, in part thanks to the closure for several months of Fiji Forest Industries after it fell into the red and was eventually bailed out by the Fiji Development Bank.

The overall growth rate for 1991, which the government had hoped would reach 6 per cent, only reached 1.2 per cent, following growth of 11.7 per cent in 1989 and 5.4 per cent in 1990. A recovery to 4 per cent is anticipated for 1992 when sugar production is forecast to reach 438,000 tonnes and tourist arrivals 290,000. Export earnings as a whole were expected to fall to F$1.27 billion in 1991 from F$1.37 billion in 1990, though import reductions have cushioned the impact; the central bank retains draconian controls over the holding of foreign exchange—whose conversion for Fijian trading businesses provides, consequently, a healthy contribution to commercial bank revenues. The 1991 budget reported that a new study of Fiji capital markets commissioned by the government had suggested strengthening the almost moribund stock exchange (the only such institution in the region), credit unions and cooperatives to help mobilize savings; making forward exchange cover available for traders; encouraging enterprises to raise capital by issuing paper domestically; providing export finance and guarantees to encourage exports; and mortgage-backed securities for housing.

Revenue budgeted for 1992 was F$611.7 million; expenditure, F$686.6 million (32 per cent of GDP). The current account deficit was set to rise to F$50 million in 1991, from a F$29 million deficit in 1990; but a F$30 million surplus is forecast for 1990. Net foreign assets were expected to fall from F$381 million in 1990 to F$344 million in 1991; but an F$82 million increase is expected for 1992. Inflation was about 7 per cent in 1991, falling from 8.1 per cent in 1990. In 1992 it is expected to climb back slightly, to 8 per cent, as a result of the introduction of a 10 per cent value added tax on July 1 (unless the newly elected government scraps the plan).

The overall budget strategy for 1992, as explained in the November 1991 budget by finance minister Josevata Kamikamica, amounts to more of the same: deregulation, restraint of government growth, tax reform and an export-oriented wages policy. The paradox of this thrust continues to be the attempts to inject potentially distortionary affirmative action into education, loans, employment and other areas in order to promote increased Fijian participation.

Licences—recently avidly sought by importers and manufacturers in Fiji—are being steadily replaced by tariffs, at a standard rate falling from 50 per cent in 1990 to 40 per cent in 1991 to 30 per cent in 1992. From July 1, the export duty on gold, silver, sugar and molasses will rise from 1 per cent to 3 per cent. Subsidies for primary producers are being cut. Price control is being phased out as the government hopes market competitiveness forces prices down. But the need for fair trading legislation was raised in the budget; this was the subject of an unusually fierce row at the annual general meeting in March of Flour Mills of Fiji Ltd, one of the country's few remaining locally listed companies, when chairman and 57 per cent owner Hari Punja, one of Fiji's wealthiest men and an ardent opponent of deregulation, argued fiercely with business rival Robert Lee, who claimed that monopoly controls and single-sourcing were damaging the interests of shareholders. The debate is far from dead, and a post-election change in government direction, though unlikely, would strengthen the hand of the Punjas.

The tax changes from July 1 1992 include the reduction of the top rate of income tax from 42.5 per cent to 35 per cent, in line with company tax (which in 1991 was first applied to public enterprises). The government removed a minimum local added value qualification for export incentives, now available to any company which exports more than 30 per cent of its output, with a F$10,000 minimum. The budget also foreshadowed capital gains and resource rent taxes. The 10 per cent VAT exempts prescribed medicines, bus fares, sugar farming and most educational goods and services. VAT replaces customs and excise duties, hotel turnover tax and turnover tax on miscellaneous services—all currently charged at 10 per cent. Suppliers of raw and unprocessed produce—such as fishers or farmers—will not have to register. Suppliers of goods with a turnover of less than F$20,000 per year will also not be required to register for VAT. Small businesses—with turnover of less than F$100,000—will only have to pay VAT quarterly. VAT will be deductible on motor vehicle and entertainment expenses. And new homes will attract a F$30,000 VAT rebate.

