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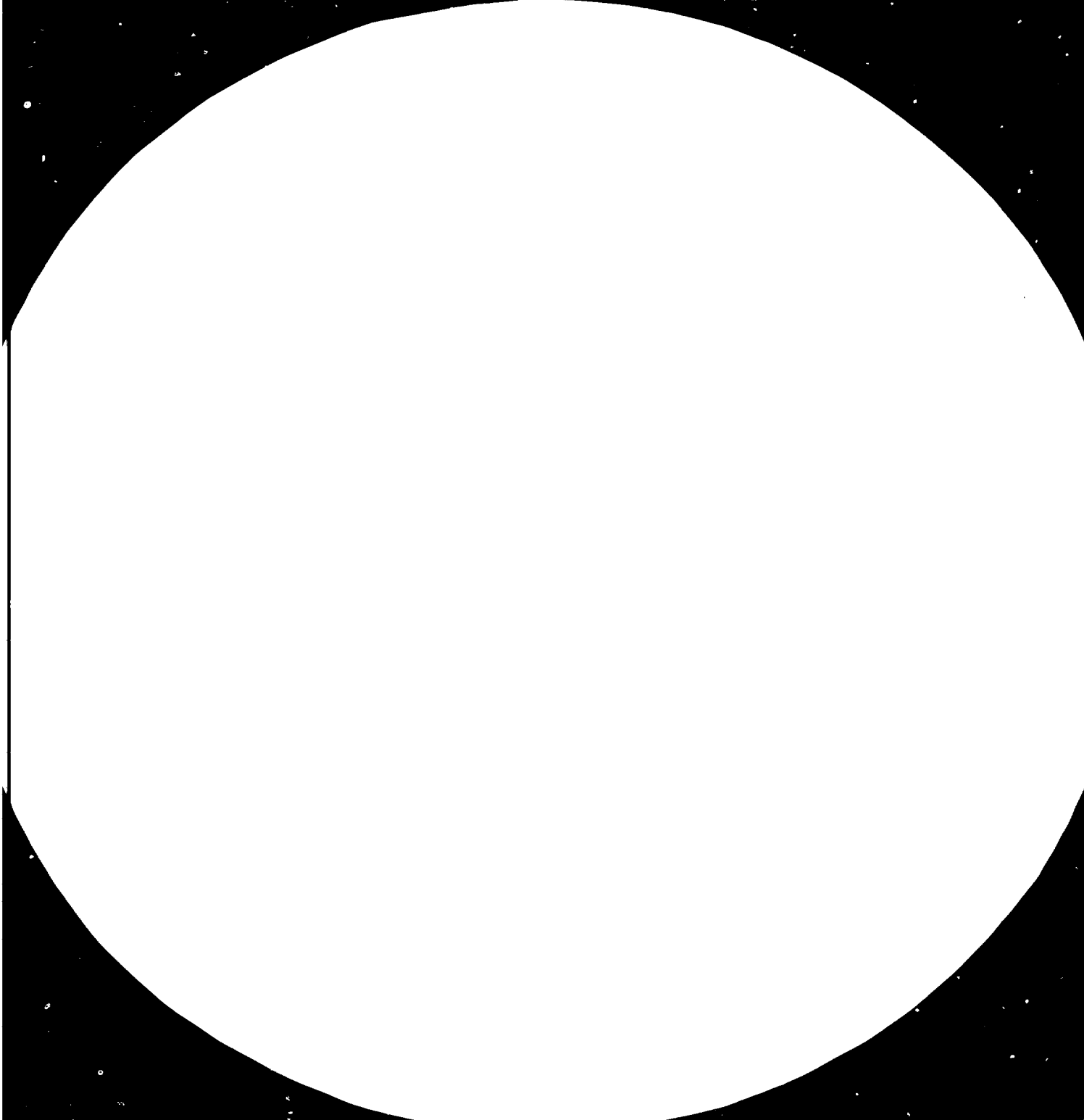
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INDUSTRIAL DEVELOPMENT PROFILE
OF THE ISLAND DEVELOPING COUNTRIES OF
THE SOUTH PACIFIC REGION */

Prepared by the
International Centre for Industrial Studies

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PREFACE

The Regional and Country Studies Section of the International Centre for Industrial Studies (ICIS), UNIDO, has undertaken the preparation of a series of Country Industrial Development Profiles under its work programme.

The Industrial Development Profile of the Island Developing Countries of the South Pacific Region has been prepared by Dr. M. T. Haq, UNIDO Regional Adviser at the ESCAP/UNIDO Division of Industry, Housing and Technology, ESCAP, Bangkok in co-operation with the ICIS. Mr. J. L. Cruyl UNIDO Associate Expert assisted in the preparation of the sections on the Solomon Islands and French Polynesia.

The Profile contains a review of the economic and industrial situation of individual countries of the South Pacific region, taking the relatively large countries first, and then the small ones. An attempt has been made to bring out the national, regional and international aspects of the industrial development of the South Pacific Region.

The Profile includes in all 17 developing countries and territories of the South Pacific. These countries and territories are Papua New Guinea (PNG), Fiji, The Solomon Islands, Samoa, French Polynesia, New Caledonia, the New Hebrides and Tonga, where the size of population varied between 2,908,000 and 90,000 in mid-1977. The economic, industrial and statistical analyses of these countries have been made in separate chapters. In regard to the 8 small and very small island countries and territories one chapter has been devoted to a brief review of the economic and industrial situation of each of these countries. The size of the population of these countries varied between 54,000 and 2,000 in mid-1977. These countries and territories are the Republic of Kiribati, American Samoa, the Cook Islands, Wallis and Futuna, Tuvalu, Nauru, Niue and Tokelau. The profile also includes an analysis of the Trust Territory of the Pacific (Micronesia).

This Profile is a desk-study based upon reports and studies available at the ESCAP and UNIDO headquarters. No field survey has been undertaken and some of the statistical data are not up to date. It is strongly felt that there is a good deal of scope to further update data and to refine the

findings and observations possibly in conjunction with the ESCAP/ADB/SPLC Industrial Survey of the South Pacific.

It is hoped that the Profile will be of use in programming technical assistance, planning economic and industrial development and evolving appropriate policies in these countries so as to serve the national and regional needs and interests relating particularly to their industrialization efforts.

The views and comments contained in this document do not reflect those of the Governments concerned nor do they officially commit the United Nations Industrial Development Organization to any particular course of action.

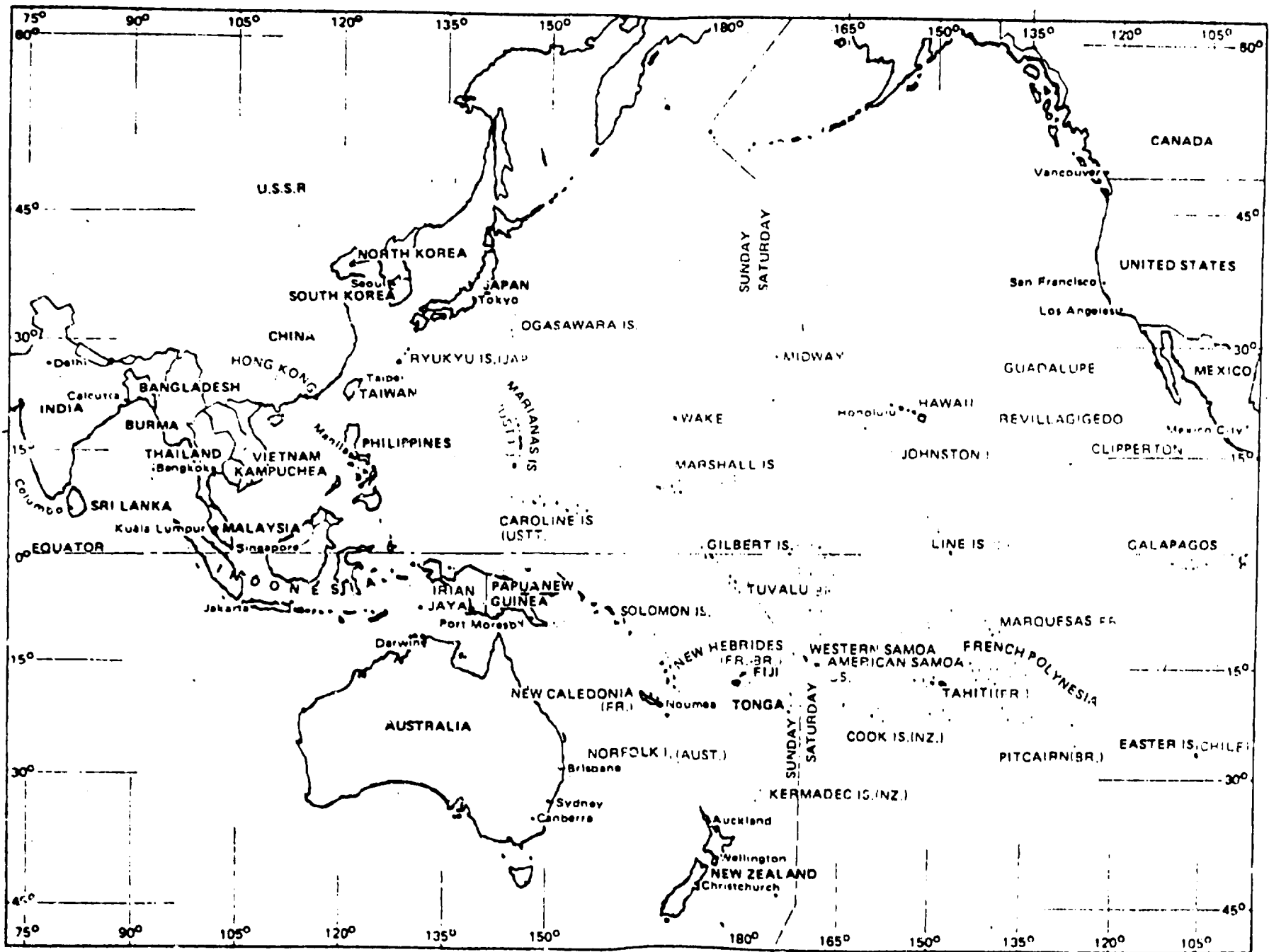


TABLE OF CONTENTS

	<u>Page</u>
Preface	i
Map of the South Pacific	iii
Chapter I. Papua New Guinea (PNG)	1
Map of Papua New Guinea	3
General economic background and the role of manufacturing in the economy	5
The structure of the manufacturing sector	13
Institutional infrastructure for industry and changes	24
Main features of industrial development objectives and strategy - policy measures and programming of implementation	27
Analysis of the main constraints on the development of industry	31
Review of prospects and potentials for industrial development	38
Regional, sub-regional and bilateral co-operation agreements related to industrial development	44
Review of the participation of the public sector, domestic private sector and multinationals in industrial development	47
Review of foreign aid and technical assistance in relation to industrial development	49
UNDP programme, UNIDO's past assistance and potential areas of future UNIDO co-operation with PNG	52
Appendix A. Framework for industrial development*	61
Appendix B. Second national investment priorities schedule ..	63
Chapter II. Fiji	73
Map of Fiji	75
General economic background and the role of manufacturing in the economy	77
The structure of the manufacturing sector	82

	<u>Page</u>
Comparison of planned industrial development targets with recent performance of the manufacturing sector	95
The institutional infrastructure for industry ...	96
Main features of industrial development objectives and strategy - policy measures and programming of implementation	98
Analysis of the main constraints and factors conducive to the development of industry	106
Review of prospects and potential for industrial development	116
Regional, sub-regional and bilateral co-operation agreements related to industrial development	120
Participation of the public sector, domestic private sector and multinationals in industrial development	122
Review of technical assistance projects recently completed or in progress in relation to industrial development objectives	123
Potential areas of future UNIDO co-operation with Fiji	128
Chapter III. Solomon Islands	133
Map of the Solomon Islands	135
General economic background	137
Structure of the manufacturing and processing section	146
Comparison of planned industrial development targets with recent performance	154
The institutional infrastructure for industry ...	157
Main features of industrial development objectives and strategy	159
Analysis of the main constraints on the development of industry	163
Review of prospects and potentials for industrial development	165

	<u>Page</u>
Review of the participation of the public sector, domestic private sector and multinationals in industrial development	167
Review of foreign and government development expenditure and UNIDO/UNDP technical assistance projects related to industry	168
Chapter IV. Samoa	177
Map of Samoa	179
General economic background	181
The role of manufacturing and other sectors in the economy	184
The institutional infrastructure for industrial development	189
Main features of industrial development objectives and strategy - policy measures and implementation	190
Analysis of the main constraints and factors conducive to the development of industry	192
Review of prospects and potential for industrial development	196
Regional, sub-regional and bilateral co-operation agreements related to industrial development ...	202
Review of the participation of the public sector, domestic private sector and multinationals in industrial development	203
Review of technical assistance projects recently completed or in progress in relation to industrial development objectives	206
Potential areas of UNIDO co-operation with Samoa	210
Chapter V. French Polynesia	215
Map of Polynesia	217
General economic background	219
Structure of the manufacturing and processing sector	221

	<u>Page</u>
.....	223
Main features of industrial development objectives and strategy	224
Analysis of the main constraints on the development of industry	225
Review of the projects and potentials of industrial development	226
Review of foreign aid and development expenditure	227
Chapter VI. New Caledonia	229
Map of New Caledonia	231
Geography and general economic background	233
Industrial activities	235
External trade	237
Foreign investment	239
Development planning and regional and sub-regional co-operation	240
Chapter VII. New Hebrides	241
Geography and general economic background	243
External trade	245
Investment and infrastructures for industry	248
Development planning, regional, bilateral and multi-lateral co-operation	249
Chapter VIII. The Kingdom of Tonga	251
Map of Tonga	253
Geography, population and general economic background	255
The need for industrialization, industrial facilities and institutional infrastructure	258
External trade	260
A small scale industries development programme ...	262
Review of technical assistance programmes	263

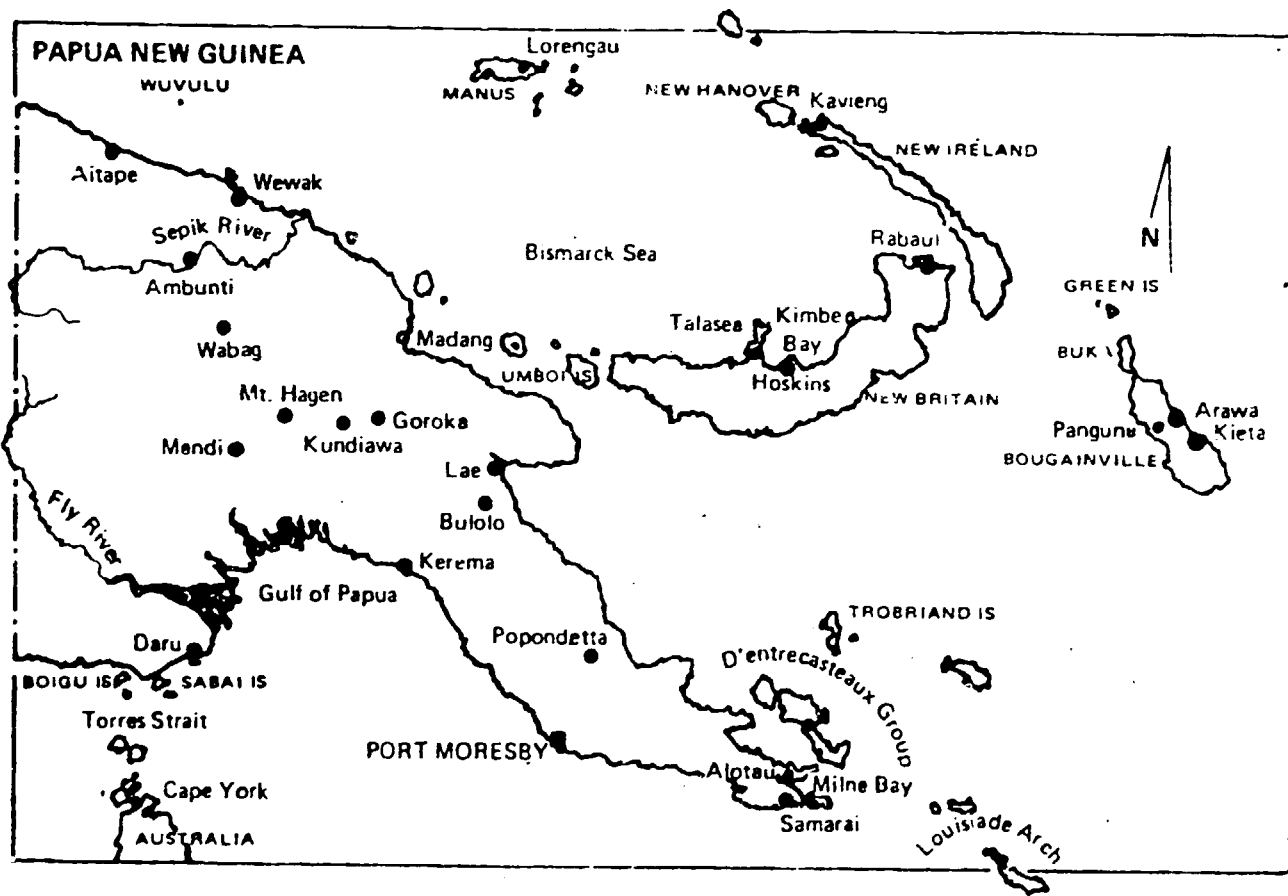
	<u>Page</u>
Chapter IX. A brief review of the economic conditions of the small and very small developing island countries of the South Pacific	267
1. The Republic of Kiribati	268
2. American Samoa	272
3. Cook Islands	277
4. Wallis and Futuna	281
5. Tuvalu	283
6. Nauru	285
7. Niue	288
8. Tokelau	290
9. Trust Territory of the Pacific (Micronesia)	292
Chapter X. The developing countries and territories of the South Pacific	297
(Summary of findings and recommendations on development from the national, regional and international aspects)	
Main economic characteristics of the countries of the South Pacific	298
The national aspects of development	303
The regional aspects of development	310
International aspects	328
Annex : List of selected books and documents	333

CHAPTER I

PAPUA NEW GUINEA^{*/}

(PNG)

^{*/} A more detailed country industrial development profile of Papua New Guinea was prepared by the International Centre for Industrial Studies of UNIDO under symbol no. UNIDO/ICIS/199 23 April 1979.



GENERAL ECONOMIC BACKGROUND AND THE ROLE OF MANUFACTURING
IN THE ECONOMY

The economic background

1. Papua New Guinea (PNG) which gained its independence from Australia in 1975 after three years of self-government has a population of 2,908,000, in mid-1977. It is the largest developing country in the South Pacific sub-region. PNG covers a total area of 462,840 km², 90 per cent of which consists of forests and swamps.

Table I shows the geographical divisions of the country.

Table I

Geographical Division of the Country by Province
(1975-76)

<u>Region</u>	<u>Province</u>
Southern Coastal	Western Gulf Central Milne Bay Northern
Highlands	Southern Enga Western Chimbu Eastern
Northern Coastal	Morobe Madang East Sepik West Sepik
Islands	Manus New Ireland East New Britain West New Britain North Solomons

2. The annual rate of population growth is very high - about 3 per cent. Nearly 50 per cent of the total population of the country belong to the younger age groups, 15 years of lower. The country possesses large unexplored natural resources and has a very low ratio of people to land area. A recent Asian Development Bank report¹ has put the population of PNG in mid-1978 at 2.99 million, the rate growth of population from 1975-78 at 2.7 per cent and the density of persons in 1978 per km² at 6 only.

3. The gross national product (GNP) of Papua New Guinea was calculated at US\$ 1,250 million and the per capita income at US\$ 470 in 1974. The manufacturing employment was only 15,000 persons. According to the 1978 World Bank Atlas, the population of PNG in mid-1976 was 2,823,000; the GNP at market prices (1976) was US\$ 1,270 million with a per capita income of US\$ 450.

4. Agriculture is overwhelmingly the main activity and cash cropping is well-developed. The principal cash crops are copra, coffee, cocoa, palm oil and rubber. The country is rich in fish and fishing is an important economic activity for the coastal population. Forests are another important resource and sawmilling is common. Pine plantation is in progress in PNG which exports plywood and sawn timber. Further, the country is a major copper producer and has also gold mines.

Development planning

5. The strategy of development planning in PNG was outlined in a report "The Post-Independence National Development Strategy" issued by the Central Planning

1

Asian Development Bank: Economic Memorandum on Papua New Guinea, June 1979, page (iv)

Office in 1976. This strategy envisaged a national expenditure plan characterizing expenditure commitments to particular policies seeking to achieve stated targets and was based on the assumption that there would be a gradual reduction in subsistence activity and increased reliance on production for the cash economy. Emphasis was being placed on creating increased opportunities for activities in the rural areas. These activities cover cash production for domestic and export markets, fishing, transport services and small scale rural industries. With the rapid increase in urban population, opportunities for work in the urban areas need to be created. The Government has decided to follow a policy of wage restraint in its efforts to encourage the use of labour intensive techniques of production and the growth of informal business activities creating self-employment.

6. Further, the development of large-scale investments in natural resource exploitation such as the OK Tedi Copper Project and in manufacturing projects is being encouraged. Investments in projects producing goods at lower prices, providing additional employment, bringing revenues to the Government, improving the balance of payments and replacing imports by domestic production at competitive prices will be actively encouraged.

7. Briefly speaking, the main strategy for the economic development of Papua New Guinea is to develop her agricultural sector and her other natural resources. Urban growth and infrastructural development such as road construction will not generate sufficient employment opportunities. According to a projection by the Central Planning Office, manufacturing employment calculated on a certain basis might increase from 12,000 in 1977 to 15,750 in 1981, mainly due to an expansion in sawmilling.

8. In the National Development Strategy as referred to earlier, a number of strategic areas have been identified for action as follows:

- (i) expanding education in rural areas;
- (ii) helping less developed areas;
- (iii) improving food production, marketing and nutrition;
- (iv) improving subsistence agriculture;
- (v) promoting economic production;
- (vi) increasing Papua New Guinean participation in the economy;
- (vii) managing urban growth;
- (viii) effective government administration
- (ix) conservation and protection of the environment

The first National Pacific Expenditure Plan (1978-81) - a four year roll over plan for Government expenditure - has been prepared. Under the Plan, Government policies have been formulated and interpreted through the setting up of working parties on food production and subsistence, development of social indicators, rural education and policies for less developed areas, and technology. The working groups are to be set up for other areas.

9. The above strategies and policies for development have originated from the following aims set by the first National Government:

- (i) A rapid increase in the proportion of the economy under the control of Papua New Guinean individuals and groups and in the proportion of personal and property income that goes to Papua New Guinea.
- (ii) More equal distribution of economic benefits, including movement toward equalization of incomes among people and toward equalization of services among different areas of the country.

- (iii) Decentralization of economic activity, planning and government spending, with emphasis on agricultural development, village industry, better internal trade, and more spending channelled to local and area bodies.
- (iv) An emphasis on small-scale artisan, service and business activity, relying where possible on typically Papua New Guinean forms of business activity.
- (v) A more self-reliant economy, less dependent for its needs on imported goods and services and better able to meet the needs of its people through local production.
- (vi) An increasing capacity for meeting government spending needs from locally raised revenue.
- (vii) A rapid increase in the equal and active participation of women in all forms of economic and social activity.
- (viii) Government control and involvement in these sectors of the economy where control is necessary to achieve the desired kind of development.

10. What is, however, required in Papua New Guinea is a comprehensive, coherent and consistent development plan for economic and social development in a systematic manner within the existing political and economic framework. The strengthening of the existing machinery for the preparation of such a plan and the setting up of the necessary institutional arrangements for the implementation of such a plan aiming at over-all and sectoral growth targets appear to be essential requirements.

The role of manufacturing in the economy

11. Although the secondary industry sector in PNG is a growing and dynamic sector, its size in relation to the total economy was small - only about 11 per cent

in 1975-76. The economic well-being of the people is, therefore, inextricably bound up with what happens to agriculture, the dominant sector in the economy of PNG. The contribution of the industrial sector to gross domestic product was only 7-1/2 per cent in 1967-68.

Growth performance, global and sectoral

12. There are several problems involved in the analysis of the national accounts of PNG. The most important one is the existence of a large subsistence sector which makes the valuation of the contribution of the non-market component to GDP only a very rough estimate. Following the IBRD estimates, an Asian Development Bank report (1979) has given the estimates of GDP growth rates in PNG as shown in Table 2.

Table 2

GDP growth in PNG

	1974	1975	1976	1977
GDP growth rate	3.8	1.0	1.6	5.5

The Four-Year National Public Expenditure Plan, (1978-81) predicts a 3-4 per cent annual increase in gross domestic product. No growth rate figures for the industrial sector was available.

13. As regards the changing structure of the economy, agriculture (including hunting, forestry and fishing) accounted for 42 per cent of the GDP in the financial year 1968; in 1972, this figure came down to 34. In manufacturing the percentages were 5 and 6 in 1968 and 1972, respectively. This situation demonstrates the need for greater emphasis on industrialization in PNG.

Population and income distribution

14. It has been said in a recent Government document that "one of the most important and disturbing features of Papua New Guinea at the present time is the existing of considerable inequalities between areas and groups of People"². Three types of inequalities referred to are inequalities (a) between provinces; (b) between expatriates and Papua New Guineans; and (c) between Papua New Guineans themselves. Regional or provincial inequalities have been due to the direction of resources under the colonial administration, to those areas with the greatest economic potential mainly for export-oriented production. There are inequalities between expatriates and Papua New Guineans but these are likely to be reduced as more and more natives will replace the former. Then there are inequalities between groups of Papua New Guineans originating from economic and social factors. It is, however, difficult to quantify these inequalities due to lack of statistical information on the subject. According to a World Bank report,³ the average annual salary of the 45,000 PNG nationals employed by Government in FY 1976 was K 1,850, about K 400 per capita. The legal rural minimum wage worked out at K 90 per capita, while the legal urban minimum wage at K 260. These are some indications of the unequal nature of income distribution.

The labour force

15. The total workforce in 1976 was estimated at 252,500, the breakdown being as follows:⁴

2 UN Economic and Social Commission for Asia and the Pacific: Reorientation of Industrial Policies (1979) p. 71

3 The World Bank: Papua New Guinea: Economic Situation and Development Prospects, 1976, p. 11

4 Far Eastern Economic Review: Asia 1978 Year Book, p. 286.

Table 3

Breakdown of the labour force

<u>Sector</u>	<u>Percentage</u>
Agriculture and fishing	52.5
Commerce and services	10.6
Manufacturing and mining	7.2

The numbers employed in construction and Government and public authorities are not available.

Participation of the manufacturing sector in gross domestic product

16. The role of the secondary industry sector might be pointed out in terms of its contribution to the gross domestic product, which rose from 7-1/2 per cent in 1967-68 to 11 per cent in 1975-76. In respect of its role in employment, it might be indicated that the share of the secondary industry sector in the national wages and other employer's benefits bills rose from 6-1/2 per cent in 1967-68 to over 8-1/2 per cent in 1975-76. The manufacturing sector may thus be viewed as a growing sector, although a structural change through industrialization remains to be achieved. The manufacturing sector, large or small, is, however, looked upon as a means of achieving improved living standards, a broader distribution of income, greater self-reliance and diversification of the economy and above all as a means of creating greater employment opportunities.

THE STRUCTURE OF THE MANUFACTURING SECTOR.

Industrial sector by branches of industry

17. The manufacturing sector in Papua New Guinea is small. In 1975-76, the secondary industry sector employed 17,634 persons in 730 establishments. Its importance in recent years has increased in terms of its contribution both to GDP and employment. The range of activities of this expanding sector includes general engineering, motor vehicles repair, shipbuilders and repairers, sawmills and joineries, bakeries and coffee processing, soft drinks manufacture, furniture making, clothing and paper products. Table 4 shows the composition of the industrial structure showing the number of establishments and employment - sector by sector - in 1975-76.

Table 4

Establishments and Employment of Secondary Industry by Industrial Sector, Excluding Electricity Generation 1975-76

Industry	Establishments Number	Employees Number
<u>Metals and Machinery</u>		
General engineering	70	1,495
Motor vehicle repair	152	2,590
Motor body building	14	175
Aircraft repair	11	405
Boat building & repair	27	404
Sheet metal work	44	871
Electrical repairs	37	472
TOTAL	355	6,603

<u>Food, Drink & Tobacco</u>		
Bakeries	33	1,381
Breweries, soft drinks	26	1,288
Tobacco & cigarettes	3	600
Tea processing	5	210
Coffee processing	31	315
Cocoa processing	9	330
Other food manufacture	28	471
TOTAL	137	4,803
<u>Sawmills & Joineries</u>		
Saw & Plywood mills	50	3,070
Joineries	43	929
TOTAL	114	4,017
<u>Other Manufacturing</u>		
Cement goods	15	270
Paints & varnishes	3	69
Chemical and oils	8	406
Canvas & rope goods	8	24
Clothing	15	303
Furniture	3	64
Printing & paper products	35	381
Plastics & fibreglass	4	47
Other industries	32	515
TOTAL	124	2,705
TOTALS	730	17,834

Source: UN Economic and Social Commission for Asia and the Pacific:
Reorientation of Industrial Policies, p. 94

Regional distribution and location

16. The activities of the secondary industry sector are highly concentrated in the urban areas of a few provinces. Available statistics show that 44 per cent of the industrial establishments and 54 per cent of the employment are in the Central and Morobe provinces having the towns of Port Moresby and Lae, respectively. If the provinces of Madang, East New Britain and the North Solomons are added, the percentages go upto 65 per cent of the establishments and 70 per cent of the

employment. The industrially least developed of the 19 provinces are Gulf, Enga, Chimbu, West Sepik and Manus, accounting for only 6 per cent of the employment. Table 5 shows the regional distribution of industrial establishments and employment.

Table 5

Establishments and Employment of Secondary Industry Including
Electricity Generation, by Province 1975-76

Province	Establishments Number	Employees Number
<u>Southern Coastal</u>		
Western	9	91
Gulf	5	120
Central	130	5,433
Milne Bay	19	152
Northern	12	133
TOTAL	235	5,930
<u>Highlands</u>		
Southern	17	250
Enga	8	50
Western	44	1,028
Chimbu	10	144
Eastern	52	998
TOTAL	131	2,468
<u>Northern Coastal</u>		
Morobe	136	4,481
Madang	47	1,100
East Sepik	32	389
West Sepik	10	102
TOTAL	225	6,172

<u>Islands</u>		
Manus	8	72
New Ireland	11	241
East New Britain	73	1,302
West New Britain	7	252
North Solomons	37	1,094
<hr/>		
TOTAL	136	3,037
<hr/>		
TOTALS	729	17,834
<hr/>		

Source: UN Economic and Social Commission for Asia and the Pacific:
Reorientation of Industrial Policies, p. 93

19. Again, in the industrially least-developed provinces, most secondary activities are confined to general engineering, motor vehicle repairs, bakeries, sawmills and joineries. Almost all other manufacturing activities are concentrated in Port Moresby and Lae.

Size distribution

20. An inquiry into all establishments engaged in manufacturing, repairing etc., using power (other than manual) or employing 4 or more persons showed that in 1975-76, 68 per cent of the establishments and 23 per cent of the employment were in establishments employing 20 or fewer persons and 32 per cent of the establishments and 77 per cent of the employment were in establishments employing over 20 persons. From Table 4, it may be seen that the largest employers were the tobacco and cigarette manufacturers with 222 employees per establishment on average. Next come tea processing with 52, chemical and oils with 51 and breweries and soft drinks manufacturing with 49 employees per establishment. The industries with the fewest employees per establishment, on average, were canvas and rope manufactures with 8, furniture manufacture with 11, plastic manufacture with 12 and motor body repair works and electrical repair work both with 13.

21. During the 1960s manufacturing industries grew rapidly both in terms of the number of factories and employment. Between 1960-61 and 1970-71, the number of factories rose by 12 per cent per annum. There was, however, little growth after 1970-71. Table 3 shows the number of establishments and employment in secondary industry (including electricity generating plants) during the period between 1960-61 and 1975-76.

Table 3

The Number of Establishments and Employment in Secondary Industry Including Electricity Generating Plants

	Employees Total	Establishments Total
1960-61	4,884	209
1961-72	5,754	278
1962-63	6,953	331
1963-64	7,578	354
1964-65	9,206	397
1965-66	10,381	407
1966-67	10,994	479
1967-68	11,420	556
1968-69	13,287	603
1969-70	14,014	665
1970-71	15,283	729
1971-72	16,336	722
1972-73	16,198	702
1973-74	17,321	738
1974-75	17,255	706
1975-76	18,228	759

Source: UN Economic and Social Commission for Asia and the Pacific: Reorientation of Industrial Policies, page 95.

Intersectoral linkages

22. A paper prepared by the Government of Papua New Guinea for the Economic and Social Commission for Asia and the Pacific gives some information on the subject, based on input-output tables. It states that "only 8 per cent of primary agricultural output feeds into the processing and manufacturing sector whereas 23 per cent is for

final current consumption and 30 per cent is for direct export. Almost no processing is done of the output from the mining sector. In the manufacturing sector the intersectoral linkages are small, being 3 per cent of the total output of the sector. However, a further 14 per cent feeds into construction and building, 10 per cent feeds into transport and commerce and 9 per cent into agriculture⁵. The linkages in the economy between the tertiary industries, electricity, transport, commerce, etc., and the other industries are the strongest. Intersectoral linkages are also strong in the tertiary industries.

23. An important feature that can be ascertained from the inputs to the various sectors of the economy is that the linkages are small and that there is a great dependence upon imports. For manufacturing, 22 per cent of the inputs are imports, 9 per cent local agriculture produces and 6 per cent local semi-manufactures. The most important items imported are agricultural, 25 per cent; iron and steel, 15 per cent; machinery, 7 per cent; and chemicals, 3 per cent. The mining and quarrying sector shows a similar dependence upon imports, being 23 per cent of the total inputs, while local manufactures account for only 1 per cent of the total inputs. The only linkages between the PNG economy and the mining sector is through transport commerce and financial institutions accounting for 7 per cent of total inputs, and compensation of employees comprising 17 per cent. Moreover, 93 per cent of the output of the mining sector is directly exported without further processing. In building and construction, imports account for 29 per cent of the total inputs. The linkage between manufacturing and the building and construction sector is comparatively good, being 18 per cent of the total inputs of the sector.

5 UN Economic and Social Commission for Asia and the Pacific: Reorientation of Industrial Policies (1979), p. 75.

24. It is also worth noting that 19 per cent of the total inputs of all industries and institutions are imports. Of final private current spending imports account for 33 per cent of total inputs; of fixed capital formation these account for 80 per cent; and of stock building, 80 per cent. Of the total output of industry and institutions 26 per cent are for export.

25. The facts given above point to the weak linkages in the economy, its dependence on imports and to the importance of trade as well as to the need for the industrialization of the country to be based mainly on the locally available resources.

Import and export of manufactured goods

26. Table 7 shows the broad composition and trend of imports from FY 1971 to FY 1975. In a normal year consumer goods account for just about half of total imports. Food and manufactured goods each account for about half of all consumer goods, with beverages and tobacco as a minor item. Intermediate goods are far less important than consumer goods and are dominated by fuels (imported mainly by BCL Bougainville Copper Limited). During the height of the construction of ECL, capital goods imports were very high. Thus the imports of capital goods were much more volatile than those of consumer goods and intermediates. Table 7 gives an idea of the structure of imports during the years from 1971 to 1975.

Table 7

Imports according to End Use

	FY71	FY72	FY73	FY74	FY75
	(Millions of Kina)				
<u>Total imports f.o.b.</u>	<u>294.0</u>	<u>288.7</u>	<u>219.7</u>	<u>234.4</u>	<u>362.0</u>
Consumer goods	59.6	101.5	108.5	112.7	185.0
Food	41.5	45.4	52.8	57.4	90.0
Beverages and tobacco	6.3	6.0	5.0	4.3	5.0
Manufactured goods	51.8	50.1	50.7	51.0	90.0
Intermediate goods	16.0	21.1	19.1	28.6	57.0
Fuels	8.7	12.8	11.1	19.7	40.0
Other	7.3	8.3	8.0	8.9	17.0
Capital goods	175.2	162.8	89.3	77.8	110.0
Other imports	2.6	3.5	2.8	5.7	10.0
	Percentage of total				
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Consumer goods	33.9	35.2	48.2	50.1	51.1
Intermediate goods	5.4	7.3	8.9	12.7	15.7
Capital goods	59.8	56.4	41.6	34.6	30.4
Other imports	0.9	1.1	1.3	2.6	2.8

Source: The World Bank: Papua New Guinea: Economic Situation and Development Prospects, 1976, p. 64.

27. The principal exports of PNG, during 1975-76, consisted of minerals, namely, copper ore and concentrates (A\$ 199.5) and gold; tropical agricultural products namely coffee, cocoa, copra, coconut oil, tea, crude rubber and fruit juices; fish and fish preparations, namely, tuna and prawns; and logs and sawn timber.

28. Even now the country relies on imports for substantially all its capital goods, most of its fuel, almost all the raw materials by its few industrial firms, a large part of its services namely, overseas transport, ship repairs, insurance, professional and managerial services and for a high proportion of its consumer goods, including most of its non-subsistence food requirements. Almost anything not produced by the

subsistence sector has had to be imported. PNG's exports have not been large enough to pay for all these imports. Since independence before which its economy was a part of the Australian economy, the country has been faced with a balance of payments problem. Table 8 shows the average merchandise exports for the period from FY 1973 to FY 1975.

Table 8

Merchandise Exports (Average FY 73 - FY 75)

<u>Item</u>	<u>Percentage</u>
Coffee	7.7
Cocoa	6.7
Copra and copra products	8.6
Timber	4.0
Copper ore and concentrates	64.5
All other commodities	<u>8.5</u>
Total (excluding re-exports)	<u>100.0</u>

Source: The World Bank: Papua New Guinea: Economic Situation and Development Prospects 1976, Country Data

29. More up-to-date information on major items of imports and exports and their values is given in Table 9. The total imports in 1976 were valued at US\$ 430 million, whereas the total exports were valued at US\$ 573 million, thus showing a trade surplus of US\$ 143 million. The value of the total imports was US\$ 567 in 1977 and that of the total exports was 723, the trade surplus being US\$ 156 million.

Table 1

Major Merchandise Imports and Exports of Papua New Guinea, 1977

<u>Imports</u>	<u>Value in 1977 US\$</u>	<u>Exports</u>	<u>Value in 1977 US\$</u>
Meat fresh etc.	8,519	Coffee beans	45,373
Meat, canned etc.	7,253	Cocoa beans	31,119
Rice	14,461	Tea	4,322
Motor spirit, etc.	14,622	Copra	12,538
Gas, diesel & other fuel oil	28,757	Crude rubber	2,882
Medicine & pharmaceu- tical products	2,917	Wood & lumber	10,828
Base metals	9,901	Copper ore & concentrates	216,686
Manufactures of metal	13,668	Palm oil	7,188
Passenger cars	6,498	Coconut oil	7,954
Buses, trucks, lorries	15,496	Plywood sheets	3,076
Clothing	10,173		
Textile yarn, fabrics, etc.	8,443		
Total	140,708	Total	342,566

Source: Statistical Yearbook for Asia and the Pacific, 1977

30. Manufactured products rarely appear as export items. There are, however, a few export manufactures centring round sawmilling and coconut and palm oil extraction. Sawmilling employs about 3,000 persons and exports almost one-third of its output. In all there was probably about 1,500 people employed in export manufacturing in 1974-75.

Capital formation in industry, investment and sources of financing, including external financing

31. The industrial sector in PNG is very small and as such capital formation in industry is expected to be negligible. The task of mobilizing the resources of the country for both current public expenditures as well as for development is a crucial one. For the present the country is not living within its means at all. There is a large imbalance between public expenditures and public revenues in PNG. The country cannot cover foreign expenditures without relying on grants from other countries. The whole economy is very heavily dependent on external aid, especially the untied grant from Australia which meets about 40-45 per cent of the government budget. The sources of internal financing are limited and the country depends heavily on foreign investment for the exploitation of its resources.

INSTITUTIONAL INFRASTRUCTURE FOR INDUSTRY AND CHANGES

32. In PNG it is possible to identify certain institutions which perform some industrial functions along with other economic functions in conformity to the government programmes and stated policies. There are hardly any specialized institutions which perform solely industrial functions. There are institutions which are concerned with the formulation of the national plan and the policies and with the determination of national investment priorities. Such institutions or bodies are the National Executive Council, the National Planning Committee, the Central Planning Office, the Department of Labour, Commerce and Industry and other concerned departments and agencies of the Government at the national level. The second category of institutions includes the agencies which finance economic activities including industrial activities. Again there are the institutions concerned with the training of management personnel as well as with on-the-job training of persons engaged in industry or the training institutes. Then again there are institutions concerned with the promotion of appropriate technology and with specific matters such as the determination of the standards and the qualities of products, industrial research, etc.

33. The institutional structure for industrial development in PNG may be said to consist mainly of the following:

- (i) The Cabinet and its National Executive Council
- (ii) The National Planning Committee
- (iii) The Central Planning Office
- (iv) The Department of Labour, Commerce and Industry - Its Industrial Development Division

- (v) The Department of Decentralization
- (vi) The Department of Transport
- (vii) The Department of Finance
- (viii) The Department of Public Utilities
- (ix) The Department of Business Development - The Small Industries Research Centre
- (x) The Office of Village Development - The South Pacific Appropriate Technology Unit
- (xi) The National Investment Corporation
- (xii) The National Investment and Development Authority
- (xiii) The PNG Development Bank
- (xiv) The University of Science and Technology at Lae - its Appropriate Technology Unit
- (xv) Provincial governments as regional development bodies

34. The majority of Papua New Guineans live in the rural areas - about 85 per cent of the total population. The policies of the Government, therefore, naturally emphasize agricultural development through, among other things, diversification of crops. The development of manufacturing industries is to be based on the processing of agricultural products and on the supply of inputs to the agricultural sector. Further, industrial development aims at developing small industries on the basis of decentralization and the Government has accordingly adopted policies in regard to the provision of credit and other facilities such as transport, marketing and training etc. through appropriate institutions. For instance the PNG Development Bank has been the Government's major agency for providing credit to rural areas. The same function is partly performed by the Village Economic Development Fund. The

Industrial Development Division of the Department of Labour and Industry is considering such incentives as the setting up of industrial estates to promote industrialization. Decentralization is being attempted by encouraging the growth of small towns to reduce the attraction of Port Moresby and Lae, the main urban centres. The Department of Business Development provides assistance to small businesses in respect of marketing, financing, design, finish and precision of products. The National Investment and Development Authority is responsible for drawing up the National Investment Priorities Schedule determining the areas where foreign investment is (a) actively promoted; (b) permitted; (c) restricted; and (d) prohibited. The Schedule appears as Appendix A. The manufacture of certain products falls under (a).

35. The setting up of provincial governments and corporations which are to act as development agencies will facilitate regional economic development. Within the framework of the stated policies and programmes of the Government, the institutions mentioned in this section perform certain functions in their respective specific areas bearing on industrialization. A streamlined machinery for initiating and ensuring industrialization through the adoption of appropriate measures yet remains to be worked out for PNG.

MAIN FEATURES OF INDUSTRIAL DEVELOPMENT OBJECTIVES AND STRATEGY
- POLICY MEASURES AND PROGRAMMING OF IMPLEMENTATION

36. The objectives of the National Public Expenditure Plan (1978-81) are largely concerned with rural development and a more equal distribution of services.

To determine the course of future development the Government has engaged itself in assessing the needs and demands of the people which should be satisfied. With this end in view, it has formulated eight aims and identified a number of strategic areas in the National Development Strategy, as pointed out earlier. No clear-cut industrial policy is yet laid down nor is any industrial strategy clearly defined.

However, from the emphasis placed by the Government on certain aims and strategic areas, one can ascertain that importance has been attached to stimulate industrialization of the country, although its nature and extent still await clear definition.

Although opportunities for economic development in PNG mostly lie in the agricultural sector, industrial development will play an important role in certain ways. These are as follows:

- (i) The development of agro-industries and the promotion of initial processing of local and raw materials on a cottage industry basis, such as, sheep production in the Highlands, silk production for export and for cottage industry, peanut processing and salt fish.
- (ii) Agricultural tool industry by encouraging metal usage for various purposes.
- (iii) Expansion of boatbuilding and repair capacity.
- (iv) Production of ceramic products for building construction.
- (v) Expansion of village machinery to produce pumps and other small-scale equipment for village uses such as simple farm implements.
- (vi) Promotion of village and traditional handicrafts for sale and export, in which some 100,000 are already fully or partially employed.

37. Secondly, the Government has created opportunities for finance and credit for industrial enterprises by making necessary institutional arrangements. Other facilities are being created such as the improvement of transport, the generation of power, the arrangement for training facilities, technical advice.

38. Thirdly, a Framework for Industrial Development in Papua New Guinea (Appendix I), as approved by the Cabinet gives some clues to the industrial objectives and policies. Industrial development must specifically:

- (1) Promote self-reliance by generating government revenue, increasing exports and replacing selected imports with locally produced products;
- (2) Promote rural development by increasing income earning opportunities in rural areas and providing inputs to agriculture and the rural sector in general;
- (3) Create productive employment opportunities and in particular create job opportunities to deal with problems of urban drift and the increasing number of unemployed school leavers;
- (4) Provide opportunities for manpower development through the acquisition of entrepreneurial, management and technical skills; and
- (5) Contribute to regional equality by dispersing industrial activities.

39. In implementing the above objectives and strategies, the Government will rely on the promotion and encouragement of private sector activity through the participation of Papua New Guineans, the development of appropriate technologies for village and small-scale industries and the promotion of these industries in both urban and rural areas to serve local demand.

40. Foreign investment will play an important part in industrial development by promoting the diversification of the economy and by providing government revenue, foreign exchange, capital, employment, and technical know-how and management skills and by contributing to the development of infrastructure, the training of people and the promotion of small-scale enterprises. Foreign investment will be encouraged on the terms and conditions established by the Government at the time of registration with the National Investment and Development Authority which issues the National Investment Priorities Schedule. The Second National Investment Priorities Schedule is given in Appendix B.

Lines of industrialization

41. The country is endowed with natural resources and as such industrial activities must primarily be based on these resources. The Government will actively encourage further exploration by foreign enterprises for oil and gas and minerals. Existing forest-based operations will be encouraged to encourage the degree of processing and vertical integration within the country and the regional dispersal of economic activities. The fishing industry should be further developed on a co-operative basis through the processing of fish so as to contribute to the regional dispersal of economic activities and to regional welfare.

42. In the manufacturing sector, the industries to be encouraged for development are those which are complementary to and integrated with the rural sector. The main emphasis will naturally be on the agro-related industries providing inputs for agriculture and processing agricultural commodities and on industries supporting activities in forests, mining and fishing. Emphasis will also be on the expansion of urban industry including manufacturing. The employment creation effect, direct or

indirect, self-reliance and balanced development are other important criteria for industrial development. These will imply the development of some import substitution and export-industries.

ANALYSIS OF THE MAIN CONSTRAINTS ON THE DEVELOPMENT
OF INDUSTRY

A coherent and well-defined industrial development policy

43. The economy of PNG has long been dependent on agriculture which has clearly two sectors - (a) commercial sector and (b) subsistence sector. The country has been an exporter of primary agricultural products and the importer of all kinds of consumption goods. Its economy before its independence in 1975 was a part of the Australian economy. Many of its exports went to Australia and New Zealand from which countries it obtained most of its imports. There was little or no urge for industrialization to replace the imported products. Since independence, the Government has not formulated any comprehensive development plan for the country including the industrial sector and no definite industrial policy as such has been laid down. Only programmes and policies for certain sectors including the industrial sector have been indicated in broad terms. Thus although a beginning has been made, further steps to develop an industrial programme and to formulate an industrial policy in concrete terms need to be taken to initiate and promote industrialization.

Financial Resources

44. Only recently some institutional arrangements in the form of the National Investment Corporation and the Development Bank to make finance available for industrial development according to the policy of the Government have been made. The financial resources that can be mobilized in the private sector are limited. Although the average per capital income is pretty high - US\$ 470 -, the propensity to import is extremely high. Papua New Guinea has one of the highest propensities to import of any country in the world - the propensity to import being measured by the ratio of imports to the total value of goods and services bought. Subsistence

activities, which in PNG account for 15 to 20 per cent of GDP, are of course, excluded. Further, the per capita income of the native people excluding the expatriates will show a much lower figure, thus demonstrating a much lower capacity to save. High population growth, social customs and traditions have also served as an additional brake on savings flowing into investment. Eventually, the country looks forward to foreign investment for financing most projects including industrial projects. Unelave projects like Bougainville Copper Ltd. (BCL) are the main sources of domestic revenues and foreign exchange needed for development.

Infrastructure; Transportation; Communication; Energy

45. Infrastructure refers to the underlying foundation consisting especially of the basic installations and facilities on which the continuance and growth of a community, state, industry etc. depend, such as roads, schools, power plants, transportation and communication systems etc. It may be of several types - physical, economic, financial, social or psychological - providing the basic requirements for a purpose, for example, the development of industry here, in which efficient transport, the supply of energy and water and education and training play a very important role. PNG is unfortunately poor in these infrastructures.

46. PNG is a land of mountainous terrain scattered over a main land and several large and small islands. The country's topography is rugged. Because of the formidable geographic barriers the country is culturally and economically fragmented. Aviation is the principal means of transport and links the towns. There are no railroads at all. Road communication needs more emphasis for development. Communication links have been oriented towards overseas sources of

supply and markets rather than within PNG. Transport bottleneck has thus hindered industrial development. The two principal mainland towns - the administrative capital of Port Moresby and the commercial and industrial town of Lae are not linked by road. Only one highway links Lae with the Central High Lands. The telecommunication network and harbour facilities are, however, good. Inter-island and coastal shipping are in need of substantial improvement and development on a priority basis.

47. The development of energy also needs to be treated on a priority basis. There are possibilities for development of multi-purpose hydro-electric projects. The Government is encouraging the development of mini-hydro schemes in a number of areas to provide a cheap and reliable source of power for domestic consumption and to hasten the development of industries on a local basis. Moreover, hydro-power will reduce the countries dependence on imported fuels.

Education and Training for entrepreneurs, qualified managers and skilled personnel

48. Education and training play an important role in the economic, more specifically, in the industrial development of any country. Although education in PNG is now relatively developed, in 1971, more than 70 per cent of all adults were illiterate. The country has two Universities - the University of PNG at Port Moresby and the University of Technology at Lae. At all levels of education above the primary school a large proportion of the teachers are expatriates and the costs of education are high. The training of indigenous teachers, therefore, is of crucial importance.

Education however should be science and technology oriented to accelerate industrial development. Technical education at the middle level of education and vocational training will aid industrial development. The facilities providing for on-the-job training in industry need to be created.

49. Development implies a number of things such as (1) the introduction of a new good or of a new quality of good; (2) the introduction of a new method of production; (3) the opening of a new market; (4) the conquest of a new source of supply of raw materials or semi-manufactured goods; and (5) the carrying out of the new organization of any industry, like the creation of a monopoly position or the breaking up of a monopoly position. In any society developed or developing, there are people who perform these important development functions who are called the "entrepreneurs". They are the persons who may or may not be the suppliers of capital; they are the persons who take the initiative in industrial development by seeking out the profitable fields of investment in the country. They may be entrepreneurs in the classical sense in that they may also be the suppliers of capital, but in the modern sense, they are the salaried trained executive or managers taking important business decisions and breaking new grounds for industrial and economic opportunities. The role of this class of professional people, 'the entrepreneurs', is relevant to any type of society, capitalist or socialist, industrially developed or undeveloped.

50. In the major economic activities of PNG, there is the dominance of the expatriates. What is required for initiating modern industrialization in PNG on a modest scale is to develop an entrepreneurship development programme for the Papua New Guineans. In view of the limited extent of the domestic market, the emphasis must be on the development of medium and small-scale industries. In this context, it is necessary to formulate measures and introduce various incentive measures to induce the young and energetic young people to set up industries in the desired areas of the country.

51. There is undoubtedly a shortage of managerial skill in PNG. Qualified and experienced managers are mostly expatriates who have to be paid high salaries. The solution to this problem lies in training an increasing number of the native people in management and administration, both within the country and outside so as to hasten the process of "localization" of industrial development.

52. It is not true that only the entrepreneurs and qualified managers are needed for industrialization. Personnel or key workers with the requisite training, skill and practical experience are equally important for industrial development. Unless skilled workers are available, it will be difficult for PNG to set up industries on an efficient and competitive basis. Regular training programmes for workers in different lines to be run in vocational or training institutes are, therefore, very necessary.

Growth rates of other sectors, i.e. agriculture

53. Industry is only one sector of the economy and it is common knowledge that the growth of the different sectors of the economy are interrelated. The growth of one sector is linked with or dependent upon that of other sectors. The interrelationship is even closer between industry and agriculture. The development of industry provides a market for agricultural raw materials produced in the country and provides valuable inputs like fertilizers, pesticides, etc. It provides the equipment needed by different transport industries. It provides the market for energy and makes possible the all round growth of the economy.

54. The development of agriculture and the generation of a surplus in agriculture are again fundamentally important for fostering industrial

development. In the early 1970s, agriculture, hunting, forestry and fishing accounted for well over a third of GDP. The work force in monetized activities of the primary industry sector of the economy numbered about 185,000 persons, out of a total work force of about 352,000 persons in 1978. In addition, there are persons (a very large proportion of the local labour force) employed in subsistence agricultural activities. The vast majority of the people are, therefore, dependent on agriculture. Further agricultural development and increased purchasing power in the agricultural sector will therefore facilitate the development of the manufacturing industry which accounts for only about 6 per cent of GDP. Agricultural activity in PNG is carried out in three forms: by traditional subsistence production; by small holder cash cropping; and on plantations. Improvements have taken place in these forms and have contributed to export development and rural welfare. The reality, however, is that there are few products manufactured within the country and as such the country depends on imports of many manufactured consumption goods and of intermediate and capital goods. Industrialization has not proceeded on any scale and has been hindered by the lack of entrepreneurship and skills, internal transportation difficulties, the diversity and multiplicity of languages leading to communication problems, horticultural nature of the country, fragmented markets, the constraint of the "wantok" ^{6/} system, and high wages.

^{6/} The word literally means one language and is used to describe any group of people speaking the same language and sharing similar ways, based on principles of common ancestry and reciprocity. The wantok system has been widely taken advantage of by would-be entrepreneurs and temporary migrants to urban areas.

Size of domestic market

55. Adam Smith said as far back as 1776 that the division of labour which increases industrial production is limited by the extent of the market. PNG is geographically large and the population which is rather small does not constitute a big market. However, although there is an unequal distribution of income among several categories of people in PNG, the average per capita income of the people is high and the propensity of the people to import is very high, the reason being partly that few consumption goods are manufactured and available within the country. Even the present size of the market plus the effective demand of the people should be sufficient to encourage indigenous production of many imported items of consumption. This situation is, therefore, favourable for a certain degree of industrialization of the country to meet the requirements of the people.

REVIEW OF PROSPECTS AND POTENTIALS FOR INDUSTRIAL DEVELOPMENT

Raw material endowment

56. PNG's main export crops are coffee, cocoa, copra, coconut oil and palm oil. Efforts have been made to produce certain import substitutes such as rice, sugar, vegetables, fruits, livestock, poultry and tinned fish the demand for which has increased because of a relatively large expatriate sector, growing urbanization and changing consumption habits of the native people. Other rural activities are fishing and fish processing and forest-based operations like the supply of local building materials and timber-export. An enclave project centring round the Bougainville mine belongs to Bougainville Copper Ltd. (BCL) - a local joint venture in collaboration with foreign investment and enterprise has been a very important development from the point of view of its impacts on fixed investment, imports and exports since the early 70's. Another similar mining project in the offing centres round the copper mine at OK Tedi on the mainland. Thus big developments have taken place and are likely to take place centring round copper mining - a major resource of the country.

Energy potential

57. Energy as part of a nation's economic infrastructure is of critical importance in the economic development of a country. As for industries, some are energy-intensive and some are not; but no industry can be developed without energy. At present PNG has to import fuel. The Government will probably develop mini-hydro schemes in certain areas. There are, however, possibilities for development of the Purari hydro electric power project and offshore drilling for oil and gas. These projects are under active consideration of the Government.

Qualified manpower

58. In PNG there is certainly a dearth of qualified manpower which implies persons with higher levels of education and training available to work in industry. The country is short of skilled manpower and this shortage has been remedied partly by the expatriates. Industrial personnel falls under 3 categories - lower level, middle level and higher level. Lower level personnel may be trained at vocational schools or training centres or by the employers themselves. On-the-job training in this respect seems to be the most efficient method. Middle-level personnel may be trained in technical institutes and under within-industry training programmes. Higher grade administrative and management personnel should be trained in management development centres. Alternatively, there are four stages in generating qualified manpower and industrial skills: (i) suitable elementary education aimed at inculcating in pupils versatility and adaptability; (ii) secondary education that includes some broadly based vocational subjects; (iii) initial job training in close co-operation with the employers; and (iv) upgraded refresher courses and retraining schemes conducted by industry. PNG is badly in need of people with industrial skills. The remedy lies in training its available educated persons in industrial skills.

Existing manufacturing activities and import substitution potential

59. Manufacturing accounted for about 8 per cent of GDP in 1974 and the details about this sector were described in Section II. The existing industries include engineering; food, drink and tobacco; sawmilling and joinery; coffee, coconut oil, plywood, saw logs, bottles, cigarettes and tobacco manufactures; and beer brewing, soft drink bottling, baking, slaughtering, tire recapping, furniture making, some agricultural processing and manufacture of light consumer goods.

60. Manufacturing establishments such as textile mills, cement factories, sugar mills, metal or oil refining units and any unit for the assembly of any kind of metal consumer durables do not exist at all. These are the fields where there is a scope for industrialization in the future as some of these goods are bulky and their transportation costs are high. Further, the country is rich in copper resource and there should be possibilities for industrialization based on this main resource, production of diverse products using copper as the main raw material for both domestic use and export. The suggestion needs investigation.

Furthermore, in the economy of PNG, there is the almost complete absence of handicraft workers and small-scale traders, shop keepers and service-repair establishments that provide a large volume of employment in other countries. Opportunities should be created for the people to participate in these non-agricultural activities by removing the restrictive rules and regulations. Emphasis needs to be placed on the promotion of small-scale industries as a means of stimulating the growth of non-agricultural activities which are essential for PNG.

Linkage potentials within the manufacturing sector and with other sectors, i.e. agriculture, construction

61. Intersectoral linkages have been referred to in Section II. It has been seen from the inputs to the various sectors of the economy that linkages are small and that there is a great dependence on imports. Taking this into account, the direction of future industrial development on the basis of possible linkages may be indicated. First, far greater priority should be placed on the development and processing of natural resource and agricultural products. The country is fortunate in possessing exploitable natural resources - timber, palm oil, fisheries, minerals, rice, copra and others. The advantages of industrialization based processing are clear. Processing draws upon domestic raw materials

which, in combination with the employment of local labour, results in high levels of value-added. Further, it provides a stimulus for production by the primary sector - in forestry, fisheries and agriculture - and creates marketing outlets, cash earning opportunities and employment. Furthermore, processing industries act as learning centres in industrial skills, services, management, marketing and the utilization of local raw materials in industry. Finally processing units may have an easy access to external markets, achieve economies of scale and often provide for the development of new industrial products based on the utilization of wastes and by-products.

62. Secondly, copper is one of the few most important exports of PNG. It may be possible to develop certain industries based on the processing of copper instead of exporting all of it as copper ore and concentrates, as already suggested.

63. Thirdly, there are opportunities for developing a variety of consumption goods most of which are now imported. These need to be identified and a programme for producing simple import substitution goods with local capital and enterprise should be drawn up as a first step. Further manufacturing establishments such as textiles, cement factories, sugar mills, metal or oil refining units and assembly units producing consumer durables with local markets and linkages with other sectors have good possibilities for development, as already indicated.

64. Fourthly, industries producing inputs for agricultural development such as fertilizers, simple agricultural tools and implements, pesticides etc. may be encouraged for development.

65. Lastly, as the country is fragmented with limited market and transportation difficult, small scale industries development programmes should be developed province-wise on the basis of the assessment of local needs and demands.

Location of the country in relation to markets in industrialized countries

66. Transport relations of a country with the rest of the world in respect of both the import of required raw materials as imports for its industry as well as the export of finished products to other countries of the world constitute an important economic advantage. It is not the distance of a country from other countries but the transport relations with them, that is, the ease or facility and cheapness with which transport and communications can be carried on which matter. P.O., through its ports, has easy access by sea to Australia, New Zealand Japan and other countries of the South Pacific region. The location of the country is therefore favourable both to imports from, as well as to exports to, industrialized countries.

Industrial climate and living conditions to attract foreign investment

67. Any developing or developed country which needs, and wants to attract foreign capital to accelerate the pace of its industrial development must make systematic efforts to improve or better conditions constituting what may be called the industrial climate. The creation or improvement of the industrial climate favouring foreign investment depends on conditions such as (i) the attitudes and policies of government towards private business, foreign capital and personnel and industrial problems generally; (ii) taxation, including rates, exemptions and procedures; (iii) import and tariff policies such as protection for new industries, import duty relief on capital goods and materials; (iv) foreign exchange controls affecting imports and repatriation of capital and earnings; (v) immigration rules affecting the inflow of skilled personnel; (vi) the availability of domestic finance and its cost as well as the availability of labour and skills and their costs and laws affecting employment of labour and the attitude of labour

itself; (vii) the infrastructure of power, fuel, transport, water and communication facilities and their pricing; (viii) the availability of plant sites and their cost; and (ix) the availability of services needed by industry.

68. In PNG the latest government policy concerning foreign investment continues to be one of welcoming foreign investment for the exploitation of its resources for economic and industrial development on the mutually advantageous terms and appropriate action covering most of the conditions mentioned in the earlier paragraph has been taken by the Government. Foreign investment is acceptable to PNG on reasonable terms and conditions. The Government policy in respect of foreign investment has been described in Section V and in Appendix B.

69. The living conditions of a country should also be satisfactory enough so as to attract foreign investors and technical personnel. Housing and other modern facilities should be available for the personnel and their families. The climate of a place is also considered to be an important factor. Housing and other modern facilities for living are available in PNG where the climate is also agreeable. There are thousands of expatriates and foreign personnel already residing in PNG.

REGIONAL, SUB-REGIONAL AND BILATERAL CO-OPERATION AGREEMENTS RELATED
TO INDUSTRIAL DEVELOPMENT

70. PNG is a member country of the United Nations Economic and Social Commission for Asia and the Pacific and as such it participates in ESCAP meetings concerning industrial matters in general, although it is not an active member of any ESCAP projects dealing with industry namely, the Regional Centre for technology transfer, the Regional Network of Agricultural Machinery. It has however shown interests in ESCAP's regional approach to such activities as industrial strategies and policies and technical co-operation among developing countries (TCDC), as propounded by the conferences of the Ministers of Industry of the ESCAP region countries.

71. At the sub-regional level, PNG is a member of the South Pacific Commission (SPC) and the South Pacific Bureau for Economic Commission (SPEC). The former was set up in 1947 to strengthen and encourage international co-operation in promoting the health, economic and social welfare and advancement of the countries in the South Pacific. The South Commission takes an active role in promoting economic and social development in the region. Its annual work programme and budget is decided by the South Pacific Conference which meets annually. The headquarters of the Commission is in Noumea, New Caledonia. PNG joined the Commission in 1975 as an independent member. United Nations specialized agencies and bodies, like many other institutions, have provided valuable technical assistance and support in a wide number of fields including industrial development.

72. The South Pacific Bureau for Economic Co-operation (SPEC) was established in 1973 by the members of the South Pacific Forum. SPEC acts as the Secretariat of the Forum. Its functions include among others, regional trade expansion, and rationalization of industrial

and other forms of development. The SPEC headquarters is at Suva, Fiji.

PNG is a member of the Forum.

73. The two organizations mentioned above play their important roles in bringing the countries of the South Pacific together and in promoting cooperation among them in economic matters and PNG as a member of both organizations, can take advantage of the opportunities offered by them. Other international organizations rendering limited aid and assistance to PNG include the European Development Fund, the Asian Development Bank, and many other organizations in a number of fields covering industry, economic studies, etc. The World Bank has not come in as yet to assist PNG, beyond making one or two studies of the country.

74. Papua New Guinea was granted membership of the Lomé Convention in early 1977 and will receive aid and trade concessions from the EEC. Under the convention Papua New Guinea will receive duty free access to the EEC for virtually all its exports on a non-reciprocal basis provided that at least 40 per cent of value added originates in Papua New Guinea. Papua New Guinea will also receive aid of 10-20 mill Kina and gain access to the Common Export Earnings Stabilization Scheme (STABEX) whereby EEC assistance will be given in times of low prices for copra, coffee and oil palm but not for copper. Papua New Guinea will also receive concession for its commodity exports under the EEC General System of Preferences applying to all third world countries. The major commodities to benefit from the concessions will be coconut oil and palm oil.

75. In regard to trade policies an Agreement on Trade and Commercial Relations between the Governments of Australia and Papua New Guinea (PATCRA) came into force on 1 February 1977. It is claimed to be a full trade area agreement, and makes provision for investment, and for commercial, industrial,

administrative and technical co-operation. Under this agreement Papua New Guinea exports may enter duty free the Australian market provided imports are not damaging to Australian industry, in which case duties in Australia may still be imposed unilaterally without the concurrence of the Government of Papua New Guinea.

76. As regards bilateral co-operation, the two countries which have important links with PNG in the exploitation of her resources and in respect of trade and development, aid are Australia (particularly for historical reasons) and New Zealand. This aid is not specifically for industrial development, although it has a bearing on industrial growth.

REVIEW OF THE PARTICIPATION OF THE PUBLIC SECTOR, DOMESTIC PRIVATE
SECTOR AND MULTATIONALS IN INDUSTRIAL DEVELOPMENT

The role of the Government and ownership pattern

77. The central government in PNG is the largest employer, the largest source of demand for investment activity, the largest mobilizer and provider of capital and the largest source of funds spent at local government levels. It sets the pace, direction and quality of development. It is in response to the government demand that resources are mobilized and utilized in new higher-productivity and higher-income activities. The enclave projects also provide the government with revenues - a government which depends heavily on expatriates for staffing in both the public and the private sectors.

. The role of the government has so far been restricted to setting goals, devising policies and programmes, and mobilizing the real and financial resources needed to achieve these goals. It has established clear, simple aims and has defined the principles governing the pace and direction of investment and the terms on which foreign investment will be welcome. The government however needs to spell out its sector strategies to decide the relative amount of resources to be allocated to sectors and to major activities on a priority basis for reaching its development goals. Briefly put, the Government needs to have the framework of a development plan for the country, if not a detailed development plan, in which industrialization should play a definite role. In a private enterprise economy like that of PNG where the ownership of resources is unequal and is in private hands, the Government needs to concentrate on building much needed industrial infrastructures to facilitate the operation of private enterprise.

The private sector

78. PNG's largest single occupation involving more than half the population remains subsistence agriculture. There are plantations which are completely oriented to the production of cash crops. Subsistence agriculture is also turning to a measure of cash cropping. The technical and institutional problems of building up domestic markets for food products present difficulties. Sectors other than agriculture are still relatively small and are unlikely to provide the sources of new demand necessary to lead the economy to higher levels of productivity and income. Manufacturing, construction etc. are still of secondary importance as sources of employment and income. The monetized activities of the economy accounting for over 70 per cent of output and incomes but involving less than half the population depend largely on imports covering both consumption and investment activities. Import substitution, however, is likely to proceed slowly in a selective manner and the role of private enterprise in industrialization needs to be increased. The domestic private sector in industrial development is indeed very small.

79. There are few large-scale and medium-scale industrial enterprises operating in PNG; and some foreign investment oriented projects are under active consideration by the Government. In the exploitation of natural and mining resources, such as plantations and copper, a few multinational or foreign companies have played a prominent role in providing investment and technology, in some cases, in association with Government and local investors, like the Bougainville Copper Ltd. (BCL)

REVIEW OF FOREIGN AID AND TECHNICAL ASSISTANCE IN RELATION TO
INDUSTRIAL DEVELOPMENT

80. The government policy towards foreign aid has been explained in the National Public Expenditure Plan, 1979-1982. It aims at reducing the proportion of public expenditure financed from foreign aid and at securing it on terms and conditions supporting the objectives of national development. The government prefers untied cash grants to the budget, bilateral grants and soft loans tied or untied to projects already incorporated in the National Plan. The principal bilateral donors are Australia, Japan, New Zealand and the Commonwealth Fund for Technical Co-operation. Further PNG receives aid from the E.E.C. to a substantial extent ever since the country acceded to the Lome Convention.

The Australian assistance to PNG consists of outright grants passed through the national budget, payments to Australian Government officers working in PNG and various other transfer payments. The existing aid agreement between PNG and Australia covers the period from 1976 to 1981.

81. The sources of non-Australian assistance include loans and aid from ADB, IDA, IBRD and Japan, New Zealand, UNDP, and other countries. The projected non-Australian development assistance to PNG for 1978 and 1979 is summarized in Table 9.

Table 9

Projected non-Australian Development Assistance
to PNG

Source	1979 (K Millions)	Details of Commitment
ADB	15.00	K10.84 million in soft loans and million in hard loans
ISRD	3.27	Hard loans for infrastructure projects
IDA	8.70	K8.70 million for rural development projects
European Investment Bank (EIB)	1.60	Ligatura Oil Palm Scheme, financing assistance to Government
Kuwait Fund for Arab Economic Development	0.97	Port Moresby Port, US\$3.5 million
Japan (OECF)	1.91	Yen credit of 3.5 billion (K13m)
Federal Republic of Germany	1.00	3-year programme of DM 34 million in soft loans and technical assistance
European Economic Community	N/A	ECA 10 million (K0 million) in soft loans (30 per cent) and grants (70 per cent) following PNG's accession to Lome Convention (1 November 1978) and financing agreements of projects in Indicative Programme.
New Zealand	2.1	3 year programme (1977-1980) of NZ\$ 2.75 million per annum in grants and technical assistance
U.N.D.P.	1.3	Indicative Planning Figure of US\$8.9 million 1977-1981, in technical assistance, to be disbursed against a draft Country Programme prepared by the Government.
Others (CFTC, UK and UN agencies)	1.4	Technical assistance programmes
<hr/>		
1979 estimate	36.89	
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Source: The National Public Expenditure Plan 1979-82, Papua New Guinea, November 1978.

82. The proportion of Government expenditure allocated to industry appears to be very modest and cannot be easily identified. The amount allocated to the department of Labour, Commerce and Industry was K 3.3 million in 1976 and K 4.5 million in 1977 - 0.9 per cent and 1.1 per cent respectively, of the total Government expenditure budget.

UNDP PROGRAMME, UNIDO'S PAST ASSISTANCE AND POTENTIAL AREAS OF
FUTURE UNIDO CO-OPERATION WITH PNG

83. The UNDP programme in PNG slightly increased to US\$1.6 million in 1976 from US\$1.2 million in 1975. The value of UNIDO's project implementation amounted to US\$31,500, US\$10,225, US\$40,600 and US\$56,888 respectively, in 1974, 1975, 1976 and 1977. UNIDO has provided substantial assistance to Papua New Guinea in various fields of small-scale industry development and promotion. Assistance has also been given in the field of: silk culture; cement industry; solar salt production; furniture industry; leather industry; ceramics; handloom industry; indigenous entrepreneurship; industrial incentives; and appropriate technology. As shown in Table 10 the list of approved and operational projects includes assistance in the following areas: rubber; agricultural tools; foundry development; small-scale industry development programme; wood processing and furniture industry; secondary wood processing; garment industry; charcoal production; industrial estates development; silk marketing; manufacture of rubberized coir mattresses; and industrial planning and consultation. Moreover expected approvals in 1980 includes: assistance in the development of small-scale ceramics manufacture in Rabual; alcohol production from Nipa Palm; and pre-feasibility studies for processing of coffee and cocoa.

UNDP country programming

84. It is important that the UNDP Country Programme takes account of the industrial needs and opportunities in PNG and that a portion of the IPF is earmarked for industrial development. The nature of assistance in this respect must emphasize the building of institutions for industrial development plans and policies particularly for the development of small- and medium-scale

Table 10

UNIDO assistance provided to

PAPUA NEW GUINEA

from 1972 onwards

Project No.	Title	Total Expenditures
COMPLETED PROJECTS:		
DP/PAP/69/002	Indigenous entrepreneurship	US\$ 31,000**
DP/PAP/73/012	Fact-finding tour of small business and industrial development	US\$ 5,838**
DP/PAP/73/020	Small industrial development survey	US\$ 31,752**
DU/PNG/74/035	High altitude crop study	US\$ 3,500**
RP/PAP/73/001	Small-scale industries promotion	US\$ 3,016**
RP/PAP/73/003	Silk culture	US\$ 2,700**
RP/PAP/74/003	Silk culture	US\$ 76,459**
RP/PNG/76/004	Promotion of small-scale industry	US\$ 8,672**
RP/PNG/76/001	UNEP/UNIDO: Workshop on appropriate technology	US\$ 13,106**
RP/PNG/79/001	Training programme in the field of silk weaving in Thailand	US\$ 2,792*
IS/PNG/75/010	Cement industry	US\$ 10,840**
SI/PNG/77/801	Technical co-operation among developing countries; visit to Republic of Korea, attendance at International Small Business Symposium and observation tour	US\$ 2,682**
SI/PNG/78/802	Development of solar salt production (total allotment: US\$ 10,200*)	US\$ 7,712*
SI/PNG/79/801	Training programme in furniture industry	US\$ 7,595*
SI/PNG/79/803	Industrial incentive study; prep. assistance	US\$ 3,620*
SI/PNG/79/804	Assistance in small-scale ceramics manufacture - exploratory mission	US\$ 4,072*
TS/PNG/76/002	Establishment of national cement industry	US\$ 2,274**
TS/PNG/76/003	Exploratory mission to assess the leather and leather product industries	US\$ 7,285**
TS/PNG/76/005	Assistance in solar salt production	US\$ 6,221**
TS/PNG/77/001	Feasibility study on the development of the handloom industry	US\$ 384**

* Based on computer printout UNIDO-UMAP02 dated 8.1.1980 ('Status of allotments for projects as at 31.12.1979')

** Based on computer printout UNIDO-KHM10A dated 18.10.1979 ('Expenditures from 1972 to September 1979')

(PAPUA NEW GUINEA)

APPROVED AND OPERATIONAL PROJECTS:

DP/PNG/79/028	TSR (technically specified rubber) Adviser (total allotment: US\$ 189,630*)	- *
DP/PNG/79/010	Manufacture of agricultural tools (total allotment: US\$ 31,900*)	- *
DP/PNG/79/004	Foundry development (total allotment: US\$ 13,500*)	- *
DP/PNG/74/039	Preparatory assistance to the small-scale industry development programme (total allotment: US\$ 393,711*)	US\$ 264,259*
RP/PNG/78/001	Training in wood processing and furniture industry (total allotment: US\$ 1,200*)	- *
SI/PNG/79/808	Assistance to the secondary wood processing industry (total allotment: US\$ 11,500*)	- *
SI/PNG/79/807	Garment industry consultant (total allotment: US\$ 4,650*)	US\$ 3,150*
SI/PNG/79/806	Assistance in charcoal production	US\$ 7,490*
SI/PNG/79/805	Consultant for the development of indus- trial estates programmes (total allotment: US\$ 29,700)	- *
SI/PNG/79/802	Silk marketing adviser (total allotment: US\$ 5,150*)	- *
SI/PNG/78/801	Consultant on the manufacture of rubberized coir mattresses (total allotment: US\$ 7,730*)	US\$ 5,141*
		US\$ 511,560

EXPECTED APPROVALS IN 1980

DP/PNG/80/001	Development of Small-Scale Ceramics Manufacture in Rabual.	US\$ 41,500
DP/PNG/80/	Alcohol Production from Nipa Palm	US\$ 8,700
US/PNG/79/233	Pre-feasibility studies for processing of coffee and cocoa	US\$ 100,000
		US\$ 150,200

* Based on computer printout UNIDO-UMAPO2 dated 8.1.1980
(Status of allotments for projects as at 31.12.1979)

industries. For this purpose the National Investment and Development Authority and other concerned organizations need to play important roles in such fields as project identification and appraisal, investment promotion, training in management, production technology, entrepreneurship development, and the like. The Authority and other related organizations for these purposes need to be strengthened with UNIDO assistance for developing an industrial development programme.

85. The ceiling of the IPF for the UNDP Country Programme for PNG for the Second Cycle 1977-81 is US\$8.9 million of which US\$4.3 million has been earmarked for approved assistance; US\$0.8 million for planned assistance; and US\$3.7 million for new programming. It is essential that a portion of this fund is devoted to the industrial sector.

86. The industrial development efforts so far made in PNG appears to have been haphazard. It is extremely important that programme for industrial development in PNG is worked out and is supported by appropriate industrial policy measures and institutions. To this task UNIDO assistance could make a valuable contribution.

Industrial plans policies and institutions

87. There is an urgent need to formulate a comprehensive and systematic package of industrial policies and strategies and to establish an appropriate institutional machinery for the development of industry. The aim would be to create an "economic climate" conducive to the development of industry and to formulate an employment oriented rural industrialization programme with emphasis upon import substitution, domestic demand and in selected areas, also export promotion. It would be unrealistic to expect much private sector investment without such a comprehensive package of incentives, policies and

programmes to foster manufacturing development. The contours of some industrial policies are slowly emerging, and these may be both widened and deepened in a comprehensive and systematic manner. The importance of a comprehensive and systematic package of industrial policies and strategies is fully recognized within the Department of Commerce and Industry and the planning branch of the Industrial Development Division is working on the formulation of an Industrial Plan. Papua New Guinea is fortunate in the sense that it may benefit from the "lesson of experience" of other developing countries and thereby avoid the ill effects and failures resulting from haphazard planned industrial development, often encountered elsewhere in regard to excessive urban industrialization, excessive capital intensity etc. The Government has expressed interest in benefitting from relevant experience of other countries. This could take place under the scheme of Technical Co-operation among Developing Countries (TCDC).

Rural industrialization

88. The Government of PNG is particularly keen on the rural development programme, although there are the organizational and institutional problems, the most important of which is the land tenure system. As an essential adjunct to the Government rural improvement programme with the provision of assistance for small-scale public works such as local roads, bridges, culverts and water supplies, community centres, educational facilities, air strip, irrigation and drainage, animal husbandry and coastal transport project, the Government should develop a rural industrialization programme with a view to strengthening the linkage between agricultural development and industrialization, to ensure the development of small-scale and non-agricultural activities on the basis of dispersal as conceived by the Government. UNIDO could co-operate with the national organization in rural industrialization in the following ways:

- (i) survey of the areas to be developed to assess their human and material resources and to ascertain their infrastructural needs;
- (ii) identification of industrial activities suitable for incorporation in the rural development programmes of the areas;
- (iii) project preparation and evaluation;
- (iv) ways and means of making financial or credit support available;
- (v) technical and marketing support;
- (vi) industrial research and studies on relevant subjects such as rural entrepreneurship, appropriate technology, rural environment etc.;
- (vii) industrial training programmes and industrial extension work;
- (viii) arrangements for study-tours or visits to facilitate in other developing countries and for exchange of officials;
- (ix) arrangements to collect, exchange and distribute information among developing countries;
- (x) exchange of experts among developing countries;
- (xi) exchange of trainees among developing countries;
- (xii) supporting and facilitating the provision of advice and assistance in the needed areas by the developed countries to the developing countries, such as meeting the travel expenses of the experts and the trainees.

Sectoral assistance to key branches of industries

89. The primary need for UNIDO assistance lies basically in the area of smaller to medium-scale manufacturing activities where the scope for Papua New Guinea participation is promising. Technical know-how and expertise in medium to large-scale resource based manufacturing activities can often be made available in connexion with foreign direct investment. Prominent among UNIDO's priority programmes is therefore the continuation and expansion of UNIDO's small-scale industry development programme (PNG/74/039) in respect to identification, training, demonstration, advisory assistance and promotion

of small-scale industries in Papua New Guinea. Other UNIDO programmes may focus on assistance to the manufacture of cocoa; coffee; wood processing; ceramics and metallurgical industry; solar salt; silk; garment; charcoal; rubber products; alcohol; and other key sectors as well as industrial estates development.

Training programmes

90. One of the first steps to be taken towards developing manufacturing activities in Papua New Guinea is the mounting of a comprehensive and systematic training programme for prospective Papua New Guinea entrepreneurs and skilled labour. Fellowships, group training and in-plant training in selected key sectors identified by the UNIDO Small-scale Industry Development Programme is an important precondition to overcoming the human resources constraint in a country with virtually no traditional entrepreneurial base. Initial attempts have been made to foster industrial training programmes through the concept of Technical Co-operation among Developing Countries (TCDC), e.g. through training in the silk industry in Thailand. These efforts may be intensified.

Investment promotion and redeployment prospects

91. PNG is an investment resource-scarce country. Her domestic resources are not adequate; these yet remain to be fully mobilized for investment in industry and other productive purposes. As pointed out earlier, 40 to 50 per cent of the country's annual budgets are at present met from Australian grants. The country cannot pay for its all purchases from abroad. It is, therefore, not self-reliant. The urgent task in PNG is to encourage industrial investment, stimulate entrepreneurship, and extend advisory and consultancy services in respect of the carrying out of pre-feasibility and feasibility

studies of industrial projects. Internal resources need to be mobilized and institutional arrangements for this purpose strengthened. UNIDO may support the activities of these organizations with technical advice and guidance so as to enable them to enhance and strengthen their operations as well as by assisting them in organizing investment promotion training programmes and in obtaining finance from external sources.

92. Emphasis has been placed on the redeployment of industries from the developed to developing countries as one of the means of bringing about a new international division of labour. At the outset the term redeployment was defined as the transfer of manufacturing capacities from a developed to a developing country on the basis of mutual interest of the parties involved. The concept of redeployment is however broad and may be interpreted to imply the following:

- (i) the establishment of subsidiaries in developing countries;
- (ii) the transfer of technology and know-how to developing countries;
- (iii) the transfer of equipment, including, in many instances, used equipment, to the developing country;
- (iv) the training of nationals from developing countries;
- (v) the provision of management services to the developing countries;
- (vi) the transfer of entire existing plants to the developing countries;
- (vii) capital investment in the developing country.

PNG welcomes foreign investors to set up subsidiaries on the basis of available local raw materials, imported raw materials and domestic market - foreign investors who will bring along with them technical know-how, capital and management skill. PNG has to find employment for its growing population. The country has an easy access to the South Pacific and other markets by sea.

Her industrial redeployment prospects may be in the location or relocation of assembly type industries like engineering and electronics, food processing, chemical products, pharmaceuticals textiles, cement and metal products. UNIDO may assist PNG in this field.

93. UNIDO assistance to PNG in the areas mentioned above could perhaps be most usefully organized and made available to PNG on the basis of TCDC and ECDC.

Appendix ..

Framework for Industrial
Development

As approved by the cabinet, A Framework for Industrial Development in Papua New Guinea does not represent any great changes in government policy. Rather, it endeavors to suggest specific objectives that should be concentrated upon in each sector. The following paragraphs are excerpts from this document and present its major elements.

Our present industrial sector is very small by international standards and thus limits the immediate opportunities to increase the value of domestic primary production through further processing. It also limits our ability to develop a more self-reliant economy and increase the productivity of our work force. Further, we must develop our industrial sector so that we are not governed by severe fluctuations in primary produce prices. This in turn will help us to achieve an internationally competitive economy and a strong stable currency. A development strategy is therefore necessary which leads to an expansion of industrial activities in line with the overall development objectives of the government.

Industrial development must specifically:

1. Promote self-reliance by generating government revenue, increasing exports and replacing selected imports with locally produced products;
2. Promote rural development by increasing income earning opportunities in rural areas and providing inputs to agriculture and the rural sector in general;
3. Create productive employment opportunities and in particular create job opportunities to deal with problems of urban drift and the increasing number of unemployed school leavers;

4. Provide opportunities for manpower development through the acquisition of entrepreneurial, management and technical skills; and
5. Contribute to regional equality by dispersing industrial activities.

Respect for the worker and the environment will be key considerations in defining both the direction and form of this development.

While the fact that increasing numbers of Papua New Guineans are becoming involved in the money economy makes employment creation a major goal of government policy, industrial development must take place in a manner which maintains the worker's dignity. The involvement of employees in decision making and profit sharing will be actively encouraged.

Every effort will be made to guarantee the stability of the environment and to ensure that the growth of the total economy does not result in polarization into urban industrialized and rural nonindustrialized economies.

Public and Private Sector Investment

Rather than concentrating our limited financial and human resources on government ownership of industrial undertakings, the government will concentrate its efforts in the industrial sector on the promotion and encouragement of private sector activity in a form and manner consistent with our industrial development policies. The overall policy of increasing participation of Papua New Guineans in the economy will be a major aim in extension / ^{programmes} relating to the promotion of industrial activities. The focus will be on the development of appropriate technologies for village and small-scale industries and the promotion of these industries in both rural and urban sectors to serve local demand.

We recognize that foreign investment can contribute to our overall development aims by promoting the diversification of the economy and by providing government revenue, foreign exchange, capital,

employment, or technical knowledge or managerial skills. It can also contribute to the development of infrastructure, the training of our people, and the development of small-scale enterprises.

Therefore, foreign investment will continue to be encouraged in selected sectors and activities, provided that the investor is willing to operate within the government determined policy guidelines - in particular, the National Investment Guidelines - and the terms and conditions established by the government at the time of registration with the National Investment and Development Authority.

The government will concentrate most on the provision of finance and support of local business undertakings through the Development Bank and other government / programmes aimed at promoting Papua New Guinean businesses. To ensure that the limited international capital and finance available flows primarily to our own local businesses, as a general rule foreign enterprises will be expected to raise their capital from external sources. Government equity participation may be sought in selected foreign undertakings, particularly in the natural resources sectors. Government corporations will be established only in those priority areas in which private investment is unavailable or which are considered to be in the national interest. Where possible, such government involvement will be with a foreign partner who will provide the necessary skills.

Sectoral Development

In the sections below are listed the sectors of industry where we feel a particular contribution can be made. Each sector is discussed in terms of local and foreign enterprise and their roles. An indication is also given as to what emphasis should be made in each sector in the next two years. Sector / programmes and industry plans will be laid down to a greater or lesser degree to ensure that regional and sectoral balance is maintained along with increases in overall development.

NATURAL RESOURCES

Recognizing that our country is richly endowed with natural resources, the most important development of industrial activity must be based on these resources. Their utilization must be controlled in a manner which will ensure that the maximum benefits accrue to the people and the country with minimum social and environmental costs. Extraction of our natural resources should take place only at a rate necessary to augment the government's revenue base and foreign exchange requirements and to promote its regional development plans. Environmental impact studies will be required to ensure that the detrimental effects of natural resource extraction are minimized.

Mining, gas, and oil. This government will actively encourage further exploration (by foreign enterprises) for oil and gas and minerals.

Forests. The utilization of our forest resources must be carefully planned. We will not allow systematic logging or clear felling of our forest areas purely for the export of the unprocessed wood. The export of logs as a revenue earner is no longer appropriate and will be eliminated. Existing operations will be encouraged to increase the degree of processing and vertical integration within Papua New Guinea. New activity by foreigners must be in the form of integrated forest industries or in enterprises which further process timber now being logged. In any forestry development, reforestation must be undertaken as a means of renewing the resource and sustaining the industry.

The main objectives in the development of timber-based industries will be their contribution to the regional dispersal of economic activities and regional welfare, and this to greater regional equality. This will happen particularly through royalty revenue to the people of an area and through employment creation. Forest based

industries will also be expected to contribute to government revenue, foreign exchange earnings, training, the development of infrastructure and the promotion of small-scale Papua New Guinean enterprises.

Fishing. Like forest industries, the main objective in the development of our fishing industry will be its contribution to regional dispersal and thus greater regional equality. The development of the industry requires an integrated approach between local and foreign fishermen. Foreign enterprises involved in fishing will also be a source of government revenue and foreign exchange and will, in particular, be expected to train Papua New Guineans and to encourage the further development of Papua New Guinean fishing ventures. The government will continue to encourage the development of co-operative Papua New Guinean fishing ventures on a commercial scale and the processing of fish caught both by commercial and traditional methods for internal consumption. The eventual aim will be the establishment of Papua New Guinean fishing fleets to replace foreign fishing fleets. Fishing by foreign fleets in the waters of Papua New Guinea will continue to be encouraged, provided that enterprises agree to land their catch in Papua New Guinea and process to the maximum extent feasible on Papua New Guinea soil.

As with the forestry sector our aims in this sector are better served in the immediate future by finding ways to process fish presently being caught. Of equal priority with further processing is the integration of foreign capital with local fishing skills. Both these forms of industry development rank much higher than the need to increase our total catch at this time.

MANUFACTURING

The key focus in the manufacturing sector will be on the encouragement of industries which are complementary to and integrated with the rural sector, with the main emphasis on agro-based industries, which will provide inputs required by agriculture and which will process agricultural commodities and industries which are supportive of activities in forests, mining and fishing. However, the expansion of urban industry, including manufacturing, will continue to be important and investment proposals in these activities are welcome, if they confer net benefits on the Papua New Guinea economy, and will be considered on their merits.

While the employment creation effect, direct or indirect, will be a major concern in manufacturing, the activities will also play important roles in the development of a more self-reliant and balanced economy. Special attention will be given to the opportunity for maximum local participation in the further processing of agricultural commodities. A key to this development will be further researched on, and application of technologies appropriate to Papua New Guinea. Priorities for the development of small-scale industries are now being established by the Small Industries Committee.

The Government will actively encourage and provide special assistance to foreign investment in labor-intensive agro-industries which either provide inputs which are utilized in agricultural activities or which process agricultural products as well as to investment in other manufacturing activities either for the home market or for export, to meet the industrialization objectives of the country.

TOURISM

If planned appropriately, this sector will foster and preserve the traditional customs and culture of our Papua New Guinean society. Large scale "enclave" type tourism development will not be encouraged

in nonurban areas with the exception perhaps of special areas where other economic opportunities are scarce.

It is expected that a large part of the tourism development outside of the urban areas will be carried out by local enterprises or joint ventures. The ability of tourism to create work opportunities outside of the urban areas will receive special attention.

Foreign investment in larger scale tourist ventures in urban areas will be encouraged. Special attention will be given to those forms of development which involve overseas linkages in areas of tourism marketing and promotion.

INFRASTRUCTURE

The development of a national road system and the improvement of coastal shipping services are both related to our industrial policy. They can be the basis for encouraging a variety of local enterprises and they will also require selected foreign investment.

Appendix B

Second National Investment

Priorities Schedule

THE FOLLOWING LIST SHOWS the areas of activity in which foreign investment will be promoted, permitted, restricted, or prohibited:

1. Priority activities, in which the government is actively seeking new foreign investment:

- Exploration for minerals and ancillary activities.
- Exploration for natural hydrocarbons and ancillary activities.
- Major timber projects and ancillary activities.
- Offshore fishing and further processing of fish.
- Agriculture, including cultivation and processing of tea, oil palm, and sugar cane; and cultivation of legume, grain, and root crops for processing.
- Manufacture, including:
 - Further processing of agriculture and livestock products, including coconut and other vegetable oils; coir products, except brooms and brushes; canning and preserving of fruits and vegetables; manufacture and processing of palm oil; processing and manufacturing of rubber and rubber products; and manufacture of cocoa butter and tanned hide.
 - Further processing of fish and fish products.
 - Further processing of timber.
 - Manufacture of cement, asbestos cement, lime, sacks, tools, and nuts and bolts; steel rolling; blending of fertilizers; assembly or manufacture of agricultural machinery and low cost radio receivers; and ship breaking, repairing, and building.

- Construction of dwellings.
- Coastal freezer and coastal cargo shipping services.
- Professional-technical services: industrial electrical contracting; light engineering, fitting and terracing establishments; general engineering; motor vehicle and electrical repair; aircraft maintenance.

2. Permitted activities, in which new foreign investment will be permitted, but not actively promoted:

- Extraction of timber for utilization in a priority timber-based industry.
- Nucleus estate or agricultural activities integrated with further processing activities.
- Manufacture of instant coffee; collection and marketing of prawns and lobsters; pearl culturing; and tobacco growing.
- Construction activities, involving contracts in excess of K50,000 and those less than K50,000 which require specialist expertise; and hotel/motel/building construction.
- An activity involving the provision of a professional or technical service.
- Minor activities involving an estimated capital investment not exceeding K75,000.
- Activities resulting from acquisition of certain assets from another foreign company which carried out the same activity with those assets before December 6, 1974.
- Activities approved by the Minister for Labor, Commerce and Industry after consultation with the appropriate minister(s).

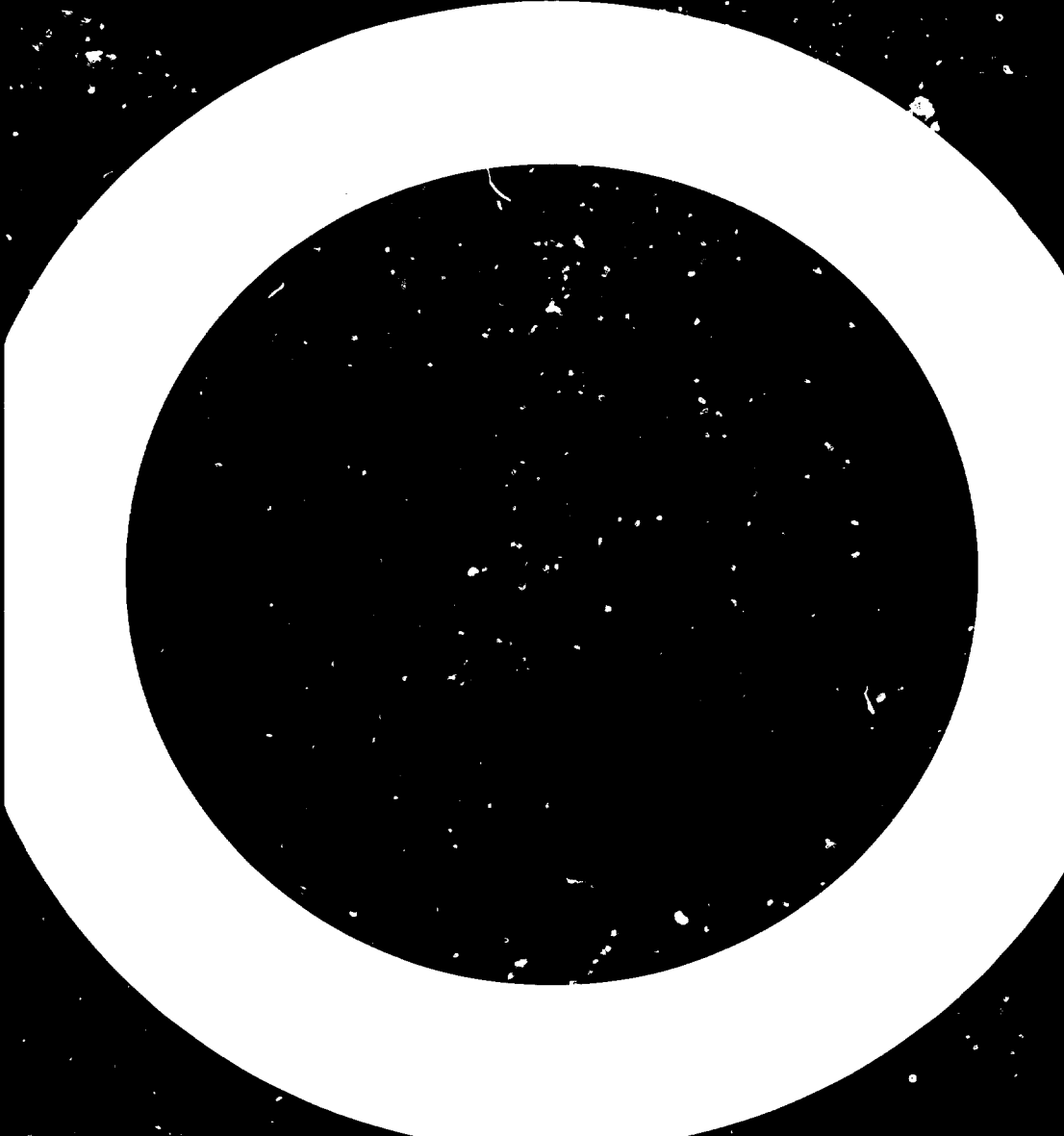
3. Restricted activities, in which new foreign investment will be restricted to enterprises with substantial (25 per cent or more) Papua New Guinean equity or to joint-venture partnerships between foreigners and Papua New Guineans:
 - Agriculture and related activities: coffee and rubber plantations; sago cultivation and processing; inshore and inland fishing and fish farming; spice growing; crocodile farming; silk worm cultivation; processing of cocoa (collection through to dry bean), copra (collection through to dry copra), and coffee (collection through to green bean); tea packaging for the home market; coffee roasting, grinding, and packaging.
 - Trade and services: taverns; urban trade stores; retailing and wholesaling businesses involving investment of less than K25,000; hire, repair, and maintenance of vending and amusement machines; boot and shoe repairing; amusement parlors; restaurants and take-away food bars involving investment of less than K25,000.
 - General construction work, excluding civil engineering projects, involving contracts not exceeding K50,000 and not requiring specialist expertise unavailable to Papua New Guinean contractors.
 - Plant and equipment hire.