The government believes VAT will increase export competitiveness, introduce a level playing field for domestic producers, broaden the tax base and reduce tax evasion.

The government also announced with the budget a range of decrees (there is no parliament, of course) on unions, which have formed the most active opposition to the government at all levels. Amongst other changes, the immunity of unions from prosecution is removed, company unions are permitted, the councils that set minimum wages are scrapped, secret ballots are required, and they are barred from involvement in disputes beyond their own trade; a similar tack to that of former British Prime Minister Margaret Thatcher.

The most controversial—and at present most thriving—of the post-coup economic measures has been the introduction of tax-free zone factories. Up to June 1991 there were 113, employing 11,000 people, in plant involving F$60 million investment, according to the Trade and Investment Board, the driving force. Export receipts in 1990 were F$150 million—though a proportion of that sum was also applied to the cost of materials. The deregulation that has attracted these exporters—the great majority in garment manufacture, though with increasing diversity into furniture and associated industries—has imperilled the import substitution businesses, chiefly in processing foodstuffs, fostered by previous governments. But the Trade and Investment Board claims that in 1992 new factories will multiply still further, with another 114 in train offering almost 10,000 more jobs. Of course, the 33 per cent devaluation that followed the coups boosted exports considerably; but other factors have been in play to keep the factories coming, including the flexibility—and cheapness—of labour, that may be slowly coming to a halt as the pool of unemployed dries up and costs may start to rise again. Half the garment industry output went to New Zealand in 1990, 24 per cent to the United States and 22 per cent to Britain. In November 1991 Fiji held an investment and trade forum that was a major platform for opportunities now arising for business in the country, but which attracted fewer new investors, especially from Asia and the United States, than might have been expected. This may be a sign of the reluctance of private finance to commit itself, beyond the mostly portable garment businesses, until Fiji has returned to a more predictable and stable, democratic government.

The Fijian aberration (in shifting back from rationalism to politically directed economic eccentricity), to match Papua New Guinea's bizarre cement project, is its establishment of the Fiji National Petroleum Company (Finapeco) through which the state guarantees to buy 10,000 barrels of Malaysian crude (a highly sought after, therefore comparatively costly low sulphur crude) a day from the government's Petronas. The intention is to have it refined by Esso in Singapore and shipped to Fiji's depot at Vuda Point near Nadi. The present suppliers Shell, BP and Mobil, would have to buy from FINAPECO. The World Bank said the scheme would achieve nothing but a price increase of 2 cents a litre, and should be abandoned. But Prime Minister Ratu Mara—who may well become President following the election—has thrown his weight solidly behind the deal, which he negotiated originally with Malaysian Prime Minister Dr Muhamad Mahathir. The situation is complicated by the use of Fiji's depot by Tonga, Western Samoa, the Cook Islands, Niue, Tuvalu, Kiribati and Vanuatu as a source of all their oil supplies. Fiji invited its neighbours to a meeting to explain its new purchasing policy—but failed to quell entirely their unease; Vanuatu is now seeking supplies via New Caledonia instead. Although Finapeco was due to have started operating in April 1991, it had yet to do so by the end of 1991, when it had issued its 17th draft of an operating agreement to the three distributors. A Fiji company had, however, already been issued with a monopoly licence to import, process and supply lubricant oil in the country. As with Papua New Guinea's boost to government spending on industry and its Korean cement deal, the most hopeful construct to put on Finapeco is that it was designed to serve a political not an economic function—to indicate favour towards Malaysia and other Asian nations that declined to criticize Fiji after the coups.

There is no doubt that despite its setbacks in 1991, Fiji is demonstrating a welcome determination to solve its own problems rather than blame the outside world. Success through the 1990s will have a considerable demonstration effect through the region; so will the obverse. Much now rides on whether the elected government to emerge in 1992 will attract the support to keep the pace up.

Solomon Islands

Neither the World Bank nor the IMF knew quite how to approach the Solomon Islands in 1991. This was in part because real growth was maintained, at just below 1990's 4.1 per cent, in the face of the most eccentric range of government interventions—and inaction—in the region. But it was more importantly because of the puzzle of overcoming the communications gap with Prime Minister Solomon Mamaloni, who survived through skilful political manipulation, against the odds—and who has remained through a protracted political career a social credit advocate; there are few problems out of which it is not possible to borrow one's way.