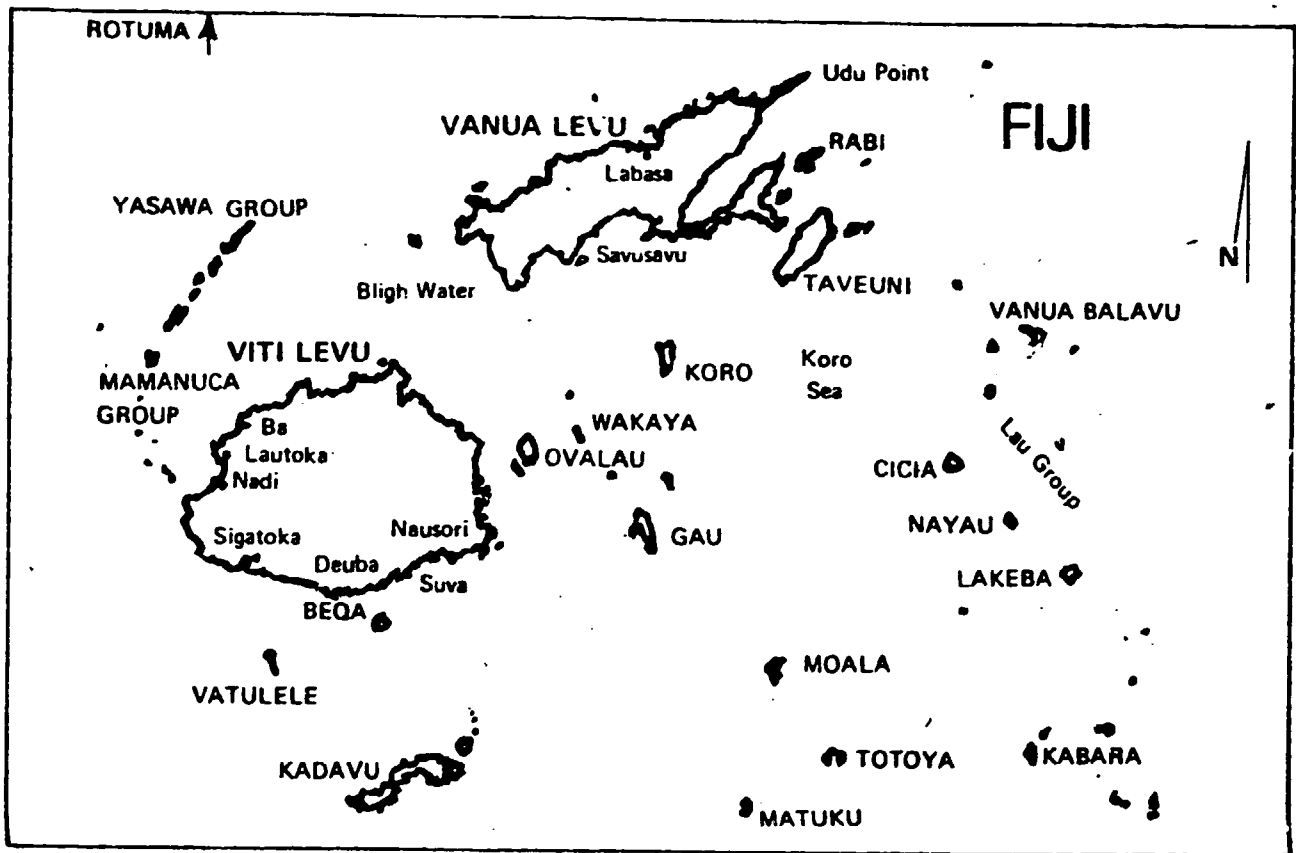
4. Reserved activities, in which foreign investors will not be allowed to undertake new ventures:
 - Agriculture: copra plantations; growing of root crops for sale as a fresh product; pig raising for slaughter; raising of broilers; cultivation, collection, wholesaling, and exporting of orchids; gathering, wholesaling, retailing, and exporting of uncultivated natural products; hunting, farming, and trading in nonprotected insects and other nonprotected fauna.

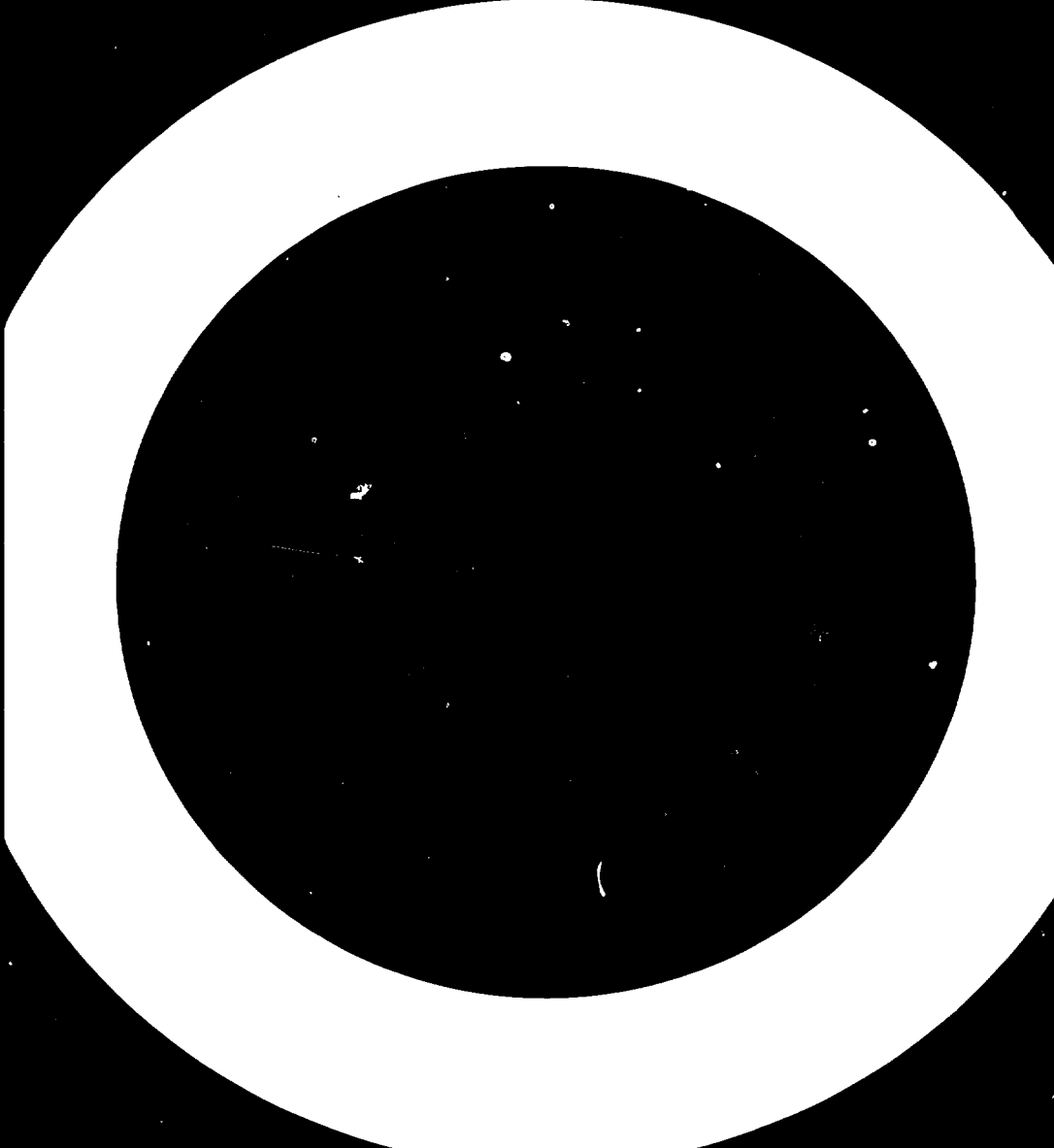
- Crafts: handloom weaving; silkscreen printing of piece goods; manufacture of handicrafts.
- Trade and services: purchase of coffee, copra, or cocoa (grower to factory or exporter); rural trade stores; retailing of petrol (not including integrated service stations); mobile food canteens and trading establishments; refreshment stands, sandwich, and coffee shops; second-hand clothing stores.
- Transport: all road passenger transport; long-distance trucking businesses operating trucks under 5 tons (unladen).

CHAPTER II

FIJI







GENERAL ECONOMIC POLICY AND THE ROLE OF MANUFACTURING
IN THE ECONOMY

The economic background

1. Fiji is an independent dominion within the British Commonwealth of Nations. The dominion comprises about 300 islands. It had a population of 532,000 (mid-1977) with a total land area of 13,200 square kilometres, about one-fifth of the size of Papua New Guinea (PNG).
2. Fiji's main agricultural crops are sugar cane, coconuts and root vegetables. It is rich in timber resources. The country exports sugar, fish, gold, copra and ginger. Its other activities are dairying, rice, fruits and vegetables growing and copper mining.
3. According to the 1978 World Bank Atlas, the population of Fiji was 569,000 in 1975; 580,000 in 1976; and 590,000 in 1977 (preliminary). Fiji's gross national products at market prices were US\$ 620 million, US\$ 660 million, and US\$720 million 1975, 1976 and 1977, respectively. These statistics give per capita incomes of US\$ 1,000, US\$ 1,150 and US\$ 1,220 in 1975, 1976 and 1977, respectively. Fiji is thus one of the highest per capita income countries among the more developing countries of the ESCAP region.
4. The average annual population growth rate in Fiji during 1960-76 was 2.5 per cent, while that during 1970-76 was 1.7 per cent. There is a proposal to limit its population growth to 2 per cent per annum which will perhaps be attained, although the emigration of skilled people from the country may not be conducive to its economic and social development for obvious reasons.

5. Fiji's economic situation has long been dominated by three major economic problems, namely, (i) dependence on one crop - sugar-cane; (ii) dependence on foreign trade, capital and expertise; and (iii) rigidity of economic and ethnic divisions. Policies are mostly designed to deal with these three problems.

Development planning and industrial development

6. Fiji, unlike PNG, has gone through a process of development planning. The country inherited the Sixth Development Plan as an independent dominion. Its Seventh Development Plan covers the period from 1976 to 1980. The plan seeks to achieve a 7.3 per cent annual growth rate in GDP. During the plan period, agricultural output is expected to grow at 4.6 per cent. The growth of the agricultural sector is slow because of the very slow growth in subsistence activity - only at 1 per cent. Manufacturing output is, however, expected to grow at a much higher rate - at 7.8 per cent annum. The forecast is that manufacturing will contribute about 12.6 per cent of GDP in 1980, about one-half of the contribution of agriculture. Within manufacturing, sugar-processing will contribute about one-half of the total output. Employment in manufacturing would rise from 10,900 in 1975 to 13,250 in 1980. A Commonwealth Secretariat/SPEC report, however, points out that in 1976, manufacturing employment was already 13,000.¹ This divergence must be due to some differences in the definition of manufacturing activities.

7. The development of manufacturing industries in Fiji occupies a prominent place in its development planning. It is considered important particularly from the employment consideration which weighs heavily with the Government.

¹ Commonwealth Secretariat/SPEC: Industrial Development and Trade Relations (1973), p. 9

The role of manufacturing in the economy

8. The composition of the gross domestic product in Fiji in 1975 is shown in

Table I.

Table I.

Composition of gross domestic product in Fiji, 1975

	<u>Percentage</u>
Primary Production	27.0
Secondary economic production	19.3
Services	43.2
Indirect taxes	10.4

Source: Central Planning Office: Fiji's Seventh Development Plan 1976-1980, page 14

The share of manufacturing in this composition was 11.0 per cent. According to the Seventh Plan, this share is expected to rise only to 11.2 per cent in 1980 at constant prices. Although the development of manufacturing industries has been encouraged, the structural change in the economy through industrialization is not expected to be substantial. In general, however, it is expected that that in 1980 there will be less dependence on primary production and the secondary economic production and the services sectors will expand.

Growth performance, global and sectoral

9. During the Seventh Plan Period, 1976-1980, a basic growth of 7 per cent in gross national product has been projected. It is expected that this growth rate will be achieved. Manufacturing output is likely to grow at 7.7 per cent annum. References may be made to Tables 9 and 11 for further information on this subject.

Population and income distribution

10. The Government of Fiji has an ambitious development programme and has its concern for the distribution of the benefits from growth. Not much information on the distribution of income among different sections of the people is, however, available. One major objective of the Government has been to place the greatest emphasis on the development of regions that have lagged behind. Emphasis has been placed on rural development and the building of rural infrastructures to improve the quality of rural life. The Seventh Plan asserts that there would be no deterioration in the distribution of income during the plan period and that the "gini" coefficient (a measure of inequality) would remain stable at 0.45. The existing distribution of incomes among different sections of the population - subsistence farmers, commercial farmers, urban dwellers and expatriates are, however, very unequal.

The labour force

11. The total labour force in 1975 was calculated at 162,400 of which some 11,500 persons, that is, 7.1 per cent of the total was unemployed. Commonwealth Secretariat/SPEC Study gives Fiji's manufacturing employment as 13,000 as already mentioned. More up-to-date figure of industrial employment is not available. It might be put at 9 to 10 per cent of the total labour force. In Fiji, immediate employment problem is of great concern. The 1976 census showed that 11,000 people were unemployed, an unemployment rate of 6.7 per cent. This fact points to the need for training people in non-agricultural activities which, however, remain to be identified.

Participation of manufacturing in gross domestic product

12. The role of the secondary industry sector including manufacturing may be pointed out in terms of its contribution to the gross domestic product. In 1975

its share in GDP was 19.3 per cent; in 1980 it is expected to rise to 21.1 per cent. The share of the manufacturing sector in GDP in 1975 was 11.0; in 1980 it is expected to rise to 11.2 per cent. In spite of its low relative share in GDP, the manufacturing sector is looked upon as the dynamic sector and is much relied upon for employment creation. The share of manufacturing in 1980 as a percentage of GDP has however been estimated at 15, according to another estimate in the the Seventh Plan. This discrepancy must be due to differences in the composition of the manufacturing sector.

THE STRUCTURE OF THE MANUFACTURING SECTOR

Industrial sector by branches

13. The manufacturing sector in Fiji is small. According to Census of Industries 1973, nine groups of industries, as given below, employed a total of 9,200 workers.

Table 2.

Employment in Manufacturing, 1973

Groups

Food, Beverages and Tobacco	4,250
Textiles, Apparel and Leather	450
Wood and Wood Products	1,350
Paper and Paper Products	550
Chemicals, Rubber and Plastics	400
Non-Metallic Minerals	200
Base Metals	-
Fabricated Metal and Machinery	1,350
Other	<u>50</u>
Total Division 3	<u><u>9,200</u></u>

Source: Census of Industries 1973

14. Table 3 gives a detailed list of the various products manufactured in Fiji.

Table 3

Products Manufactured in Fiji

Groups

Food, Beverages and Tobacco: Soft drinks, cordials, animal feeds, baking powder and soda, biscuits, jelly, canned foods, chutney and pickles, cooking oil, confectionery,

custard powder, dairy products, ice-cream, noodles, rice filling, small goods, spices and sauces, sugar, tea, vinegar, flour, beer, cigarettes and tobacco.

Textiles, Apparel and Leather: Canvas goods, footwear, garments, handicrafts, leather moulded suitcases, pillows, mattresses, upholstery.

Wood and Wood Products: Sawn timber, parquet, chip board, panel board, doors, furniture.

Paper and Paper Products: Paper bags, counter rolls, waxed paper rolls, toilet rolls, stationery, printing, napkins, corrugated containers, solid fibre containers, cardboard boxes.

Chemicals, Rubber and Plastics: Candles, cosmetics, soap, detergents, disinfectants, industrial gas, matches, paints and varnishes, putty, concrete admixtures, acoustic coatings, plastic products, plastic, polythene sheeting and bags, tyre retreading.

Non-Metallic Mineral Products: Cement, readymix, concrete blocks, pipes, pre-cast units, posts, pre-stressed beams, sleepers etc. marble products.

Basic Metals: Iron, bronze and aluminium castings.

Fabricated Metals and Machinery: Agricultural equipment, including ploughs, harrows, aluminium windows, screens etc., batteries, fluorescent lights, ship building, cans, drums, tool boxes, switchboards and control boxes, electroplating, filling cabinets, office furniture, hardware, wood stoves, manhole covers, pots and pans, roofing iron, guttering, sawblades, knives, bus bodies, nails, structural steel, wire mesh, barbed wire, wire netting.

Consumer, intermediate and capital goods

15. From Table 3, it is apparent that the manufactured products of Fiji consist almost exclusively of various kinds of consumption goods, including some consumer durables. Some building materials and agricultural tools are produced. Intermediate and capital goods production is almost non-existent. This situation has an implication for Fiji's future industrial development.

Regional distribution

16. The development work in Fiji over the years has been mainly concentrated in the urban centres of the two main islands, namely, Viti Levu and Vanua Levu. In the former, industrial development has taken place mainly in and around Suva, the capital of Fiji, Lautoka and Vatakoula. In the latter island, industrial development has taken place mainly in Labasa. In other islands, industrialization has been negligible. This uneven geographical pattern of development has naturally accentuated the drift of population from the rural areas to the urban centres. The reasons for the differences in the levels of industrial development among different areas lie in the unequal distribution of utilities and other infrastructures. The Fiji Government has taken action to encourage industrial development in lagging areas. Until now however industrial growth has taken place in the urban areas where various facilities and infrastructures for industrial development exist.

Size distribution

17. Some information on the size distribution of industrial establishments is available. The expectation however is that, in view of the limited domestic markets, the industrial sector of the economy except sugar-processing which depends mostly on export markets, is dominated by small-sized firms. From the Census of Industries

1975, some information on the coverage and distribution of industrial establishments by size is available. Out of 438 manufacturing establishments from which returns were expected, finally 249 returns were received. Out of 249 establishments, 59 establishments had 0-4 employees each; 150 establishments had 5-49 employees; and 40 establishments had 50 + employees. Many of the firms from whom returns were not received must have been very small. Out of 249 establishments, 150 firms had 5-49 employees each. It looks, therefore, that the vast majority of the firms in Fiji must be employing fewer than 50 employees each.

Intersectoral linkages

18. The question of linkages should be viewed as linkages between primary, secondary and tertiary sectors and between different industries and industry groups within the industrial sector. Reference may be made to two types of linkage effects. First, backward linkage effects, i.e. every non-primary economic activity will induce attempts to supply through domestic production the inputs needed in that activity. Second, forward linkage effects, i.e., every activity that does not by its nature cater exclusively to final demands, will induce attempts to utilize its outputs as inputs in some new activities.

19. Fiji's export crops are sugar-cane, coconuts, cocoa, ginger and passion fruits. Based on these resources, Fiji's export industries have been developed. For instance, during the sugar season in 1974, the volume of crushed sugar cane was 2,117,325 tons. The volume of sugar production in the same year was 269,172 tons of which 263,297 tons, nearly 99 per cent, were exported. The cane/sugar ratio is around 8. This is the best example of backward linkage with an almost complete forward linkage with export markets. Copra is produced from coconuts.

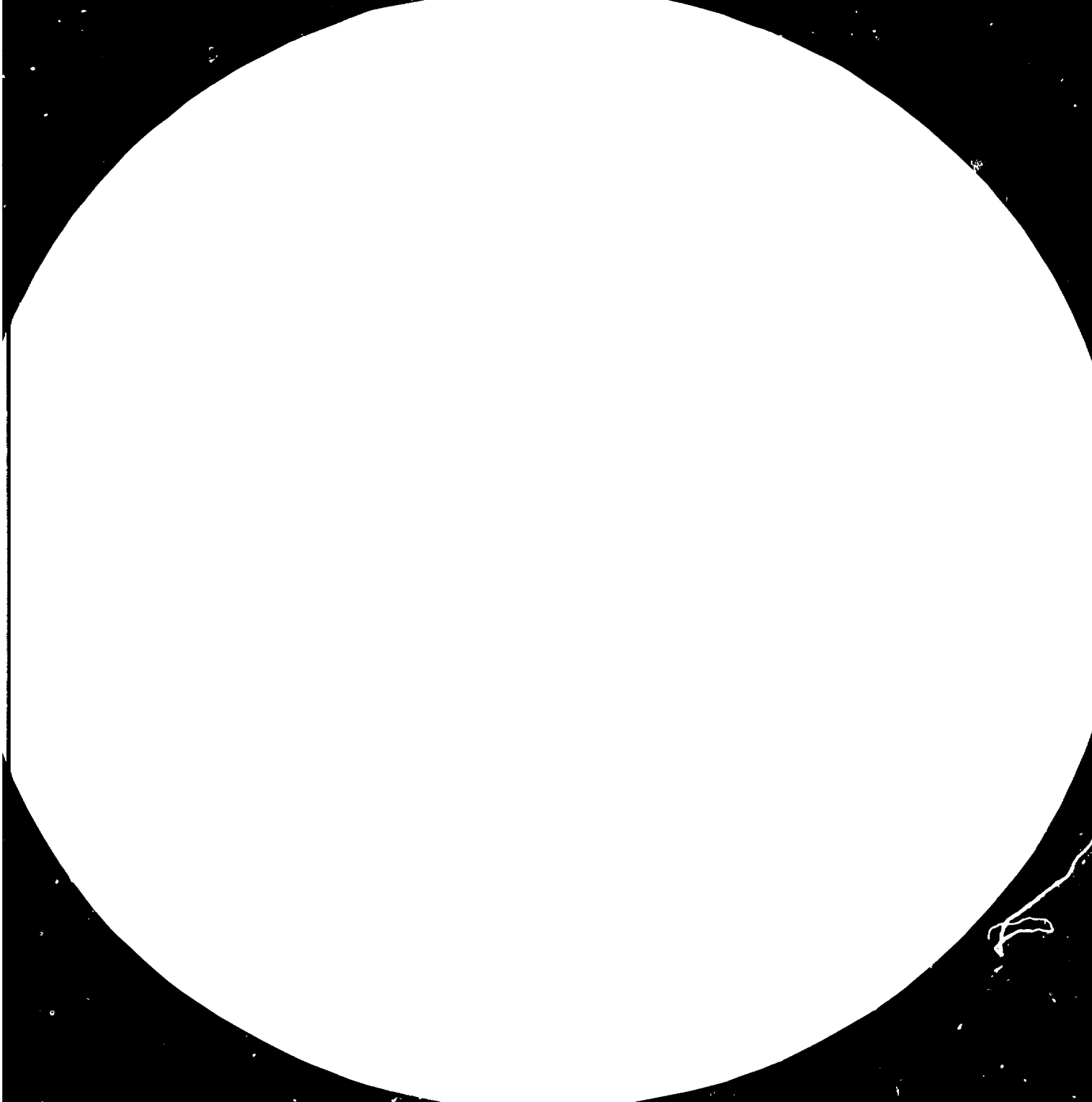
In 1974, copra purchased by millers was 27,276 tons. Products from copra, coconut oil and coconut meal, are exported. The total export value of these two products in 1974 was only \$11,101. Similarly processing industries based on cocoa, ginger and passion fruits have been developed for export. There are the simple evidences of linkages between agriculture and industry. It is possible to do much more to diversify the industrial structure of Fiji by developing some import substitution domestic industries on a modest scale and by utilizing the by-products of the principal industry, namely, molasses and bagasse. This strategy will further ensure and improve inter-industry linkages.

20. An Input-Output Table for Fiji, 1972, makes it possible to quantify manufacturing inputs and markets, 1972, as shown in Table 4. In Fiji, whereas in sugar manufacturing almost all output is exported, the bulk of other manufactured items is sold in the local market. These include both sales to other industries and sales to final consumers in private and public sectors for consumption and investment purposes.

Table 4

Fiji - Manufacturing Inputs and markets, 1972
(\$ million)

	<u>Sugar</u> <u>Manufacturing</u>	<u>Other Food</u> <u>Products</u>	<u>Other</u> <u>Manufacturing</u>
<u>Industry Outputs</u>			
Exports	32.1	5.8	1.7
Sales to Fijian industries	0.3	3.7	18.4
Sales to final consumers in Fiji	0.5	13.4	5.6
Total Outputs	34.4	22.9	30.2





MICROCOPY RESOLUTION TEST CHART

NATIONAL BUREAU OF STANDARDS-1963-A

Industry inputs

Purchases from primary industries	22.2	6.1	1.3
Purchases from other Fijian industries	1.9	5.0	7.8
Imports	2.3	5.0	7.6
Wages, profits and indirect taxes	<u>8.1</u>	<u>5.9</u>	<u>13.4</u>
Total inputs	34.4	22.9	30.2

Note: Derived from an Input-Output Table for Fiji, 1972 Bureau of Statistics

Source: Commonwealth Secretariat/CEPEC: Industrial Development and Trade Relations in the South Pacific, London (1978), page 27.

Industrial employment and productivity

21. According to the Seventh Development Plan, Fiji's position with regard to employment in manufacturing and processing is demonstrated in Table 5.

Table 5

Employment in manufacturing and processing, 1970 to 1980 (thousands)

	1970	1971	1972	1973	1974*	1975*	1980*	1975/80 Annual growth (%)
Sugar and copra processing	3.2	3.5	3.3	3.4	3.6	3.5	4.0	2.8
Other manufacturing	5.9	6.6	6.6	6.7	6.8	7.4	9.0	3.7
All manufacturing	9.1	10.1	9.9	10.1	10.4	10.9	13.0	3.4

* Estimate

Source: Central Planning Office, Suva, November, 1975: Fiji's Seventh Development Plan, 1976-1980, page 117.

Employment in all manufacturing which was 10.1 thousands in 1972 has been estimated at 10.3 thousands in 1975 and at 13.0 thousands in 1980. The annual growth rate of employment in all manufacturing has been estimated at 2.4 per cent during 1975-80.

Import and export of manufactured goods

22. Fiji depends very much on imports. Domestic production is limited to what the country can produce economically. The per capita income of the people is pretty high and as such they have a high propensity to import and consume a wide range of imported goods. During the Sixth Plan period, 1970-'74, retained imports accounted for about half of all expenditures within Fiji. The trade deficit is partly balanced by travel receipts from tourism, but mainly by net capital inflows made possible by the openness of the economy and the freedom of the foreigners to repatriate both profits and capital.

Imports

23. Fiji has been increasingly dependent on imports. Table 6 would show the structure of imported goods in Fiji. Because of the price effect, the increase in value between the years was not so significant. It is clear from the table that consumer goods and industrial supplies are the dominant elements in the composition of the imports. The sharp decline in investment goods imports between 1972 and 1974 was not surely conducive to the economy.

Table 6

Retained imports by economic category, 1972-74 (Million)

	1972	1973	1974
Industrial supplies			
Food	3.4	7.5	14.0
Other agriculture-based	4.8	6.6	9.1
Oil-based fuels	6.1	5.4	23.0
Construction materials	11.4	13.3	18.6
Agricultural chemicals	1.6	2.2	4.1
Other	16.2	19.3	25.6
Total	43.5(41)	57.3(43)	94.8(52)
Investment goods			
Industrial plant	5.8	6.2	4.9
Agricultural plant	0.9	0.7	0.6
Transport equipment	11.4	11.7	7.0
Other	5.1	6.1	5.0
Total	23.2(22)	24.8(18)	17.5(10)
Consumer goods			
Food	18.7	26.2	27.7
Non food-durable	14.9	18.2	26.6
-non-durable	6.4	7.5	11.9
Total	40.0(37)	51.9(38)	66.2(37)
TOTAL, ALL CATEGORIES	106.7	134.0	179.5
Total food	22.1(21)	23.7(25)	42.3(24)

Note: Figures in brackets show percentage shares of total retained imports

Source: Fiji's Seventh Development Plan 1976-1980, p. 44.

Import substitution

24. Import substitution industries developed in certain lines during the Sixth Plan period. In such cases the degree of import substitution is limited to the local

value added which replaces the value added abroad. In every case, however, the import component is rather large. With a small domestic market and limited scale economies, the development of import substitution industries is difficult, unless export markets can be found for their products. To encourage import substitution industries, the import tariff structure framed by the Government gives a preference for raw materials and semi-finished goods - some measure of protection to the local firms. Other supplementary advantages apart of import restrictions are also given to some industries.

Exports

25. Fiji is mainly an exporter of only a few primary products, namely sugar, coconut oil and gold which accounted for 67 per cent of the total domestic exports in the Sixth Plan period. Sugar accounted for almost 75 per cent of domestic exports during the Sixth Plan period. The situation is likely to remain the same during the Seventh Plan period. A number of other items notably timber, ginger and certain manufactured goods, agricultural exports, namely, cocoa and root crops and fish and fruit juices are likely to grow in importance in the future.

26. Other principal manufactured exports in addition to sugar in 1974 consisted of veneer sheets, biscuits, cement, paint and cigarettes, furniture, paper products and soap. The re-export items of Fiji consist mainly of petroleum, textiles and tuna fish.

27. The distribution of domestic exports and of imports in 1977 is shown in Table 7.

Table 7

Distribution of domestic exports and imports, 1977

<u>Domestic exports</u>	<u>Percentage</u>	<u>Imports</u>	<u>Percentage</u>
Sugar	76.6	Food	20.8
Food	9.0	Raw materials	20.5
Coconut oil	7.2	Petroleum products	19.2
Gold	4.0	Transport, equipment and machinery	18.3
Others	3.8	Manufactured goods	11.0
	<hr/>	Others	<hr/>
	100.0		10.1
			100.0

Source: Bureau of Statistics, Suva, Fiji

28. Table 8 shows the country's details of imports and exports and a large trade gap.

Table 8

Principal Imports and Exports of Fiji
('000 US\$)

<u>Imports</u>	<u>1975</u>	<u>Exports</u>	<u>1975</u>
Rice	5,077	Fish, fresh & preserved	9
Wheat	6,998	Banana & plantains	3
Motor spirit	8,714	Cane sugar, not refined	110,137
Lamp oil & white spirit	14,683	Molasses, inedible	1,444
Distillate fuels & residual fuel oils	17,988	Oil-seed cake & meal	359
		Coconut (copra) oil	5,386
		Bakery products	550

Fertilizers, manufactured	6,544
Cotton fabrics	3,966
Fabrics of synthetic fibres	1,772
Iron & steel	7,277
Radio, television sets, etc.	5,760
Passenger motor cars	3,502
Buses & lorries, complete	4,993
Cereal & cereal preparations	15,777
Machinery, non-electric	19,407

Sources: (1) Statistical Yearbook for Asia and the Pacific 1977

(2) UN Monthly Bulletin of Statistics, June 1979

The total imports of Fiji were US\$ 268 million, US\$ 263 million and US\$ 306 million respectively in 1975, 1976 and 1977, whereas the total in the corresponding years were US\$ 159 million, US\$ 127 million and US\$ 173 million.

29. Fiji's international trade policy emphasizes the following specific objectives, as laid down in the Seventh Plan:

- (a) expansion and diversification of exports;
- (b) containment of the growth of imports;
- (c) further diversification of the trade links;
- (d) expansion of trade with other island countries of the South Pacific; and

(e) continued attraction of overseas investment funds.

Counted with these objectives is the further industrial development of Fiji which its Government emphasizes.

Capital formation in industry, investment and sources of financing, including external financing

30. The industrial sector in Fiji is small and as such capital formation in industry is expected to be rather small. The task of mobilizing the resources of the country for both public expenditures as well as for development is a crucial one. Adequate savings must, therefore, be available either from domestic and foreign sources.

31. The Seventh Plan shows a requirement for \$391 million of investment in the private sector during 1976-1980, comprising \$122 million inventory investment and \$269 million gross fixed capital formation. It is estimated that total investment, including all Government capital expenditure, will amount to \$632 million during the plan period - 22.7% of GDP. If inventory investment is left out then gross fixed capital formation stands at \$510 million - 18.4 per cent of GDP. This calls for sources of finance.

32. Foreign savings have played an important role in Fiji's economic growth. The main sources of loans have been the World Bank, The International Monetary Fund, the Commonwealth Development Corporation and the Governments of the United Kingdom, Australia and New Zealand. Corporate savings and personal savings in the non-corporate business sector are also important sources of financing. Institutional sources of finance-like life insurance and the Fiji National Provident Fund are becoming important. The country is, however, very dependent on foreign savings both in

respect of private investment and Government capital expenditure. Fiji has continued to be a recipient of external assistance to fill the resource gap, namely, foreign exchange, capital and expertise, in the form of commodity aid, capital aid in kind, soft loans, technical assistance and training.

COMPARISON OF PLANNED INDUSTRIAL DEVELOPMENT TARGETS WITH RECENT PERFORMANCE OF THE MANUFACTURING SECTOR

33. Although the industrialization of Fiji is limited by its small domestic market and by its relative isolation from the major world markets, certain import substituting industries namely, flour, beer, cigarettes, biscuits, soft drinks, textiles, steel roofing, paints and printing and some industries based on local materials such as sugar-milling, coconut processing, cement, matches and soap have developed in the country. Industrial development in the country will be encouraged so that it can make an increasingly important contribution to the economy during the Seventh Plan period. Table 9 shows the contribution the sector has made to GDP during the Sixth Plan (1970-74) and its expected growth and output during the Seventh Plan. During 1970-73, manufacturing (excluding sugar milling, copra processing and other food manufactures) constituted about 4 per cent to 5 per cent of GDP, but grew at an average of 13 per cent per annum. The projected manufacturing growth rates during the Seventh Plan period is shown in Table 9.

Table 9

Manufacturing and processing output, 1970-73 (at 1968 prices)
(at 1975 prices) (\$ million)

	1970	1971	1972	1973*	1970/73 Annual growth (%)	1975*	1980*	1975/80 Annual growth (%)
Manufacture of food, beverage and tobacco	13.6	13.5	13.9	-	1	37.9	54.3	7.4
Other manufactures	5.8	7.2	8.3	-	13	20.8	30.5	8.0
All manufacturing	19.4	20.7	22.2	22.8	7	58.7	84.8	7.7
% of G.D.P.	11.5	11.5	11.7	11.0	-	14.0	15.0	-

* Estimate

Source: Fiji's Seventh Development Plan, 1976-1980, page 117.

THE INSTITUTIONAL INFRASTRUCTURE FOR INDUSTRY

34. A well-developed institutional infrastructure is an essential requirement for the promotion of industry in any country. The institutional structure in Fiji in this context consists mainly of the following:

- (i) The Ministry of Finance:
 - The Central Planning Office
 - The Planning Unit
- (ii) The Ministry of Commerce and Industry
 - Industrial Promotion Division
 - Business and Industrial Development Committee
- (iii) The Fiji Development Bank
- (iv) Fiji National Provident Fund
- (v) The Savings Bank of Fiji
- (vi) The Bureau of Statistics
- (vii) Inter-developmental Industrial Review Committee
- (viii) The Fiji Sugar Corporation

35. In the development of industries, a large number of Government departments and agencies are necessarily involved to deal with its several aspects. It is for the sake of convenience, however, that the will of the Government in respect of any sector is expressed through a particular Government department or ministry. In Fiji's case there is the Ministry of Commerce and Industry for this purpose. In Fiji the principal organizations involved in the task are mentioned above. The Fiji sugar corporation owns and manages all the sugar mills under the general supervision of the Ministry.

36. Fiji has an experience in indicative planning for a number of years. It is the task of the Central Planning Office to prepare plans for the industrial sector as an essential component of the national plan in consultation

with the various organizations concerned. It is the Ministry of Commerce and Industry which is responsible for the formulation of industrial strategies and policies and the implementation of the industrial plans. The principal financing agency is the Fiji Development Bank. Some other organizations like the Business and Industrial Development Committee are involved in the administration of industrial investment and development policies. The Inter-departmental Review Committee acts as the central machinery for analysing all foreign projects for negotiation and establishment.

MAIN FEATURES OF INDUSTRIAL DEVELOPMENT OBJECTIVES AND STRATEGY
POLICY MEASURES AND PROGRAMMING OF INDUSTRIALIZATION

37. The Fiji Government's long term aims for industrial development are (a) to ensure its stable growth; (b) to increase its employment absorptive capacity; and (c) to provide a base for viable long-term investment which can earn reasonable returns and at the same time satisfy the needs of the consumers. To achieve these aims, a comprehensive investment policy has been adopted. This policy seeks to influence the industrial structure of the economy in respect of both the types and location of industry in Fiji.

38. The industrial policies and programmes of the Fiji Government can be best stated by quoting at length from Fiji's Seventh Development Plan, 1976-1980, as follows:

"Every effort will be made by Government to attract industries which process local raw materials and use a relatively large labour component. Where opportunities for competitive import-substituting industries exist, investment will be encouraged on an appropriate scale to provide the maximum opportunity for long-term expansion. The Government will encourage export-oriented assembly of manufactured goods on a large scale in order to diversify export opportunities, increase foreign exchange earnings and employment of unskilled labour. Possibilities will also be fully explored where manufacturing for export (other than assembly operations) can make full use of Fiji's skilled labour. Those import-substituting industries which have shown export potential, particularly to neighbouring island countries, will be given every encouragement to develop existing and new markets.

"Government will define the types of industries it considers suitable in Fiji. This has certain advantages in that investors who have not yet decided on a project are more likely to consider investments which are favoured by Government. Such a list would only be indicative and in no way imply that projects not on the list would not be considered by Government.

Industries which could be set up and/or expanded in Fiji include alternative sources of energy, sugar refining, industrial alcohol from molasses, bagasse, furfural, coconut oil, activated carbon, desiccated coconut, fruit juices (canned or pulp), canned fruit, vegetables (canned or frozen), banana chips, cray fish farming, prawn farming, fish meal, tinned fish, frozen fish, wooden furniture, door frames, prefabricated wooden housing, ceramic bricks, silica/lime bricks, glass bottles, industrial and domestic salt, cigarettes and tinned tobacco, dairy and other animal products, honey and jams, plastic products, printing, publishing, battery manufacture, wire products, wearing apparel, paper and paper board, containers, cartons, paper towels, pipes, tubes and rods, bus building, agricultural implements, refrigerators, electric cable manufacture, assembly of diesel engines, radio apparatus and parts, assembly of bicycles, telecommunications equipment, office machines and parts, electronic apparatus, scientific instruments, optical equipment, synthetic fibres and musical equipments.

"The location of such industries within Fiji is important. The increasing concentration of industry in the developed urban centres has made unattractive its development elsewhere. Over the long run this trend is likely to reduce the participation of rural dwellers in the development of the economy by not creating secure employment opportunities for people living away from the few urban areas. Government will encourage investment outside the traditional manufacturing centre of Suva; that is, in other suitable parts of Viti Levu as well as in the out-lying islands. Government will also encourage people to move to employment opportunities in new industrial areas.

"Industrial development within the South Pacific region will also be borne in mind. Incentive policies should be co-operative rather than negatively competitive. If island countries set up similar industries with protective barriers, excess industrial capacity and higher costs may

result in each country. If countries can produce goods and export to others in the region they can use excess capacity, keep down unit costs and stimulate regional trade. Government will stress the need to watch closely the development of industries in the small economies of the Pacific. This can be done by working for greater harmonization of industrial policies through the regional organizations to which Fiji gives its support such as the South Pacific Bureau for Economic Co-operation.

"Government will continue to ensure that the returns on overseas investment are attractive and rewarding. There are no major restraints on the repatriation of profits overseas. An overseas investor is allowed to repatriate his capital if for some reason he decides to wind up his business in Fiji. Insurance against the threat of nationalization is covered under Fiji's Constitution. Government encourages foreign investment into areas which local investors lack the expertise or sophistication to enter. At the same time it encourages joint partnership with local capital in these areas.

"Government will upgrade the inter-departmental Industrial Review Committee into a central administrative machinery for analysing all foreign projects, to act as chief negotiator for the country and to ensure that before a project is negotiated detailed information is available.

"Government will declare the areas in which it wishes active participation by foreign investment. Broadly these are investments which require high capital input and specialized technical knowledge and marketing. Flexibility will, however, be maintained so that foreign capital may be actively encouraged beyond these areas if local capital is not readily forthcoming. Possible investment areas where foreign capital is encouraged include sugar refining, industrial alcohol, furfural, pulp and paper, phosphate extraction, fish processing and canning, silica bricks, leather tanning, mineral extraction and processing, oil and gas exploration, food and fruit processing, glass bottles, certain furniture and furniture components, metal products, perfumes, electric cables, telecommunications equipment, electronic apparatus, chemical

products, machine tools and parts, bicycle parts, conductors, valves and tuners.

"Government will actively promote equity participation by local people and businesses in overseas ventures which establish themselves in Fiji. A number of Governments' policies have introduced incentives towards this end. Included in the criteria used for deciding on the concessions given to a venture in Fiji is the degree of equity participation by locals in it. The amount of local borrowing allowed overseas businesses in Fiji also reflects the proportion of equity holding by locals. The Fiji Development Bank takes up equity with a view to ultimately releasing it in parcels for sale to locals. This policy will be maintained and the Fiji Development Bank encouraged to extend its involvement in this area during the Seventh Plan period.

"In ventures where the government takes up shares by agreement appropriate contracts will be made whereby shares held by non-residents may over time be purchased by government or the public of Fiji. A beginning has been made in this direction in the recently established joint venture for further processing coconut oil into margarine and cooking oils.

"In general foreign capital in Fiji has actively sought local equity. One of the important difficulties faced has been the lack of response by locals. Lack of savings has been put forward as the explanation. In order to improve on this situation, Government will in the first year of this plan set up a unit trust which will be given sufficient finding to enable it to operate effectively.

"The present system whereby the Fijian landowners have, through the use of their land, gone into joint ventures with foreign capital will be extended. These schemes are already well developed in the agricultural and tourist sectors. The extension of this arrangement into the industrial sector has great potential and will be promoted during the plan period."

Government assistance to industrial development

39. The Government of Fiji gives assistance to the manufacturing sector in several forms. The major incentives are tax and tariff concessions and the construction of industrial estates, in addition to the provision of public utilities, foreign exchange and finance.

(i) Concessions

40. The Government provides the following concessions:

- (a) income tax concessions (up to five years): accelerated depreciation; tariff concessions on imported materials (usually free and with no time limit) and on imported plant, machinery and equipment (duty generally 10%);
- (b) under the Vatukoula Agreement (1972) signed between the Government and Emperor Gold Mining Co. Ltd. Vatukoula is defined as an "industrially developing area" and investors who set up a factory on the Vatukoula industrial estate may receive tax concessions up to eight years and duty-free entry of raw materials, machines and equipment;
- (c) The Minister of Finance has power to extend the length of tax concessions in areas as he may direct by up to three years (apart from Vatukoula, this provision has not been commonly granted);
- (d) export incentives in the form of tax deductions related to export sales are available to approved trades and products in manufacturing, agricultural processing and the production of minor agricultural commodities;
- (e) some exports are entitled to customs duty drawbacks.

41. Table 10 shows broadly how concessions have applied during 1976-80.

Table 10

Concessions to manufacturing in the Seventh Plan Period

Location	IMPORT SUBSTITUTION		EXPORT ORIENTATED MANUFACTURING	
	Tax Relief	Tariff Relief	Tax Relief	Tariff Relief
Greater Suva	3-5 years concession	materials free equipment 10%	5-7 years concession	materials free equipment 10%
Rest of Viti Levu	5-8 years concession	materials free equipment 10%	5-8 years concession	materials free equipment 5%
Outside Viti Levu	10 years concession	materials free equipment 5%	10 years concession	materials free equipment free

Note: materials will be duty free only as long as they are not available locally

Source: Fiji's Seventh Development Plan 1976-1980, p. 122

(ii) Protection

42. Because of the built-in concessionary nature of the present single-line tariff (low duties on materials rising to high rates on finished goods), additional protective measures are not favoured. High tariff walls increases costs to the consumers and do not ensure the quality of products. Qualitative import restrictions are also not favoured because these tend to generate inefficiency of industries.

(iii) Industrial estates

43. The Government has adopted the well-known technique of building industrial estates as a means of stimulating industrial development. This practice eases the organizational burden on the industrialists and mitigates problems of communication and infrastructure. The policy has, however, been successful, as in other countries also, mainly in the urban areas, in particular Suva and the surrounding areas. More emphasis is now being given on the development of industrial sites and the common service facilities in the rural areas as part of the policy of ensuring industrial development on the basis of dispersal.

Small industries development programme

44. The Fiji Government has rightly emphasized the growth of small industries and hence the small-scale industries development programme. A comprehensive small scale industries development with its various components such as the industrial surveys of the areas to assess their human and material resources and to ascertain their infrastructural needs, identification of industrial activities suitable for incorporation in the programme, project preparation and evaluation, financial or credit support, industrial research and studies, industrial training programmes and extension work etc. needs to be worked out. It is in some of these areas that technical assistance may be required. Adequate arrangements need to be made for the provision of information and advisory services concerning small industries.

45. The Government has laid down the following criteria for industrial investment appraisal:

- (a) employment content;
- (b) contribution to local value added;
- (c) contribution to redistributing income more equally;
- (d) conservation or generation of foreign exchange;
- (e) contribution to trade within the South Pacific;
- (f) price levels of output;
- (g) generation of skills;
- (h) linkage effect;
- (i) local equity participation;
- (j) use of local raw materials;
- (k) environmental effect of the project

These criteria are consistent with economic and social objectives of development in Fiji.

Implementation:

15. The Ministry of Commerce and Industry is responsible for the implementation of Government's industrial policy and programmes. The Industrial Promotion Unit of the Ministry has three roles to play in the process:

- (i) to encourage and assist potential industrial investors;
- (ii) to explore areas of possible investment; and
- (iii) to act as secretariat to the Industrial Review Committee which deals with concessions.

The Unit should play a more active and dynamic role as an initiator of industrial development and it should be suitably strengthened with qualified staff and expertise. It should also play the information and advisory roles needed for accelerating the pace of industrial development.

ANALYSIS OF THE MAIN CONSTRAINTS AND FACTORS CONDUCTIVE TO THE
DEVELOPMENT OF INDUSTRY

A coherent and well-defined industry development policy

47. The Sixth Development Plan was the first five-year plan applicable to independent Fiji. Fiji's Seventh Plan covering the period from 1976-80 has further elaborated the objectives and policies to be followed. Industrial development objective and strategy of the Government of Fiji including the policy measures required to implement them have been clearly stated in her Seventh Plan, as described in Section V. Within the framework of a predominantly free enterprise economy, the Government has made clear its intentions in regard to Fiji's industrial development. Fiji has now a well-defined industrial development policy helpful to its industrial development

Financial resources

48. Though Fiji is one of the developing countries in the ESCAP region with a pretty high per capita income, it has been very dependent on foreign savings in respect of investment funds, both public and private, from abroad. During the Sixth Plan period, about 60 per cent of its gross fixed capital formation, both public and private, was financed from overseas.

49. With a high per capita income, the people of Fiji should have a good saving capacity, although their propensity to import is very high. More domestic resources can surely be mobilized for development. Domestic resources have been available for investment in the form of corporate savings and personal savings mobilized through the Savings Bank of Fiji and commercial banks. Due to a number favourable factors prevailing in Fiji, namely, political stability, a record of healthy economic growth, a geographically central position in the South Pacific market and a relatively well-educated and cheap labour force, foreign investment has been easily attracted to the country. The scarcity or lack of financial resources does not therefore, appear to be a serious constraint on industrial development in Fiji.

Infrastructure, training, energy and water

50. Infrastructure refers to the underlying facilities on which the growth of industry depends. In the development of industry efficient transport, the supply of energy and water and education and training play vital roles. Fiji is well-endowed with some of these resources.

51. For a widely spread population as Fiji's, transport is of the utmost importance both as a means of facilitating economic activity and ensuring social mobility. The existing administrative, industrial, commercial and tourist centres are already well-served by land, sea and air communication. During the Seventh Plan period, efforts have been concentrated on improving the transport facilities of the rural areas and linking them with the urban areas. Emphasis has, therefore, been placed on new rural roading, upgrading of roads, improving road maintenance and urban roads. Road development has been linked with regional and industrial development efforts in all divisions, namely, central, western, northern and eastern.

52. Marine transportation, both domestic and international, is of prime importance to an island country like Fiji, located centrally in the South West Pacific. Domestic shipping links between the main centres of population and the outer islands, and port facilities to ensure efficient international shipping to handle the countries exports and imports, the construction of vessels to supply Government and private requirements and other related problems have been well taken care of by the Government which has also co-operated to establish a Regional Shipping Line in co-operation with other members of the South Pacific Forum. Facilities of marine transportation will be further improved during the Seventh Plan period.

53. The provision of an efficient air transport service is of prime importance to an island nation like Fiji due to its isolated position in the Pacific and the geographically dispersed nature of the country itself. The Government have, therefore, provided for all airport facilities for domestic, regional

and international services for both passengers and freight. Fiji has two domestic airlines in which the Government is the largest shareholder. Air transport service will be further developed and improved during the Seventh Plan period.

54. Energy is one of the most basic inputs required for development. It is used for road and rail transport, air transport and for industrial commercial and domestic purposes. Fiji is almost entirely dependent on imported petroleum for her energy needs. The oil crisis affected Fiji badly in common with many other countries and industrial production suffered markedly during the crisis when petroleum supplies were reduced. The crisis leading to the high rises in the prices of crude petroleum meant an additional large drain on Fiji's foreign exchange reserves. The supply of energy has affected Fiji's economic growth, but this is a problem common to all countries dependent on imported petroleum used as a source of power.

55. Water, like power, is an almost indispensable input for all industries. It is needed for a variety of individual human uses and for the population in general and for many industrial purposes. The availability of water in the quantity and quality required for industrial purposes is, therefore, an essential requirement. In Fiji water supplies at all main centres of population are of a good quality and are generally satisfactory. In the future, the need for an adequate and regular supply of water to cope with increasing tourism, industrial development and urban growth will expand. The Government of Fiji has taken steps to develop water supply schemes to deal with increasing needs. The supply of water does not appear to present any difficulty in the way of Fiji's industrial development.

Education and training for entrepreneurial, managerial and skilled personnel development

56. General education and training play an important role in the economic and industrial development of any country. The rate of literacy in Fiji is very high, 50-70 per cent, and this high level of literacy has a favourable effect on development. Fiji has a well-developed system of primary and secondary education. There are also a number of institutes and centres for technical and vocational education in several fields. There is a need to do much more by way of developing technical and managerial skills at all levels for the promotion of industrial activities on the basis of local initiative and enterprise. The availability of local skill is however a matter of training over time and does not present a permanent handicap to economic and industrial development.

57. Within a free enterprise economy, there is the need for a class of people known as the entrepreneurs. They are the persons who take the initiative in industrial development by seeking out the profitable fields of investment in the country; they may be entrepreneurs in the classical sense in that they may also be the suppliers of capital; but in the modern sense, they may be the salaried trained executives or managers taking important investment decisions and breaking new grounds for industrial opportunities. In Fiji where the domestic market is limited by the size of the population, there is in particular a need for entrepreneurs for the development of small industries of various types. The supply of capital for such industries can be made available through the creation of institutional arrangements, but the real problem lies in having a body of people who will take the initiative in industrial development. In Fiji, there is a definite need for local entrepreneurship development within the context of developing small-scale industries.

58. Further, in Fiji there is undoubtedly a shortage of managerial skill. Here also the solution lies in training young people in management and administration, both within the country and outside. In this context also, to meet this requirement it is necessary to create institutional arrangements in the form of a management centre.

59. Furthermore, it is not true that only the entrepreneurs and qualified managers are important for industrial development. Local personnel or key workers with the requisite training, skill and practical experience are equally important for small-scale industrial development. Appropriate arrangement for vocational and practical training will facilitate industrial development in Fiji. The existing institutes for the purpose appear to be inadequate.

Growth rates of other sectors, i.e. agriculture

60. Industry is only one sector of the economy and it is common knowledge that the growth of the different sectors of the economy are interrelated. The growth of one sector is linked with or dependent upon that of other sectors. This interrelationship is even closer between industry and agriculture. The development of the sugar industry in Fiji, for instance, has provided a market for agricultural raw materials like sugar-cane and has provided valuable inputs like fertilizers, etc. It also provides all the equipment needed by different transport industries. It provides the market for energy. Thus the development of industry makes possible the all-round growth of the economy.

61. The average annual growth rates at constant 1975 prices in Fiji between 1975 and 1980, as estimated in the Seventh Plan, gives a picture of relative sectoral growth rates, as shown in Table 11.

Table 11

Average Annual Growth in percentage between 1975 and 1980 at constant 1975 prices

<u>Sector</u>	<u>Average annual growth %</u>
1. Subsistence	1.0
2. Sugar cane	6.4
3. Other agriculture	6.7
4. Mining and quarrying	5.1
5. Sugar processing	6.3
6. Other food processing	7.2
7. Textiles, wood, printing, paints etc.	10.2
8. Cement production	11.2
9. Other manufacturing	8.8
10. Electricity, gas and water	8.9
11. Building construction	12.0
12. Other construction	10.7
13. Distribution	7.7
14. Restaurants	9.2
15. Hotels	9.8
16. Transport	7.5
17. Communications	8.2
18. Banking and insurance	7.8
19. Ownership of dwelling	5.4
20. Other services	8.0
21. Government services	8.5
22. Education	8.2
23. Health	7.9
24. Private non-profit institutions	5.3
25. Indirect taxes	8.0
26. G.D.P.	7.3
27. Income paid abroad (net)	17.0
28. GNP	7.0

Source: Fiji's Seventh Development Plan, 1976-1980, page 12

62. The table shows that the growth in the subsistence sector in Fiji, as in most other South Pacific region countries, is expected to be very low, only 1 per cent. This fact reflects a small change in the productivity of traditional methods of cultivation and consequently a small change in the incomes of the people dependent on subsistence activities to their livelihood. The growth in the modern sector and the economy as a whole appears satisfactory and has provided employment opportunities to the people. Table 12 gives a picture of the sectoral composition of the GDP from 1971 to 1977. The share of agriculture

Table 12

GDP BY INDUSTRIAL ORIGIN AT FACTOR COST AT CONSTANT
1968 PRICES

(Million Fiji Dollars)
1971 - 1977

INDUSTRIAL GROUP	1971	%	1972	%	1973	%	1974	%	1975	%	1976	%	1977 (p)	%	% of the Total in 1977 (p)
Agriculture Forestry & Fishing	38.2	24.3	37.9	22.3	40.3	21.0	38.9	19.8	39.1	19.9	40.6	20.1	43.7	20.7	20.7
Mining & Quarrying	2.4	1.5	2.3	1.4	2.2	1.1	1.9	1.0	1.9	1.0	1.8	0.9	1.4	0.7	0.7
Manufacturing	17.7	11.2	18.5	10.9	19.1	10.0	19.8	10.1	19.9	10.1	21.6	10.7	23.2	11.0	11.0
Electricity, Gas and Water	2.4	1.5	2.6	1.5	2.9	1.5	3.0	1.5	3.2	1.6	3.6	1.8	3.7	1.8	1.8
Building and Construction	8.7	5.5	9.7	5.7	11.3	5.9	9.9	5.0	8.7	4.4	8.3	4.1	9.0	4.3	4.3
Distribution (incl. tourism)	34.2	21.7	39.3	22.5	44.2	23.1	45.1	22.9	42.5	21.6	42.5	21.0	44.9	21.3	21.3
Transport & Communication	11.1	7.0	12.6	7.4	14.5	7.6	15.7	8.0	16.5	8.4	16.9	8.4	17.3	8.2	8.2
Finance & Insurance	20.5	13.0	23.8	14.0	27.6	14.4	29.8	15.2	32.0	16.2	32.9	16.3	33.4	15.9	15.8
Government Services	16.4	10.4	18.1	10.6	21.6	11.3	24.0	12.2	24.9	12.7	25.6	12.7	25.6	12.1	12.1
Other Services	7.5	4.6	8.0	4.7	9.7	5.1	10.2	5.2	10.5	5.3	10.7	5.3	10.9	5.2	5.2
Less Imputed Bank Service	-1.5	-0.9	-1.8	-1.0	-1.8	-1.0	-1.7	-0.9	-2.4	-1.2	-2.4	-1.1	-2.4	-1.2	-1.1
TOTAL	157.6	100.	170.0	100	191.6	100	196.6	100	196.8	100	202.1	100	210.7	100	100.0
% Change over previous year	+6.0%		+7.9%	+12.7%			+2.6%		+0.1%		+2.7%		+4.3%		

(p) Provisional

Source: Bureau of Statistics, Suva, Fiji

in GDP between the two periods declined and the share of manufacturing had a modest increase over the years. The shares of most other sectors have increased over the years. The crucial problem of development in Fiji appears to centre round the modernization of agriculture the major segment of which - the subsistence sector - is faced with stagnation which may have had the effect of impeding the growth rates of other modern sectors.

Excessive industrial concentration

63. If concentration is taken in the geographical sense, then, in Fiji, as in PNG, industrial activities have been centralized in Viti Levu, especially in Suva and other urban areas such as Lautoka, Nadi and Ba. Natural resources have been harnessed in Viti Levu and there is agricultural development in some parts of Vanua Levu. Even in these areas, there has been a concentration of development mainly along the coastal belts and the more fertile arable land. This pattern of development has its impact on the distribution of small scale industrial activities also. In Viti Levu, industrial development has taken place mainly in Labasa. Little development has taken place in the inland areas of Viti Levu, the bulk of Bua, Macuata and Cakaudrove and the outer islands. There is then the problem of regional disparities in economic and social development and as such regional development has been accepted as one of the main objectives of the Seventh Development Plan. It is not possible to obtain more information on the subject at this stage.

64. As regards industrial concentration in the ownership sense, in Fiji, as in PNG, foreign capital and expatriate entrepreneurial and technical skills, have been dominant in the development, financing and ownership of industrial enterprises. For lack of available information, it is not possible to indicate the degree of concentration in industrial ownership, although many of the ventures are owned by foreigners primarily the Australians.

Size of productive units

65. In section II, information available from the existing source has been given. According to the 1975 Census of Industries, returns were sent to 438

industrial establishments and eventually 249 returns received showed the size patterns as shown in Table 13.

table 13

Size patterns of 249 manufacturing establishments

<u>Size in terms of employees</u>	<u>Number of establishments</u>
0-4	59
5-49	150
50+	40

Most of the firms are understandably small and very small. This pattern points to the prevalence and desirability of small-scale industrial units in Fiji mainly based on local markets.

Size of the domestic market

66. Domestic production in a small country, unless also based on export markets, must necessarily be on a small scale because of the limitation of home markets, as already said. Fiji is an island country geographically scattered, and with a limited population, it does not constitute a big market. But then, the per capita income in Fiji is very high, compared with that in other developing countries. Consequently, the propensity to import is very high. There is a good scope to domestically produce a range of consumption and other goods using labor-intensive methods of production on a small-medium scale. These might replace some imports on a selective basis and could probably be produced with some incentives and even with a measure of protection. This is how the size of the market could be enlarged for a limited range of products.

Income distribution

67. Closely connected with the size of the domestic market is the question of income distribution among several sections of people in Fiji. It has been mentioned earlier that the 1978 edition of the World Bank Atlas has given

figures of per capita GNP in Fiji as US\$ 1,080, US\$ 1,150 and US\$ 1,220 for 1975, 1976 and 1977 (preliminary), respectively. Needless to say these figures say nothing about differences in average per capita incomes, among the three most clearly identifiable groups, i.e., subsistence farmers, Fiji nationals wholly or partly within the cash economy and expatriates. Although no statistical information on the subject has yet been available, it may be safely said that these differences may be very wide and that there is a good deal of scope to increase demands for goods and services by improving both regional and personal distribution of income through appropriate economic and social measures. The alternative to this may eventually be economic, social and industrial stagnation.

REVIEW OF PROSPECTS AND POTENTIAL FOR INDUSTRIAL DEVELOPMENT

Raw material endowment

68. Fiji produces some important crops. Some are export crops like sugar-cane, coconuts, ginger and passionfruits; and others are import substitution crops including rice, cereals and legumes such as pulses, maize, sorghum and peanuts; vegetables and tobacco. Based on domestically produced raw materials, certain industries like sugar-refining and copra oil have been established. There is, however, a good case for diversifying the existing industrial structure of the country by utilizing the available agricultural resources and also the by-products of the existing industries. Further industrial opportunities lie in a number of directions.

69. One opportunity lies in utilizing the by-products of the sugar industry, namely, molasses and bagasse as raw materials for new industries like industrial alcohol, paper, and animal feed. Secondly there are prospects for developing coconut-based items such as margarine, fats, other edible products, charcoal, coir, timber, desiccated coconut and particle board. Thirdly, opportunities to exploit the fisheries and other resources of the sea have not yet been fully taken advantage of. Fourthly, the timber resources offer scope for creating industrial activities. Fifthly, there are possibilities for developing industries producing inputs for agricultural development which will improve yields of agricultural crops on a modest scale such as fertilizers, pesticides, insecticides, fungicides, animal feed meals, simple tools and machinery for farming, irrigation equipment, etc. This pattern of development will have the effect of further increasing the linkages between agriculture and industry. Sixthly, as the size of the market in Fiji is small and the islands are scattered, there is a strong case for emphasizing the development of a well-concoived small scale industries development programme. Seventhly, Fiji depends on a variety of imported consumption goods and as such there is a scope for stimulating the growth of some import substitution products even with

some protective devices. Lastly, Fiji is conveniently located in the South West Pacific region for the growth of certain industries based on external markets within the South Pacific region. These appear to be the potential opportunities for industrialization in Fiji.

Energy potential

70. Energy is a critical factor in any development including industrialization. Fiji, like other countries, has been affected by the prevailing energy crisis reflected in the high prices of fuel. The country almost entirely relies on imported petroleum for her energy needs which have continuously grown over the years. There is a case for centralizing the generation and distribution of power in the hands of a single national organization, namely, the Fiji Electricity Authority so as to make power available not only to the cities but also to the rural areas for facilitating development. There is a scope for development of hydro-electric power in Central Viti Levu to serve all the urban centres of Viti Levu. High priority has been given to make power available to the decentralized small scale industrial estates set up for industrial development.

Qualified manpower

71. The rate of literacy in Fiji is pretty high - 60 to 70 per cent. With this background, it is easier for Fiji to train people in technical and vocational skills of which there is a shortage in the country. There is also a need to train the local educated people for higher grade administrative, managerial, and technical jobs for gradual replacement of the expatriates.

Import substitution potential

72. Fiji is highly dependent on the import of a variety of manufactured goods. Import substitution possibilities at present are very limited, due to a small home market, import components of import substitution goods, limitation of scale economies, and very limited government assistance in protecting

industries against foreign competition. Subsistence agriculture still plays an important role in the economy. As this sector is gradually modernized and the demand for goods and services are stimulated, opportunities for the production of import substitution goods will open up. Even now, there is scope for domestic production of items imported, but the present liberal import policy of the Government does not favour this.

Linkage potentials within the manufacturing sector and with other sectors i.e. agriculture, construction

73. Fiji's main industry is sugar-refining. There is a case for improving the linkage in this sector by utilizing by-products from sugar refining, namely, molasses and bagasse, as already stated. Secondly, there is surely a case to produce domestically certain inputs needed for agricultural improvement and expansion and for rural improvement namely, fertilizers, insecticides, simple tools and implements etc as said earlier. Thirdly, the opportunities for processing agricultural and forest resources should be further explored. Fourthly, greater emphasis on sectoral programmes such as construction (house building) and transport will stimulate the growth of linked activities. Lastly, there may be products which may be identified and produced on a small scale on the basis of dispersal to the rural areas for local market.

Location of the country in relation to markets in industrialized countries

74. The access of Fiji to developed market economies of the United States, Japan, Western Europe, Australia and New Zealand is pretty easy. Its trade and transport relations with these countries with some of which it has liberal trade relations are convenient. Fiji is thus well-located in relation to some developed market economies of the world as well as to other islands of the South Pacific region both for her exports and imports.

Industrial climate and living conditions to attract foreign investment

75. The Fiji Government has created various favourable conditions which form the industrial climate. These are about the same as described in Section VII of the chapter on PNG. The latest government policy continues to welcome

foreign investment needed for its economic and industrial development on mutually advantageous terms and has taken appropriate action covering most of these conditions, as stated in Section 7. The living conditions in Fiji are also acceptable for foreign investors and technical personnel, such as, housing, modern facilities, and the climate.

REGIONAL, SUB-REGIONAL AND BILATERAL CO-OPERATION AGREEMENTS RELATED
TO INDUSTRIAL DEVELOPMENT

76. Fiji is a member of the United Nations Economic and Social Commission for Asia and the Pacific and as such it generally participates in its activities in several areas including industry and technology. The country is also a member of the South Pacific Commission and the South Pacific Bureau for Economic Co-operation whose head office is located in Suva. Fiji as such participates in the activities of these sub-regional organizations.

77. Before independence in 1970, the United Kingdom was the main source of bilateral assistance to Fiji. Since independence, the sources of assistance have been diversified. Resources already available in Fiji are received under certain conditions in the form of cash grants and commodity aid, capital aid in kind, soft loans, technical assistance and training, some of which are relevant to industrial development. In addition to the United Kingdom, other countries giving aid to Fiji are Australia, Canada and New Zealand for specific projects.

78. Technical assistance aimed at dealing with the shortage of specialist expertise in Fiji plays an important role in bilateral co-operation. Training people overseas in specialized skills, the system of obtaining the services of advisers in the special fields from international and regional organizations and the recruitment of personnel at middle as well as higher levels for posts under the national government from abroad play an important role in dealing with this bottleneck. Table 14 shows broadly the estimated sectoral distribution of external assistance, excluding soft loans and non-project-related aid.

Table 10

Estimated sectoral distribution of external assistance, 1975

<u>Sector</u>	<u>% share</u>
Agriculture, fisheries, forestry and rural development	42
Infrastructure	23
Education and training	15
Transport and communications	8
Industry	7
Health	2
Other	<u>3</u>
Total	<u>100</u>

Source: Fiji's Seventh Development Plan, page 242.

More up-to-date information on the subject has not been available. The share of industry in external assistance, as shown in the figure, stood at 7 per cent in 1975.

PARTICIPATION OF THE PUBLIC SECTOR, DOMESTIC PRIVATE SECTOR
AND MULTINATIONALS IN INDUSTRIAL DEVELOPMENT

Ownership pattern

79. The Fiji sugar corporation, a Government Corporation, owns and manages all the sugar mills - the only major manufacturing industry in the country. The development of other sectors of the industrial economy - comprising small and medium scale enterprises have been left to private initiative and entrepreneurship. As in other private enterprise or mixed economies, the Government has decided to restrict its activities predominantly to offering promotional, infrastructural and institutional facilities in the needed areas for the working of private enterprise, both domestic and foreign. Foreign investment has been encouraged on certain conditions, as already mentioned in the context of industrial policies and investment promotion.

80. The activities of the multinationals are at present restricted to mining and mineral exploration, and trading activities. Some of the transnational companies operating in Fiji are MAPCO (US) and DAKOTA Exploration (U.S.) in petroleum and W.R. Carpenter Holdings, Burns and Philip Co. Ltd. and Steamship Navigation in trade Services (imports, exports and retailing).

REVIEW OF TECHNICAL ASSISTANCE PROJECTS RECENTLY COMPLETED OR IN
PROGRESS IN RELATION TO INDUSTRIAL DEVELOPMENT OBJECTIVES

81. Fiji obtains technical assistance from various international organizations and bilateral sources to support her over-all development programme, as enunciated in the Seventh Development Plan. There is a UNDP Regional Office for the South Pacific, located in Suva, Fiji and a UNDP sub-office has just been set up at Apia, Samoa. Attached to the Suva office, there is a UNDP/UNIDO Senior Industrial Development Field Adviser who is looking into the Industrial Development aspects of the South Pacific Islands and who is liaising with the Governments in co-ordinating and promoting industrial development programmes in line with the development policy of the Governments.

82. The Second Cycle for Fiji (1977-81) available for expenditures stands at US\$5.7 million. The Second Country Programme was completed before the Seventh Development Plan; even then it was possible to ascertain the main features of the plan at the time of preparing the Country Programme and to relate the two. The major sectoral objectives and priorities were taken into account by the concerned ministries in identifying the assistance which would be required from the UNDP operating through several United Nations agencies and bodies including UNIDO. The Second Country Programme covers the same period as the Development Plan, 1976 through 1980.

83. The Government of Fiji indicated that continued UNDP assistance during 1976-80 would be required in the following general sectors:

- A. Agriculture, Forestry and Fisheries
- B. Administrative Infrastructure
- C. Physical Infrastructure
- D. Human Resources
- E. Natural Resources
- F. Commerce, Industry and Co-operatives
- G. Tourism

Table 15

Preliminary List of Projects with Estimated Government and
UNDP inputs in financial terms for the period 1976-1980

Estimated Government inputs in thousands of F\$						Commerce Industry and Co-operatives	Estimated UNDP inputs in thousands of F\$					
1980	1979	1978	1977	1976	Total		Total	1976	1977	1978	1979	1980
		11.0	11.0	11.0	33.0	A. <u>On-going/Approved Projects</u>						
		356.7	710.3	707.3	1774.3	1. Industrial Economist (68/003)	120.0	40.0	40.0	40.0		
						2. Rural Urban Industrial Estates (73/008)	750.0	300.0	300.0	300.0		
		367.7	721.3	718.3	1807.3	SUB-TOTAL A.	870.0	340.0	340.0	190.0		
						B. <u>New Projects</u>						
			30.0	30.0	60.0	1. Handicraft Export Development	150.0	76.0	71.0			
				8.0	8.0	2. Claybrick Industry	48.0	18.0				
			6.0	6.0	12.0	3. Industrial Promotion Consultants	108.0	36.0	36.0	36.0		
Estimated Government Inputs in thousands of F\$						SUB-TOTAL B.	Estimated UNDP Inputs in thousands of US\$					
1980	1979	1978	1976	1976	Total		Total	1976	1977	1978	1979	1980
			36.0	44.0	80.0		306.0	160.0	110.0	36.0		
		367.7	757.3	762.3	1887.3	Sub-total Commerce Industry and Co-operatives	1176.0	500.0	450.0	226.0		

Source: From the UNDP Country Programme for Fiji, 1976-1980 (1975) Annex 1, p.4

84. Under A above, Agriculture, Forestry and Fisheries, there are five new and on-going FAO projects, namely, (i) agricultural development planning; (ii) farm management, field crop processing, and marketing; (iii) expansion of rice and sugar production and water resource management; (iv) animal nutrition; and (v) small ruminant husbandry. There are also similar projects for the development of fisheries and forestry. Under B, there is an on-going UN project for assistance in the provision of economic development advisers. In respect of other fields, under C to G, there are UNDP projects - both new and on-going - which are being worked out and are implemented by several international organizations with government support.

85. The projects under F - Industry is of direct relevance to this profile. The structure of manufacturing industry in Fiji has been dealt with elsewhere in this profile. The government has taken steps to broaden the base of industrial activities by developing and encouraging industries capable of import substitution and obtaining markets in neighbouring islands and has sought UNDP assistance for certain projects to be implemented mainly by UNIDO. These projects are (i) handicrafts export development; (ii) clay-bricks industry; (iii) expansion of the industrial promotion unit; and (iv) services of industrial promotion consultants. Table 15 contains the preliminary list of projects with estimated Government and UNDP inputs in financial terms for the period 1976-1980 under the general sector, namely, Commerce, Industry and Co-operatives. The Ministry of Commerce, Industry and Co-operatives acted as the co-ordinating agency for the UNDP programme in Fiji.

86. UNIDO has provided assistance to Fiji in the fields of shipbuilding, repair and maintenance; Industrial Programming; Investment; incentives measures; leather training, development and promotion; feasibility study on the establish-

ment of a tannery; food processing; solar salt industry; metal working; cement production; and industrial training. The list of approved and operational process include an important programme of assistance to industrial estates support services with a total allotment of US\$635,317. Assistance is also approved in the field of solar salt production; industrial engineering; rural and urban industrial support services; as well as fellowships in the fields of promotion of small-scale enterprises and general management. The assistance given to the shipbuilding industry is expected to be continued in 1980. Assistance may also be envisaged in regard to alcohol from cassava and other root crops as well as ceramics.

Table 16
UNIDO assistance provided to
FIJI
from 1972 onwards

Project No.	Title	Total Expenditures
<u>COMPLETED PROJECTS:</u>		
DP/FIJ/68/003	Industrial programming	US\$ 84,794**
DP/FIJ/70/003	Shipbuilding, repair and maintenance	US\$ 11,500**
DP/FIJ/71/007	Shipyards manager (OPAS)	US\$ 175,194**
DP/FIJ/71/506	Centre for leather training, development and promotion	US\$ 29,419**
EP/FIJ/75/002	Food processing and technology	US\$ 6,588**
RP/FIJ/76/001	Industrial training	US\$ 3,000**
RP/FIJ/77/001	Shipyards organization and management	US\$ 3,210**
IS/FIJ/75/005) SI/FIJ/75/805)	Incentive measures for industrial development	US\$ 13,765**
IS/FIJ/75/010	Feasibility study on the establishment of a tannery	US\$ 7,040**
TS/FIJ/70/001	Assessment of solar salt industry sector	US\$ 4,300**
TS/FIJ/71/002	Metal working	US\$ 6,152**
TS/FIJ/75/001	Preparatory assistance for discussion of cement project	US\$ 5,954**
UF/FIJ/78/182	Investment in Fiji (total allotment: US\$23,388*)	US\$ 21,336**
		<u>US\$ 372,252</u>
<u>APPROVED AND OPERATIONAL PROJECTS:</u>		
DP/FIJ/73/008	Industrial estates support services (total allotment: US\$781,426*)	US\$ 635,317*
BP/FIJ/79/001	Fellowship in the field of promotion of small-scale enterprises in dev. countries (total allotment: US\$9,300*)	US\$ 8,335*
RP/FIJ/79/002	Fellowship in the field of general management	US\$ 12,023*
SI/FIJ/79/801	Assistance in solar salt production (total allotment: US\$9,170*)	US\$ 7,598*
TF/FIJ/79/001	Associate expert in industrial engineering (total allotment: US\$48,319*)	US\$ 16,871*
TF/FIJ/79/002	Rural and urban industrial support services (total allotment: US\$49,107*)	US\$ - *
		<u>US\$ 680,144</u>
<u>EXPECTED APPROVALS IN 1980</u>		
DP/FIJ/79/003	Assistance to the Shipbuilding Industry	<u>US\$ 30,000</u>

* Based on computer printout UNIDO-UMAPO2 dated 8.1.1980
('Status of allotments for projects as at 31.12.1979')

** Based on computer printout UNIDO-KHM10A dated 18.10.1979
('Expenditures from 1972 to September 1979')

POTENTIAL AREAS OF FUTURE UNIDO CO-OPERATION WITH FIJI

87. UNIDO has been rendering assistance to Fiji in her industrial development efforts within the framework of the UNDP country programme for the general sectors identified by the Government. The UNIDO programme for Fiji needs to be widened by including more projects and fitted into the UNDP Country Programme, keeping in mind the following elements of the strategies and reorientation of industrial policy, as indicated by the Ministers of Industry of the ESCAP countries.

- (i) To improve the linkages between agriculture and industry, both quantitatively and qualitatively;
- (ii) To prepare a comprehensive programme for the development of small industries;
- (iii) To promote rural industrialization;
- (iv) To encourage industry to locate itself away from the urban areas; and
- (v) To give priority to the production of the basic need goods and services.

88. The objectives mentioned above are interconnected and the Fiji Government has already taken some steps to achieve some objectives, for instance, the establishment of industrial estates in relatively less developed areas to decentralize industrial activities from the urban centres and to facilitate the growth of the lagging regions. Still there appears to be a need for industrial development planning in a more coherent and logical manner in the light of the guidelines mentioned above. There is a need for an expert level assistance in this field which UNDP/UNIDO may provide at the request of the Government.

89. As regards the industrial redeployment prospects for Fiji what has said about PNG in this respect also substantially holds good for Fiji and it is unnecessary to repeat it.

90. As regards investment promotion, the Fiji Government encourages both domestic and foreign investment for industrial growth. It has clearly spelt out the terms and conditions on which foreign investment in the country is healthy, as it should be in a free economy. Much more, however, can be done to mobilize domestic savings through further development and improvement of institutional arrangements and to utilize these savings for investment in particular, for instance, in the development of small scale industrial enterprises.

91. Since 1969 when the Sixth Development Plan began, rural development has been a declared objective of the Fiji Government. The Government policy in this direction manifested itself mainly in the support of some community self-help economic or social projects designed to satisfy the basic needs of the people and to relieve the hardship faced by them, such as, the provision of equipment and materials. Constructing rural roads and making rural water supplies available were important features of the Rural Development Programme during 1971-75. In the Seventh Plan the Fiji Government further recognized the importance of facilities such as the supply of water and electricity, the creation of non-agricultural activities, wholesaling-retailing, general marketing arrangements and the various types of communication needs for the rural areas. The Plan states the broad objectives of rural development as follows:

- (a) "to stimulate rural communities to seek their own improvement, to express their needs and find ways to meet them by their own efforts and resources, where genuinely desirable and practicable, to enable them to receive technical, financial or material assistance particularly where economic benefits would result:

- (b) "to involve the rural communities more closely in the preparation and implementation of the rural sector of the national plan;
- (c) "in the absence of a comprehensive form of rural local Government, to provide a framework of consultation and co-operation on development matters among all people living in rural areas;
- (d) "to co-ordinate the work of existing agencies in the rural areas towards achieving development objectives."

92. The result of all these objectives of the Government programme will be reflected in the improvement of the living standards of the rural population in respect of their basic needs—food, clothing, housing, etc.

94. In the context of the rural development programme mentioned above, a comprehensive rural industrialization programme centring round the development of small and cottage industries supported by the Government in the needed areas becomes relevant and useful. The range of product possibilities for rural industrialization programmes has been summarized in a UNIDO report¹ as follows:

- Production of agricultural inputs
- Processing of agricultural produce
- Processing of mineral and natural resources
- Production of building materials
- Production of consumer goods and basic needs items
- Traditional handicrafts
- Provision of repair and maintenance facilities
(including the production of spare parts)
- Provision of inputs and services for other local industries
(sub-contracting and perhaps ancillary units).

¹ UNIDO, Vienna: Industrialization and Rural Development, United Nations, New York, 1978, p. 31.

94. The areas of technical assistance for rural industrialization in Fiji may be in the following fields:

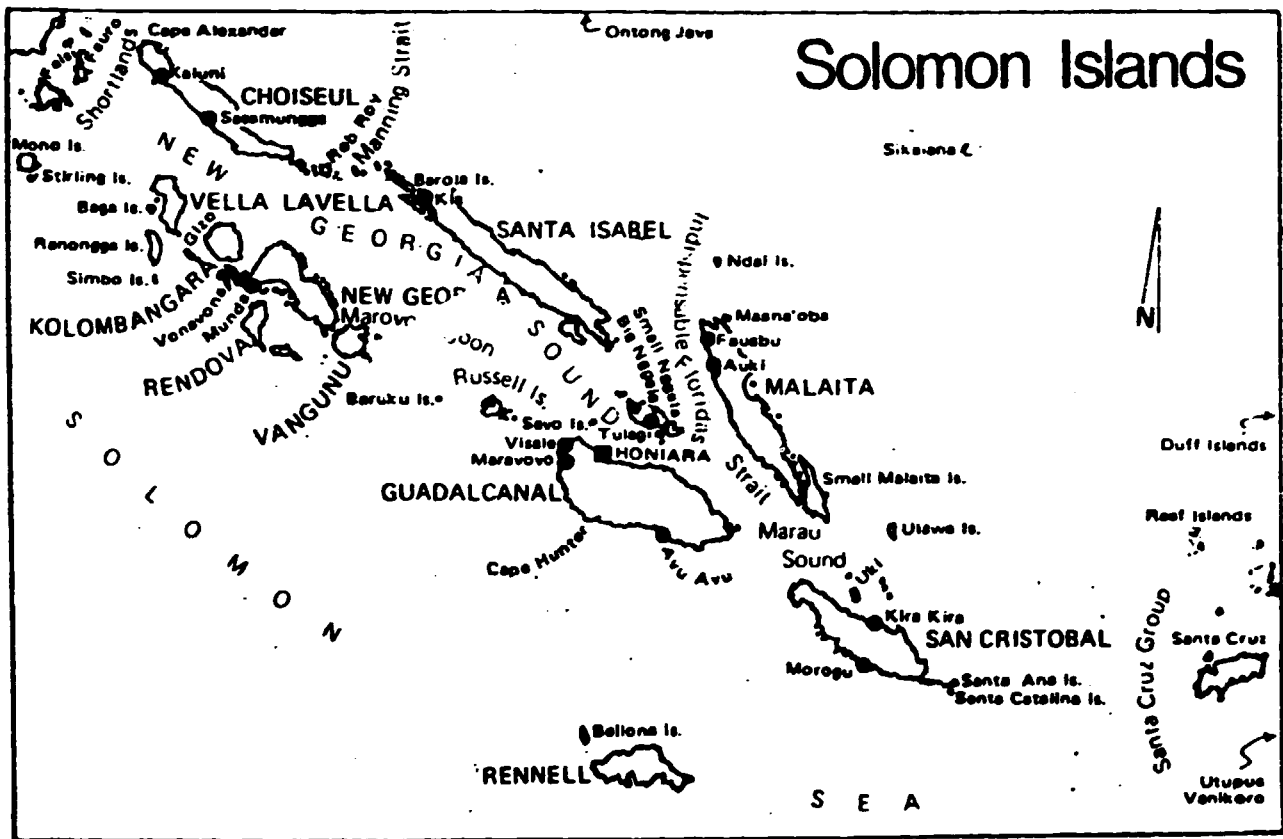
- (i) survey of the areas to be developed to assess their human and material resources and to ascertain their infrastructural needs;
- (ii) identification of industrial activities suitable for incorporation in the industrial programmes of the areas;
- (iii) project preparation and evaluation;
- (iv) ways and means of making financial or credit support available;
- (v) technical and marketing support;
- (vi) industrial research and studies on relevant subjects such as rural entrepreneurship, appropriate technology, rural environment etc.;
- (vii) industrial training programmes and industrial extension work;
- (viii) arrangements for study-tours or visits to facilitate in other developing countries and for exchange of officials;
- (ix) arrangements to collect, exchange and distribute information among developing countries;
- (x) exchange of experts among developing countries;
- (xi) exchange of trainees among developing countries;
- (xii) supporting and facilitating the provision of advice and assistance in the needed areas by the developed countries to the developing countries, such as meeting the travel expenses of the experts and the trainees.

95. To cover most of the countries of the South Pacific sub-region, there is a UNDP Regional Office under a representative located at Suva to

attend to the questions of technical assistance to the countries in various fields. Attached to this office there is a UNIDO cell under a Senior Industrial Development Field Adviser to attend to the task of technical assistance to the countries in projects related to industrial development. This office or cell may take up the question of rural industrialization with the Government of the country and the concerned institutions dealing with rural development. At the moment there does not appear to be an appropriate machinery in Fiji for rural development. However, a programme for rural industrialization must be integrated with the rural development programme and the Ministry of Industry through its own institutions responsible for industrial promotion should emphasize the importance of rural industrialization. To identify the various types of industrial and non-agricultural activities suitable for location in the rural areas in the light of the resources available there and to formulate a rural industrialization programme as a component of the rural development programme involves tasks which must be performed by a specialized institution of the Ministry. There is also a need in Fiji for building up a comprehensive small-scale industry development programme with emphasis on all the components of such a programme. To these tasks and some areas of research as mentioned above, UNIDO technical assistance in the form of expertise could make valuable contributions.

CHAPTER III

**AN INDUSTRIAL DEVELOPMENT PROFILE FOR
THE SOLOMON ISLANDS**



GENERAL ECONOMIC BACKGROUND

Geography

1. The Solomon Islands extend over some 600,000 km² of sea lying on a scattered archipelago across a south easterly direction from off Bougainville to Santa Cruz Island. The total land area is estimated at just under 24,000 km². Of this 25-30 per cent is considered suitable for various forms of intensive modernized agriculture, the rest being steep hills and valleys, coastal swamps or areas of poor soil structure.
2. The six major islands are Choiseul, New Georgia, Santa Isabel, Guadal Canal, Malaita and Santa Cristobal. They vary in length between 145 and 200 km and in width between 30 and 50 km. The largest island, Guadal Canal, has an area of approximately 5,650 km².

Population - labour force

3. The last full census, taken in 1976, showed a total population of 196,823 of whom 93 per cent were Melanecians. The total population has grown from about 143,000 in 1965 over 160,998 in 1970 at an average growth rate of 3.5 per cent per annum since 1970 to an estimated 214,000 in 1978. Table I shows the position:

Table I.

Population Estimates

	1965	1970	1975	1976	1977	1978
Mid year population (estimate*)	145,000*	160,998	195,000*	196,823	206,000*	214,000*

Source: Statistical Office, Ministry of Finance

4. The most heavily populated island is Malaita, with about one third of the group's population (50,043 in 1976). Honiara, the capital, has grown in population from 11,131 in 1970 to 14,542 in 1976 with a density of 711.5 persons per km² against the 3.6 persons per km² for the total Solomon Islands.

5. Most Islanders, 9 out of 10 Solomon Islands families, following the traditional village life, depend to a very large extent on their own production of basic foodstuff, and build their own house.

6. The labour force is relatively small, but it steadily grew from 13,690 in 1970 to an estimated 16,800 in 1977. The labour force consists largely of unskilled men with a slightly declining shortage of skilled islanders for supervisory post. Roughly one third of the labour force is employed in the primary sector with a notable increase of the activity in the fishing sector but still 2,950 employees or 17.6 per cent of the total labour force work in the agricultural sector. The construction sector, with 1,460 employees in 1977, shows a relative decline as well as the domestic and other services sector in relative and absolute figures. The social services have employed a steady 18 to 20 per cent of the labour force throughout the years since 1971. Commerce with 1,800 employees and especially manufacturing with 1,430 labourers in 1977 compared to a mere 656 in 1971, showed a definite upward trend, as is shown in Table 2.

Table 2
Employment by Industry (1971-1977)

	1971		1973		1976		1977 (est.)	
	No.	%	No.	%	No.	%	No.	%
Agriculture	2379	16.8	2041	14.7	2900	17.7	2950	17.6
Forestry	1214	8.6	892	6.4	1015	6.2	1020	6.1
Fishing	30	0.2	194	1.4	625	3.8	710	4.2
SUB-TOTAL	3623	25.6	3117	22.5	4540	27.7	4680	27.9
Construction	1582	11.2	1620	11.7	1450	8.8	1460	8.7
Mining	4	-	103	0.7	40	0.2	40	0.2
Manufacturing	658	4.7	934	6.7	1380	8.4	1430	8.5
Utilities	171	1.2	132	1.0	170	1.0	180	1.1
Commerce	1023	7.2	1358	9.8	1740	10.6	1800	10.7
Transport & Communication	1142	8.1	1132	8.2	1350	8.2	1400	8.3
Financial Services	174	1.2	119	0.9	130	0.8	130	0.8
Public Administration	929	6.6	1052	7.6	1710	10.4	1780	10.6
Social Services	2426	17.2	2816	20.3	3000	18.3	3020	18.0
Domestic & Other Services	2412	17.0	1484	10.6	900	5.6	880	5.2
GRAND TOTAL	14144	100.0	13867	100.0	16410	100.0	16800	100.0

Source: Statistical Office, Ministry of Finance

Income distribution

7. .. comparison of income between local and foreign workers reflects the fact that most foreigners work in higher paid jobs. However, there is a tendency for this number of foreign workers to decline and to shift in higher income groups. Further, there is a gradual upward movement of wages of the unskilled and semi-skilled groups along with some replacement of foreigners by Solomon Islanders in the middle levels.

8. Next to the monetary income distribution, the existence of non-formal and non-wage employment in gardens, copra paddocks, fishing and house building is still of great importance. It provides the majority of people in rural areas with an adequate level of nutrition and shelter, and cash incomes ranging from a few dollars a year to substantially higher levels. Unfortunately very little is known of this in statistical terms.

GNP evaluation

The GNP estimates are shown in Table 3.

Table 3

Estimated income from GNP current prices

Category of income	\$SI 000				
	1965	1970	1975	1976	1977
<u>- Monetary income</u>					
<u>- wages and salaries</u>					
Expatriates	2,217	3,353	4,812	5,623	6,000
Others	2,518	4,572	8,054	10,906	11,700
Total	4,735	7,925	12,867	16,529	17,700
<u>- Operating surplus</u>					
Business	1,412	926	3,209	5,212	7,696
Government	85	171	133	547	746
Households	1,327	1,348	1,516	1,380	1,770
Total	2,825	2,455	4,858	7,139	11,212

	1965	1970	1975	1976	1977
- Monetary income at factor cost	7,560	10,370	17,725	23,660	28,912
- Depreciation	1,233	2,771	4,600	5,316	6,177
- GDP (monetary) at factor cost	8,793	13,191	22,347	28,884	35,084
- Indirect taxes and subsidies	1,570	2,168	3,430	4,000	5,408
- GNP (monetary) at market prices	10,363	15,309	25,777	32,884	40,472
* <u>Subsistence sector</u>	9,994	13,246	23,625	26,076	29,600
* <u>All sectors:</u>					
GNP at factor cost	18,787	26,387	45,972	54,962	64,684
GNP at market prices	20,357	28,555	49,402	58,962	70,082
* <u>Per capita value</u>					
GNP at factor cost	131	162	247	275	308

Source: Statistical Office, Ministry of Finance

9. A key point of the national income comprises all those goods and services which are produced and used, particularly in rural areas, without any cash payment. No satisfactory way is yet available to measure this income, which comprises the basic standard of living in most households. A recent report (1976) made by a team of experts under the auspices of the Commonwealth Secretariat/SPEC puts the gross national product of the Solomon Islands at US\$ 60 million in 1974 with a per capita income of US\$ 310. The reports give the population of the Islands in mid-1977 at 206,000. According to the 1978 World Bank Atlas, the population (mid-1976) of the Solomon Islands, the GNP at market prices (1976) and the per capita income are tentatively given as 197,000, US\$ 50 million and US\$ 250, respectively.

10. In 1977 the subsistence product still accounted for 42 per cent of the GNP at market prices, gradually, but slowly, decreasing over the years from 49 per cent in 1965. Other relevant aspects of the GNP of the Solomon Islands are:

- (i) an average 18 per cent growth per annum of the GNP since 1975;
- (ii) an increasing part of the operating surplus in the income of the monetary sector compared to the 1970 figures, mainly due to the higher share of the business surplus; and

(iii) as mentioned above, a better distribution of the wages and salaries between the expatriates and the Solomon Islanders.

11. The cost of goods and services have been inflating rapidly, the best guide to this being the retail price index for the local consumption pattern as shown in Table 4.

Table 4

Price index (retail price index) all groups, local consumption patterns

	1965	1970	1975	1976	1977	1978
Base 4th quarter 1970 = 100	81.9	100	151.2	156.5	178.6	

Source: Statistical Office, Ministry of Finance

As a consequence of this, the annual growth rate of the GNP in real terms during the last couple of years is well below the above stated 18 per cent. Moreover, the per capita income has practically remained constant from 1965 till 1975, showing an increase for 1976 but again relapsing in 1977 through the combined effect of inflation and population growth. The position is demonstrated in Table 5.

Table 5

GNP evaluation at 1970 adjusted prices

	US\$ 000	US\$ 000	1965	1970	1975	1976	1977	1978
GNP (all factor) at market prices			12,653	15,309	17,048	21,010	22,672	
GDP (all factor) at factor cost			22,939	26,387	30,404	35,119	36,217	
GDP (all factor) at market prices			24,256	28,555	32,673	27,675	39,245	
GDP per capita at factor cost			160	162	160	176	172	

Source: Statistical Office, Ministry of Finance

Character and structure of the economy

12. The computation of the GNP from the production side has unfortunately been discontinued as from 1973 onwards. The share of each industrial sector in the GNP and its evaluation herein can consequently only be roughly deduced from the industrial employment, production figures, export statistics, etc.

13. Dependence upon agriculture was and remains almost overwhelming as is apparent from Table 6.

Table 6

GNP by industrial sector at factor cost, current prices
Million \$SI

	1970		1971		1972		1973-1977	
	Mone- tary	Subsis- tence	Mone- tary	Subsis- tence	Mone- tary	Subsis- tence	Mone- tary	Subsis- tence
Agriculture and Fishery	2.5	13.2	2.4	14.3	2.10	15.3	n.a.	n.a.
Forestry & logging	0.9	-	1.4	-	2.2	-		
Mining, manufacturing and utilities	0.7	-	0.4	-	0.4	-		
Construction	1.6	-	1.4	-	1.2	-		
Commerce	1.2	-	2.0	-	2.4	-		
Transport	2.1	-	1.8	-	1.4	-		
Public Administration	1.1	-	1.0	-	1.0	-		
Social services	1.7	-	2.1	-	2.4	-		
Services N. E. S.	1.1	-	1.3	-	0.7	-		
Total	13.1	13.2	13.8	14.3	13.7	15.3	n.a.	n.a.
Gross total	26.3		28.1		29.0		n.a.	

Source: Annual Abstract of Statistics 1973, Statistical Division, Ministry of Finance

The broad pattern of agricultural activity is as follows:

- (1) a highly important, but still largely unmeasured level of activity in the production of basic foodstuffs, only a small proportion of which reaches the cash markets;

- (ii) a long established copra industry in which village production now out ranks plantations;
- (iii) a small cocoa industry with widely fluctuating yearly production;
- (iv) expanding activities in beef cattle at plantation and village levels; and
- (v) a number of crops, mainly spices, produced on a small scale, but important as a source of local money income;
- (vi) a very young palm oil industry; and
- (vii) a rice industry which, after a series of false starts, has come off the ground.

14. Within the primary production sector and next to agriculture, the Solomon Islands finds an important resource in their forests. Total log production has remained quasi constant throughout the decade but sawmilling and a veneer mill, both for local and export market, have gradually emerged during the last couple of years.

15. A successful expanding fishing industry has been put in operation since early 1970's. The importance of the fisheries resource will eventually increase even further in view of the introduction of the 200-mile economic zone and related government measures.

16. The Solomon Islands have substantial but as yet unworked mineral resources. Feasibility studies on the mining and processing of bauxite have been undertaken by the Japanese and Australian mining companies.

17. Next to a moderate range of service industries and several building contractor firms, the Solomon Islands have a limited manufacturing industry which includes boat

building, rattan and furniture making and the production of fibre glass goods, clothing and batteries. Newer are the manufactures of nails and soap. Handicrafts, the production of biscuits, bread, twisted and rubbed tobacco, soft drinks and frozen and fish can also be included in the manufacturing sector.

STRUCTURE OF THE MANUFACTURING AND PROCESSING SECTION

Branches of industries

18. For a better assessment of the role of the manufacturing and processing industries in the economy based predominantly on the processing of local raw materials a more detailed analysis of the primary sector is necessary.