The fundamental problem in 1991 was the government's fiscal recklessness, with its 4,000 public servants awarded a 15 per cent pay rise following a strike in June 1991, which in turn followed rises for permanent secretaries of more than 100 per cent. In 1990 employment in the administration sector grew 27 per cent—about twice that in the country's fastest growing export earner, timber. The obvious result has been the government's crowding out of business; employment in retail and wholesale sectors, mainly in rural areas, fell 3 per cent in 1990, and in 1991 the government sucked most available domestic credit out of the system. In 1990 the budget deficit rose to SI$68 million against SI$40 million in 1989; and the recurrent deficit alone is budgeted for SI$27 million in 1991. This is likely to expand, though, as supplementary funds are approved—as they were in 1990—making the budget less relevant. The budget deficit is likely to represent about 20 per cent of GDP in 1991, when revenue is set to fall following income tax cuts (in 1992 the top rate is set to decline further, from 42–35 per cent, costing government an expected SI$17 million revenue per year). The introduction of a payroll tax and a wholesale tax, both at 5 per cent, was being considered late in 1991. However, Government expenditure constituted about 46 per cent of GDP in 1991—one of the highest figures in the region. Exports have remained at the same level—about SI$170 million—for three years. The balance of payments deficit was running at SI$13 million on October 1 1991, compared with $18 million for 1990. Funds for the deficits are proving ever harder to obtain. After European Community STABEX funds were wrongly allocated for this purpose, the tap was turned off in Brussels in 1988. Other external sources of funds have declined (total grants have fallen every year since 1987) with the main exception of Australian aid. Businesses are thus finding loans very difficult to raise. Inflation lurched upwards in 1991, from 10 per cent in 1990 to 14 per cent in October—again, the region's highest figure.

Cocoa, fish and timber were industries continuing to rise in mid-1991 (production respectively 39 per cent, 350 per cent and 31 per cent up the previous quarter, and all also well ahead of the equivalents for the same period last year). Copra fell by 11 per cent and palm oil by 18 per cent.

Problems are compounded by the country's population growth rate—again, the region's highest: an estimated 3.5 per cent per year. This expanding population's opportunities for earning cash are limited to a degree by the mountainous nature of the islands. Yet the largest area of flat, arable land, near the capital Honiara, lies at present unexploited following the failure of a rice project there. Despite delays, a 30,000 ounces per year open cut gold mine is likely to begin production in 1992, at Gold Ridge, also on Guadalcanal.

The central bank—faced with extraordinary pressures—has avoided the top end of possible inflationary pressures, but has had to pass on to the commercial sector a tough credit squeeze. Solomon Islands' roller coaster ride appears set to continue until someone throws the switch marked stop.

Vanuatu

The preoccupation of Vanuatu through 1991 was political rather than economic, with the fight for power inside the dominant Vanua'aku Party leading to the nation's founding father and Prime Minister for 11 years Walter Lini being replaced by calm former foreign minister Donald Kalpokas, before an election brought another convulsion, seeing the French-inclined Union of Moderate Parties win the largest number of seats. Whether the country is led by the Vanua'aku Party or the Union of Moderate Parties, however, it is unlikely to step off in a startlingly fresh economic direction. Indeed, the major part of Vanuatu's business world had begun to grow uneasy under the Lini Prime Ministership because of growing unpredictability, including the return of the resort to 'green letters'—instructing foreigners, most of them business people, to leave the country.

Government changes, then, are likely to restore a greater level of order to public policy. And although the Vanuatu economy has been growing steadily, its context has not always been settled. Its potential for faster growth (growth declined from 5.3 per cent in 1990 to a likely 3.5 per cent in 1991, and is estimated to increase to 4 per cent in 1992) is substantial—not least because it starts from such a low base. Virtually all investment in the 1980s, apart from a scattering of failed aid projects around the country, was in the capital, Port Vila.