Coconut and copra

19. Coconut and copra have been the mainstay of both the diet of the Solomon Islanders and of the country's exports. In 1965 copra exports worth S£ 4.4 million accounted still for 91 per cent of the total exports value. This figure declined to 27 per cent in 1977 but the revenue for that year was S£ 7.9 million. Such values of course vary widely from one year to the other in line with changes in price, output and shipping. Whereas plantation production is fairly steady from year to year, the smallholder sector is acutely price conscious and a drop in the copra price leads to an almost instantaneous drop in production. Yearly copra exports vary between 20,000 to 29,000 tons. Plantations produce a regular 10,000 to 11,000 tons. Copra is sold through the Copra Board. The possibility of establishing local oil extraction plants which would crush the entire national copra output or at least a substantial proportion thereof, is being examined. At present a small amount of oil is being crushed principally for use in soap making.

Cocoa

20. Cocoa production in 1977 was well over 150 tons, good for more than half a million S£ (2 per cent) export revenue. Production is steadily rising as foreign-owned plantations and smallholders are increasing their output now that research has shown the way to disease resistance.

Rice

21. In the Solomon Islands production is confined to the irrigation wet-rice variety. Production in 1977 totalled 2,500 tons polished rice, still below the target 3,000 tons. C. Brewer and Company Ltd of Hawaii has now 800 hectares of land under irrigation. Further development to achieve 2,000 hectares, with a total output of 15,000 tons milled rice, is planned, which would result in a state of self-sufficiency in this product and give a fair tonnage for export.

Palm oil

22. The commercial development of palm oil is pioneered by Solomon Islands Plantations Ltd. The company's first full year of operation in 1977 also marked the completion of the planning programme covering 3,335 hectares. Yields of mature area have been good with 31,967 tons of fruits producing 7,044 tons of oil and 1,435 tons of kernels, most of which was exported resulting in SLE 156,000 in export duties paid to the Solomon Islands Government and SLE 2,855,000 (or 10 per cent) foreign exchange earnings on palm oil only. Further expansion is planned.

Livestock

23. An important aspect of the agricultural diversification programme is the development of a beef cattle industry to enable the Solomon Islands to become self-sufficient and an exporter in beef. The national herd now stands above 25,000 herd variously distributed among plantations, mission farms, government stations and 800 smallholders. Moreover a meat-canning factory is being set up. Pig and poultry receive more attention with the discovery of the benefits of silage made from fish waste, part of the problem of providing low-cost protein food being solved.

Fisheries

24. Fishing, traditionally a subsistence occupation, has become a significant industry during the past few years. Canning was established in 1973 under a joint arrangement between the Government and Taiyo of Japan. The total skipjack catch in 1977 was just over 13,000 tons giving nearly 30 per cent of the country's earnings in foreign exchange.

Timber

25. Timber products figure prominently in the exports of the Solomon Islands. Of the total log production of 258,972 cubic metres in 1977, some 237,004 cubic metres valued at more than a quarter of the country's export revenue were exported. The timber footage produced in the last decade has been fairly static, for at the present rate of logging, timber resources (commercially exploitable) will last about 20 years. So the forestry policy is to replace natural forest timber with plantation trees over the period. Seventeen sawmills and one veneer mill operate throughout the islands.

Mining

26. Chief interest lies in the bauxite deposits. Feasibility studies have been carried out, although no decision has been reached on full scale operations. Reserves of bauxite on Waste Pennell have been estimated at 25.2 million tons and those on Vaghene Island at 28 million. Next to bauxite, the Solomon Islands have nickel deposits and phosphate reserves but as yet without immediate economic prospects.

Role of the manufacturing and processing sector in the economy

27. As the economy is based almost entirely on agriculture, the purely manufacturing sector limits itself to boat building, furniture-making, production

of fibre glass goods, clothing and batteries, and more recently the manufacture of nails and soap.

28. Almost all manufactured requirements and a wide range of processed foods are imported, as shown in Tables 7 and 8.

Table 7

Imports by SITC Major Commodity Groups (C.F. 000s)

SITC Commodity Group	1965	1970	1974	1975	1976	1977
0. Food	1414	2080	3537	3151	3468	4076
1. Drink & Tobacco	426	639	792	838	1003	1220
2. Crude Materials Inedible	56	41	111	106	130	180
3. Mineral Fuels, Lubricants, etc.	423	562	1615	2158	2700	3542
4. Animal & Vegetable Oils	26	32	198	260	215	277
5. Chemicals	376	711	1326	1744	1563	2048
6. Manufactured Goods	1365	1804	3502	5103	3830	4578
7. Machinery & Transport Equipment	1529	3079	3675	6468	6243	7002
8. Miscellaneous Manufactured Equipment	702	955	1417	1738	1718	2538
9. Other Transactions Commodities, nes.	179	119	193	205	198	292
GRAND TOTAL	6576	10020	16367	21771	21086	25753

Source: Statistical Office, Ministry of Finance

Table 8

Selected Imports

Tariff No.	Commodity	Unit of Quantity	1975		1976		1977	
				SI\$000		SI\$000		SI\$000
042	Rice	mt.	2893	770	3126	909	3215	981
046	Flour	mt.	2116	388	2172	418	2800	499
061.2	Refined Sugar	mt.	844	417	1042	334	1348	386
112.3	Beer	000 Litres	1071	253	1167	375	1329	423
121	Unmanufactured Tobacco	mt.	78	159	88	116	86	200
332.11	Motor Spirit	000 Litres	4141	335	4091	350	4715	477
332.3	Distillate Fuels	000 Litres	15103	1187	20062	1761	22742	2201
661.2	Cement	mt.	8146	255	4563	133	2765	102
717.3	Sewing Machines	No.	582	24	899	40	658	38
724.2	Radios	No.	3667	57	3949	70	2835	60
732.1	Passenger Motor Cars	No.	155	260	204	334	126	259

Source: Statistical Office, Ministry of Finance

Many of these goods or their substitutes such as, beef, pork, fish, rice, sugar, timber products, vegetable oils, soap, clothing, foot wear, etc., could be produced locally.

Table 9 will show this.

Table 9

Key categories of imports and exports
\$ 000

Imports					Exports				
Category	1972-74	'75	'76	'77	Category	1972-74	'75	'76	'77
Fish all kinds	649	159	13		Fish	8976	2459	7160	7895
Food, oils and fats	296	260	213		Copra	13650	4661	3634	7988
Rice	1600	770	903	981	Rice	23	-	-	-
Meat	1506	450	603		Meat	-	-	-	-
Sugar	936	484	406		Sugar	-	-	-	-
Fuel oils	3343	2158	2688		Fuel oils	-	-	-	-
Cement	346	253	133		Cement	-	-	-	-
Timber & timber products	510	214	288		Timber (logs)	10781	3064	6062	7725
Ships & boats	510	586	577		Ships & boats	20	-	-	-
Beer, exports tobacco	2141	870	1066		Tobacco (manufactured)	122	53	78	117
Footwear & clothing	1094	603	448		Footwear & clothing	-	-	-	-
All others	26760	14958	13804			3410	1585	3014	5889
Total	40297	21771	21088	25753		36992	11822	19948	29614

29. Main exports are shown in Tables 9 and 10.

Table 10

Major Exports in Value Terms S\$ '000s

	1965	1970	1974	1975	1976	1977	%
Fish (Fresh & Frozen)	-	-	2834	1271	5965	6375	2%
Fish (Canned)	-	-	767	1188	1105	1520	5%
Cocoa Beans	19	45	65	112	201	553	2%
Copra	4442	3633	9012	4661	3634	7988	27%
Timber (Logs)	196	2839	4267	3064	6052	7725	26%
Marine Shells	27	103	82	163	203	179	1%
Palm Oil	-	-	-	-	1160	2895	10%
Tobacco (Manufactured)	-	100	28	53	78	117	0
Others	155	388	1198	1310	1450	2263	7
Total	1,639	7115	18253	11822	19948	25614	100%

Source: Statistical Office, Ministry of Finance

30. The manufacturing sector extends itself to the processing industry which includes the manufacture of food items such as baking products, biscuits and soft drinks. But more emphasis is being given on the industries processing indigenous raw materials, such as, oil being used as an input for local soap manufacture; fish with the establishment of Solomon Taiyo Ltd, being processed into canned fish; and timber being used in many sawmills operating throughout the islands and in one veneer mill. The other examples are the polished white rice production by the Brewer Solomon Associates and the setting up of a beef-canning industry based on national livestock.

31. Except the Solomon Taiyo canning factory and various sawmills, all other manufacturing, processing and building contractors, commerce and services establishments are located in the only urban centre of the Solomon Islands, namely, Honiara, its capital.

32. Employment in the manufacturing sector accounts for about 8 per cent of the total labour force. It has steadily increased during the present decade, but processing industries currently set up and expanding, cannot be regarded as a major source of new direct employment. However, the employment created indirectly by the industry sector must be taken into account.

33. The production of capital goods is virtually non-existent. Only consumer and intermediate goods are produced by the local manufacturing and processing industries.

34. In both primary and secondary sectors, private non-Solomon Islands interests and control are important. Producer/consumer co-operatives counter-balance to a certain extent the foreign interests and form an acceptable mode of progress and development at local level.

35. Commercial investment may be direct or through joint ventures with the government or its agencies or with local business interests. Preference is given to joint ventures in projects of major economic significance, (for example, the Solomon Taiyo fish-canning factory) as also in large-scale development of natural resources such as mining, forestry, fisheries, agriculture and livestock.

COMPARISON OF PLANNED INDUSTRIAL DEVELOPMENT TARGETS
WITH RECENT PERFORMANCE

Targets and achievements

36. In its development plan (1975-1979), the Solomon Islands Government gives a precise description of the targets aimed at. Because of its heavy agriculture-oriented economy and its industrialization through the primary sector, a review of the targets and actual achievements of the over-all economy and primary sector with its related processing industries seems appropriate, as given below. Targets, production figures and development of the manufacturing sector are in fact nonexistent.

<u>Targets</u>	<u>Achievements</u>
(i) <u>General economy</u>	
- increasing monetary GNP in real terms by 20 per cent in 1980	32 per cent (1975-1977)
- reduction of population growth to 2 per cent by early 1980s	3.5 per cent per annum (1975-1978)
- creation of 3,500 wage earning jobs by 1979	2,600 (1974-1977)
- elimination of foreign current aid by 1980-81	UK current aid 1975 SIK 1,388,000 1977 SIK 1,811,000
- regular surplus in over-all trade balance in early 1980	trade balance 1975 SIK -9,949,000 1977 SIK +3,861,000
- introduction of national currency 1976	introduced 24 October 1977
- major government participation in commercial banking operations by 1978	3 overseas commercial banks 1977 1 government-owned development bank 1977
(ii) <u>Agriculture</u>	
<u>Copra-coconuts</u>	
- establishing local crushing and further processing of copra	small scap factory

- increasing production with 5,000 tons for export 1975-1979
- | | |
|-----------------|-------------|
| production 1975 | 28,051 tons |
| 1977 | 28,743 tons |

Rice

- Commercial production of 5,000 tons in 1976
 - Commercial production of 15,000 tons in 1979
- | | |
|--------------------------------|------------|
| polished white rice production | |
| 1976 | 1,350 tons |
| 1977 | 5,308 tons |

Spices

- Developing stable spice export industry 1976-1979
- Trials and research in operation with positive result as to the acceptability of produce to potential buyers

Palm oil

- completing Solomon Islands Plantation Ltd commercial planting of 3,250 hectares in 1976 and starting oil production
- | | |
|-------------------------|----------------|
| completion on schedule: | |
| 1976 | 3,215 hectares |
| 1977 | 3,335 hectares |
- oil production 7,044 metric tons for 1977

(iii) Livestock:

- To import yearly 2,000 cattle up to 1980
 - To establish cattle authority in 1976
 - To establish cannery in 1976
 - To establish meat export in 1977
- 1,500 head in 1975
 - further current development under DB scheme 2,000 head to be imported from Australia
- established in 1977
- in process of setting up by New Zealand in 1978
- no exports up till 1977 (latest figure available)

(iv) Forestry

- replanting of 5,000 hectares a year 1975/1979
- total of 11,360 hectares replanted upto 1977 (yearly figure not available)

- | | |
|--|---|
| - evaluation of possibilities of cattle grazing under forest crops | experiment in operation on Mulombangara Island |
| - 500-1,000 people employed on reforestation 1976/80 | only 1,020 persons employed in forestry sector, amount of which working for reforestation not available |
| - production of 400,000 cubic metres per year in 1979/1980 | 1977 log production of 258,972 m ³ |
| - 100,000 cubic metres locally processed by 1979/1980 | 1977 locally processed 20,698 m ³ |

(v) Fisheries

- | | |
|--|---|
| - 1975-76 Solomon Taiyo base at Hathorn Sound, Western District | 1976 second base of Solomon Taiyo operational |
| - 1976-77 selling up of locally owned skipjack fishing company | 1977 setting up of National Fisheries Development Ltd. |
| - 1976-1979 improving local fish catching, transport, marketing operations | 1977 formation of S.L. CO for marketing and sales and developing of infrastructure under A.D.E. project |

(vi) Mining

- | | |
|--|---|
| - 1976 decision on PAL/Mitsui bauxite proposal | no commercial exploitation of bauxite yet |
|--|---|

Discrepancies

37. The above-mentioned targets and achievements indicate a more or less successful compliance of the country's development with its plan. Set backs or short falls are mainly due to natural conditions such as weather changes, pests etc. and slow movement of the approved aid and development schemes from developed countries, as shown in Appendix A.

THE INSTITUTIONAL INFRASTRUCTURE FOR INDUSTRY

Structure of the planning process

38. Political institutions and practices broadly follow the Westminster pattern in the United Kingdom. The Cabinet is the topmost policymaking body of the government. It is presided over by the Prime Minister who is chosen by the National Parliament. He in turn chooses his ministers to form the Cabinet. The development plan 1975-1979 has been prepared jointly by the Central Planning Office operating under the office of the Prime Minister in collaboration with the Ministry of Finance and other Ministries of the Government, under the over-all direction of the Council of Ministers.

Financial institutions

39. There are three overseas commercial banks, namely, Australian and New Zealand Banking Group, Commonwealth Banking Corporation (Australia) and the Hong Kong and Shanghai Banking Corporation together with a network of savings bank agencies in rural areas.

40. Generally the local banks have lent for trade and current account purposes, leaving the financing of development to overseas sources and the Development Bank of the Solomon Islands (the former Agricultural and Industrial Loans Bank). The Development Bank of the Solomon Islands (DBSI) makes loans to a wide range of projects aiming particularly at increasing Solomon Islanders' participation in the cash economy and the development of rural areas.

41. A small business credit scheme has been operating since 1972, a programme of credit and advisory services of the Government with financial funding through the DBSI. A development finance company is being set up by the Government to channel large loans to major commercial projects.

Trade and marketing institutions

42. For internal marketing, Rural Trading and Marketing Centres (RTMCs) were set up in 1973. These aim at upgrading the local marketing structure by offering

improved quality and prices, regular transport and equalized buying prices for copra and other crops.

43. An established facet of the Solomon Island economy is the co-operative movement which was launched in 1956. The Central Co-operative Association is the main agent for the primary societies. The Association's Chief functions are to import the goods from overseas, distribute them to the country-wide network of local societies, organize inter-island shipping and market their produce. An organization known as S.I.A.C.O. handles since 1977 the wholesale and retail aspects of the local fish marketing.

Foreign Investment

44. The Commercial Investment Committee is co-ordinating the Government policy regarding commercial investment proposals. Furthermore business advice is given by the Business Development Division of the Ministry of Trade, Industry and Labour.

MAIN FEATURES OF INDUSTRIAL DEVELOPMENT OBJECTIVES AND STRATEGY

45. In formulating the Development Plan, 1975-1979, the Solomon Islands Government has been guided by following principles:

- (i) decentralization
- (ii) promotion of self-reliance
- (iii) distribution of development
- (iv) "localization" of employment and ownership
- (v) local participation
- (vi) cultural promotion and preservation
- (vii) regional co-operation
- (viii) law and order

Objectives

46. The Solomon Islands development plan places almost total emphasis on the development of agriculture at subsistence, plantation and communal farm levels, and on the development of other resource-based industries. Attention is being paid to needed changes in the law affecting commerce and industry and to the development of skills and the extension of local entrepreneurial activity. A low priority is accorded to the development of the manufacturing sector. Going more into details, following objectives are put forward by sector:

(i) **Agriculture**

- achieve self-sufficiency in key foodstuffs
- increase rural cash incomes
- improve efficiency of domestic food production

increase export earnings and government revenues

decentralize and localize employment

develop skills among Solomon Islanders

create linked activities throughout the economy

(ii) Livestock

replace all types of meat imports by local production

lay foundations for a future beef export trade

(iii) Forestry

conservation of the environment and resources of the Solomon Islands

increased employment, infrastructure and services in rural areas

increased export earnings and government revenues

(iv) Fisheries

conservation of the marine resources of the Solomon Islands

improved availability of fish protein throughout the country

increased employment

increased export earnings and government revenues

(v) Minerals

securing of very large government revenues to enable reliance on foreign

aid to be reduced and the levels of both consumption and investment to rise

large foreign exchange earnings

employment, infrastructure and services in relatively remote areas

(vi) Business and credit

expansion of business activity by Solomon Islanders as groups or individuals

expansion of all forms of business activity which perform well on the

government's development criteria

(vii) Foreign Investment

The government intends to attract and retain foreign commercial investment wherever this is necessary for the achievement of the over-all objectives. This is most likely to be the case where,

the project scores highly on the government's criteria for commercial activities,

large amounts of risk capital are necessary,

foreign technology and management are needed,

immediate and secure access to world markets is required.

The government's aim will always be to ensure that the net result of such investment is a significant advancement of the Solomon Islands people and economy towards the over-all objectives.

(viii) Marketing

The government aims to establish marketing systems which, give the highest sustained total income to the local economy, benefit local producers without unfairly exploiting consumers, distribute the available return fairly among producers, provide an adequate and regular flow of market-quality produce, are owned and operated by Solomon Islanders

(ix) Trade

increase participation and control by Solomon Islanders at all levels of trading activities

establish a broader and better-balanced pattern of imports and exports, with a generally favourable balance of visible trade

keep to a minimum the effect of overseas inflation on costs (particularly foodstuffs) by flexible and intelligent purchasing policies, and development of local production

Methods and strategies

47. In its attempts to realize the set objectives mentioned above, the Solomon Islands government makes use of, among others, the following methods:

improving the marketing and transport services

training and advice programmes

credit and finance schemes, loans and cash grants

feasibility studies, research and field trials

use of foreign capital; a mixture of grant aid, commercial investment
and loans

enactment of up-to-date legislation

introduction of tax incentives for localization of job and ownership,

decentralization, pricing policies and use of locally produced inputs

promotion and advertisement of objectives both locally and abroad

ANALYSIS OF THE MAIN CONSTRAINTS ON THE DEVELOPMENT OF INDUSTRY

Communication infrastructure

46. Land, sea and air transport as well as telecommunications (telegram, telex, postal services) are constantly on the Solomon Islands government's mind for improvement. Nearly one-third (SIS 15 million 1975-1977) of the government's expenditures (recurrent and capital) is spent to improve the economic infrastructure. New wharfs throughout the islands are under construction or are being completed. Government involvement in international shipping has been reduced where private shippers were prepared to establish reliable services. But the need for public sector-shipping still exists in a number of areas not attractive to private operators. Internal and international aviation is being expanded. The total mileage of roads is steadily increasing. Telephone, telex and telegraphs, which were poorly developed till recently, are being modernized and expanded.

Skilled manpower

49. A big proportion of the labour force consists of unskilled workers. The shortage of skilled Solomon Islanders for supervisory posts continues to present a problem and is overcome by employing expatriates.

50. A scheme of apprenticeship was started by building firms in Honiara in 1965, with government aid. This was replaced in 1970 by more formal training arrangements whereby apprenticeship training schemes are approved by an Apprenticeship Board and administered by a supervisor of apprentices. Most schemes include periods of block release for full-time attendance at the Honiara Technical Institute. The introduction of national trade testing arrangement is under consideration.

Size of the domestic market and fluctuation of the world market price for primary materials

51. Both elements are interrelated, for the Solomon Islands economy is very open: that is, the straight flows into and out of it are much larger than the internally-circulating flows from manufacturing, processing or other locally-added values. A fall in the value of exports immediately reduces the flow of cash to consumers, and incidentally the ordering of fresh imports. In some cases this very open structure exists because local manufacturing on a small scale for the restricted market with the majority of the population in the non-industry sector, would entail very much higher unit cost than can be obtained by large-scale factory production elsewhere. In some cases, however, the situation results mainly from inertia associated with the colonial producing/manufacturing structure.

Market access for resource based manufactured products

52. The current major exports of the Solomon Islands are still raw primary products. The share of the locally processed raw materials has increased during this decade, as noticed for the fish products and palm oil. Both products have found, a ready market in Japan and the European Common Market (E.E.C.).

53. The decision, however, to proceed with further local processing of raw materials on bigger scales, like coconut oil, for example, is complicated not only by the instability of world prices, but also by the more restricted markets for this product. The fact that the Solomon Islands falls in the category of the overseas countries and territories of the E.E.C., guarantees, however, to a certain extent, access to this market for locally manufactured goods.

REVIEW OF PROSPECTS AND POTENTIALS FOR INDUSTRIAL DEVELOPMENT

Processing of natural resources

54. In the Solomon Islands the potentials for industrialization lies on the development and processing of an impressively wide range of natural resources and agricultural products as opposed to the usual promotion of import substitution.

Benefits

55. The benefits of an industrial approach in which processing plays a strong if not a leading part appear to be well recognized by the Solomon Islands government. In the first place, processing draws upon indigenous raw materials which, in combination with the employment of local labour, results in high levels of value-added as compared with import substitute products having high import content. Secondly, by so drawing on local materials, it provides a stimulus for production by the primary sector - in forestry, fisheries and agriculture. Marketing outlets, cash earning opportunities and employment are thereby expanded. Thirdly, processing industries are important learning centres in industrial skills, services, management, marketing and the utilization of local raw materials in industry. Fourthly, processing units are generally in a better position than import substitutes to tap the wider outside markets and to achieve scale economies which, in turn, provide a strong basis for continuing growth. Finally, processing activity often provides scope for the development of new industrial products based on the utilization of wastes and by-products.

Promising fields

54. Commercial investment as such is being called upon by the Government of the Solomon Islands. The fields considered as having the best potentials for industrial development lie in the large-scale development of natural resources in the areas of mining, forestry and timber, fisheries, agriculture and livestock.

55. Manufacturing gets far less attention except of course the processing of local raw materials, but some fields indicated for development include the import of semi-manufactured items which can be assembled into finished products for domestic and export sales, local food processing and marketing and tourism and associated development.

56. Moreover, the government can stress local investment in such fields as general road transport, distribution of primary products, general retail and wholesale trading, service industries, small-scale fisheries and other activities.

Assistance

57. The forms of government assistance available are as follows:

assistance with site choice;

security of tenure and information for use in planning and design;

tax relief;

import duty concessions on capital goods;

infrastructure and communication facilities particularly for joint investment projects;

assistance with training, employment counselling and staff selection; and

help with obtaining inputs at lowest cost and contracts to purchase outputs, at competitive prices.

REVIEW OF THE PARTICIPATION OF THE PUBLIC SECTOR, DOMESTIC
PRIVATE SECTOR AND MULTINATIONALS IN INDUSTRIAL DEVELOPMENT

Public sector

58. While the Solomon Islands government aims to develop a mixed and dynamic economy with room for individuals and groups earning a reasonable profit as a reward for risk taking and work, it prefers to participate in joint ventures as a substantial partner in enterprises of strategic importance to the economy.

Private sector

59. Most of the developed private sector is owned and controlled by non-Solomon Islanders. While the whole of the developing private sector is owned by Solomon Islanders it is subject to considerable influence by the developed sector. The larger companies in the developed sector provide supplies, markets, and in many cases management services, to organizations in the developing sector. In return they exercise some control over the policies and prices of the locally-owned enterprise. This is actively encouraged by the government, for example, in the cattle and oil-palm industries; but in terms of the plan and objectives it has obvious dangers in the wholesale/retail trading sector until the developed part of this sector is substantially under local control. A sustained entry into the developed sector of local enterprise depends on supplies of commercial know-how and financial capital which so far have been hard to obtain in combination.

60. The Companies Register provides a partial picture of the level of commercial activity in the developed private sector, as is shown in Appendix 5.

REVIEW OF FOREIGN AID GOVERNMENT DEVELOPMENT EXPENDITURE
AND UNIDO/UNDP TECHNICAL ASSISTANCE PROJECT RELATED TO
INDUSTRY

51. Development aid as is shown in Table 11, in the years up to independence was financed mainly from British aid funds which, including budgetary aid, exceeded £ 20 million in the period 1970-74. British capital aid has been used in support of programmes of public works, including the provision of electricity and water supplies, road building and the improvement of housing, education and medical care, fisheries, forestry, cattle and coconut development and an intensive programme of malaria eradication. Technical co-operation includes the supply of British experts and advisers and making available training facilities for Solomon Islanders in the United Kingdom.

Table 11

Overseas Aid (Cash) (SI\$ 000)

(a) AID	1970	1971	1972	1973	1974	1975	1976	1977
U.K. Recurrent Aid	2315	1845	1849	1573	1545	1388	917	1841
U.K. Development Aid	2187	1903	4967	3574	3645	4601	7201	5395
Other Bilateral Aid	-	-	-	-	-	108	152	87
Multilateral Aid	3	4	13	4	2	10	87	84
TOTAL	4505	3752	6829	5151	5192	6107	8327	8377

(b) BORROWINGS	1970	1971	1972	1973	1974	1975	1976	1977
Domestic	-	-	-	-	-	-	-	-
Overseas	-	-	-	-	-	-	-	184
TOTAL	-	-	-	-	-	-	-	184

NOTE: The above aid figures only take account of cash grants - some aid is given directly in goods and services, the value of which is not available.

Source: Statistical Office, Ministry of Finance

62. Other aid donors include Australia, New Zealand and the Asian Development Bank as well as United Nations agencies such as the UN Development Programme and the Food and Agriculture Organization. Solomon Islands became a member of the Asian Development Bank in 1973.

Government development expenditure

63. Government expenditure in 1978 is expected to be about SI\$ 30 million, of which SI\$ 15 million is spent on recurrent (operating) costs, including the public service wages bills for national and local governments. The rest is earmarked for the development budget, comprising all types of projects and development activities, almost all paid for by grants or concessionary loans from overseas. No separate figure for industry is available.

Technical assistance

64. UNIDO has provided technical assistance to the Solomon Islands in the form of a feasibility study on the establishment of a small soap industry as shown in Table 12. A detailed review of other overseas development programmes upto mid-1975 is given in appendix B. Two programmes, in the fisheries and livestock sector, have an immediate impact on industrialization. The expansion of the fishing industry is being spurred by the formation of a new locally-owned skipjack fishing company, National Fisheries Development Limited. The government owns 75 per cent and Solomon Taiyo the remainder. The project has been funded through an Asian Development Bank loan with a technical aid, initially from New Zealand. The project provides for the building locally of 10 skipjack pole-and-line catcher boats and 20 bail-catching boats.

65. For the livestock sector, the Asian Development Bank made SI\$ 42 million loan to the government in 1977 so that the newly-formed Cattle Development Authority could acquire and operate the infrastructure necessary for an effective and efficient transport, processing and marketing operation. Three

countries are also supporting the project with aid: Britain is assisting smallholders and monitoring cattle diseases; Australia in providing cattle and qualified experienced personnel; and New Zealand is setting up a meat canning factory.

66. A small pasture research team, funded by Australian aid, provides "know-how" on management of grasses and legumes on which to base advice to farmers.

67. In view of the scattered nature of the country and small size of the domestic market it is pertinent to suggest that the development of a small-scale industries programme needs to be emphasized in which UNIDO and other organizations could assist. This will have the effect, among other things, of commercializing the subsistence sector and bringing it within the monetary sector.

Table 12
UNIDO assistance provided to
SOLOMON ISLANDS
from 1972 onwards as of mid January 1980

Project No.	Title	Total Expenditures
<u>COMPLETED PROJECTS:</u>		
IS/SOI/73/003	Feasibility study on the establishment of a small soap industry	US\$ 7,700**
<u>APPROVED AND OPERATIONAL PROJECTS:</u>		
-	-	-

** Based on computer printout UNIDO-KHM10A dated 18.10.1979 ('Expenditures from 1972 to September 1979')

Conclusions

68. The Solomon Islands have predominantly an agriculture-oriented economy. However, the dependency of the Islands on one cash crop (copra) has been importantly reduced through the diversification of the country's primary production during the last 10 to 15 years. The country's GNP (SIS 70 million in 1977) increased at an average 18 per cent per annum since 1975, but population growth (3.5 per cent per annum) and inflation, due to the extreme openness of the Solomon Islands economy, have kept the countries real growth and especially the income per capita in check. Too large a part of the economy is still in the non-monetary sector because of the subsistence-oriented way of life of the majority of the population.
69. The development and industrialization of the country is being sought through the diversification and expansion of the primary output combined with the promotion of the processing of local raw materials (copra, palm oil, livestock, fisheries and timber). The manufacturing sector is extremely limited and, in statistical terms, very poorly documented. The Solomon Islands development plan and current achievements have been fairly successful but set backs and shortfalls have occurred.
70. To attain the set objectives, the Government has created various institutional bodies which are being adapted and expanded to the changing necessities of the country's economic evolution. Private commercial investments are actively sought and sometimes obtained in areas of industrialization as mentioned in the development plan.
71. Although the dependence of the Islands on foreign aid and technical assistance will continue, yet there are good prospects that the Solomon Islands may be able to achieve a state of self-sufficiency in some economic areas in the not very distant future.

Appendix A

OVERSEAS AID PROGRAMMES

<u>Donor</u>	<u>Name of programme</u>	<u>Type of aid</u>	<u>Cash paid to S.I. govt.</u>	<u>Announced allocation and period</u>
<u>Bilateral aid</u>				
Britain	Recurrent grant-in-aid	Cash grant for budget deficit	Yes	1975 - \$1.6 million
	Development aid	Cash grants for projects approved by Britain	Yes	1975 - \$5.31 million 1976 - \$5.75 million
	Technical assistance	Expert manpower and consultancies	No	Country allocation not published. Estimated value in 1975 \$250,000
	O.S.A.S.	Salary supplementation, travel costs etc. for designated staff	No	Country allocation in cash not announced. About 300 posts in 1975 at estimated O.S.A.S. cost about \$4.5 million
	Training awards in Britain		No	Estimated value to Solomon Islands about \$100,000
	Voluntary Service Overseas and U.N. Association	Manpower aid	No	Value to Solomon Islands about \$15,000 a year
Australia	British Council	Cultural programmes	Yes	Value about \$20,000 a year
	South Pacific Aid Programme	Experts, training awards, equipment	No	\$0.5 million a year 1975-79
	Commonwealth Co-operation in Education	Experts and training awards in education	No	Country allocation not announced. Estimated value in 1975 \$75,000
	Commonwealth fellowships	University training	No	Country allocation not announced. Not used by Solomon Islands so far.
New Zealand	Bilateral aid to Asia and Pacific	Experts, equipment	No	1975 - \$200,000 1976 - \$250,000
	Mutual aid	Training awards	No	No country allocation. Estimated value to Solomon Islands \$20,000 a year.

<u>Donor</u>	<u>Name of programme</u>	<u>Type of aid</u>	<u>Cash paid to S.I. govt.</u>	<u>Announced allocation and period</u>
<u>Bilateral aid</u>				
New Zealand	Non-government aid (Leper Trust Fund, Rotary Clubs)	Training awards	Yes	Leper Trust Fund gives \$10,000 p.a. to government and \$90,000 to Churches. Rotary Club aid is for training awards, just getting going
	Volunteer Service Abroad	Manpower aid	No	Around 7 volunteers. Value to Solomon Islands about \$10,000 a year
USA Govt.	Peace Corps	Manpower	No	Around 20 volunteers. Value to Solomon Islands about \$10,000 a year.
<u>Multilateral aid</u>				
UNDP	UNDP Country Programme	Experts, training awards, and associated equipment	No	1975 - \$135,000 1976 - \$450,000 (approx) 1977-80 - \$600,000 a year
	Regional programme	Short-term experts, consultancies and regional training projects	No	No Country allocation. Estimated value to Solomon Islands \$50,000 a year.
ESCAP	UN Economic and Social Commission for Asia and Pacific	Consultancies and training awards at Asian institutions	No	No country allocation. Not used by Solomon Islands so far.
WHO	Country programme	Experts, training awards, equipment	NO	1975 - \$125,000 1976 - \$110,000 1977 - \$105,000
	Regional programme	Short-term experts and workshops	No	No country allocation. Estimated value to Solomon Islands \$20,000 a year.
UNICEF	Specific projects	Equipment usually associated with UNDP or WHO-financed experts and training	No	1975 - \$12,000 1976-80 - \$15,000 a year
UNFPA	Family health projects	Experts, equipment and training	No	1975 - \$60,000 1976 - \$40,000

<u>Honor</u>	<u>Name of Programme</u>	<u>Type of aid</u>	<u>Cash paid to S.I. govt.</u>	<u>Announced allocation and period</u>
Other UN	UNESCO, ILO, etc.	Experts, training and equipment	No	No country allocation. These organizations mainly operate through UNDP Country Programme.
South Pacific Commission	Various	Consultancies, training awards, research projects	Yes	No country allocation. Estimated value to Solomon Islands \$25,000 in 1975; could double in 1976
Commonwealth Secretariat and Foundation	Fund for technical Co-operation	Consultancies, study visits, training awards	Yes	No country allocation. Estimated value to Solomon Islands \$50,000 a year
Asian Devt Bank	Technical assistance	Feasibility studies and experts	No	No country allocation. Estimated value to Solomon Islands \$50,000 a year
Others	Various foundations etc.	Experts, training awards and equipment	No	Say \$25,000 a year from all other sources

SOURCE: NATIONAL DEVELOPMENT PLAN 1975-1979 VOLUME II

Appendix B

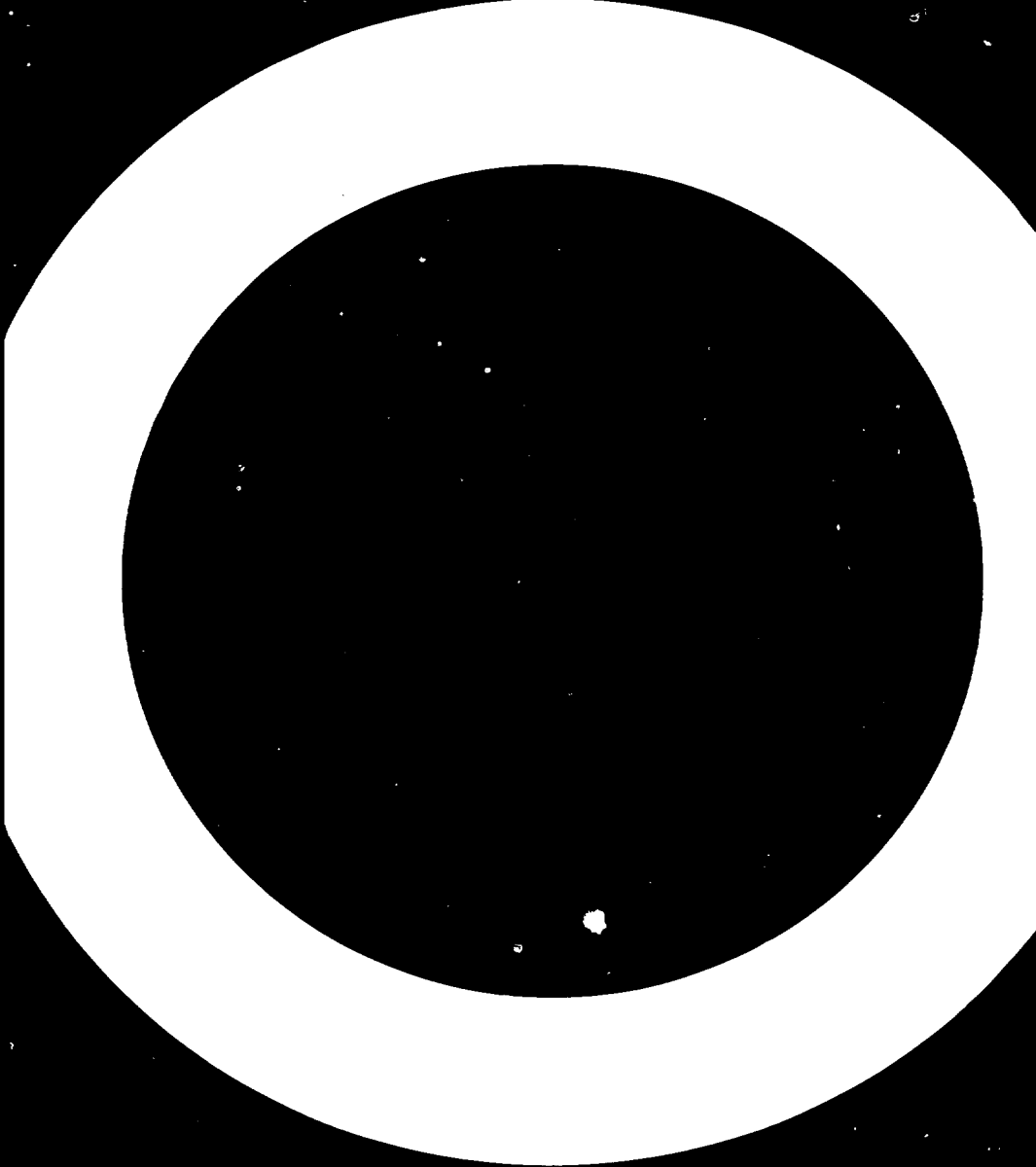
Companies Incorporated Locally

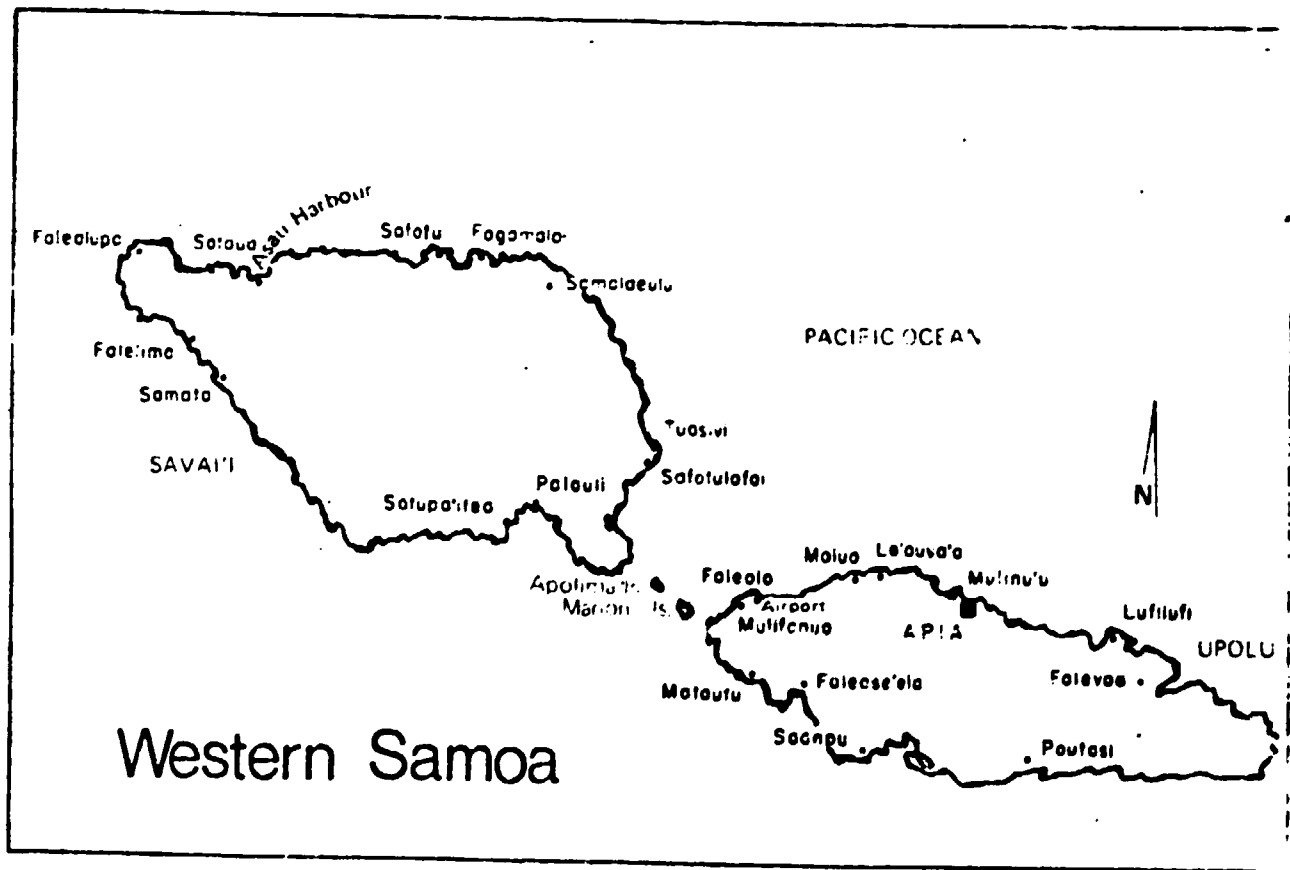
Year (31 December)	Private	Public	Total	Authorized Capital (\$000)	Paid Up Capital (\$000)
1970	87	1	88	11275	4190
1971	105	1	106	16839	7053
1972	145	2	147	19002	7496
1973	162	2	164	20657	8071
1974	177	2	179	22707	8457
1975	183	2	185	43119	8416
1976	187	2	189	43237	8452
1977	191	3	194	47305	15690

Source: Statistical Office, Ministry of Finance

CHAPTER IV

S/MOR.







GENERAL ECONOMIC BACKGROUND

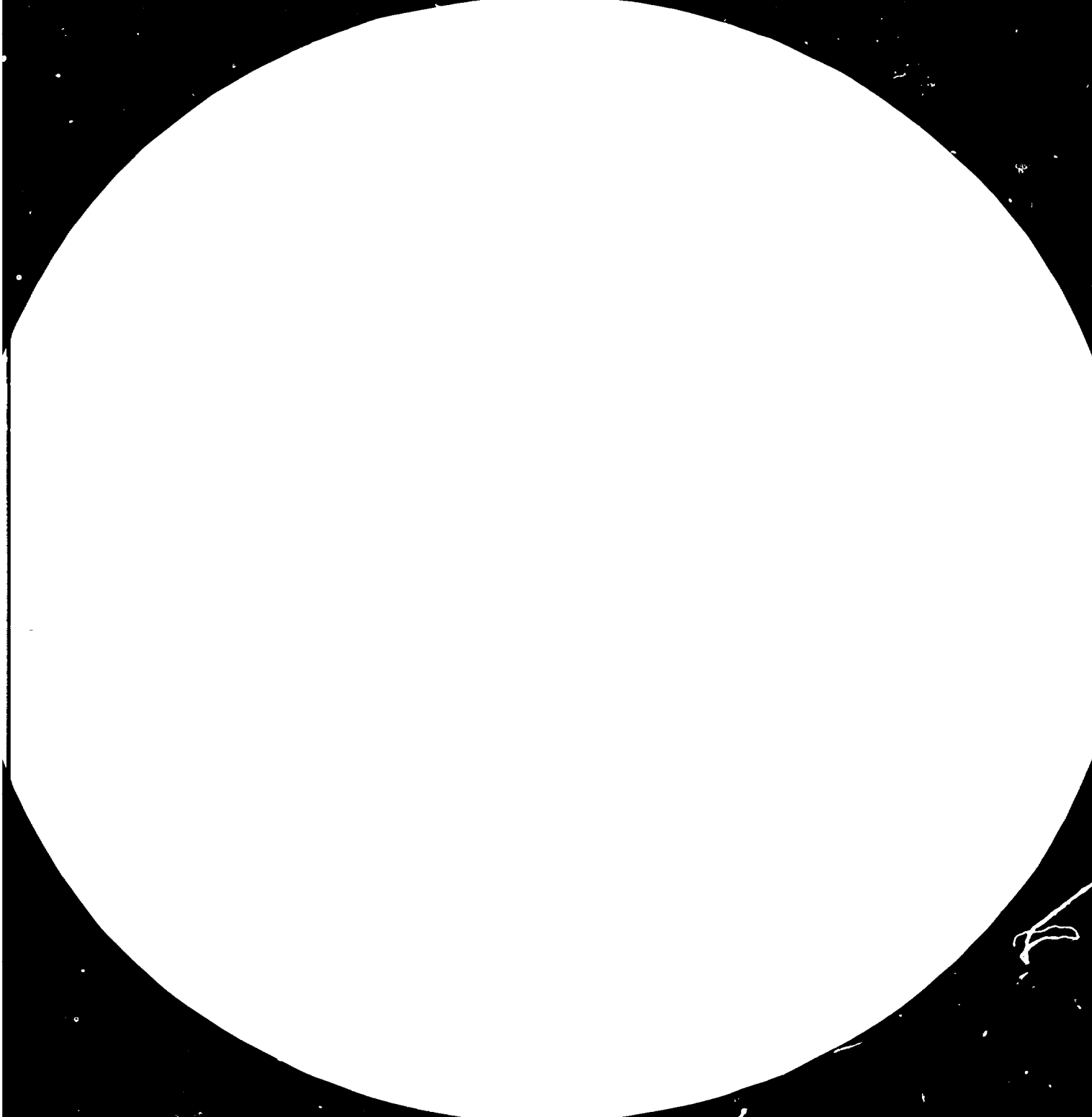
The economic background

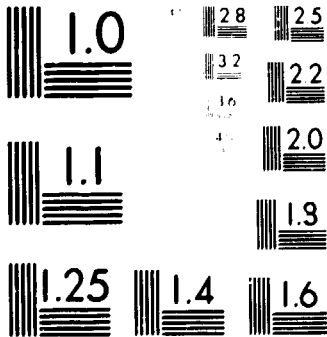
1. Samoa (previously known as Western Samoa) is an independent state and a member of the British Commonwealth. It consists of a group of two main islands, namely, Upolu and Savai'i and a few small islands, with a total land area of 2,831 km². The capital city is Apia in the island of Upolu. The country had a population of 154,000 in 1977 (preliminary) and had an estimated per capita income of US\$ 350 in 1976 when its population was 153,000. The rate of growth of population from 1971 to 1976 was estimated at 0.7 per cent. The outward migration of people, particularly to American Samoa and New Zealand has kept the population down.
2. The principal economic activity of the island country is village agriculture. Agriculture is the mainstay of the economy accounting for about 50 per cent of its GNP. It employs about two-thirds of the active population and produces almost all of the country's export. The major agricultural commodities are copra, cocoa, bananas, timber and taro - the main exports of the country.
3. The industrial sector of the country accounts for only 10 per cent of its GDP and 5 per cent of its employment. Tourism which is a major source of foreign exchange to the country has expanded substantially over the years. Statistical estimates of sectoral production published only for 1972 are given in Table 1.

Table 1

Estimated Value Added and Employment by Sector, 1971-72

	Value Added 1972 (WS\$ '000)	Employment 1971 ('000)
Agriculture, forestry and fisheries	14,950 (54)	25.4 (67)
Manufacturing, quarrying and construction	3,402 (12)	2.4 (7)





MICROCOPY RESOLUTION TEST CHART

NATIONAL BUREAU OF STANDARDS-1963-A

Wholesale and retail trade, restaurants and hotels	3,210 (12)	2.4 (6)
Transportation and communications	1,232 (4)	2.4 (7)
Services and government	4,972 (18)	6.3 (17)
Total	<u>27,756</u> (100)	<u>37.7</u> (100)

Note: Numbers in parentheses indicate percentage of total.

Source: The World Bank: Western Samoa Development Issues and Prospects (1970), p. 3.

Development planning

4. Samoa has five-year development plans since 1966. The plans had been prepared in terms of broad objectives and specific projects. The country has not yet national income accounts and no targeted growth rates were set in the places. The primary emphasis of development planning has been on the need to rehabilitate and diversify agriculture, to increase export volumes and to improve infrastructure. During the first and second five-year plan periods covering the years from 1966 to 1974, the expenditures were heavily weighted towards traditional infrastructure such as roads, airport and port development. The Third Five Year Development Plan, 1975-79, has emphasized rural development. Table 2 shows development expenditures by sectors during the three five-year development plans.

Table 2

Development Expenditure by Sectors (Percentages)

	First Plan 1966-70		Second Plan 1971-75		Third Plan 1975-79	
	Planned	Actual	Planned	Actual	Planned	Actual
Agriculture	61.8	22.9	20.7	21.9	28.3	n.a.
Industry and tourism	11.6	-	0.7	-	10.7	n.a.
Education and health	2.5	0.8	11.9	12.3	12.9	n.a.
Infrastructure	21.1	64.3	56.1	60.0	42.8	n.a.
Other	3.0	12.0	10.6	5.8	5.3	n.a.
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>n.a.</u>

/Notes:

Notes: Planned expenditures were expressed in constant prices, and information on actual expenditures exists only in current prices. Actual expenditure based on 1971-74 only.

Sources: 1. Department of Economic Development, Government of Western Samoa Third Five-Year Development Plan, 1975-1979 (1975)

2. The World Bank: Western Samoa Development Issues and Prospects, (1978), p. 20

5. The Third Five Year Plan for 1975-79 projected a total expenditure of WS\$ 49.4 million at 1974 prices, about 25% of which is to be financed from domestic resources. The Plan is much more ambitious than the previous two plans. The share of agriculture in the total expenditure was raised to 28%. The strategy of agricultural development in the Third Plan has involved an innovative approach. The major emphasis of agricultural development is on small holder production through village participation in the Village Development Programme (VDP) and on large-scale development through Western Samoan Trust Estates Corporation (WSTEC) and Forests Products Ltd. (SFPL). The strategy is also oriented towards rehabilitation and improvement of existing cultivation and towards the development of new areas mainly on Savai'i. About 50% of the planned expenditure in infrastructure is directed towards the benefit of the rural population through improved roads, increased water supply and electricity. The public sector has assumed an increased role in the economy. As the World Bank report (1978) on Western Samoa has emphasized, "to be operationally meaningful, such a plan will have to emphasize the project content, and its proposed financing pattern would need to include a broad strategy for raising the required domestic resources." The Plan has not fixed any targets for over-all and sectoral growth rates.

THE ROLE OF MANUFACTURING AND OTHER SECTORS IN THE ECONOMY

6. As in most other small island countries of the South Pacific, the industrial development of Samoa has been restricted by a limited domestic market, an isolated geographical position and high transportation costs. The industrial sector plays a minor role in the economy, accounting for only about 10% of GNP and about 5% of employment. Manufacturing consists mostly of food processing, consumer and light metal import-substituting industries, concrete products, paints and sundry building materials. Table 3 shows the employment position in Samoa by economic sectors for the period, 1966 to 1976.

Table 3

Employment by Sector, Western Samoa

Year	1966 (Census)		1971 (Census)		1976 (Census)	
	000 persons	Share of total	000 persons	Share of total	000 persons	Share of total
Agriculture	26.1	73.9	25.4	67.4	23.4	61.1
Village	(24.0)	(68.0)	(22.9)	(60.7)	(20.7)	(54.1)
Others	(2.1)	(5.9)	(2.6)	(6.7)	(2.7)	(7.0)
Manufacturing and construction	1.4	4.0	2.4	6.5	2.5	6.7
Commerce	1.8	5.1	2.6	7.0	2.7	7.1
Transport and communications	0.8	2.3	1.2	3.3	2.1	5.4
Services	5.2	14.7	6.1	15.8	7.3	19.2
Other	-	-	-	-	0.2	0.5
<u>Total</u>	<u>35.3</u>	<u>100.0</u>	<u>37.7</u>	<u>100.0</u>	<u>30.2</u>	<u>100.0</u>
Population	131.4		146.6		152.0	
Labor force	60.3		68.9		74.2	

Notes: Employment in agriculture may be underestimated due to the exclusion of most village women from the agricultural sector. "Others" under agriculture. Includes fishery, forestry and mining. Persons included, 15-64 years old.

Sources: Department of Economic Development, Government of Western Samoa: Third Five Year Development Plan, 1975-79 (1975) and Department of Statistics: Census of Population and Housing, 1976.

7. Employment in the agricultural sector of the economy accounts for about half of the total employment. Increases have taken place in employment in manufacturing, construction and services. The Third Five Year Plan envisaged a need to provide an additional 5,000 jobs during the plan period, half of these in manufacturing and construction. There is a need to create increased opportunities for employment particularly in the urban area of Apia which has shown rapid growth.

8. A number of manufacturing projects have been planned, including a coconut oil mill, a brewery, a tropical fruit freezing plant, renovation of the soap factory, a cassava meal plant and a baby food plant.

Import and export of manufactured goods

9. The total merchandise exports in 1977 and 1978, according to provisional estimates, were US\$ 12 million and 9 million respectively, while the corresponding imports were US\$ 34 million and US\$ 39 million, demonstrating the corresponding deficits on merchandise trade to the extent of US\$ 22 million and US\$ 30 million. The main exports of the island country are copra, cocoa, bananas and t. ro. Due to the country's dependence on only a few commodities for most export earnings, it has been extremely vulnerable to changes in world prices and the fluctuations in domestic production due to changes in weather conditions. Table 4 shows the merchandise exports of Samoa in value from 1966-78.

Table 5

Merchandise Exports, Western Samoa 1966-78
(WS\$'000)

	1966	1970	1972	1974	1976	1977	1978 estimates
Copra	1,613	1,366	1,379	4,658	1,804	4,871	3,370
Cocoa	1,209	1,036	896	1,872	2,229	6,043	2,600
Bananas	158	535	201	127	145	52	n.a.
Timber	-	-	331	375	64	201	n.a.
Taro	-	-	184	318	363	360	n.a.
Manufactured) and/or pro-) cessed goods)	286	479	395	193	526	501	3,230*
Other)				129	128		
<u>Total</u>	<u>3,295</u>	<u>3,417</u>	<u>3,386</u>	<u>4,001</u>	<u>5,349</u>	<u>12,028</u>	<u>9,200</u>

* All commodities other than copra and cocoa

Source: The World Bank: Western Samoa Development Issues and Prospects, 1978, p. 28.

10. The economy of Samoa is characterized by its heavy dependence on imports. Imports amounted to about 35-40 per cent of GNP. The structure of imports has remained relatively stable in recent years. Food imports, one-half of which consist of meat and cereals account for about one-third of total imports. The relative shares of machinery (including transport equipment) and manufactured goods were 20 per cent and 30 per cent respectively. Table 5 shows the composition of imports, 1966-'77.

Table 5
Composition of Imports (c.i.f.), 1966-77, Western Samoa
 (WS\$'000)

Category	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1977 provisional
Food, beverages and tobacco	2,782	2,221	2,239	2,457	2,875	3,238	4,199	4,836	6,130	7,956	10,509
of which: fish	241	316	330	330	360	456	430	559	978	751	700
meat	686	528	322	402	601	725	800	973	1,193	1,648	2,802
cereals	772	324	570	626	575	592	956	704	1,162	1,914	1,961
Raw materials	118	153	145	72	124	140	191	116	107	217	961
Fuels, lubricants, etc.	279	269	272	346	393	419	467	667	529	1,913	2,903
Chemicals	364	381	378	461	567	557	743	803	1,194	1,128	1,439
Machinery and transport equipment	582	731	651	1,402	2,489	1,834	3,302	3,253	2,696	3,160	7,446
Other manufactured goods	1,605	1,880	1,812	2,636	3,344	3,426	4,142	4,758	5,353	6,787	8,917
<u>Total imports</u>	<u>5,730</u>	<u>5,635</u>	<u>5,497</u>	<u>7,374</u>	<u>9,791</u>	<u>9,614</u>	<u>13,044</u>	<u>14,433</u>	<u>15,910</u>	<u>23,160</u>	<u>32,254</u>

Note: Figures for 1976 are not available

Source: The World Bank: Western Samoa, Development Issues and Prospects, 1978, as compiled in Table 3.3.

Sources of finance

11. The bulk of the domestic finance is obtained from current account surpluses and the National Provident Fund, the main source of non-bank borrowing from local sources. The budgetary surplus on the current account remained more or less static in the early 1970s but showed a significant improvement in 1977-78, arising from higher economic growth, better administration and enforcement of income taxes etc. and higher user charges for several services introduced in 1977. The sources of continued expansion of development fund have been the substantial increase in the use of foreign resources available in the form of mainly grants and soft-term loans which financed about 64 per cent of the development expenditures in 1978 compared to 47 per cent in 1973. During the Third Plan Period, 1975-79, domestic resources are likely to finance about 33 per cent of development expenditures as against 25 per cent as projected in the Plan. The dependence of the country on external financing has increased considerably over the years as shown in Table 6 which gives a summary of government finances, 1966-78.

Table 6

Summary of Government Finances, 1966-78, Western Samoa

	1966	1970	1973	1974	1975	1976	1977	1978 estimates
Current revenues	3,561	5,033	6,843	9,396	10,549	12,466	17,707	18,956
Current expenditure	3,220	4,022	5,835	6,815	8,776	10,610	13,005	14,040
Current surplus/ deficit (-)	341	1,021	1,008	2,851	1,773	1,856	4,702*	4,916
Capital and develop- ment expenditure	832	1,430	5,261	6,150	9,290	11,099	15,625	22,807
<u>Over-all surplus/ deficit (-)</u>	<u>-491</u>	<u>-409</u>	<u>-4,253</u>	<u>-3,577</u>	<u>-7,517</u>	<u>-9,243</u>	<u>-10,923</u>	<u>-17,891</u>
<u>Financing (net)</u>								
Domestic borrowing	341	-252	1,794	609	2,069	2,340	1,820	3,221
Foreign "	150	661	559	958	2,348	2,633	3,203	6,130
Project aid grants**	na	n.a.	1,900	1,970	3,100	4,270	5,900	8,560

* Including an unusually large cash grant of US\$ 2.3 million.

** Until 1973, no estimates of project aid grants are available. Capital and development expenditures up to this time are therefore somewhat understated.

Source: The World Bank: Western Samoa, Development Issues and Projects (1978), p. 23.

THE INSTITUTIONAL INFRASTRUCTURE FOR INDUSTRIAL DEVELOPMENT

12. The structure of institutional infrastructure for industrial development in Samoa consists mainly of the following:

- (i) The Department of Economic Development. This is the plan formulation body. The Department prepares the five year plans and brings out the reviews and the annual reports on their working. It is in charge of the country's development planning in general and particularly looks after its industrial development.
- (ii) The Departments in charge of the programmes for infrastructure like transport, communications, power and other facilities, namely, finance, technical manpower, etc.
- (iii) The Development Bank of Western Samoa, the commercial banks and the National Provident Fund are the main institutional sources of domestic finance.
- (iv) Public corporations, namely the West Samoa Trust Estates Corporation, the Samoa Forest Products Ltd., are other important institutions connected with industrial development.

13. There are other institutions working in several fields having bearing on Samoa's industrial development, such as technical training, researches, investment promotion etc. It appears that in Samoa, there is a felt need to strengthen the institutional infrastructure for industry.

MAIN FEATURES OF INDUSTRIAL DEVELOPMENT OBJECTIVES AND STRATEGY
- POLICY MEASURES AND IMPLEMENTATION

14. The Government has adopted a policy to stimulate industrial development by encouraging private enterprise through several statutory incentives and equity participation. It has provided infrastructures, such as, an industrial estate or park with a free trade zone, better harbour facilities and enlarged and more accessible air or ship cargo capacity. There are liberal rules to permit the repatriation of capital and transfer of profits, thus encouraging foreign investment. It has further been stated in the Third Five Year Plan, 1975-79 that "in general, the greatest encouragement in industrial development will be given to those proposals which are most likely to increase the value of locally produced commodities, like coconuts and fruits and fish, especially when they are processed for overseas markets; then there follow the small industries for import substitution and the free trade zone designed to contribute to the foreign exchange and employment objectives."¹ For these objectives general financial and credit encouragement including credit and equity participation from foreign firms will be given.
15. Continued diversification in industrial development is a declared objective of the Government's industrial policy. Behind these diversification efforts lies the government's objective to provide new employment opportunities through the development of new types of small industries and service activities. The Government also proposes to explore possibilities for establishing larger plants as joint ventures such as a copra processing plant, a brewery, a fish canning and other relatively large plants.
16. To stimulate private enterprise both domestic and foreign, the provisions of the Enterprises Incentives Act, 1965 will be applied. In the administration of the Act, it may prove desirable to grant automatic duty-free

¹ Department of Economic Development: Third Five Year Plan 1975-79, p. 13

import privileges for all equipment items intended for industrial use. The provisions of the Industrial Free Zone Act of 1974 will make it possible to offer the advantages of an industrial park in which sites, structures and services are made available and where there will be protected zone where imported materials can be received and processed for re-export without payment of duty or the incidental loss of time and efforts for formalities and red tape.

17. The new industries of Samoa have been concentrated in Apia, the capital of the island country. While such concentration is often justifiable on economic grounds such as the availability of external economies, it also brings about undesirable social and environmental problems. Hence the Government has been given some attention to the dispersal of industries through the establishment of an industrial estate and a free trade zone.

18. The Government of Samoa has laid down a plan implementation system through the preparation of progress reports, the convening of review meetings, and the introduction of new scheduling methods and progress reporting procedures.

ANALYSIS OF THE MAIN CONSTRAINTS AND FACTORS CONDUCTIVE TO THE DEVELOPMENT
OF INDUSTRY

A coherent and well-defined industrial development policy

19. As seen in Section IV, within the framework of a predominantly free enterprise economy, Samoa has a well-defined industrial policy. During the decade of the two five-year plans preceding the Third Plan, emphasis was placed on selected import substitution industries and the diversification of economic activity. The same policy has been continued during the Third Plan. As the Plan points out, "the question is how to channel the country's relatively scarce resources for diversification along the lines which will produce maximum benefits in employment, income, and the use of foreign exchange"¹. There is also an emphasis on the development of small-scale industries, as it should be in a small country. The roles to be played by Government, local investors and foreign investors in expanding industries and service activities have been broadly defined.

Financial resources

20. In Samoa investment capital is not considered to be the scarcest of resources for industrial development. Budget surpluses and domestic and foreign borrowings and investment make financial resources available for industrial development. Fiscal and financial incentives are also available to attract industry. A shortage of foreign exchange is, however, regarded as one main constraint.

Infrastructure

21. Infrastructures of different types, physical, economic, financial, psychological, educational and the like provide the underlying foundation of economic development including industrial development. The Government of Samoa is aware of these requirements.

1

Department of Economic Development, Government of Western Samoa;
Third Five Year Development Plan, page 194.

Transport

22. All forms of transport - road, air and sea - are essential for an island country like Samoa. The broad objectives of the three transport programmes for the Third Plan period are: (i) to further development of an adequate, efficient and reliable network of road, air and sea communications; and (ii) to stimulate diversified rural, agricultural and industrial development.

23. The existing road network in Samoa, over 570 kilometres in length, is below the modern standards and is not well maintained. The old roads need to be restored and upgraded, and new roads need to be constructed. The Public Works Department have initiated action in these directions and some improvements would surely come about at the end of the Third Plan period. However, for substantial improvements in the road network, Samoa will require large financial assistance from international agencies like the World Bank and the Asian Development Bank.

24. As regards air transport, the construction of the Faleolo airport was completed in 1972 with foreign exchange components covered by an Asian Development Bank soft loan. At present there are direct air connections to American Samoa, Fiji, Tonga, Niue and Nauru provided by the Polynesian Airlines. Further, Air Nauru and Air Pacific offer services to and from Faleolo to other points in the region. Air Samoa and Samoa Aviation provide internal transport services between Upolu and Savai'i, daily. Air transport seems satisfactory and the long-term policy of the Government is to work towards the establishment of a single regional airline.

25. As regards sea communication which is very important for both inter-island and international transport, the present conditions are not very satisfactory and a lot remains to be done in this area. Samoa's international port for general cargo and passengers, built in 1965 is located at Matautu-tai on the eastern side of Apia. The improvement of sea transport lies in the

increase of support facilities at the port of Apia, the provision of adequate maintenance and repair facilities for government and commercial vessels, making appropriate arrangements to deal with unfavourable weather conditions, relocation of the present harbour and the installation of a new international port facility at Vaiusu. The Marine Department is aware of these problems and has proposed to take action in some of these directions.

Energy

26. The Electric Power Corporation is entirely responsible for the generation and distribution of electric power in Samoa. An installed capacity of 6.65 megawatts would be augmented to 10.48 megawatts during the Third Plan period with a loan from the Asian Development Bank. The additional capacity will meet the nation's need until the mid-1980's. The current building programme is mainly based on thermal generation facilities located in the Apia area, Salelologa and Asau. There is also a proposal for the construction of 1,000 kw hydroelectric plant at Magiagi at a total cost \$450,000. So the prospects for the availability of power are bright.

Education and training

27. Samoa has a very high rate of literacy estimated to be as high as 95 per cent. There is a well-developed system of general education at primary, high school and college levels. Apart from this there are specialized Government training institutions including a technical college where a 2-year course is given in trades training. The Government emphasizes both types of education (i) formal schooling leading to the formation of general skills and knowledge necessary to become useful and productive citizens; and (ii) specialized training at home and abroad so as to gradually increase the nation's reservoir of technicians, managers and professionals. There is,

however, a lack of resources for particularly specialized training. Undoubtedly, in Samoa there is an urgent need for the creation of more training facilities in vocations like engineering, building and other trades important for its economic development.

Entrepreneurs, qualified managers and skilled personnel

28. The role of entrepreneurs as a class of people who initiate industrial development by seeking out opportunities and by taking the risks of setting up new ventures is well-known in a free enterprise economy. In a small country like Samoa, it is the small-scale industrial enterprises which have good prospects for further development. In view of the dearth of the local entrepreneurs who could set up small-scale industrial enterprises in Samoa, there is a real need to initiate an entrepreneurship development programme by the appropriate industrial development and promotion body.

29. Further, as the Third Plan has pointed out, the resource that the country must husband most carefully during the period of the Plan and thereafter is managerial and technical talent at the upper and middle levels. At the moment a deficiency in the supply of managerial and technical skill is a constraint on industrial development. There is, therefore, a need for introducing programmes for the training of managers and technicians both within and outside the country. At present the country is dependent on foreign investors for experienced and top level managers. In Samoa there is a sizeable pool of trainable and literate workers ready to accept employment at moderate wages. Middle-level managers and technicians, however, can be made available locally within a reasonable period of time, provided that appropriate arrangements for training them are made.

Growth rates of sectors i.e. agriculture

30. The main objective of the Third Five Year Plan for Samoa is to improve the welfare of the people through the increased production of goods and services, ultimately reflected in the growth of per capita income. The focus is on economic growth. However, due to a lack of available data no rate of economic growth was specified. There is a growth potential in manufacturing, and some new large projects are likely to reach full production at the end of the Plan period. Two other potential growth sectors are tourism and construction, although they are relatively small sectors. Agriculture, however, remains the keystone of Samoa's economy. The Plan has recognized this by giving priority to agriculture and various proposals for agricultural development have been made.

31. The principal elements in the strategy for agricultural development have been (i) the encouragement of large scale development through the expansion of the activities of Western Samoa Trust Estates Corporation (WSTEC); (ii) the upgrading and expanding of agriculture on village lands by way of implementation by villages of a wide range of agricultural projects, construction of village access roads and improvement of the agricultural extension services; (iii) the continued successful operation of Samoan Forest Products Ltd (SFPL); (iv) the development of village agriculture by upgrading small-scale production of tree and root crops and improving village fishing and cattle breeding; (v) the supply of credit; and (vi) the creation of marketing and research facilities.

32. While efforts are being made to secure agricultural development in several ways, the Third Plan is not comprehensive and integrated and no growth rate for the agricultural sector has been specified in the Plan.

Excessive industrial concentration

33. Geographically, most manufacturing industries are concentrated in the Apia area and some efforts are being made to encourage dispersal of industrial activities, as pointed out earlier.

Size of productive units

34. No published information has been available on the size of the manufacturing establishments in Samoa. The size of the domestic market in a country inhabited by some 152,000 people is necessarily small. A limited domestic market has restricted industrial growth. However, opportunities for the development of small scale industries may open up in the rural areas as agricultural and rural development progresses.

REVIEW OF PROSPECTS AND POTENTIAL FOR INDUSTRIAL DEVELOPMENT

Raw material endowment

35. The existing raw material endowments of Samoa consist mainly of cocoa, copra, bananas, logs and sawn timber. Agricultural, forest and fisheries resources can be increased substantially in the future years. In agriculture, virtual self-sufficiency may be achieved in the production of meat, milk, eggs, fish; substantial increases can be achieved in the output of cocoa and coconut products and moderate gains in the output of variety of other crops for processing and/or export.

Import substitution potential

36. Some import substitution industries such as soap manufacture have become firmly established. Some agricultural raw materials have been processed for export, such as coconut cream. Imported textile materials have been processed for re-export. The country produces soft drinks, and icecream, makes its concrete blocks, saws its own timber and processes native materials into handicrafts for export through the tourist trade.

37. The Government has attached importance to a strategy of economic diversification through the development of new industries. Samoa has unemployment and underemployment, though these are not yet quantifiable. The country needs new industries and service activities which can employ intelligent and literate but unskilled workers and where their productivity can increase overtime and where their technical and managerial skills can be duly upgraded. Such industries may be import substitution industries in the form of processing materials whose production could be expanded locally or perhaps in the form processing raw materials for re-export which usually takes place in a free trade zone. New enterprises must be those

which can be economically conducted in modest scale plants geared to Sanca's relatively small internal consumption potential, its relatively modest volumes of primary production, and relatively small labour force.

38. Further, the relatively small enterprises which have been developed by local entrepreneurs will receive continued encouragement. In addition some larger plants are being encouraged for establishment as joint ventures - a copra processing plant, a brewery, a fruit cannery and a few others.

39. There are, in addition, a few prospective industrial projects: (i) some are food processing and (ii) some are import substitution, but these require further analysis. Under (i) come processed tropical fruits products and fruits canning, the processing of coconuts and cocoa into intermediate products. Tropical fruits including guava, passion fruit, papaya, mango and pineapple can be produced in larger quantities. The manufacture of coconut shells into charcoal, the setting up of a coconut oil mill, the proposal for the production of carrageenans from sea weed (eucheuma) used in dairy products, baby food etc. are other examples. A fish processing plant for both import substitution and exports is another appropriate example. Along with these goes the need for the creation of storage as well as research and development facilities.

40. Among other import substitution industrial activities, are the renovation of the soap factory, the establishment of a brewery, a cassava meal plant and the production of baby weaning food, as already mentioned.

41. The development of these projects will be aided by the facilities provided under the Enterprises Incentives Act of 1966 and the Industrial Free Zone Act of 1974. What is important in this respect is the preparation of feasibility studies of some of these projects for which technical assistance from specialized international agencies or bodies are necessary.

Linkage potentials within the manufacturing sector and other sectors i.e. agriculture and construction

42. There are perhaps some linkage potentials within the manufacturing sector between the existing industries and the small scale industries. In this context the small scale engineering industrial enterprises may have a promising future. These may produce spare parts and components for the existing industries. However, intersectoral linkage potentials appear to be more important. There are further linkage potentials of industrial development with agriculture, construction, transport, services, etc. The main strategy of development in Samoa will remain the agricultural development. Industries supplying inputs to agriculture have good potentials because agricultural production must be increased and, as the emphasis must be on intensive cultivation, industrial activities supplying agricultural inputs including fertilizer, pesticides, irrigation, seeds, credit facilities etc. must be on the increase. Agricultural inputs including agricultural implements such as pumps and pipes for irrigation, tools, tillers, sprayers, ploughs, burrows, simple hand tools, non-motorized transport equipment, machinery repairing services etc. are expanding areas for industrial opportunities.

43. While there are potentials of interrelationships between the sub-sectors of the industrial sector, the linkage potentials between agriculture and industry are considerable and should be strengthened. To demonstrate this, agricultural inputs supplies by industry and industrial materials by agriculture need to be identified and shown in an input-output table. Approximate intersectoral purchases should also be quantified. The extent to which they are locally produced and imported can be shown. Again construction inputs like cement, etc. are supplied by industry and construction work of different types offer a demand for all types of industrial goods.

Location of country in relation to markets in industrialized countries

44. Samoa has an isolated geographic location in relation to markets in industrialized countries and this fact restricts its industrial growth based on imported raw materials and external markets. American Samoa is nearest to it, about 150 kilometres away. Samoa's trade is mainly with the two developed countries of the South Pacific, namely, Australia and New Zealand which are also far away. In 1976-77, the exports of Samoa to Australia amounted to only \$A 142,000, whereas its imports of Australian produce came to \$A 3,737,000; in the same period, Samoa's exports to New Zealand amounted to \$NZ 3,514,000 whereas its imports from the country amounted to \$NZ 8,745,000. Samoa's sea transport, both inter-island and international, needs to be particularly improved.

Industrial climate and living conditions to attract foreign investment

45. Samoa has a free enterprise economy. The functions of the Government are restricted to creating infrastructures of various types and facilitating the working of private enterprise, both domestic and foreign. The Enterprises Incentives Act, 1965 and the Industrial Free Zone Act of 1974 already mentioned encourage free enterprise and foreign investment. The important conditions that constitute the industrial climate and the living conditions prevailing in Samoa are both conducive to foreign investment in industrial development, as in most other island countries of the Pacific region.

REGIONAL, SUB-REGIONAL AND BILATERAL CO-OPERATION AGREEMENTS
RELATED TO INDUSTRIAL DEVELOPMENT

46. Samoa is a member country of the United Nations Economic and Social Commission for Asia and the Pacific and, as such, it participates in the meetings, seminars and other activities organized under the auspices of the Commission. It obtains technical assistance from the United Nations in the form of advisory services at the request of its government in specific fields.

The country is a member of the South Pacific Commission and the South Pacific Bureau for Economic Co-operation and it benefits generally from the activities of these two organizations as well. In addition, the country has bilateral relations with a number of countries. Its trade with New Zealand and Australia - the two developed countries in the South Pacific - is substantial.

47. The deficits in Samoa's balance of payments have been primarily financed through official projects grants and soft loans. Project grants have been traditionally obtained from Australia and New Zealand and the main sources of loan finance are the Asian Development Bank, the International Development Association, New Zealand and the United Kingdom. It has also received interest free loans from the Organization of the Petroleum Exporting Countries (OPEC). It is not possible to ascertain how much of these resources was devoted directly to industrial development.

ANALYSIS OF THE PARTICIPATION OF THE PUBLIC SECTOR, DOMESTIC
PRIVATE SECTOR AND MULTINATIONALS IN INDUSTRIAL DEVELOPMENT

Ownership pattern

48. In Samoa, the small manufacturing sector employing over 1,000 persons rests with private enterprise. As of January 1976 there were 39 firms approved under the Enterprises Incentives Act, 31 of which were in operation, employing about 1,200 people, and 7 industrial projects were under construction. During 1976, a dozen more enterprises were registered. The role of the public sector has been restricted, as is usual in a private enterprise economy to the creation of infrastructural facilities aiding agricultural and industrial development. In agriculture and forestry, however, large scale development efforts have been made through the establishment of two public corporations, namely, West Samoa Trust Estates Corporation (WSTEC) and Samoa Forest Products Ltd. (SFPL). For the development of manufacturing industries, reliance has been placed mainly on private enterprise both domestic and foreign and some incentive measures adopted to encourage it. The Government also participates in some projects. Trade activities are mainly in the hands of a few multinationals on which more information need to be collected.

Major industrial investment projects budgeted or contemplated for the near future

49. In this connexion, it is appropriate to give an estimated summary of the Third Plan (1975-79) expenditures for industrial development by major programmes and projects. Table 7 shows the summary.

Table 7

Summary of Third Plan (1975-79) Expenditure for
Industrial Development
(\$000)

	<u>Programme</u>	<u>Total</u>	<u>Foreign Exchange</u>	<u>Domestic</u>
1.	<u>Food Processing Industries</u>	<u>1,313</u>	<u>1,051</u>	<u>332</u>
	(a) Tropical Fruit Freezing Plant (Phase I)	125	50	75
	(b) Coconut Cream Plant	90	35	55
	(c) Coconut Oil Mill	1,138	936	202
	(1) Planning	(35)	(30)	(5)
	(2) Construction	(1,103)	(906)	(197)
	(d) Refrigerated Units	30	30	
2.	<u>Import Substitution Industries</u>	<u>762</u>	<u>102</u>	<u>660</u>
	(a) Soap Factory	75	75	
	(b) Brewery	596*		596
	(c) Cassava Meal (Phase I)	5	7	4
	(d) Baby Food	30	20	20
3.	<u>Industrial Free Zone and Estate</u>	<u>650</u>	<u>360</u>	<u>290</u>
4.	<u>Feasibility and Engineering Studies</u>	<u>175</u>	<u>175</u>	-
5.	<u>Industrial Financing**</u>	<u>1,250</u>	<u>936</u>	<u>312</u>
	Total	4,220	2,626	1,594

* Estimated participation by the Government

** Loan and/or capital shares to the Development Bank.

Source: Department of Economic Development, Government of Western Samoa: Third Five Year Development Plan 1975-1979, p. 217

It has, however, not been possible to ascertain how far these projects have been implemented or are in the process of implementation to date.

50. Annual Development Plan 1978¹ mentioned the progress in regard to a number of projects concerning industrial development. These are:

- (i) In 1977, the construction of the brewery started at the Industrial Estate at Vaitele. The completed brewery will employ about 150 people.
- (ii) In 1978, the national animal feed mill, the coconut oil mill, a match factory, a cigarette factory and a metal furniture factory were to be set up at Vaitele with a total employment of more 160 people.
- (iii) In food processing, there was an expansion in 1977 and larger quantities of food products were to be produced in 1978.
- (iv) Incentives were granted by the Government and financial assistance given by the Development Bank of Samoa, during 1977, to a number of new enterprises as follows:
 - one animal skin processing firm
 - one cigarette factory
 - a match factory
 - a plant to produce wind-powered generators
 - two paper products firms
 - solar-heating panels plant
 - an ice factory
 - a meat products business
 - a metal furniture producing firm

¹ Department of Economic Development, Government of Western Samoa: Annual Development Plan, February 1978, pp. 30-31.

REVIEW OF TECHNICAL ASSISTENCE PROJECTS RECENTLY COMPLETED OR
IN PROGRESS IN RELATION TO INDUSTRIAL DEVELOPMENT OBJECTIVES

51. Samoa is officially classified by the United Nations as a least developed country. The production base of this island developing country is predominately agricultural, with industrial development in its infancy.

UNDP programme for assistance

52. The Second Country Programme for Samoa covers the period from 1978 to 1982. This cuts across the periods of the Third 5-Year Development Plan (1975-1979) and of the Planned Fourth 5-Year Development covering the period from 1980 to 1984. The programme, however, coincides very closely with the initiation of the Village Development Programme which actually has been implemented since mid-1977. Table 8 shows the total resources from 1978 to 1982.

Table 8

The Second Country Programme for Samoa
(US\$ 000)

	<u>Total</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
1. Total UNDP Resources Allocated (including LDC funds)	5,712	1,406	1,430	1,030	846	1,000
2. Provision for adequate programme	400	-	200	200	-	-
3. Total resources available for programme (1+2)	5,112	1,406	1,630	1,230	846	1,000

Source: UNDP Country Programme for Samoa, 1978, p. 2

5). In the first place, the programme has emphasized immediately productive and direct support assistance. Overseas training provisions in the field of agricultural projects and on-the-job in-country training has been greatly emphasized in conformity to Samoa's development policy. Secondly, the programme has been developed to concentrate on Savai'i and in the Village Development Programme. The wood-fuel electricity generation project on Savai'i is the main project there. Table 9 gives a financial summary of the programme.

Table 9

Financial Summary of the UNDP Country Programme
for Samoa, 1978-1992

I.	<u>Resources taken into account for programming</u>	
1.	Resources available:	
	(a) IPF resources available for programming	\$5,557,000
	(b) Balance of Allocation from the Special Measures Fund for Least Developed Countries	\$ 155,000
2.	Provision for adequate programming	<u>\$ 400,000</u>
	Total resources taken into account for programming	<u>\$6,112,000</u>
II.	<u>Use of Resources</u>	
1.	Programmed:	
	(a) On-going projects	\$4,607,000
	(b) New projects included in the Country Programme	<u>\$1,470,000</u>
	Total	\$5,477,000
2.	Reserve	<u>\$ 635,000</u>
	Total Resources Programmed	<u>\$6,112,000</u>

Source: UNDP Country Programme for Samoa, 1978, Annex I, p. 1

54. Table 10 gives the annual financial distribution of the programme by sector.

Table 10
Annual Financial Distribution of the Programme by Sector
(US\$ '000)

Sector	1978	1979	1980	1981	1982	Total
A. Planning and Co-ordination	114	247	183	-	-	544
B. Agriculture, Forestry & Fisheries	867	1,082	840	439	138	3,366
C. Village Life & Rural Production	201	387	190	182	286	1,246
D. Other Infrastructure and Management Support	124	154	43	-	-	321
E. Reserve	100	(240)	(26)	225	576	635
Grand Total	1,406	1,630	1,230	846	1,000	5,112

Source: UNDP Country Programme for Samoa, 1978, Annex I, page 2.

55. Some of these projects have significance for industrial development such as the generation of power. Moreover, from the point of view of creation of employment opportunities, the development of small scale industries such as manufacturing farm tools and equipment and agro-based processing has been emphasized. The development of rural industries has also been emphasized.

Assistance from other organizations

56. Many other organizations of the UN system also have provided and provide assistance to Samoa in its various projects in their respective areas. These organizations are FAO, ILO, UNFPA, WFP, WHO, ADB, IBRD/IDA and IFAD. In addition, Samoa gets aid from other organization like OPEC and

EEC and countries like Australia, New Zealand and UK. A few of the projects to which assistance has been given by some of these organizations are in fact industrial projects. For instance, ILO has given assistance to boat building and ADB to establishing copra crushing mill for coconut oil and copra meal pellets.

POTENTIAL AREAS OF UNIDO CO-OPERATION WITH SAMOA

57. UNIDO conducted in the early 1970s an industrial survey of Samoa^{1/}. The survey contained an analysis of existing industry and an outline for industrial opportunities in Samoa. As shown in Table 11 UNIDO has provided assistance to Samoa in various other fields. Substantive assistance has been given to the development of the match industry. Assistance has also been given in the field of industrial free zone preparation; paper conversion; food processing; solar salt production; incentives measures for industrial development; and an industrial development diagnosis. Further training courses were held in free zone management development as well as in development banking, and a study tour was arranged in fashion industries. The list of approved and operational projects include the following three projects: Feasibility study on establishment of corned beef cannery; feasibility study on manufacture of starch from taro; and study tour for marketing of match products.

58. The Third Five Year Plan (1975-79) is coming to an end. It is expected that in the Fourth Plan, the development of the industrial sector, which is at present very small, will play an important role. UNIDO could establish an effective liaison with the Economic Development Department of the Government and assist it in identifying a number of well-conceived projects or areas and having them incorporated in the proposed Fourth Plan (1980-1984) and in the UNDP country programme. Further, there is a case for a small-scale industrial development programme in Samoa and UNIDO may give assistance to the Government in this respect. UNIDO may also render sectoral assistance in the development of certain key branches of industries. An

^{1/} A Survey of Industry and Its Potential in Western Samoa (UNIDO/IPPD.114) 1973.

Table 11
 UNIDO assistance provided to
SAMOA
 (formerly Western Samoa)
 from 1972 onwards

Project No.	Title	Total Expenditures
COMPLETED PROJECTS:		
DP/WES/71/003	Industrial Survey	US\$ 18,263**
DP/WES/73/010	Industrial free zone preparation	US\$ 3,295**
IS/WES/75/003	Feasibility study for the erection of a match factory	US\$ 3,800**
RP/WES/74/001	Paper conversion	US\$ 2,350**
RP/WES/74/002	Food processing	US\$ 3,351**
RP/WES/75/001	In-plant training courses on industrial free zone development and management	US\$ 2,448**
RP/WES/77/001	Fourth general course on development banking	US\$ 4,509**
DP/SAM/79/003	Assistance to the match industry (total allotment: US\$36,000*)	US\$ 24,801*
RP/SAM/79/001	Assistance to the match industry (total allotment: US\$52,300*)	US\$ 26,011*
RP/SAM/76/002	Study tour - fashion industries (total allotment: US\$18,500*)	US\$ 8,261*
SI/SAM/76/806	Establishment of a match factory	US\$ 19,224*
SI/SAM/77/801	Assistance to the establishment and initial operation of a match factory (total allotment: US\$92,330*)	US\$ 88,175*
SI/SAM/77/802	Development of solar salt production	US\$ 10,301*)
SI/SAM/78/801	Incentive measures for industrial development	US\$ 13,738*
SI/SAM/79/801	Industrial development diagnosis (total allotment: US\$15,400*)	US\$ 9,390*
UF/SAM/78/169	Assistance to the match factory	US\$ 50,293*
UF/SAM/78/176	Food processing development (total allotment: US\$34,305*)	US\$ 31,227*
		<u>US\$ 319,436</u>
APPROVED AND OPERATIONAL PROJECTS:		
RP/SAM/79/003	Study tour for marketing of match products (total allotment: US\$10,000*)	- *
SI/SAM/79/802	Feasibility study on establishment of corned beef cannery (total allotment: US\$32,000*)	- *
SI/SAM/79/803	Feasibility study on manufacture of starch from taro (total allotment: US\$30,000*)	- *

* Based on computer printout UNIDO-UMAPO2 dated 8.1.1980 ('Status of allotments for projects as at 31.12.1979')

** Based on computer printout UNIDO-KHM10A dated 18.10.1979 ('Expenditures from 1972 to September 1979')

institutional arrangement should be set up in this connexion and specific promotional measures taken to promote local entrepreneurship and to create training facilities. An industrial development programme as part of the national plan and with an emphasis on project contents, should be integrated with the UNDP Country Programme.

59. An important element would be a programme of rural industrialization, which must be viewed as a component of, and be integrated with, agricultural and rural development programmes. Agriculture consisting of both subsistence and cash crop cultivation remains the mainstay of the Samoan economy and an integral part of rural development. A rural industrialization programme has to be accordingly formulated in all its aspects.

60. In a recent UNIDO report ^{1/} the range of product possibilities for a rural industrialization programme has been summarized in general as follows:

- Production of agricultural inputs
- Processing of agricultural products
- Processing of minerals and natural resources
- Production of consumer goods and basic needs items
- Traditional handicrafts
- Provision of repair and maintenance facilities (including the production of spare parts)
- Provision of inputs and services for other local industries (sub-contracting and perhaps ancillary units)

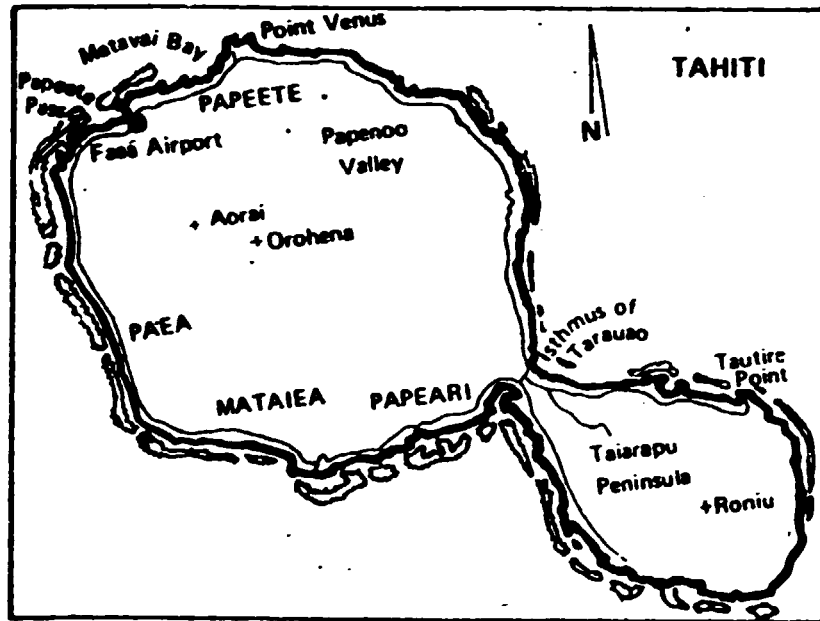
These are however general indications which may help a country in developing a rural industrialization programme. The resources, skills, requirements etc. however differ from country to country and a rural industrialization programme must be country-specific. Every country has usually a reservoir of accumulated local skills for certain traditional industries which need to be encouraged and improved as part of the policy of rural industrialization.

^{1/} United Nations: Industrialization and Rural Development, New York (1978)

61. A rural industrialization programme, as emphasized in the cases of other countries also, should, however, be a comprehensive one in the sense that the programme would include a number of components such as products selection, technology, technical assistance, marketing, institutional arrangements, the provision of infrastructure, extension service, finance, management, reserarches etc. on which action should be taken simultaneously.

CHAPTER V

FRENCH POLYNESIA



FRENCH POLYNESIA

GENERAL ECONOMIC BACKGROUND

Geography

1. French Polynesia, an overseas territory of France, with a certain autonomy achieved recently, consists of five main groups of islands numbering about 130. It has a total land area of 4,000 km² in a total area of some 4 million km².

Population

2. The population of the territory increased from 64,851 in 1962 to 137,382 in mid-1977. About 62,735 people live in its capital, Papeete. The urban population of the territory is now about 45.4% as against 38.1% in 1967. Polynesians represent 77% of the population; Asians 9% and Europeans 14%. The lifestyle of the people varies considerably from urban Papeete with its large population concentrating on business, administrative and tourist activities to the rural subsistence life in the outer islands.

Labour force

3. Information on the employment situation in French Polynesia is not readily available. A preliminary survey in 1975 estimated the active labour force at about 40,000 persons, 25,000 being employees and 15,000 self-employed. Of the employees covered by social security, 32% were working in the public services, 22% in the tourist sector, 21% for the French armed forces and the Nuclear Testing Centre (CEP), 6% in manufacturing, 11% in banks and services and 8% in the domestic sector. In 1962 the labour force consisted of 26,978 persons, of which 42.6% were active in the primary sector; 2.6% in mining and quarrying; 8.5% in manufacturing; 10% in construction; 0.1% in electricity, gas, water; 5.2% in transport, communication 5.2%, trade 5.4%; 0.4% in banking, insurance 6.1% in public administration and defence; and 16.0% in services. Today French Polynesia has some 3,000 unemployed people, and, annually, 700-800 additional jobs need to be created for the youth entering the labour market.

GNP

4. In 1972 the total GNP at current market prices amounted to US\$ 280 million. In 1974 the GNP increase to US\$ 340 million, which gave a per capita annual average income of US\$ 2,530. The sector-wise distribution of the GNP in 1970 was: agriculture 12.3%; manufacturing 11.2%; construction 9.6%; public enterprises 5.3%; tourism 5.9%; services 33.1%; and trade 22.3%. In 1978 agriculture accounted for less than 5% of the GNP.

Character and structure of the economy

5. The economic characteristics of French Polynesia have changed drastically since the 1950's. In the late 1950's the principle resources were fishing, agriculture with copra averaging a yearly production of 25,000 tons, and the mining of phosphate in Makatca, with no other important industry to mention. The phosphate resources enabled its people to have a high standard of living as compared with those in other South Pacific countries. But the future looks bleak with the near exhaustion of the phosphate deposits, and no alternative activity seems immediately available.

6. Today the presence of large numbers of French military personnel, in spite of their creating employment and commercial opportunities, has severely distorted the economy of French Polynesia. Tourism which was the island's major industry before the Nuclear Testing Centre was set up will not be able to maintain the economy in its present state without large outside investment. Besides tourism and the Nuclear Testing Centre, efforts are being made to increase the output in the primary sector of the economy, namely, agriculture and fishing.

STRUCTURE OF THE MANUFACTURING AND PROCESSING SECTOR

Primary production

7. Copra is still the main agricultural product despite fluctuations in world market prices. The production of copra was 19,505 tons in 1976; 22,349 tons in 1975; 14,000 tons in 1972; and 15,800 tons in 1970. The territory's total copra output is used by Tahiti Oil Co. to be processed into coconut oil for export (10,753 tons in 1970; 11,141 tons in 1975; 11,842 tons in 1976) and into coconut oil for export (10,753 tons in 1970; 11,141 tons in 1975; 11,842 tons in 1976) and into coconut meal for use as cattle feed by the local beef industry, although some quantity is also exported.

8. The total output of coffee, vegetables and fruits, is insufficient for local consumption, and hence imports of these stuffs are necessary. Some fruits are exported but their importance dwindled substantially (19 mill CFP in 1974 to 5 mill CFP in 1976). The exports of vanilla was also down from 20 mill CFP in 1974 to 13 mill CFP in 1976.

9. Livestock includes cattle herds and poultry, but production is not enough to meet local demand. Two-thirds of the fish catch are for local consumption. Tuna fish is exported to a factory in American Samoa.

10. Overseas sales of mother pearls have declined in recent years, but the new industry in cultured pearls is growing in importance. The export of cultured pearls to Japan began in 1973.

Manufacturing and mining

11. The manufacturing industry is limited to textile fashion goods, handicrafts, foodstuff and one brewery. Since the exhaustion of the phosphate deposits on Makatea, no mineral venture exists on the land. But the surveys of the seabed seeking deposits of manganese nodules are being conducted.

Tourism

12. Tahiti received 91,993 tourists in 1976, more than double of the number in 1969. Although the numbers of tourists have fluctuated from year to year, tourism remains the country's major industry.

Construction

13. The territory's building activities have been determined considerably by the level of activity in the two main sectors of the economy, namely the CEP nuclear test programme and tourism.

Role of the manufacturing and processing sector in the economy

14. In 1970, 11.2% of the GNP originated from the manufacturing sector which including, as mentioned above, textile fashion goods, handicrafts, foodstuffs and one brewery, as well as small scale metal manufactures and sandals, clothing and furniture manufacturing.

15. Based upon its primary output, French Polynesia has started processing industries. For examples, the Tahiti Oil Co. crush the national copra production into coconut oil and meal; and 3 companies make yoghurt, butter and cheese from the dairy output of the cattle herd.

16. An estimated 2,000 persons-plus are active in the manufacturing industries. Most manufacturing and processing industries are situated in Papeete. The value of imports and their composition in 1976 (25,633 million CFP: 21% foodstuff, 8% petrol products, 8% raw materials, 36% equipment, 27% consumer goods) indicate the need for further import substitution. Efforts in this direction have, however, until now resulted in products "made in Tahiti" even more expensive than the present imports.

INSTITUTIONAL INFRASTRUCTURE FOR INDUSTRY

Development planning

17. As a territory of France, French Polynesia has its economic development programme integrated with the French national 5-year plans. The current 7th plan has set new targets in the field of agriculture, fisheries, tourism and energy resources. Cash premiums may be granted by the territory and the French Government for investment in agriculture, fishing, food production, transport, hotel, health clinics, and crafts, provided certain minimum criteria are met concerning jobs created and the level of funds invested.

Financial institutions

18. Three commercial banks operate in the territory. They are the Banque de l'Indochine et de Suez, the Banque de Tahiti and the Banque de Polynésie. There are also two finance companies: Crédit Calédonien et Tahitien and Crédit du Pacifique. Three additional credit institutions with offices in Papeete are the Caisse Central de Co-operation Economique, the Société de Crédit et de Développement de l'Océanie (Socredo) and the Société d'Expansion et de Développement du Pacifique.

MAIN FEATURES OF INDUSTRIAL DEVELOPMENT, OBJECTIVES AND STRATEGY

19. In the various development plans for French's overseas territories, three development objectives are:

- (i) development of tourism and tourism-related business, and processing of local raw materials (agricultural and fishing);
- (ii) improvement of the primary production techniques;
- (iii) reconstruction of the urban centre in all its aspects to provide better accommodation for its population.

20. Since French Polynesia obtained its increased autonomy, funds have been spent on three large scale projects under consideration and study: a hotel complex of 700 beds in the Gulf of Datimaono; the fish culture project in the island of Fakarava; and an oil refinery on the Island of Makatea. It is not yet known if these three projects will be eventually successful or not.