Nevertheless, copra is experiencing a revival, with 40,000 tonnes exported in 1990 (in part thanks to Commodities Marketing Board subsidies), as is the high quality beef industry, with Japan joining New Caledonia as major export targets. Large plantings of cocoa and coffee are underway, chiefly through projects of the British quango the Commonwealth Development Corporation, also the major (virtually only) investor in agriculture in Papua New Guinea. CDC is also starting a timber project in Vanuatu. Kava is another growing export, with 100 tonnes sold in 1990 around the region and to Germany for medical research. Vanuatu's is esteemed as the strongest kava of the South Pacific.

Tourism has made a strong recovery, with 24,000 arrivals in 1990 plus 41,000 cruise ship visitors: 8,600 arrivals were recorded in the first quarter of 1991—the highest number since independence in 1980. Substantial Japanese investment in real estate is to be accompanied in 1992 by the start of a Club Med hotel. Air Vanuatu has brought Australian tourists (more than 50 per cent of the 1990 total) back. In March 1991 a new airport was opened at Port Vila, capable of taking 767 aircraft.

Such an improved performance, however hesitant as yet, is overdue: Vanuatu's balance of payments deficit has been increasing annually since 1988, from 6 billion vatu then, to 6.7 billion vatu in 1989 and 9.3 billion vatu in 1990. The country's fiscal problems are arguably compounded by its eschewing an income tax in order to maintain maximum attraction for its finance centre. Its indirect tax take has not yet approached 50 per cent of government spending in any one year.

More political certainty would be likely to encourage a government to divert its attentions from survival to fostering economic growth—a central aim of the second national development plan for 1987–91, and in whose foreword it was noted with delightful understatement: 'Publication of the document is later than initially intended ...'. In fact, the draft was physically lost, and a new copy not published until more than half way through the lifespan of the plan. Perhaps the religiously inclined ni-Vanuatu will read into this a sensible divine disinclination to support such well-intentioned but unwieldy all-embracing blueprints.

Western Samoa

The Western Samoa economy was devastated by cyclone Ofa in 1990, when real GDP fell 5 per cent. It was set to rise 2 per cent in 1991, and 3 per cent in 1992, in part thanks to the continuing, aid-assisted reconstruction of infrastructure. Its chief options for growth lie—as elsewhere in the region—in agriculture, tourism and modest secondary industries aimed at niche markets.

The country was the first in the South Pacific to receive the close attention of the World Bank, in the mid-1980s. It responded appropriately with tight monetary policy and fiscal adjustments, and the Bank, in its 1991 review of the region, stated that Western Samoa had the capacity for 3–4 per cent annual growth and for significant improvement in per capita income, employment and living standards.

Wage costs are among the lowest in the South Pacific (T1.33–1.50 per hour for a labourer). Inflation more than doubled to 15.4 per cent in 1990, due to the cyclone, but declined in 1991. In 1990 remittances from expatriate Samoans totalled T92 million, perhaps marking a high point from which they will begin to slump. The central bank projected 1991 remittances to reach only T84 million. Despite the 2.3 per cent birth rate, the population is only growing at 0.6 per cent per year. Youth unemployment is already growing as a result of declining migration.

Exports—more than half agricultural, overwhelmingly copra and other coconut products—only reached T20.5 million in 1990. Grants were also well above exports, at T39 million, thanks to which the budget was about in balance. Demand for imports continues to grow unsustainably, from T96 million in 1986 steadily to T168 million in 1990. Western Samoa's chief export was once bananas. More recently, it has built up and slightly lost a taro trade (principally bought by Polynesians, including Samoans of course, who had emigrated to temperate countries). Melons are the next prospect.

Although the government has moved to follow Fiji with steps to encourage foreign investment, including a 10 year duty free period and an income tax holiday, no less than 16 copies of applications for involvement in this incentive scheme have to be lodged with different government agencies.