ANALYSIS OF THE MAIN CONSTRAINTS ON THE DEVELOPMENT OF INDUSTRY

21. The creation of the French nuclear test centre in French Polynesia has been both a blessing as well as a drawback for the country's development. Whereas the short term effects such as increasing trade, construction, administration personnel, higher standard of living, etc. are no doubt beneficial, the long term future of the territory is not bright.

22. The dependence of the territory's economy on the French nuclear test centre has become too great. It has induced a rapid inflation, a drift of workers from traditional agriculture and fishing, and a maldistribution of income. Further, a feeling of security has been created through its immediate effects on the country's economy and the yearly amount of money pumped into the Islands directly or indirectly. The initial efforts to rectify this overdependence have been less than successful.

REVIEW OF THE PROJECTS AND POTENTIALS OF INDUSTRIAL DEVELOPMENT

23. Tourism and the processing of natural resources such as copra and aquaculture are the first two fields which are being further expanded. Their limitations to present an alternative to the nuclear centre which may be temporary in character should, however, be realized. The development of small scale industries to produce consumer goods should be heavily emphasized in order to reduce the present overdependence of the country on imports. However, the actual tax and duty regulations on the large amount of imports, provides the country's local government with a major part of its present income. This situation does not appear to be conducive to the territory's industrialization.

REVIEW OF FOREIGN AID AND DEVELOPMENT EXPENDITURES

24. The annual territorial budget for French Polynesia is funded from local indirect taxes, certain public service contributions from France and loans. Budget expenditure is divided into four sections: the operation of the public service subsidies and funds given e.g. to the municipalities, infrastructure and loan repayments.

25. In addition to the territorial budget, overseas funds are provided for the expenditures of public service departments maintained by France and French grants for capital works (FIDES) are available. Capital works grants are available also from the European Development Fund (FED).

26. The territorial budget and overseas funds in recent years are summarized in the following table:

Table 1.

Territorial Budget and Overseas Fund, French Polynesia

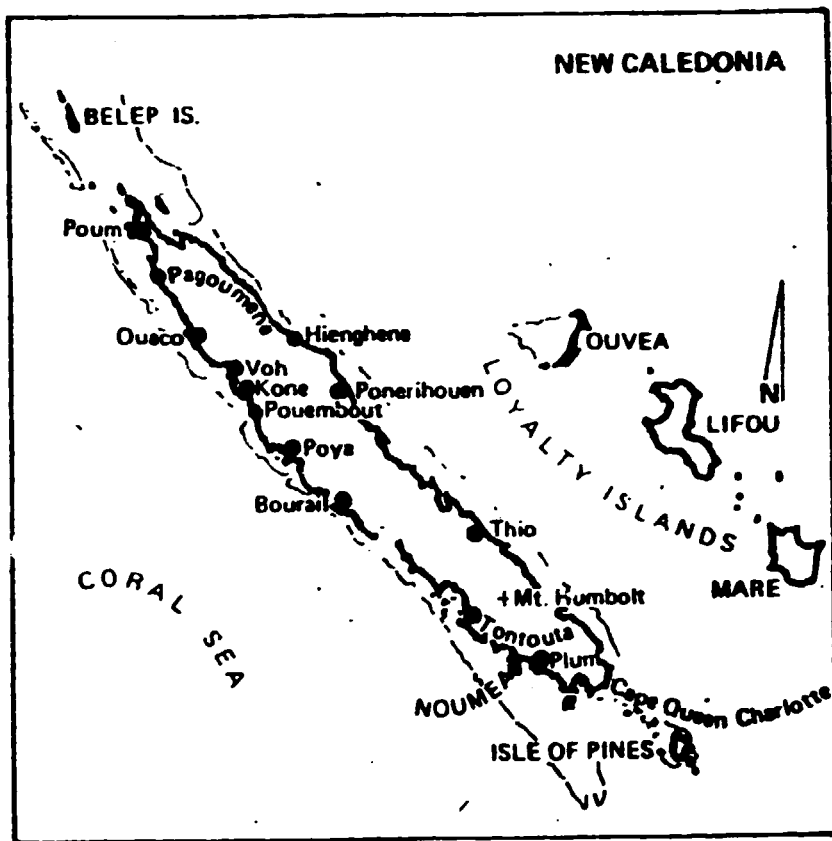
<u>Revenue</u>	<u>1975</u>	<u>1976</u>
	In million Francs (C.F.P.)	In million Francs (C.F.P.)
Tax receipts	6,504	7,635
French contributions	845	1,360
Loans	<u>935</u>	<u>4,600</u>
Total	8,284 =====	13,595 =====
<u>Expenditure</u>	<u>1975</u>	<u>1976</u>
	In million Francs (C.F.P.)	In million Francs (C.F.P.)
Pacific service	4,179	4,756
Subsidies (communes etc.)	2,938	4,695
Infrastructure	959	3,631
Loan repayments	<u>282</u>	<u>663</u>
Total	8,358 =====	13,745 =====

<u>External Aid</u>	<u>1975</u> (In million Francs)	<u>1976</u> (In million Francs)
French contributions	845	1,360
French public service	11,467	11,028
Fr. capital grants (FIDES)	214	156
FED grants	<u>55</u>	<u>68</u>
Total	<u>12,581</u>	<u>12,616</u>

Source: Pacific Islands Year Book, 1978.

CHAPTER VI

NEW CALEDONIA



GEOGRAPHY AND GENERAL ECONOMIC BACKGROUND

Geographical position

1. New Caledonia includes one large and one small island, and the Loyalty and Huon groups. The largest island has an area of 16,118 sq. km. and is one of the largest in the South Pacific. The principal island, New Caledonia and the other groups constitute an overseas territory of the French Republic. The capital of the territory is Noumea which is on New Caledoni.

Population

2. The population of New Caledonia was estimated at 135,000 in 1975. According to an estimate, its population in mid-1977 was put at 134,000. It appears, therefore, that the population of this group of islands has been declining over a period of time. At the 1976 census, Noumea's population totalled 56,078. The rapid development around Noumea since the sixties has been through a shift of population from the rural areas as well as immigration from France, North Africa, New Hebrides, Wallis Is., French Caribbean and Tahiti. This was prompted by the planned massive expansion of the nickel industry. This is the most industrialized city in the South Pacific islands.

Economic background

3. The total gross national product of New Caledonia was estimated at US\$ 550 million in 1974 with a per capita income of US\$ 4,170 compared with per capital national incomes of US\$ 5,330 and US\$ 4,310 in Australia and New Zealand, respectively. The territory has over 5,000 persons employed in manufacturing.¹

¹ Commonwealth Secretariat/SPEC: Industrial Relations in the South Pacific (London), p. 9.

Primary Production

4. The economy of New Caledonia is dominated by nickel production. Labour costs are high and the organization of distribution is poor. All these factors have kept agricultural production at a low level. In 1975 the Department of Agriculture put the estimated production of fruits and vegetables at just over 30,000 tonnes quite inadequate for local needs. Hence the need for imports of fruits and vegetables is very great.
5. The only agricultural exports from New Caledonia are coffee and copra. The quantities of these produces exported are, however, rather very small. Livestock, fisheries and forestry are important.
6. New Caledonia has large mineral resources. In addition to nickel and chrome, there are large deposits of iron, manganese and cobalt. The nickel mines are worked out by bulldozers from the mountain tops and ore is transported down to the coast. From the coast it is shipped to the smelters in Noumea or exported to Japan. New Caledonia is the world's second largest producer of nickel ore, after Canada.
7. France maintains a strict control over the New Caledonian mining industry and has declared nickel to be a strategic material. It controls the operation of nickel mining as well as the volume and direction of nickel ore exports. The chief mining towns of the territory are operated by the island's sole smelting company (SLN). The volume of nickel ore production in 1976 came to 5,900,000 gross wet tonnes. The main country to which nickel ore is exported is Japan. The total New Caledonia nickel metal production was 61,911 tonnes in 1976, as compared with 71,068 tonnes in 1975. There appears to be a strong case for new nickel projects in the territory.

INDUSTRIAL ACTIVITIES

8. In addition to the activities centring round nickel, New Caledonia has several activities located in the Chief industrial area of Noumea, namely, Ducos. Manufacturing production includes cement, soft drinks, soap from copra, plastic bottles and beer.

9. The expansion of infrastructures, such as, port facilities, roadworks and energy supplies for which considerable finance is necessary is an essential requirement for the further industrialization of the territory.

10. Tourism has emerged as the second largest major industry in New Caledonia, after nickel, giving a stimulus to some construction and other related activities. The number of visitors to New Caledonia increased from 17,200 in 1968 to 40,369 in 1977.

Workforce

11. The total workforce in New Caledonia has been estimated at about 46,000 people. The sectoral distribution of the work-force in 1976 is shown in Table 1.

Table 1

<u>New Caledonia - Workforce</u>		<u>Percentage of the total</u>
(as at April 1976)		
Agriculture	13,564	29.05
Mining	2,110	4.52
Industry, including smelting	5,469	11.71
Construction	4,475	9.58
Water, elec.	547	1.17
Transp., telecomm.	2,632	5.64
Commerce, bank, real estate	5,458	13.83
Services	11,338	24.28
Others	<u>96</u>	<u>0.21</u>
Total	46,689	100.00
	=====	=====

Source: Pacific Islands Year Book, 1976, p. 262

12. It will be seen in Table 1 that industry and activities linked with industry are responsible for a significant proportion of the total employment, although agriculture as in most other South Pacific countries or territories, is still the main occupation. In 1974, the total workforce was about 35,000 persons. The workforce has remained almost constant, like the population of the territory, over the years.

EXTERNAL TRADE

Exports

13. New Caledonia's export consist almost entirely of nickel. Table 2 shows the exports of New Caledonia. France took 51 of the territory's export

Table 2

Exports of New Caledonia

(In CFP million)

<u>Product</u>	<u>1971</u>	<u>1973</u>	<u>1975</u>	<u>1976</u>
Nickel ore	8,557	3,578	4,827	6,492
Nickel metal	11,474	11,434	19,461	18,888
Coffee	21	23	23	30
Copra	-	6	-	6
Other	126	709	1,191	1,272
Total	20,178	15,755	25,492	26,688

Source: Pacific Islands Year Book, 1978, p. 256.

in 1976. Japan came second with 29 per cent of its exports and takes all the nickel ore and some metal. Other countries to which New Caledonia exports its smelted nickel are the U.S.A. and Canada. It does some trade with the advanced countries of the South Pacific, namely, New Zealand. In 1976/77 New Caledonia exported items (in terms of manufactured goods classified chiefly by material, machinery and transport equipment and miscellaneous manufactured articles) to Australia valued at \$A 15,000, while it exported items (mainly in terms of food and live animals) to New Zealand in the same year to the value of \$NZ 100,000. There were big fluctuations in the exports of nickel ore between 1971 and 1976, whereas the exports of nickel metal increased considerably between these years.

Imports

14. New Caledonia imports 90 per cent of its capital goods and the major share of consumption goods. Imports between 1971 and 1976 reflected the build up as well as the slump in the demand for nickel. France has remained the main source of imports of New Caledonia, though its share declined from 52 per cent in 1972 to 39 per cent in 1976. The second largest supplier is Australia (13 per cent) followed by EEC countries (11 per cent), USA (6 per cent) and Japan and New Zealand (3 per cent). The level of general import duty is low (9 per cent). Table 3 shows imports from 1971 to 1976.

Table 3

<u>Imports of New Caledonia</u>				
(In francs million)				
<u>Products</u>	<u>1971</u>	<u>1973</u>	<u>1975</u>	<u>1976</u>
Foodstuffs	3,530	4,288	5,139	5,172
Textiles	1,437	1,403	1,400	1,116
Coal, petrol	2,251	1,904	5,822	6,033
Raw mats & ind. products	6,108	4,656	6,159	5,033
Mach., transp.	8,983	4,474	6,877	5,490
Other	1,221	1,023	1,652	1,325
Total	23,630	17,748	27,049	24,179

Source: Pacific Island Year Book (1978) p. 266

15. As regards its international trade position, New Caledonia appears to be in a much better condition than several other island countries or territories of the South Pacific. The territory has not suffered from a serious trade imbalance. For instance in 1971 the imports and exports of New Caledonia were CFP 23,530 million and CFP 20,178 million, respectively. In 1976, the corresponding figures were CFP 24,179 million and CFP 26,688 million.

FOREIGN INVESTMENT

16. Foreign investment in New Caledonia is strictly controlled by the French Government which has laid down the condition that 50 per cent of the shares of any enterprise set up with the participation of foreign investment must be French-owned. Investment in tourism is actively encouraged and funds from the EEC countries have greater facility of entry.

17. A few tax benefits are granted to approved investment projects concerned with agricultural industrial or hotel development. Upon approval of the French Government, such projects or firms are exempted from payment of certain import duties, business licence fees and land tax. Considerable investment funds come from the French Government grants.

Infrastructure

18. The conditions in regard various infrastructures, such as, transport by road, air and sea, communications, water and electricity, banking and financial facilities, education and training etc. are satisfactory but there is a considerable room for improvement in these fields for which large investment resources are required.

DEVELOPMENT PLANNING AND REGIONAL AND SUB-REGIONAL CO-OPERATION

19. As an overseas territory of the French Republic, development planning in New Caledonia has been integrated with the French Sixth Plan (1971-75) and the French Seventh Plan (1976-80). Under the Sixth Plan, New Caledonia's nickel output, the main resource of the territory, was to be increased to 200,000 tonnes of metal per year. There were also proposals to have new nickel treatment factories constructed but these may not have been implemented and only facilities had been expanded at the sole smelters of the SLN ("Societe Metallurgique Le Nickel"). During the Sixth Plan period (1971-75) however, considerable infrastructure arrangements were made including a new port at Noumea, a new international airport terminal and improved runways, extended roads and increased housing. Under the Seventh Plan (1976-80), the target for nickel metal production capacity is fixed at 90,000 tonnes in 1980, but it is doubtful if this target would be achieved.

Regional and sub-regional co-operation

20. New Caledonia is a territory of the French Republic, and as such it is not a member of the Economic and Social Commission for Asia and the Pacific. Its mother country, France, is, however, an active member country of the ESCAP and other United Nations agencies and bodies including UNIDO. It is, therefore, possible for New Caledonia to benefit from the activities of these organizations through its mother country, France. New Caledonia is also associated with the activities of the South Pacific Commission whose seat is located in Noumea. It is also possible for New Caledonia to benefit from the activities of the South Pacific Bureau for Economic Co-operation (SPEC) which has its seat in Suva and which has been actively interested, particularly in the development of various infrastructural projects of a regional character to serve the common interests of the island countries and the territories of the South Pacific, in co-operation with UNDP, ESCAP, UNIDO and other international agencies and bodies.

Chapter VII

NEW HEBRIDES

GEOGRAPHY AND GENERAL ECONOMIC BACKGROUND

Geographical position and population

1. The New Hebrides is a condominium or territory by joint control set up by a convention in 1906 and is administered jointly by Britain and France. The condominium consists of a double chain of islands numbering 80. The total area of the group is 11,880 sq. km. with the largest single island being Santo, 3,947 sq. km. According to the only census held in 1967, the population of the New Hebrides was 77,988. In 1975, its population was estimated at 96,532 and in mid-1977 at 100,000. The seat of the government is Vila on Efate, an island only 915 sq. km. in area.

Economic background

2. The total gross national product of the New Hebrides was estimated at US\$ 40 million in 1974, with a per capita income of US\$ 480. Manufacturing employment would be very small - around 500 persons.

3. The total labour force of the territory has been estimated at about 40,000 persons of whom some 32,000 persons are engaged in subsistence agriculture. Another 8,000 persons are engaged in salaried jobs, commerce and industries including service industries.

4. Primary production consists of copra, frozen fish and beef. The bulk of the population are engaged in some form of agricultural production, such as, cocoa, coffee, livestock and in occupations such as tuna fishing, oyster farming and shell production.

5. As regards manufacturing, there are small meat canneries and fish freezing works. Small scale industries cater almost exclusively to local consumption. Manufacturing activities consist of the production of soft drinks, printing, building materials and boat-making.

6. In respect of mining, manganese, an essential element in steel production, has been mined at Forari situated on the east coast of Efate. Manganese is directly exported from Forari where there are special loading facilities.

7. Tourism and activities associated with it have been developing, as in other South Pacific territories or countries. The number of air travellers in the New Hebrides increased from 6,000 in 1970 to 17,929 in 1976.

EXTERNAL TRADE

Exports and imports

3. The principal exports of the New Hebrides are copra and frozen fish. Table 1 shows all the exports of the territory in value from 1970 to 1976, often marked by large fluctuations. Such fluctuation characterize the exports of most primary products.

Table 1

Exports of the New Hebrides

(in NH francs - million)

	1970	1972	1973	1974	1975	1976
Copra	482	137	354	1,517	338	521
Cocoa	39	13	50	50	41	65
Coffee	6	5	-	2	n.a.	n.a.
Meat (chilled/canned)	29	52	74	57	63	86
Fish, frozen	467	898	889	637	256	514
Manganese	33	40	33	64	68	78
Timber	71	44	78	12	2	5
Boats	12	7	6	7	n.a.	n.a.
Others	22	10	16	36	45	46
TOTAL	1,162	1,206	1,499	2,371	788	1,285

Source: Pacific Islands Year Book, (1978) p. 282

9. The imports of the New Hebrides consist mostly of food items, manufactured goods, machinery and transportation equipment. Table 2 shows its imports from 1973 to 1975 in value. Perhaps the pattern of its imports has not changed much till today.

Table 2

Imports*

(in NH francs - million)

	1973	1974	1975
Food, live animals	516	831	480
Beverages, tobacco	173	229	111
Mineral fuel	153	344	279
Chemicals	126	177	121
Manuf. goods	529	809	467
Machinery, transp.	462	678	666
Misc. manuf. goods	253	351	264
TOTAL	2,448	3,796	2,754

* Cleared for home consumption, classified by UN S.I.T.C. code

Source: Pacific Islands Year Book (1978), p. 282

10. Upto 1969, the New Hebrides had experienced a favourable trade balance because both fish and manganese were important export items. The recent trade deficits have been due to the decline in manganese exports coupled with increased imports necessitated by some development projects. These are principally met by the British and French grants.

11. France and USA have been the major importers of frozen fish while most copra, cocoa and coffee go to France. Japan also purchases copra, frozen fish and manganese.

Trade with Australia and New Zealand

12. As regards the trade of the New Hebrides with the two developed countries of the South Pacific, namely, Australia and New Zealand, the territory exported products (mainly in terms of food and live animals as well as crude materials in addition except fuels) amounting to \$A 90,000 to

Australia (1976/77), whereas it imported products amounting to \$A 7,755,000 in the same period from Australia. The exports of the New Hebrides to New Zealand (1976/77) was valued at only \$NZ 2,000 whereas its imports came to \$NZ 1,906,000. These trade figures* show a considerable deficits of the territory's trade with these two countries. The details of the exports of Australian and New Zealand's produces to the New Hebrides are not immediately available but the question whether some of the manufactured products currently imported by the territory could be domestically produced through the development of small scale enterprises may be investigated.

*

Commonwealth Secretariat/SPEC: Industrial Development and Trade Relations in the South Pacific (1978) London, Appendice 2 and 3

INVESTMENT AND INFRASTRUCTURES FOR INDUSTRY

Investment

13. To encourage investment in new enterprises, certain tax exemptions covering import duties and export duties may be granted by the Resident Commissioners of both the French and British Governments. Investment is encouraged in industries like fishing, processing of agricultural or marine products and tourist industries, according to the procedure as laid down in an established Investment Code.

14. Infrastructures such as transport by road, air and sea, port and shipping facilities, although fairly well developed, need further development and improvement in an island territory like the New Hebrides. As regards water and electricity, a private undertaking called Union Electrique d'Outre Mer (UNELCO) has a Condominium contract for generation and supply of electricity in Vila. Another private company in Santo supplies a limited area of the town. The costs of electricity from both systems is high. The Public Works Department provides a network of water supplies to Vila and other towns.

15. There is a high percentage of literacy, but there is a shortage of skilled workman in certain fields. Technical education and commercial training to the qualified persons in the New Hebrides are mainly given in regional institutions, namely, at the Honiara Technical Institute, through apprenticeships in Fiji, New Zealand and Australia. Tertiary education is provided at the University of the South Pacific, Suva, University of Papua New Guinea and other institutions in Australia, Britain and France.

DEVELOPMENT PLANNING, REGIONAL, BILATERAL AND MULTI-
LATERAL CO-OPERATION

16. The first Five Year Plan (1971-75) was formulated jointly by the British and French residencies and an expenditure of \$A 8.9 million was envisaged. More than 1/3 of the amount was to come from local revenue, \$2.5 million from British and French grants and the rest from loans etc. The main areas of development were natural resources, communications, public works such as schools and hospitals and urban development including roads and housing. Most large scale projects are financed by funds made available by both metropolitan governments as development grants. Further information on the status of planning in the New Hebrides has not been available yet.

Regional co-operation

17. The New Hebrides is a participant of the South Pacific Commission. Its direct relationship with the South Pacific Bureau for Economic Co-operation remains to be ascertained. The mother countries of the New Hebrides, namely, the United Kingdom and France are both members of the Economic Commission for Asia and the Pacific and UNIDO, etc. and as such the condominium should be able to benefit by the activities of these organizations through the association of their governing countries with international and regional agencies and bodies. It is true that this non-self governing territory obtains a lot of bilateral assistance both financial and technical from U.K. and Britain, but conditions should also be created so that the territory gets technical assistance from the countries of the region as well as from the regional and subregional organizations in the fields like agricultural development and small industrial projects suitable for development in the territory.

UNIDO Assistance

18. UNIDO is expected to provide substantial assistance to the New Hebrides in the field of small- and medium-scale industries, for which a project of US\$ 317,700 has been approved. Assistance is also envisaged in regard to a survey of the leather and leather products industry and the development of mother of pearl industry, as shown in Table 3.

Table 3
UNIDO assistance provided to
NEW HEBRIDES
from 1972 onwards

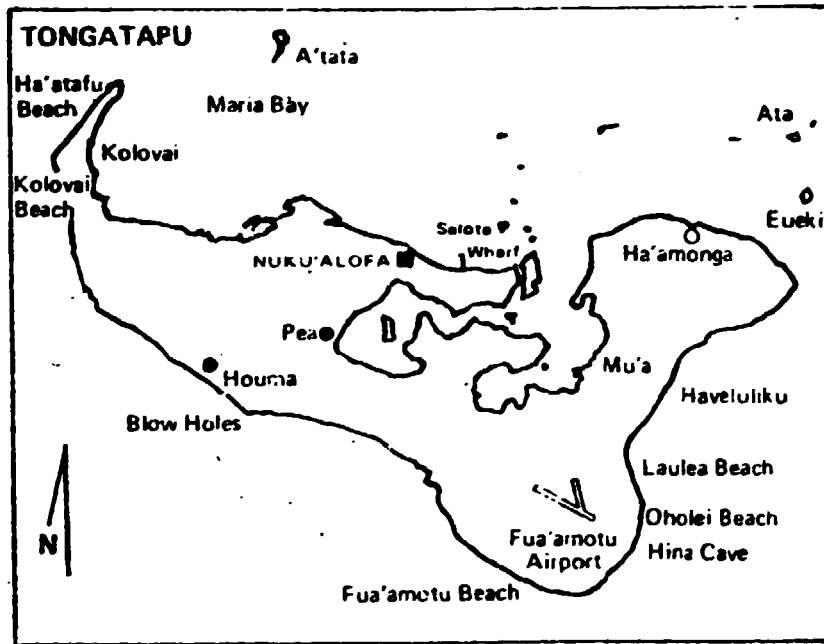
Project no.	Title	Total Expenditures
<u>COMPLETED PROJECTS:</u>		
-	-	-
<u>APPROVED AND OPERATIONAL PROJECTS:</u>		
DP/NHE/79/007	Mother of pearl work consultant (total allotment: US\$27,900*)	US\$ 11,195*
DP/NHE/79/001	Small- and medium-scale enterprises; promotion and development (total allotment: US\$317,700*)	- *
SI/NHE/79/801	Survey of the leather and leather products industry (total allotment: US\$12,100*)	- *

* Based on computer printout UNIDO-UMAPO2 dated 8.1.1980
('Status of allotments for projects as at 31.12.1979')

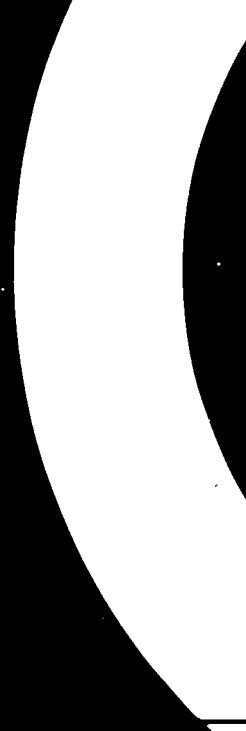
19. Other industrial opportunities in New Hebrides for which assistance may be considered include inter alia the following industrial activities: ceramics industry; semi precious stones processing; rattan furniture; mother of pearl buttons and by-products; food-processing and packaging; ethnographic traditional arts; salt making; silk screen industry textiles; garment industries; wood products and furniture. Assistance may also be considered in regard to: financing of loans for small business; and training for entrepreneurs.

CHAPTER VIII

THE KINGDOM OF TONGA



TONGA



GEOGRAPHY POPULATION AND GENERAL ECONOMIC BACKGROUND

Geographical position and population

1. The Kingdom of Tonga is a small independent island country, a member of the British Commonwealth. The country consists of a large number of small islands in the South Pacific. The total land area of the Kingdom consisting of about 150 islands of which only 45 are permanently inhabited, is only 697 sq. km. The capital of the Kingdom is Nuku'alofa on Tongatapu.

2. The population of Tonga was estimated at 90,000 in mid-1977. Many Tongans migrated and still migrate to USA and New Zealand for better opportunities for employment. The population of Nuku'alofa was 18,396 in 1976, which is 17 per cent higher than in the 1966 census.

Economic background

3. The gross national product of Tonga was estimated at US\$ 30 million in 1974 with a per capita income of US\$ 300 per annum in the same year. The manufacturing employment in the country has been put at around 1,000 persons. There are insufficient opportunities for employment in Tonga. The estimate is that only a third of the 15-64 age group could be classified as income-earners. The estimated total labour force is about 15,000 persons. The sole economic contribution of the others lies in subsistence agriculture. Major employers are the government and several large companies.

4. Tonga is a resource-scarce island country. Primary production consists of copra and bananas providing the basis of the economy. It grows vegetables and produces livestock. The production of the two main products, namely, copra and bananas, suffered from difficulties arising from natural calamities and plant diseases. The foreign demand for these products has also been uncertain.

5. As regards manufacturing and mining the existing industrial enterprises in Tonga consist of a desiccated coconut plant set up by the Copra Board, coconut shell charcoal unit set up by the Commodities Board, Vanilla processing units, banana and packing plants. Food and beverage units produce soft drinks, biscuits, ice-cream etc. Other manufacturing activities consist of a sawmill, carpentry, metal roofing, automotive repair shops, clothing units etc. Handicraft production is a thriving cottage industry in Tonga. Its products are considered to be of the best quality in the South Pacific area and are good export items. Most manufacturing activities are geared to local market and are carried on a small scale. Manufacturing is, however, a small sector of Tonga's economy.

Development Planning

6. Like some other governments of the South Pacific sub-region, the Government of Tonga has found it useful to prepare five-year plans setting out the main issues faced in promoting economic and social development on a pattern consistent with its national political and social goals. Tonga's Third Development Plan (1975-80) views that the basic problems of the country are rapid population growth, limited natural resources, dependence on a very small range of products, lack of diversification, rising unemployment, accompanied by a critical shortage of administrative and technical skills.

7. Agriculture, forestry and fisheries at present provide employment for some 17,000 of the approximately 24,000 members of the labour force. This sector is expected to absorb about one-fourth of the anticipated 4,100 increase in the numbers of people available for employment. There may be some net emigration, but still there is need for more employment to be generated in manufacturing for the Tongans who are all believed to be literate.

8. The plan envisages a very high growth rate in manufacturing output, 20.5 per cent per annum, 4 times higher than that in GDP as a whole. In industrial planning, primary emphasis has been placed on the development of an industrial estate including a building for small scale local enterprises as well as sites for larger buildings. Further a development bank is being established. Identified industrial enterprises include coconut oil crushing, the modernization of the coconut desiccation plant and a fruits and vegetables cannery. Manufacturing plants based on imported materials have been considered for establishment to produce products both for the local market and for export to Australia, New Zealand and other South Pacific markets.

THE NEED FOR INDUSTRIALIZATION, INDUSTRIAL FACILITIES AND
INSTITUTIONAL INFRASTRUCTURE

9. Tonga is poor in natural resources. Its main products for export are coconut and bananas. The modest industrialization of Tonga has to be based on its limited natural resources and agricultural products, fisheries and forestry. The rapid increase of Tonga's population, its limited land resources and the vulnerability of its foreign exchange earnings call for some industrial development.

10. Like most other island countries of the South Pacific region, Tonga's colonial heritage, isolated and limited local market, scarcity of natural resources and lack of infrastructures and skilled labour have not favoured the development of industries in the island. The objectives of the Five Year Plans stressed the development of agriculture and tourism. The last two Five Year Plans however, emphasized the growth of light and labour-intensive industries as a long-term objective of the government to diversify the island's economy. Accordingly, the Government aimed at creating a favourable climate for local and foreign investment.

11. Tonga's own bank, the Bank of Tonga was started in 1974 after winding up the Government Savings Bank. The Government also established the Tongan Development Bank in mid-1977. To encourage foreign investment since 1977, the Government adopted an industrial incentives policy with tax holidays, depreciation and accounting concessions, customs duty exemptions and repatriation of funds. Further facilities include immigration assistance, promotional aid, finance through the new Development Bank and land availability. The incentives operate through licensing of both local and foreign enterprises setting up processing and assembly type industries including activities related to tourism.

11. The Third Five Year Development Plan (1976-1981) was formulated with technical assistance given by the Asian Development Bank. It envisaged a total investment expenditure of \$T 29.6 million. The Plan emphasized food production and included projects like the establishment of the development bank, an industrial centre, technical training and improvements to roads, wharfs and airport facilities etc. These have been useful steps to stimulate industrial development in Tonga.

OVERSEAS TRADE

13. Tonga suffers from a chronic adverse balance of trade. Table 1 shows the overseas trade position of Tonga from 1970 to 1976.

Table 1

Overseas Trade - Tonga
(In \$T million)

	1970	1973	1975	1976
Imports	5.5	9.0	13.0	11.7
Exports	2.7	3.2	4.4	3.3

Source: Pacific Islands Year Book (1978), p. 405

14. The main imports of Tonga consist of flour, fresh and canned meat, canned fish, dairy products, tobacco, cotton piece goods, drapery, motor cars, motor cycles and petroleum products. Australia and New Zealand are the biggest suppliers, chiefly of food items. The exports of Tonga to Australia in 1976/77 was of the value of \$A 77,000, whereas the imports of Tonga from the same country in the same period amounted to \$A 2,524,000. During the same period, the exports of Tonga to New Zealand amounted to \$NZ 1,662,000, whereas its imports from New Zealand amounted to \$NZ 6,114,000¹.

15. The total imports of Tonga in 1977 was of the value of \$T 17,697,000 whereas its exports were valued at only \$T 6,352,000 in the same year showing a deficit trade balance of \$T 11,345,000². The trade gap is balanced by receipts from invisible transactions, such as, net remittance from residents, net gifts and capital inflows. The main trading partners are the SPEC countries and New Zealand and Australia, U.K. and the Netherlands.

¹ Commonwealth Secretariat/SPEC: Industrial Development and Trade Relations in the South Pacific (London) Annexes 1 and 2

² Statistical Year Book for Asia and the Pacific, 1977

16. The Government operates a two column tariff under which most items imported from within the Commonwealth are entitled to Commonwealth Preferential Tariff treatment, that is, dutiable at 15 per cent; but goods from other countries are dutiable at 33.5 per cent. There are lower duties or no duties on some essential food stuffs, agricultural inputs and basic building materials. There are again higher duties on certain items such as refrigerators motor vehicles, etc.

17. In view of the extreme dependence of the Kingdom on foreign countries for a variety of imports, it is reasonable to suggest that efforts should be made to produce domestically certain identified products on a small scale which will replace imports. Every effort should also be made to expand and develop exports.

A SMALL SCALE INDUSTRIES DEVELOPMENT PROGRAMME

18. An employment and export-oriented small scale industries development programme is desirable for Tonga. In this task the role of the government should be to create appropriate environment and institutions. An indicative industrial plan supported by fiscal and financial incentives for private local and foreign investment, the promotion of infrastructures, the creation of an industrial estate, the training of manpower, the institutional and organizational arrangements, a programme for loans to small and medium scale industries etc. would constitute a package of measures which could provide an effective stimulus to industrial development.

19. In a report on the Development of Industries in the Kingdom of Tonga (1975) a former UNIDO/ESCAP Regional Industrial Adviser^{1/} strongly recommended the creation of an Industrial Development Board or Unit which would strengthen the Ministry of Industry, Commerce and Labour in the implementation of its policies and in administering promotional measures for the development of industries. Such an institution with specific functions will assist in the promotion of industries in Tonga.

20. In the field of industrial development of Tonga, UNIDO could give substantial assistance in institution building and industrial planning and programme. UNIDO assistance would be particularly relevant to the development of a small scale industries development programme. The activities of UNIDO in this field would have to be co-ordinated with the UNDP technical assistance programme in Tonga.

1/ Advisory services report for the Ministry of Industry, Commerce and Labour on the Development of Industries in the Kingdom of Tonga. By Luong the Sieu, ESCAP/UNIDO Regional Adviser on Industrial Plans and Policies, September 1975.

REVIEW OF TECHNICAL ASSISTANCE PROGRAMMES

21. The Kingdom of Tonga obtains technical assistance under the bilateral multilateral programming (other than those of UNDP and the UN organizations) and under the regular programmes of the UN organizations and the UNDP programme on projects conforming to the broad national goals and objectives of the Third Five-Year Development Plan covering the period 1976 to 1980. The basic objective of the Plan is to raise the level of living and to improve the social welfare of the country's predominantly agricultural population through accelerating its rate of economic growth.

22. Tonga's broad national goals are:

- (a) A faster growth rate and more equitable distribution of national income;
- (b) The creation of new employment opportunities in order to halt the rising trend in unemployment, and the improvement of working conditions;
- (c) Continued expansion and diversification of exports;
- (d) Diversification of production in order to reduce reliance on traditional products and to achieve import substitution;
- (e) Expansion and diversification of the private sector;
- (f) Continued reduction in the rate of population growth, by lowering birth rates;
- (g) A balanced development of the Kingdom's three main island groups; and
- (h) Increased mutual co-operation in economic and social spheres with among others, nations of the South Pacific.

23. At the sectoral level, the objectives identified by the Government of Tonga are:

- (a) Agricultural production and the development of the country's fishery and forest resources should be continued.
- (b) The search for and development of the country's mineral resources should be accelerated.
- (c) The rate of expansion in the manufacturing sector should be increased.
- (d) Tourism should be expanded on an orderly and planned basis;
- (e) Infrastructure, including roads, harbours, airports, power water supply and communications, necessary for and in line with achieving the development objectives should be provided.
- (f) The health services should continue to be expanded.
- (g) Education and training facilities at the secondary and technical levels should be expanded.

24. Table 2 shows the estimated technical assistance resources available to Tonga during 1976-1980.

Table 2

Estimated Technical Assistance Resources for the period 1976-1980

(in thousand US\$)

Tonga

Source	1976	1977	1978	1979	1980
Bilateral Programmes	2,410	3,300	2,800	4,300	4,700
Multilateral Programmes other than UNDP and the UN Organizations	500	500	500	500	500
UN Organizations					
Regular Programmes					
UNIC	30	30	30	30	30
UNFPA	55	31	14	13	5
UNICEF	20	20	20	20	20
Sub-total	3,015	3,881	4,364	4,863	5,255
UNDP*	200	600	600	600	600
Grand Total	3,215	4,481	4,964	5,463	5,855

* This amount is based on the Indicative Planning Figures approved by the Governing Council for the period 1972-76 and illustrative figures for 1977-81.

Source: UNDP Country Programme for Tonga (1975)

25. The first country programme for Tonga covered the period 1974-1975. The second country programme was timed to coincide with the Government's Third Five Year Development Plan covering the period 1976-1980. The total funds available for expenditure during the second country programme period were put at US\$ 2.8 million.

26. The Government of the Kingdom of Tonga indicated that the UNDP's continued assistance for the period 1976-1980 would be required in the following general sectors:

- (a) Agriculture and Natural Resources
- (b) Physical Infrastructure
- (c) Commerce, Industry and Tourism
- (d) Administrative Infrastructure
- (e) Human Resources

27. Table 3 shows the sectoral breakdown of on-going and new projects.

Table 3

Sectoral breakdown of on-going and new projects

Sector	On-going projects		New projects		Total	
	Value (\$'000)	Per cent	Value (\$'000)	Per cent	Value (\$'000)	Per cent
Agriculture and natural resources	303	38	691	34	994	36
Physical infrastructure	379	47	500	25	880	31
Commerce, industry and tourism	36	5	199	10	235	8
Administrative infrastructure	79	10	331	16	409	15
Human resources	-	-	286	15	286	10
Total programmed	797	100	2,007	100	2,804	100

The commerce, industry and tourism sector has only 2 projects involving a total expenditure of US\$ 235,000 which accounted for 24 per cent of the total estimated expenditure.

28. For the industrial sector, the Government identified the need for only 3 fellowships in industry-related fields of study which will complement and strengthen the staff of the Ministry of Commerce, Industry and Labour. The fields included the planning and development of an industrial estate complex and the identification and development of indigenous small scale industries.

29. In the past UNIDO has provided technical assistance to Tonga in the field of feasibility study of solar salt industry. An important project for the industrial development of Tonga was approved in 1979. The project is entitled "industrial promotion", and total funds allotted to this project amount to US\$226,400, as shown in Table 4. Also included under approved and operational projects is a handicraft study tour to the Philippines. Future assistance may be envisaged inter alia in the field of agro-processing, and small-scale industries as referred to earlier.

Table 4
UNIDO assistance provided to
TONGA
from 1972 onwards

Project no.	Title	Total Expenditures
<u>COMPLETED PROJECTS:</u>		
TS/TON/73/005	Feasibility of solar salt industry	US\$ 4,675**
<u>APPROVED AND OPERATIONAL PROJECTS:</u>		
DP/TON/79/004	Industrial promotion (total allotment: US\$226,400*)	- *
SI/TON/79/801	Handicraft study tour to the Philippines (total allotment: US\$12,930*)	US\$ 3,252*

* Based on computer printout UNIDO-UMRPO2 dated 8.1.1980
('Status of allotments for projects as at 31.12.1979')

** Based on computer printout UNIDO-KHM10A dated 18.10.1979
('Expenditures from 1972 to September 1979')

CHAPTER IX

A BRIEF REVIEW OF THE ECONOMIC CONDITIONS OF THE SMALL
AND VERY SMALL DEVELOPING ISLAND COUNTRIES OF THE SOUTH PACIFIC

1 THE REPUBLIC OF KIRIBATI

Geography, population and national economic

1. The Republic of Kiribati, until very recently was a self-governing dependency of the United Kingdom. The Republic consists of four main groups - the Gilberts, Phoenix, Northern and Southern Line - scattered over a very wide area. The most populous island of the Republic is Tarawa with its population of 17,129. The total population of the country as estimated in mid-1977 was 51,000. The administrative centre, Bairiki, is on Tarawa.

2. According to the census of 1973, the active labour force of the Republic was 17,576 out of a total number of 29,522 inhabitants over 15 years of age. Islanders in search of work travel long distances overseas. Manufacturing is a small sector of the economy.

3. The total gross national product of this island country was put at US\$ 40 million in 1974 with a per capita income of US\$ 730 per annum.

Primary production

4. Primary production consists of coconuts, fruits for local consumption, forestry, fisheries and livestock. The country's only exported agricultural produce is copra produced mainly by the Gilberts and the Line Islands farmers. The Government has provided incentives to increase its output in the future. Food crops for local consumption are mainly coconuts, bananas, pandanus, bread fruit and papaw. Efforts are being made to increase the production of livestock such as pigs and poultry and to reduce the dependence of the country on the imports of poultry, eggs and frozen meat. Locally caught fish form an important item of the islanders' diet. Fishes like kingfish, snapper and tuna are the main varieties caught by netting, trolling, on lines or in fish traps. Considerable hopes are placed on the development of marine resources. Trial plantings of local and imported trees are being conducted

and the aim of the Government is to reduce timber imports through local production.

Manufacturing activities

5. The local manufacturing industry is confined to small operations such as, handicrafts, the salting of fish, biscuit and soft drink plants, and the building of small boats. The handicrafts such as fans, mats, bags etc. are chiefly made from the pandanus leaves and have intricate and colourful designs.

Mining

6. The most important mining product of the country is phosphate. This is mined at Ocean Island by the British phosphate Commissioners. The deposits of phosphate at this island together with those at Nauru, 265 km to the west, represented the largest and richest source of the mineral within the British Commonwealth. This is, however, a resource which is being rapidly depleted.

Foreign trade

7. Table 1 shows the exports and imports of the newly founded Republic including those of the Ellice Islands (Tuvalu) (excluding only 1976) from 1969 to 1976.

Table 1

Kiribati (Gilbert Islands) - Exports and Imports
(In \$ million)

	1969	1971	1974	1975	1976
Exports	7.3	8.7	23.73	27.68	18.15
Imports	3.1	4.7	7.55	9.29	10.06

Source: Pacific Islands Year Book (1978), p. 180

The principal exports of the country are copra and phosphate.

8. Table 2 shows the principal imports of the country (Gilbert Islands) consisting of a variety of manufactured products. Australia is the main

Table 2

Kiribati (Gilbert Islands) - Imports (in \$ million)

Food	2.9
Manufactured goods, classified chiefly by material	1.2
Transport equipment and machinery	1.9
Miscellaneous manufactured articles	1.0

Source: Pacific Islands Year Book 1978, p. 181

supplier of products to the country. Other sources are Britain, Japan, New Zealand, Singapore and Hong Kong.

Infrastructures

9. In an island country like Kiribati, like other countries in a similar position, transport, particularly by sea and air, plays an important role. The high cost of transport is a significant factor in the high cost of imports. Transportations by sea and air, therefore, need to be improved. Port facilities constitute another field where further improvement is needed. The same consideration applies to the supply of electricity and water. As regards finance, the tax on phosphate is the main source of income. Whereas for investment resources, the Ministry of Commerce and Industry welcomes investment from overseas sources for the improvement of infrastructure facilities like shipping, technical training etc. There are banking facilities to mobilize local savings.

Development planning

10. In the 1973-76 Development Plan, the strategy adopted was essentially long-term and was dominated by the impending exhaustion of the ocean island phosphates. Gradually some local workers have become unemployed and the Government has lost phosphate tax with this exhaustion. There are the

realities which have already appeared before the Government. The Fourth Development Plan starting from 1978 has to face these problems, with the independence of the islands.

11. The total expenditure on development programmes in 1975 was \$2.5 million, while the 1976 Development Fund Programme was expected to be \$2.2. The estimated development fund for subsequent years were much higher and was provided by Britain, New Zealand and Australia and spent on production, economic and social infrastructures. UNIDO has provided technical assistance to Kiribati in salt production in 1979 as shown in Table 3. The main problem before the Government is to find alternative occupations or avenues of employment for the livelihood of the people, with the exhaustion of the principal non-renewable resource of the country. The development planning and policies of the country are supervised by the Ministry of Finance.

Table 3
UNIDO assistance provided to
KIRIBATI
(formerly Gilbert Islands)
from 1972 onwards

Project No.	Title	Total Expenditures
<u>COMPLETED PROJECTS:</u>		
SI/GIL/79/801	Assistance in salt production (total allotment: US\$ 14,950*)	US\$ 4,507*
<u>APPROVED AND OPERATIONAL PROJECTS:</u>		
-	-	-

* Based on computer printout UNIDO-UMAP02 dated 8.1.1980
('Status of allotments for projects as at 31.12.1979')

2. AMERICAN SAMOA

Geography, population and national income

1. American Samoa is an unincorporated territory of the United States of America. It consists of the large island of Tutuila and six smaller islands. The total land area of the territory is only 197 sq. km. The administrative centre of American Samoa is Pago Pago in the island of Tutuila. The population of the territory was only 31,000 in mid-1977. The bulk of the population lives on Tutuila which had 27,560 inhabitants in 1974. The American Samoans live mostly in rural communities. In 1974, about 10,706 inhabitants were in the urban centre of Pago Pago. The total gross product of American Samoa was put at US\$ 30 million in 1974 with a per capita income of US\$ 1,100.

2. The largest single employer in American Samoa is the Government which employs for about half of the labour force. In 1974, the official payroll was 3,285. The total manufacturing employment was put around 2,000 persons.

Primary production

3. Unlike most other island groups in the South Pacific, American Samoa's economic base is not copra. There is a thriving fishing industry which, with its by-products, the territory relatively strong economically. In addition primary production includes vegetables, breadfruit, coconuts, yams, sugar-cane and pine apples. Livestock consists mainly of poultry farming.

Manufacturing

4. The manufacturing industry of American Samoa consists of fish canning, milk processing and ice-cream production. A good deal of investment has been made in the building up of infrastructure. There is an industrial park at Tafuna, close to the international airport. By late 1977, about 99 per cent of the park was completed.

5. The Van Camp and Star Kist canneries operate near Pago Pago. There are several shark fin - processing and export companies. The importance of fishing in the economy is considerable. The government policy is therefore, to diversify the fishing operations as far as possible. Other industrial operations include milk and ice-cream plants. Tourism-related activities are also important.

Local commerce and overseas trade

6. Distributive trading plays an important part in the economy of American Samoa. There are modern supermarkets, a new shopping centre and several U.S. and Japanese auto-distributors and wholesale distributors.

7. Unlike most other island countries of the South Pacific, American Samoa has a highly favourable trade balance due to the prosperity of the fishing industry which is responsible for 90 per cent of the value of exports. Table 1 shows American Samoa's exports from 1974-75 to 1976-77.

Table 1

American Samoa - Export (in \$'000)

	1974-75	1975-76	1976-77
Watches, clocks	4,706	4,273	2,542
Shark fins	263	105	75
Fish, fresh	242	18	264
Fish meal	138	72	322
Meat, canned	-	-	58
Pet food	3,481	2,339	2,414
Jewellery	88	426	767
Tuna, canned	73,600	48,684	58,244
Clothing	169	-	-
Total exports	82,934	55,898	64,893

Source: Pacific Islands Year Book, 1978, p. 39

8. Table 2 shows the level of imports and exports of the territory from 1974-75 to 1976-77.

Table 2

American Samoa - Imports and Exports
(In \$ '000)

	1974-5	1975-76	1975-77
Imports	46,549	49,894	37,953
Exports	62,932	55,393	64,893

Source: Pacific Island Year Book, 1978, p. 39

9. Table 3 shows American Samoa's imports from 1971 to 1976.

Table 3

American Samoa - Imports
(In \$ '000)

	1971	1975	1976
Beer	181	585	627
Elec. Goods	1,273	1,305	1,608
Gasoline, motor	1,845	1,699	2,703
Machinery	722	583	936
Meat, preserved	487	764	1,181
Meat, fresh	624	694	1,178
Motor veh. & parts	1,901	2,026	1,513
Diesel fuel	7,446	9,456	8,778
Poultry, fresh	989	882	973
Watches, clocks	<u>2,334</u>	<u>1,796</u>	<u>1,798</u>
Total imports	46,549	49,894	50,696

Source: Pacific Islands Year Book (1978) p. 39

10. The principal sources of American Samoa's main imports which are food and drinks and oil fuel, have been USA, Japan, Switzerland, New Zealand, Australia and Fiji. There are no import duties in American Samoa, but there are excise duties at varying rates on different commodities.