In October 1991 the government was about to receive a draft 10 year tourism plan, to be incorporated in its seventh five year development plan; the home for many years of Robert Louis Stevenson holds many as yet undeveloped tourist attractions. A Japanese company has bought for T5.5 million the Tusitala Hotel (named for Stevenson, in Samoan 'teller of tales'). The country also began to review its land tenure system in 1991, with a view to making more customary land, which covers 80 per cent of Samoa, accessible for commercial, especially agricultural, use.

The cyclone led to a necessary easing of monetary and fiscal disciplines, which ran the risk of setting Western Samoa back on the path towards an unbridgeable balance of payments chasm—but the re-elected government of Prime Minister Tofilau Eti demonstrated in 1991 that its eye remained on the 'main game' of sustained growth, and those disciplines began to be re-imposed. Eti won the April poll comfortably—an historic election in which commoners, as well as people of chiefly rank—*matai*—could vote, although only *matai* (about 10 per cent of the population) were eligible to be candidates. As elsewhere in the world, the rule by the 'big man' (more women in Pacific politics and business would mark a major step forward, too) appears to be on its way out, and a desire for greater political democracy—especially within what has been a formidably conservative culture. This may also be an indication of an increasing openness concerning more broadly spread economic activity.

Tonga

The only country in the region never to be colonized, Tonga has kept more of its economic options open than most of its neighbours. Some of the resulting projects are sound and even imaginative, some merely eccentric—such as the controversial sale of passports for US$20,000 each, mainly to Hong Kong Chinese.

Its current range of economic indicators are not dissimilar to that of its fellow Polynesians in Western Samoa. In 1990 grants totalled 29 million pa'anga and remittances 38 million, against domestic revenue of 40 million. Again, with the grants it recorded a budget deficit of just 2 million pa'anga. The merchandise trade balance was 48 million pa'anga adrift. But the current account balance was in the black for the first time since 1987, by 4.6 million pa'anga. Again not atypically in the region, the value of Tonga's exports was in 1990 a sixth of the value of its imports. Tonga's GDP growth in 1991 was likely to be 3.6 per cent, falling slightly to 3.5 per cent in 1992.

Tonga, like Samoa, is about to begin another five year plan, its sixth. Its last plan chalked up one outstanding success: the development of its small industry centres. The government has provided the infrastructure to help export-oriented industries set up production. Despite the distance from markets, the tiny size of the domestic market (population under 100,000), and the comparative lack of local expertise and raw materials, the centres have thrived, to lead the export table. Knitwear, leather goods and yacht production are all booming. The low cost and dexterity of the (non-union) workforce is the principal attraction to investors.

Tourism is due for a boost with the opening in July 1991 of an extension to Fua'amotu airport, capable of handling 400 passengers an hour, and the establishment at the same time of Royal Tongan Airlines, flying initially to Auckland, and also covering the domestic routes. The challenge now will be to attract the hotel investment needed to provide accommodation for the tourists the country can transport—and to attract tourists to visit the country's outer islands.

Horticulture is replacing copra as the dominant agricultural activity, with vanilla, squash and pumpkins among the crops from which much is hoped.

Like Samoa too, Tonga is experiencing a democratic shift of gravity that is slowly ushering in a new era of greater economic adaptation to international markets.

Kiribati

Perhaps to a substantial degree due to the founding President of Kiribati, Ieremia Tabai—who had not forgotten his accountancy education—the country's budget looks quite different from others in the region. It aims to balance its books before grants are taken into account, even though it usually falls marginally short (in the last year for which full figures are available, 1988, by A$2.9 million). It also, unusually, records substantial unrequited transfers—not private, as in the case of the Polynesian countries (Kiribati is Micronesian) but official. This is the annual return on the country's investment in its London-based fund accumulated from phosphate royalties; the principal remains untouched, 12 years after independence. The transfer in 1988 was A$21.1 million; exports provided $6.6 million, and imports cost $27.5 million. In 1990, however, export receipts slumped to $3.7 million, chiefly because of the fall in world copra prices.

Despite consisting of atolls cast across an area of Pacific Ocean almost the size of the land mass of the United States, the ni-Kiribati speak one language and possess considerable national pride. The World Bank's 1991 report believes 'even Kiribati, with its fisheries resource and competent labour force, can attain enduring growth'.

The country, nevertheless, had its share of bad luck in 1991. The national airline Air Tungaru had to cancel its jet service from Honolulu to Nadi via Christmas Island (which it is developing for tourism) after the arrest of the proprietor of the leasing service for infringement of US civil aviation rules. At the start of the year the government's Te Mautari Ltd fishing company laid off 126 workers following poor tuna catches and engine problems with the mother ship. The company hired again at the start of the tuna season in May, and looked to lift its game.

New President Teatao Teannaki (Tabai was in July 1991 appointed Secretary General of the South Pacific Forum) soon started talks with Australia with a view to attracting investors for the country's fledgling garment industry. Successful stratagems are spreading fast round the region today.

Conclusion

Ripples usually begin at the centre of a pond. In the case of the Pacific Ocean, they are starting at the rim. The responses of Pacific islanders are quite varied, though patterns are emerging in their attempts to stimulate economic growth to meet ever rising aspirations. Not all such patterns, of course, are predictable to outsiders. Who might have guessed, for instance, that as breweries are being set up through the region (in five countries to date), the traditional narcotic drink, kava, is making a major come-back. Port Vila has about 130 'nakamals' or kava-bars, one or two today even serving counter lunches.

On the whole, though, it must be said that the most likely prospect as the 1990s progress is that most of the island countries will fall further behind the unendingly competitive nations of the Pacific rim. While aid and concessional funding has been fairly freely available, it was on the whole not put to constructive use; now it will become increasingly hard to obtain, as other more urgent cries are heard. This may be, on balance, no bad thing. The highly respected governor of the Solomon Islands central bank, Tony Hughes, in the bank's annual report a couple of years ago warned that 'All too often, foreign aid is the kiss of death to the recipient country'. As someone said to me in Honiara recently, 'Foreign aid is supposed to help us to get up and go, but mostly it encourages us to stay in bed'. The hand-out mentality certainly persists, and not only in this 'positive' form of seeking foreign aid. It also has a flip-side: one that seeks to set up defences against investors, who are all too often perceived, simplistically, as rapacious. Both solutions and problems are too often seen to come only from the outside world.

In this context Fiji finance minister Kamikamica introduces a fresh note of realism: 'A strong and vigorous private sector is central to the overall success of our economic strategies', he said in September 1991. 'The immediate challenge of the 1990s and beyond is the liberalization of trade, and it is my contention that the most appropriate response to this challenge lies in the re-shaping of domestic economies to make them more dynamic and responsive to world markets.' The answer, then, lies in domestic change not to defy the world but to link with it more positively.

The major obstacle to this course remains land. In Melanesia, land is comparatively plentiful but there is no clear route to mediate its commercial use; its owners all too often lack the capital needed for optimal production. In Polynesia the obverse is true: the individuals exist with whom it is possible to mediate land use, but there is little land. Fiji straddles the two, and is best placed. Similar problems occur in attempting to mobilize labour aggressively: Polynesians who feel squeezed are likely to emigrate—or at least the best educated will; there are still insufficient skills among Melanesians, so that whatever the pressures to extract more productivity, at this stage it is likely costs will continue to creep up. Nor are there sufficient island entrepreneurs. In his book *Island Entrepreneurs*, published by the East–West Center, editor Te'o Fairbairn says: 'The indigenous sector is poorly developed, essentially occupying the periphery of the commercial sector as a whole'. Both education and attitudes need to change simultaneously. And the costs of rapid 'individualization' of the region, in order to spur growth, even if it were possible and/or desirable, have been insufficiently considered, among them the need in such a case to introduce a welfare safety net. It makes no sense to privatize government services to people with little or no money; there will, of course, in such a case be little or no profit.

For those who have made the great shift to focussing on external realities, the great temptation—especially in the Pacific, where governments absorb a great slab of GDP—is to feel that passing legislation, changing rules or making appointments is enough in itself to effect significant change; but this will only come about as those changes are effected, through players with confidence in the new opportunities. Identifying and encouraging such players is a challenge indeed.