Infrastructure

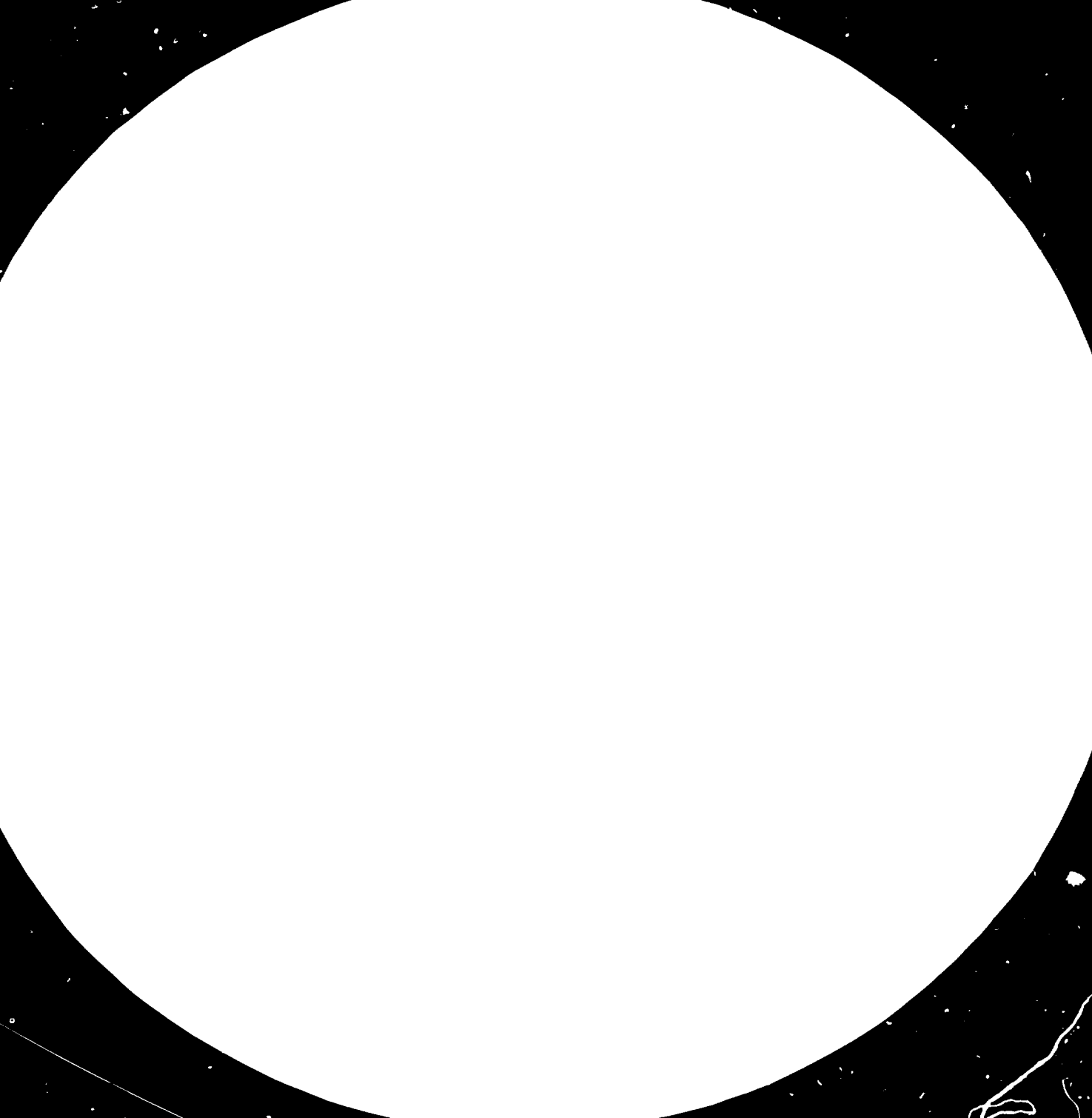
11. In respect of transport relations by sea, air and road, American Samoa is in a better position than many other island countries of the South Pacific. Efforts are being made to further improve the various infra-structural facilities. Since 1974, many new schemes have been launched or completed. Heavy investment has been made in roads, water projects, sewerage systems, power projects, airport and harbour construction, the telephone system, educational buildings etc. Modern banking facilities to mobilize domestic savings are available.

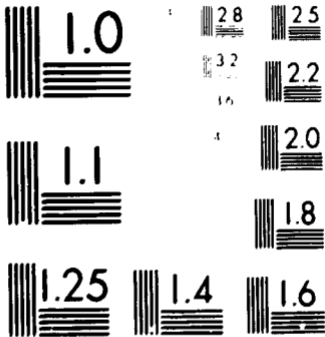
Overseas investment and development planning

12. The Government's policy on development is to encourage overseas industry to invest in the territory jointly with local participation. The Development Planning Office in American Samoa provides basic data on the economy as well as related information and promotional services to investors. This office is the agency responsible for the promotion of industrial development in the territory. Incentives provided under the Industrial Incentives Act 1973 are available both to local and foreign investors. The latter will of course have to satisfy certain conditions laid down by the Government over the participation of Samoan labour and capital. Capital and profits can be freely repatriated to the investing countries. Various tax incentives are also allowed. Products processed in American Samoa are eligible for duty free entry into the United States of America provided that not more than 50 per cent of the finished items is of foreign material.

13. American Samoa is well-developed in the canning industry and it may be some island countries can profit by co-operating with it in this particular field which has also a potential for them.

14. The Government of American Samoa is financed by local revenue, grants-in-aid and special purpose grants from the United States of America.





MICROCOPY RESOLUTION TEST CHART

NATIONAL BUREAU OF STANDARDS-1963-A

3. COOK ISLANDS

Geography and population

1. The Cook Islands constitute an internally self-governing State in free association with New Zealand. The group is composed of 15 islands. Rarotonga is the main island. The administrative centre, Avarua is located on this island. The population of the State in mid-1977 was 19,000. The total land area of the State is only 240 sq. km. Statistical information on gross national product and per capita income are not available. The State is an associate member country of the United Nations Economic and Social Commission for Asia and the Pacific.

Primary production

2. In the northern atolls, production is restricted mainly to coconuts and fish. In the fertile southern atolls, tropical produces are bananas, citrus and pine apples. Livestock includes cattle, pigs and goats. About 15 per cent of the work-force depends on agriculture.

Manufacturing industry

3. The Cook Islands is another very small territory in the South Pacific where manufacturing including export manufacturing is important. The secondary industry located in Rarotonga include a fruit cannery, two clothing factories and local handicrafts production. The total manufacturing employment in the islands is around 1,000 persons.

4. The manufacture of processed fruits and juices, mainly citrus and pine apples, has been the principal manufacturing activity in the Cook Islands for many years. These products are exported mainly to New Zealand. The territory is currently trying to produce dried bananas. It has one of the largest labour forces employed in non-resource based export manufactures. Two clothing manufacturers, Scott and Watsons, and Cashmere Macnicols, export their products to New Zealand. These two enterprises together

employ about 200 persons. Manufacturing and construction account for 24 per cent of the labour-force. Commerce, transport and services are very important, accounting for 61 per cent of the work-force.

Foreign trade

5. The Cook Islands suffer from an adverse balance of trade. The value of imports about doubles that of exports. The financing of excess imports is made possible by aid from the New Zealand Government and the remittances made by the Cook Islands workers in New Zealand. About 30 per cent of the Cook Islands exports go to New Zealand. Foodstuffs are the major import items. Tables 1 and 2 show the main exports and imports of the Cook Islands.

Table 1

Cook Islands - Main Exports
(In \$'000)

	1971	1974	1976
Bananas	316	117	84
Copra	142	300	106
Fresh citrus	124	15	2
Pearl shell	6	46	81
Pineapple juice	108	107	154
Citrus juice	509	604	725
Other juice	23	-	4
Fruit, canned	86	397	199
Fruit pulp	93	112	39
Clothing	550	779	430
Handcrafts	42.1	91	41
Footwear	-	-	72

Source: Pacific Islands Year Book, p. 55

Table 2

Cook Islands - Main Imports
(In\$ '000)

	1969	1970	1973
Foodstuffs	317	1,360	1,089
Textiles	335	512	508
Oil, petrol, etc.	336	275	229
Tobacco, cigarettes	91	-	69
Vehicles, parts	142	-	195
Timber, cement, etc.	127	137	130

Source Pacific Islands Year Book, p. 55

External assistance

6. Revenue raised in the Cook Islands is supplemented by aid from New Zealand in the form of grants and loans. Grants are made for social services and ordinary administrative expenditure, in addition to grants and loans for economic development project. Further, the Australian and Netherlands Governments and various international and UN agencies including UNDP are giving technical assistance to stimulate economic development in the Cook Islands. Transport and other infrastructures have been developed with external aid to encourage economic and social development.

7. UNIDO has provided technical assistance to Cook Islands in the field of small-scale processing for pineapple (feasibility study) and in regard to an evaluation study for the setting-up of suitable decentralized small- and medium capacity coconut processing plant (Table 3). The list of approved and operational projects include assistance to food production diversification (instant coffee, banana, and cassava processing) and the construction of a small-scale conversion plant for the production of

energy. Future assistance may include inter alia: agro-processing; wood products; home accessories; craft industries; industrial incentives and industrial design for small industries.

Table 3

UNIDO assistance provided to
COOK ISLANDS
from 1972 onwards

Project No.	Title	Total Expenditures
<u>COMPLETED PROJECTS:</u>		
SI/CKI/78/802	Small-scale processing for pineapple - feasibility study	US\$ 4,200*
SI/CKI/78/803	Evaluation study for the setting-up of suitable decentralized small or medium capacity coconut processing plant	US\$ 7,674*
<u>APPROVED AND OPERATIONAL PROJECTS:</u>		
SI/CKI/79/801	Food production diversification (total allotment: US\$ 11,850*)	- *
SI/CKI/79/802	Evaluation of availability of non-conventional sources of energy (total allotment: US\$ 8,500*)	- *

* Based on computer printout UNIDO-UMAPO2 dated 8.1.1980 ('Status of allotments for projects as at 31.12.1979')

8. The National Development Corporation Act was passed in 1975, under which the Corporation, a new agency was set up. The purpose of this agency is to manage some of the existing trading departments and to help islanders and residents set up small businesses and industrial enterprises through loan finance and advisory assistance. The Corporation was established with the Asian Development Bank aid in 1977.

4. WALLIS AND FUTUNA

Geography and population

1. The French territory of Wallis and Futuna consists of two main islands about 200 km apart. Futuna is about 240 km north-east of Vanua Levu in Fiji. The capital of the territory is Mata Utu on Wallis island. In mid-1977, the population of the territory was estimated at 10,000. According to the census of 1969, the total population of the territory was 8,362, Wallis accounting for 5,673 persons and Futuna for 2,689 persons. The active population is estimated at about 4,000 of which some 3,600 persons are engaged in agriculture and fishing. About 400 persons are employed in public service, commerce and the crafts.

Primary production

2. The local crops of the territory include taro, yam, bananas, breadfruit, tapioca and copra. These are grown for local consumption. Livestock includes cattle, pigs and poultry. There are a few fisheries and some forestry. People live mostly by subsistence agriculture.

Manufacturing

3. There is hardly any manufacturing activity in Wallis and Futuna. A wood-based product which finds ready sale overseas is "tapa", decorated with painting.

Infrastructure

4. There are some roads recently completed in both islands. There is an airport in each island. On Wallis there is a wharf at Mata Utu. There are infrequent shipping services with some islands and countries. A radio station may have been established by now. Electricity and drinking water are available on Wallis. Infrastructures available are limited and need extension and improvement.

Overseas trade

5. The island territory hardly exports anything and hence the value of its imports tends to equal its trade deficit. Table 1 shows its imports.

Table 1

Wallis and Futuna - Imports
(in CFP million)

	1974	1975	1976
Food	45	85	73
Textiles, clothing	4	5	12
Petrol, products	40	24	22
Raw & ind. material	72	64	59
Machines, transport	33	56	43
Others	<u>20</u>	<u>25</u>	<u>6</u>
Total	214	259	217

Note: Additional imports (55 tonnes in 1976) arrive by air and include medicines and spare parts

Source: Pacific Islands Year Book (1978) p. 458

External aid

6. External aid includes grants and loans from France and the European Economic Community. Revenue for the territorial budget is derived mainly from import tax and French Government subsidies. Separate French Government funds are available to meet the cost of the administration and capital works.

5. TUVALU

Geography and population

1. Tuvalu which was a dependency of Britain gained independence only in 1978. The group contains 9 islands formerly known as the Ellice Islands. The total land area of the islands is 26 sq. km. The main island is Funafuti which is also the capital of Tuvalu. According to the census of 1973, the population of the Ellice Islands was 5,867. The estimated population of the territory was 7,000 in 1975, whereas in mid-1977, it was estimated at 8,000 persons. Tuvaluans, like the inhabitants of some other islands of the South Pacific, move out of their islands to find work. Tuvalu is an associate member of the United Nations Economic and Social Commission for Asia and the Pacific.

Primary production

2. Primary production includes copra and subsistence production of coconuts. Commercial production of copra has varied considerably in the 'seventies according to such factors as hurricane damage, fluctuations in world policies and the availability of income from employment and remittances. In the absence of other cash crop opportunities and with the necessity to feed the increasing population, the main objective in agriculture has been to increase coconut production. Efforts are being made to increase livestock production and to increase the number of pigs and poultry to help reduce import requirements. Efforts are also being made to exploit fisheries.

Manufacturing and other activities

3. As regards manufacturing, there are only a few small business units on Funafuti engaged in baking, furniture-making and building. There is a co-operative wholesale society established on Funafuti to carry out importation on behalf of the island co-operative societies. Because of the remoteness and infrequency of air flights, the tourist trade has not made any headway in the territory, unlike in several other island countries of the South Pacific.

Overseas trade

4. The only exports, apart from a small quantity of handicrafts, consist of copra, the production of which fluctuated in the seventies from the maximum of 566 tonnes in 1974 to the minimum of only 60 tonnes in 1976 upto which year the figure was available.

External assistance

5. The sources of local revenues - personal tax and customs duties - are not at all adequate for the budget for which funds are made available by the British Government as grants-in-aid. The development fund estimates amounting to \$A1,558,513 in 1977 came entirely from grants and loans. The activities included the completion of the administrative centre on Funafuti, a deep sea wharf for Funafuti, an internal seaplane service, overseas training and scholarships and a number of study projects. The conditions in respect of roads, air travels, port facilities and electricity are satisfactory. Water supplies come from roof catchments that run into household tanks for consumption. In the field of industry technical assistance may be envisaged for handicraft industries; vegetable and coconut fibres.

6. NAURU

Geography and population

1. Nauru is a single raised atoll of 22 sq.km. in area. It is an independent republic and an associate member of the British Commonwealth. The population of Nauru in 1977 was estimated at 7,500. The administrative centre of the republic is in the Yaren district. The republic is a member of the United Nations Economic and Social Commission for Asia and the Pacific.

Primary production

2. Primary production is restricted to fruits and vegetables, livestock and fish. The main crop is coconuts. The seas around the island teem with fish. People catch them mostly for their own use. Pigs and poultry are raised. All other food requirements come from abroad.

Mining

3. The economy of the country is based on the phosphate industry. The phosphate is mined and marketed by the Nauru Phosphate Corporation established in 1969. The corporation assumed full control of the industry from the British Phosphate Commissioners in 1970. The corporation is a public body under the Government of Nauru.

4. The Nauruan phosphate represents the highest grade in the world. 84 per cent BPL guaranteed, with rocks treated in Nauru's modern calcination plant as high as 91 per cent BPL. The scrubs and overburdens are removed by bull dozers and then the alluvial phosphate and the large lump of rock phosphate are removed from around the coral pinnacles by mechanical extractors with clam-shell buckets.

5. Phosphate is transported to the railhead for crushing and then delivered to storage-bins where it is stored till ships arrive. It is then

loaded by cantilevers built over the encircling reef, because Nauru has no harbours.

6. Phosphate sales (exports) have fluctuated over the recent years. In 1973-74 there was a record export 2,394,000 tonnes which dropped to 1,951,000 tonnes in 1974-75. Phosphate sales amounted to 929,142 tonnes in 1976-77. This quantity represents only 38 per cent of the plant capacity - showing a very large excess capacity. The principal importers of phosphate are Australia, New Zealand, Japan and South Korea. The drop in sales has been due to the down turn in the world economy.

7. In 1976, it was officially estimated that Nauru had reserves of at least 42 million tonnes of phosphate which might last for 15 to 18 years depending on production consequent on foreign demand. There are deposits of phosphate in some other pockets, but these are not considerable.

Labour-force

8. The local labour force is insufficient to meet the requirements of the phosphate industry. The Nauru Phosphate Corporation, therefore, recruits workers from the Republic of Kiribati (Gilbert Islands) and Hong Kong. In 1976, the corporation employed 130 Nauruans, 110 Europeans, 740 Gilbertese and other Pacific Islanders and 480 Chinese. Employment is available for all Nauruans willing and able to work. The Nauruans have their own housing scheme and have provided good housing for themselves. The Nauru Phosphate Corporation provides accommodation for contract workers and their dependants. The Phosphate Workers' Organization formed in 1953 is the only trade union.

Finance and development

9. The main revenue of the Government comes from the sales of phosphate. The Government takes half the profit per ton. The rest is paid out to Nauruan Land-owners, a royalties long-term trust fund and the Nauru Local Government Council. The Government has been making important foreign

investments designed to be income earning such as the construction and leasing of the 51 storied Nauru House in Koliburne. Investments in other foreign and regional income earning projects are surely desirable to ensure future sources of income for the Nauruans against the exhaustion of phosphate mining.

10. The main budget expenditures are made on health, education, works and community services, and aviation, island development and industry etc. Large sums are also received and expended by the Nauru Local Government Council.

Infrastructures

11. Infrastructures such as, banking facilities, educational and health facilities, transport relations (by air, road and sea), communications and electricity etc. are well provided. Water supplies are mainly from the roof storage tanks and in prolonged dry periods water is imported as ballast in regular ships which call at the island. is pumped ashore into cement storage tanks and distributed to houses by tanker. This operation is handled by the Nauru Phosphate Corporation.

The prospects for development

12. The economy of Nauru is dominated by phosphate mining which will last for the next 20 years or so at the most. Alternative occupations or productive operations must be introduced in the country in all possible ways.

7. NIUE

Geography and population

1. Niue, an uplifted coral island of 258 sq. km. in area, is about 180 km. east of Tonga and about 560 km. south-east of Samoa. It is a self-governing Commonwealth country in free association with New Zealand. The administrative centre is Alofi on the west coast. The population of the territory was only 2,000 in mid-1977. Niue is an associate member of the United Nations Economic and Social Commission for Asia and the Pacific.

Primary production

2. Primary production consists of copra, passion fruits, limes, honey, beef and pork. The main livestock includes pigs, cattle and poultry. Forests consist of some good millable timber.

Manufacturing activities

3. The main manufacturing activity centres on food processing for export, with lime juice extraction, preparation of passion fruit juice and pulp and honey. There are small industries such as building and joinery garage, local fisheries etc. Tourism and related industries are growing. There is Niue Handicraft Co-operative Society to handle the production and marketing of the very fine wares plaited from pandanus and coconut palm leaves. There are opportunities for paid work within the Government services and the small industrial enterprises organized by the Niue Development Board.

Foreign trade

4. Most of Niue's trade, exports and imports, is with New Zealand. Exports and imports were valued at \$179,000 and \$811,000, respectively, in 1971 whereas exports and imports amounted to \$2,094,000 and \$196,000, respectively, in 1975. Most imports to Niue came from New Zealand supplying the bulk of them and Japan, Singapore and Fiji whereas its exports go

mainly to New Zealand, Fiji and Australia. In 1975, Niue's chief exports were copra, planted wares, passion fruit, honey, limes and juice. In 1976-77, New Zealand imported from Niue food and live animals, crude materials inedible except fuels, animal and vegetable oils and fats, chemical and manufactured goods to the total value of \$NZ 147,000, while in the same year, it exported a variety of products to Niue to the value of \$NZ 1,641,000.

External aid

5. The total revenue of Niue from all sources does not cover its expenditure and the New Zealand Government makes up the deficit with grants and loans determined from time to time. New Zealand has undertaken to supply necessary economic and administrative assistance to Niue.

Infrastructures

6. As regards transport by road, sea and air in Niue, facilities do exist. In Niue there are all-weather roads, local airfield, and port facilities at Alofi. There is a monthly shipping service operated by the New Zealand shipping corporation communications facilities are also available and there are overseas airlines operating in Niue. Electricity is available and pure drinking water is drawn from deep well in the coral.

Development planning

7. Under the guidance of the Agricultural Department, the Niue Development Board carries out productive ventures in agriculture and livestock. The Board is responsible for planning and financing schemes and produces lime juice, passion fruit pulp and juice, honey, copra and reconstituted milk. The Board has assisted the local producers in setting up small industries.

5. TOKELAU

Geography and population

1. Tokelau, formerly known as Tokelau Islands, is a dependency of New Zealand and is administered as part of that country. The group consists of three atolls and is about 480 km. north of Samoa. Each atoll has its own administrative centre. In mid-1977, the population of Tokelau was estimated at only 2,000 persons. Tokelauns are British subjects and New Zealand citizens. Many Tokelauns migrated and resettled in New Zealand due to shortage of national resources, as in the cases of several other small islands of the South Pacific. The three atolls are Nukunonu, Fakaofu and Atafu.

Primary production

2. The few natural resources were barely sufficient to meet the needs of the simple patterns of life followed by the people. In recent years, increasing contacts with Samoa and New Zealand have stimulated a desire among the people for wider opportunities to advance their living standards.
3. The economy of the territory is based mainly on the resources of the sea, and the coconut and pandanus palms. Most families get their remittances from relatives working in New Zealand.
4. Apart from the manufacture of copra, agricultural products are of a basic subsistence nature. Food crops consist of coconuts, taro, breadfruit and bananas.

Manufacturing activities

5. The local manufacturing activities include copra production, wood work and finely plaited goods such as hats, mats and bags. Local timbers are used in house building, with plaited pandanus providing walls and roofing.

Trade

6. The group exports copra. A small volume of handicrafts is also exported. The main imports of the group are staple food items and fuel. There is co-operative store for each village run by a village management committee and supplied by the office of Tokelau Affairs.

Finance and external aid

7. The total revenues of the group fall far short of its expenditures. Revenues are mainly derived from export duty on copra, customs duty, trading profits etc. The deficits are met by the New Zealand Government, after the annual estimates have been prepared by the Administrator, keeping in view the works programme, and approved by the Minister of Foreign Affairs. Tokelau gets regular financial aid from New Zealand together with additional aid, as required for the administration and development work of the group. The Nauru shipping line serves the group but it has no regular port facilities.

9. TRUST TERRITORY OF THE PACIFIC [MICRONESIA] ^{1/}

Geography, Population, National Income and Employment

1. The Trust Territory comprises the Caroline, Marchalls and Marina groups of islands which are located between the equator and 20°N in the Western Pacific. The administrative Headquarters is located at Kolonia in Ponape district. It is the goal of the US Administration to end the trusteeship in 1981.
2. The population of the Trust Territory at the 1973 census totalled 110,800; the projected 1978 population is approximately 125,600. A very large proportion of the population, 70 per cent, is under 24 years of age and 47 per cent under 15 years. Over the next five to ten years therefore a very large percentage of the population will move into the work force.
3. The estimated per capita income (GDP) in 1975 was US\$1,051, but per capita income in the districts ranged from \$600 in Truk up to \$1,103 in Palau and \$2,713 in the Marina Islands. The national income is, to a great extent derived from wages and salaries in the government sector. The economy has at present a limited productive base. Annual imports amounted to US\$79.5 million in 1975 (of which \$12.3 million are food imports) compared with annual exports of \$17.8 million. United States Government transfers for current operating expenditure total \$66.5 million in the same year. These figures compare with a national income of \$126 million for 1975 (and total consumption of \$151.1 million).
4. Out of a total work force of 57,800 in 1973, 10,000 were classified as working in the 'village economy' and 18,200 were engaged in the 'money economy' of which 7,500 were employed by the government, 17,500

^{1/} Although the Trust Territory of the Pacific does not belong to the South Pacific region, the Territory has been included in this profile for technical assistance reasons.

were classified as not working and 7,200 (or 12.5%) were registered as unemployed. Any stagnation or decline in government employment and financial inflows from the United States in the near future would therefore imply sharply rising unemployment and possible declining per capita income in the Trust Territory, unless indigenous production can be quickly increased.

Infrastructures

5. The physical and geographical characteristics of Micronesia place a severe constraint on development. The Territory comprise thousands or small (often minute) islands spread over approximately 3 million square miles of the Pacific. These characteristics coupled with inadequate transport and communication links between the districts, severely limit the alternatives for developing resources and indicate the need for a realistic appraisal of the location and allocation of productive activities between the districts.

Primary Production and Industry

6. The main agricultural crop, both subsistence and export, is coconut. Root crops and fruits are grown mainly on a subsistence basis. Within the village economy there is some livestock and fishing production, however, no reliable statistics in agriculture and fisheries output exist. There are opportunities for agricultural development in regard to coconuts, vegetables, fruit, livestock and fisheries. In the field of industry, local processing of certain agricultural and fisheries products is envisaged for the future including inter alia an integrated feed mill industry.

Development objectives

7. The Government has adopted its first Five Year Indicative Development Plan covering the period 1976-1981. The Plan is the first attempt by Micronesians to chart their own economic and social development in preparation

for the expected termination of the trusteeship agreement in 1981. The main objectives of the Plan refer to: provision for increased standard of living; creation of a restructured, balanced and self-supporting economy; and maintaining of minimum essential government services. The Plan is aimed at reducing the large excess of consumption over indigenous production. The Government has therefore emphasized the need for increasing the level of domestic production through an increased flow of investment and other resources to the productive sectors of the economy, including light industry.

Financial and External Aid

8. Micronesia has, so far, depended much on the United States for both capital and technical assistance. As part of efforts to become self-supporting the Government will try to reduce reliance on this assistance, as well as to redirect aid towards more productive uses. While the general education and literacy level of Micronesians is high compared to other developing countries, very few persons have acquired the specialized skills needed to develop the productive sectors, especially agriculture and fisheries. Technical assistance requirements, therefore, in terms of outside expertise and properly designed training programmes are very great, and will continue to be so for some time to come.

9. The nature of the future relationship between the U.S. and Micronesia after independence is uncertain. However, it is anticipated that the flow of resource will be less than at present. The Government has emphasized that the social and economic ramifications of the political evolution of Micronesia must be anticipated and planned for. To this end the Government has asked the UNDP and through it, the UN system as a whole, to assist in the development efforts. The current country programme covering the period 1977-81.

UNIDO Assistance

10. The UNDP Country Programme is focussed on three main areas: planning; agriculture and marine resources; and manpower. The Government recognizes the need for assistance in other areas including light industry development and export promotion. UNIDO has provided preliminary assistance to the Trust Territory in regard to quality control of ethnic industries and in the field of handicrafts. The list of approved and operational projects, see Table 1, includes assistance in mother-of-pearl buttons manufacture, development of coconut oil production, and the establishment of clay products manufacture.

Table 1

UNIDO assistance provided to
TRUST TERRITORY OF THE PACIFIC ISLANDS
from 1972 onwards

Project No.	Title	Total Expenditures
<u>COMPLETED PROJECTS:</u>		
-	-	-
<u>OPERATIONAL AND OPERATIONAL PROJECTS:</u>		
SI/TTP/79/803	Mother-of pearl buttons manufacturing (total allotment: US\$10,600*)	- *
SI/TTP/79/802	Development of the coconut oil production and processing industry (total allotment: US\$59,100*)	- *
SI/TTP/79/801	Assistance in the establishment of clay products manufacture (total allotment: US\$26,850*)	US\$ 4,087*

* Based on computer printout UNIDO-UMAPO2 dated 8.1.1980 ('Status of allotments for projects as at 31.12.1979')

CHAPTER X

THE DEVELOPING COUNTRIES AND TERRITORIES OF THE SOUTH PACIFIC ^{1/}

SUMMARY OF FINDINGS AND RECOMMENDATIONS ON DEVELOPMENT FROM
THE NATIONAL, REGIONAL AND INTERNATIONAL ASPECTS

^{1/} This chapter excludes the previous analysis of the Trust Territory of the Pacific (Micronesia), which is part of the Western Pacific.

MAIN ECONOMIC CHARACTERISTICS OF THE COUNTRIES OF THE SOUTH PACIFIC

1. A review of the economic and industrial situations of the developing countries of the South Pacific brings out clearly a number of important common economic characteristics, in spite of the diversities of their languages, cultures and ethnic origins.
2. First, the economies of the developing countries of the area are primarily agricultural. A significant, rather a major sector of the agricultural economy of each country, belongs to subsistence agriculture which needs to go through a process of modernization and commercialization. This process can be accelerated through some degree of industrial development in the required directions, such as, the improvements of traditional agricultural tools and implements, the production of agricultural inputs such as fertilizers, pesticides etc., and the diversification of agricultural crops.
3. Secondly, these countries are mostly the producers of some cash crops, such as tropical agricultural products, some minerals, fish and fish preparations, logs and sawn timber which are exported. Table 1 shows the regional exports of the South Pacific developing countries during 1975/76.

Table 1

Regional Exports 1975/76
South Pacific Developing Countries

<u>Minerals</u>	\$A million
Nickel ore and smelted nickel - New Caledonia	234.8
Copper ore and concentrates - Papua New Guinea	199.5
Phosphates - Nauru, Gilbert Islands (Kiribati)	76.7
Gold - Fiji, Papua New Guinea	11.0
Other - mainly manganese from New Hebrides	0.9
Total	<u>522.9</u>

<u>Tropical Agriculture</u>	\$A million
Sugar - Fiji	62.9
Coffee - Papua New Guinea, New Caledonia	42.5
Cocoa - Papua New Guinea, Western Samoa, New Hebrides	31.9
Copra - Papua New Guinea, New Hebrides, Solomon Islands, Western Samoa, Tonga etc.	27.3
Coconut Oil - Papua New Guinea, French Polynesia, Fiji	15.2
Tea - Papua New Guinea	4.0
Crude Rubber - Papua New Guinea	2.7
Fruit Juices - Cook Islands, Papua New Guinea	1.3
Desiccated Coconut - Tonga, Fiji	0.6
Bananas - Tonga, Western Samoa	0.5
 Total	 <hr/> 183.9
 <u>Fish and Fish Preparations</u>	
Tuna - American Samoa, Solomon Islands, Papua New Guinea, New Hebrides, Fiji	68.6
Prawns - Papua New Guinea	2.6
Pet Foods - American Samoa	2.2
 Total	 <hr/> 73.4
 <u>Logs and Sawr. Timber</u>	
Papua New Guinea, Solomon Islands, Fiji, Western Samoa	23.5
 <u>All other items</u>	 69.3
 TOTAL	 <hr/> 898.0

Source: Commonwealth/SPEC. Industrial Development and Trade Relations in the South Pacific, London (1978), p. 10.

4. Thirdly, the developing countries of the South Pacific import food items and a wide range of manufactured products, although many simple items of consumption goods are locally produced. In almost every country, there are some opportunities for the production of import substitution products based partly on local resources and partly on imported raw materials, components and accessories.

5. Fourthly, most of the island countries of the region are rather small in terms of population and hence in terms of domestic markets or demand. This characteristic of the countries surely points to the need

for emphasizing the development of small-scale industrial enterprises and limits the growth of large scale industrial enterprises, unless there are substantial opportunities for the export of manufactured goods so produced. Table 2 gives the statistics of the developing countries of the South Pacific in terms of population, total gross national product, per capita income and manufacturing employment.

Table 2
Some Basic Statistics for South Pacific Development Countries

	Population mid-1977 000	Gross National Product		Manufacturing Employment 000
		Total	Per Capita	
		\$USm	1974 \$US	
Papua New Guinea	2,908	1,250	470	15
Fiji	592	470	840	13
Solomon Islands	205	60	310	1+
Western Samoa	152	50	300	1+
French Polynesia	137	340	2,530	2+
New Caledonia	134	550	4,170	5
New Hebrides	100	40	480	-
Tonga	90	30	300	1
Gilbert Islands	54	40	730	-
American Samoa	31	30	1,100	2
Cook Islands	13	na	na	1
Wallis and Futuna	10	na	na	-
Tuvalu	8	na	na	-
Nauru	7	na	na	-
Niue	4	na	na	-
Tokelau	2	na	na	-
Total	4,454	2,860	642	41

Note: In column 4, - means less than 400 and + means estimated after deducting allowance for employment in construction.

Source: Commonwealth/SPEC Industrial Development and Trade Relations in the South Pacific, London (1978), p. 9

6. Fifthly, an island country or territory itself consists of many small islands geographically scattered and this fact of fragmented markets dictates some measure of industrial development on the basis of local self-sufficiency. Inter-island transport and communication relations within an

island country will, therefore, dictate to some extent the geographical or local character of development.

7. Sixthly, urbanization in selected areas is a feature of many of these countries such urbanization has been brought about by a rapid growth of trade in exported cash crops and imported manufactured products covering a wide range. In individual island countries, therefore, there is an urgent need for the dispersal of economic activities and for the stimulation of rural development by both developing and improving the infrastructural facilities of various kinds - physical, institutional, financial and social.

8. Seventhly, a review of available national and per capita income statistics in these countries has shown that the per capita incomes in most of the countries are pretty high compared with those in other developing or less developing countries of the ESCAP region. These high per capita incomes, however, say nothing about the inequalities in the distribution of income both among different sections of indigenous people as well as between the local people and the expatriates who dominate the economic scenes in these countries for political, historical and institutional reasons. In this context, the development, improvement and commercialization of the predominant subsistence agriculture sector will have the effect of narrowing down the existing gaps in the distribution of incomes.

9. Further, most developing island countries of the South Pacific area are not self-reliant. The tests of self-reliance are broadly two: (i) the ability of a country to pay for what it buys from abroad; and (ii) the capacity of a country to finance its own annual budget. In both respects, the newly independent countries, self-governing territories and the protectorates depend heavily on foreign loans and grants from countries like Australia, New Zealand, U.K. and France. The fact, however, remains that almost all countries have large deficits in the trade balances.

10. Furthermore, several countries of the region have their economic and social development plans which are not, however, comprehensive in character. These countries are Papua New Guinea, Fiji, the Solomon Islands, Samoa and Tonga. Over-all development plans on a systematic basis from macro, sectoral and project angles need to be dovetailed. Other countries need to initiate development plans with emphasis on project contents to start with. UNDP, UNIDO and ADB assistance to the countries in this field will be very valuable.

11. Lastly, most developing countries of the South Pacific are fortunate in that in general their resources appear to be favourable in relation to their population. While referring to their resources, account should be taken of their off-shore and sea resources, where potentials are vast. Not much attempt has yet been made to explore the latter kind of resources which in the future may be very significant. The importance of the fisheries resource, for instance, can be highlighted particularly in view of the introduction of the 200-mile economic zone by most governments. Expert studies on the exploration and utilization of marine resources of these countries will be very useful steps in the right direction. This is an area where technical assistance from the United Nations system and other sources are extremely necessary for the developing island countries of the South Pacific.

THE NATIONAL ASPECTS OF DEVELOPMENT

12. Having taken account of the main economic characteristics of the developing island countries and territories of the South Pacific as put forward above, their economic and industrial development questions can be looked at from three aspects, namely, (i) the national aspect; (ii) the regional aspect; and (iii) the international aspect.

The national aspects

13. From the national development point of view, first, an industrial development plan yet need to be fitted into the overall development plans in countries which have formulated such plans. In formulating an industrial development plan, the main emphasis must be placed on the project content, namely, the identification of projects based mainly on local resources and also on imported components and accessories for the substitution of imports. There may be possibilities also to develop projects to produce finished exportable items. There is a justification for this both to modernize the predominantly agricultural economies and also to create employment opportunities needed in most of these countries.

14. Secondly, most of these countries have no definite industrial policies. It is essential to have such policies embodying the requirements for the implementation of the industrial plans and objectives, such as the infrastructural arrangements like the setting up of industrial estates in selected areas with the necessary facilities, the institutional needs like the creation of a corporation under the ministry of industry for the implementation of industrial projects, the development of local entrepreneurship, the mobilization of national savings, the attraction of foreign investment, industrial training etc. In short, all industrial promotion measures to create what is usually called the industrial climate should be taken by the governments concerned.

A case for small scale industrial enterprises

15. From the national industrial development point of view in these countries, there are some difficulties such as (a) limited, fragmented and isolated markets; (b) problems about transport and communication relations both internal and external; (c) the limitation of technical know-how, skill, local entrepreneurship and finance; and (d) the deficiency of institutional infrastructure for the development of industries. In view of these difficulties or handicaps, the countries of the South Pacific will do well to place primary emphasis on a systematic development of the modern small scale industrial enterprises development programmes to accelerate their industrial growth, in addition to the traditional handicrafts or cottage industries which already exist in most of these countries. The main emphasis of the national industrial policies of the governments of the developing countries of the South Pacific should be on the development of small scale industrial enterprises in the light of their resource endowments and requirements. The development of small-scale enterprises is supported for a number of reasons as follows.

16. First, small-scale enterprises assist in achieving a balanced economic growth by creating, strengthening and improving the linkages between the agriculture sector (covering both developing and subsistence agriculture) and the modern sectors like industry, transport, etc. In particular, these small countries dependent on agricultural cash crops produced mainly for exports and on imports for almost all their manufactured goods could mostly develop small-scale enterprises for the production of some import substitution goods because of the limited size of their domestic markets.

17. Secondly, small-scale enterprises have played and will play a significant role in creating employment opportunities within the larger process of industrialization in the labour-surplus economies of most of these developing countries.

18. Thirdly, such enterprises are admirably suitable for development on the basis of dispersal, as part of the strategy for the industrialization of semi-urban and rural areas of the developing countries of the South Pacific. Further concentration of industries in the metropolitan area is discouraged on good economic, social and environmental grounds, while modern small scale enterprise could be located in the semi-rural and rural areas of the developing countries, if minimum infrastructures required could be created there. This strategy envisages linkages between the metropolitan areas and the rural areas that is, goods can be produced in the rural areas mainly for the consumption of the urban areas. Moreover, in small-scale industry, there may be distinguished two sectors - the traditional and the modern sector - developing rather independently, side by side, and co-existing. These are usually not directly related to and competing with each other in terms of either the market for their products, or their techniques.

19. Fourthly, imperfect competition protects the small firms' markets and enables them to survive even where these are not efficient in terms of cost. The imperfection may be due to rational factors, like transport cost, which can hardly be eliminated. It may be due to differentiations in taste: that is, there may be an individuality of product to which the consumers really attach significance and to irrational factors which are also important in determining demand.

20. Fifthly, the development of small-scale enterprises would surely form part of integrated rural development programmes on which so much emphasis has been placed recently in some of these countries. However not much attention has yet been given to the industrial or non-agricultural components or activities of such programmes.

21. Lastly, the development of small-scale enterprises is consistent with a self-reliant or resource-using industrialization strategy in terms of the choice of technique, factor endowment of these developing countries, reduction of concentration of ownership and income and, above all, employment creation.

A self-reliant industrialization strategy for the developing countries does not imply autarky, although government assistance in certain forms is called for to promote such a strategy.

22. In both developed and developing countries of the ESCAP region, small scale enterprises make important contributions to the national economy. The historical experience of Japan provides long-term records of the existence of small scale enterprises. In India and other countries, the experiences have been similar. In Bangladesh, for example, the small-scale and traditional industries provide the bulk of industrial employment about 6 to 7 times the total volume of employment provided by the large-scale industry which come to about 400,000 persons. Cottage industry provides the largest proportion of total employment. In 1960's, the handloom industry alone employed 750,000 persons. In 1969, there were about 330,435 units of cottage and small-scale establishments in the rural areas of Bangladesh and most of them employed fewer than 7 persons. Thus cottage and small-scale industrial enterprises play an important role in providing employment, although their contribution to GDP is relatively small.

23. There are overriding considerations for increasing employment opportunities in the developing countries of the South Pacific so as to raise the income and purchasing power of the people in general to stimulate effective demand in these economies and it is the development of small scale enterprises which afford opportunities to achieve this on a wide-spread, though a modest scale, within a relatively short time.

24. The Lima Plan of Action took into account that, in the developing countries, national industrialization policies should emphasize, among other things, the establishment of production facilities covering all branches of industry aimed at meeting the needs of both internal and external markets through:

"Encouragement and support of small, medium scale and rural industries and industries which fulfil the basic needs of population and which contribute to the integration of different sectors of the economy, and to this end due attention should also be given to the industrial co-operatives as means of mobilizing the local human, natural and financial resources for the achievement of national objectives of economic growth and social development."

25. Most countries of the ESCAP region have programmes for the development of small scale industries and have developed institutional and infra-structural facilities, although in many cases, these are not efficient and adequate. In the South Pacific area of the ESCAP region, where the countries are small in terms of population and the size of markets, there are good opportunities for the development of small scale enterprises. To repeat, these countries usually dependent on a few export crops and on imports for most of their manufactured goods could develop small-scale enterprises for production of selected import substitution goods leading to employment creation badly needed in these countries. Some of these countries have, however, not yet developed even the necessary institutional arrangements to initiate development of these enterprises.

26. A common drawback in regard to the development of small scale enterprises in almost all developing ESCAP countries is the lack of a comprehensive, concerted and integrated approach to the development of small-scale enterprises programmes. The need for a broad integrated approach in this area has been very well emphasized, by E. Staley in a study - "Small-Scale Industry and Economic Growth" in the following words:

"The small industry development programme should be reasonably comprehensive. Usually it does little good merely to set up an institution charged with making capital and credit more readily

available to small industry. The development results are likely to be disappointingly small, because opportunities for making truly sound developmental loans to small industrialists will be limited by such factors as lack of technical knowledge, poor marketing, badly designed products, and lack of skill in planning and managing the expansion of a business. Similarly a technical advisory service by itself or an industrial research institute, or a demonstration centre showing improved practices, or a management training course, will have a rather limited effect if set up in isolation rather than as part of a more comprehensive programme. The small industrialist, for example, may be impressed by demonstrations of mechanized production methods but, without access to suitable financing, be quite unable to acquire even a modest amount of machinery. An action programme, to be effective in modernizing and expanding small industry, must simultaneously push outwards on a number of limiting factors".

27. A programme to develop small scale industries must not concentrate on one aspect only such as finance and neglect difficulties in other areas such as marketing and technical assistance if such a programme has to be made successful. The government authorities responsible for development and stimulation of small scale enterprises must take action simultaneously on the various elements or components of the programme, such as, identification of opportunities for small-medium scale industrial enterprises, financial support, technical assistance, marketing support, industrial research and advisory services, procedure to facilitate the procurement of raw materials and equipment, the establishment of industrial estates, entrepreneurship development, industrial training and development administration, and government policies.

28. UNIDO has assisted many developing countries of the ESCAP region by rendering technical assistance in several forms such as expertise, institution building etc. There is still room for much more to be done particularly in the small-scale industry sector through such assistance in the needed areas in the developing small island countries of the South Pacific. UNIDO's long-range strategies in promoting international division of labour as part of the creation of a New International Economic Order, are of great significance and full of potentials. UNIDO's traditional activities related to technical assistance to the developing countries have been and are expected to be productive in the short-medium period. Within this time horizon, the field of small- and medium-scale enterprises is one of the areas where fruitful results can be achieved. Technical assistance in this field is, therefore, of continuing and increasing importance and needs to be emphasized in the context of the developing island countries of the South Pacific.

. THE REGIONAL ASPECTS OF DEVELOPMENT

29. Having emphasized the formulation of small-scale industrial enterprises development programmes as part of the national industrial plans or programmes for the developing countries of the South Pacific we may now turn to the second aspect of the industrialization possibilities in these countries, namely, the regional aspect.

The regional aspect - industrial co-operation

30. Although the island countries of the South Pacific area are scattered, divided by seas and marked by long distances, it will be true to say that they together constitute a compact region providing a much larger market, better access to resources and opening up opportunities for the joint development of some infrastructural facilities and industrial projects which may be commonly shared by them to the benefit of all of them. These factors open up opportunities for industrial co-operation (integration) in the South Pacific area in the form of regional specialization and the setting up of joint industrial ventures on a selective basis by pooling together the resources and markets of a number of countries. The countries of the South Pacific included in this Profile together with the two developed countries, namely, Australia and New Zealand constitute a large market of 21.6 million people (mid-1977). Only three developing countries of the region, namely, Papua New Guinea, Fiji and the Solomon Islands have a sizable population each.

31. It is pertinent just to point out the benefits that accrue or are likely to accrue from such co-operation. Industrial integration seeks to achieve primarily the economies of scale. It can take place within a country when the number of industrial units in the same industry is reduced and combined into one optimum unit for efficient operation. Such rationalization

may be applicable to a large country offering the desired large market for the products of the industrial unit concerned. But, where the countries are small with limited market, population and resources for development, a single optimum unit in an industry like iron and steel will not be an economically and commercially viable project unless markets among these nations are pooled so as to achieve the economies of scale. In such a situation, industrial integration across national boundaries or multinational industrial co-operation is the desirable thing to promote. Regional or sub-regional industrial integration and specialization ensures the economies of scale made possible by the integration of national markets which, if left alone, would be too small to permit economic operation of a single plant or enterprise in a given industry.

32. In the South Pacific area of the ESCAP region, all developing countries are small - some are very small - nations having rather very limited home markets. It is particularly the developing small and very small nations which stand to gain by sub-regional co-operation in industry. It is not possible for these nations of the sub-region individually to achieve economies of scale for some important industries even of the import substitution type and in such cases industrial integration is the practical alternative. In this regard a regional import substitution programme and an export promotion programme of selected products may be visualized.

33. Industrial integration as a means of accelerating development by joint efforts brings about a number of advantages in the form of economies of scale, favourable location and specialization, enhanced efficiency and reduction in external vulnerability. First, economies of scale are attained for products requiring large markets such as basic semi-manufactures (iron and steel, non-ferrous metals and heavy chemicals), fertilizers, pulp and paper, capital goods (such as industrial machinery, farm machinery, electrical equipment, transport equipment) and durable consumer goods. These products are characterized by a higher income elasticity of demand within the consumption pattern of developing countries and their production offers some of the most dynamic opportunities for

economic growth.

34. Secondly, the advantages of specialization in particular locations of an extensive rather than a small area will be particularly realized in respect of products in the production of which raw materials or energy are responsible for a major proportion of the total costs, for example, certain chemicals, aluminium, paper and cellulose. For sophisticated products such as motor cars and machines, experience likewise shows the importance of specialization among producers in a region or sub-region. The producer of the final product often does not himself produce the numerous parts, components and accessories but buys them from separate specialized firms which can achieve substantial economies by supplying various producers of finished products. Thirdly, industrial integration increases industrial efficiency as a wider regional or sub-regional market would sustain a larger number of efficient production units.

35. Lastly, industrial integration reduces the vulnerability of the economies of the developing countries to external changes. The exports of some primary products from most developing countries like those of the South Pacific have been responsible for a steadily declining share in exports earnings to pay for their rapidly expanding imports of capital and other manufactured goods. On the other hand, industrial exports with a higher elasticity of demand command better terms of trade than primary exports and can bring higher export earnings to the developing countries and thus help to improve their highly vulnerable payments position.

36. Against this background, the possibilities of joint or co-operative action on the part of the countries and/or territories of the South Pacific in the field of industrial development may be explored. The possibilities in this direction depend on transport costs and facilities, the resources of the area, comparative advantages, the size of markets, institutional arrangements, common infrastructural facilities and the trading arrangements with the countries and territories of the area and also with other countries.

37. In the chapters on individual countries the resources of the countries have been mentioned along with the existing industrial activities and the future possibilities of industrialization. Table 1 of this chapter has also shown the exports of these countries. The first important thing is, therefore, to have a closer look at the existing resource endowments of the South Pacific and the market conditions prevailing there and, on the basis of these considerations, to identify a set of industrial projects which can be jointly undertaken by the developing countries of the South Pacific, particularly with the support and co-operation of the two advanced countries of the region, namely, Australia and New Zealand.

38. It will be improper to attempt to suggest specific industrial projects for joint action for the South Pacific countries without detailed investigations and consultations with the countries which may be involved in such projects. This is one of the tasks which the forthcoming mission for the Industrial Survey of the South Pacific may undertake. A few criteria may, however, be suggested for the identification of the industrial sectors or sub-sectors likely to lead to joint action by the countries.

The size of industrial sectors or sub-sectors

39. The industrial sector chosen should be a relatively narrowly defined sector (for example, agricultural machinery or pharmaceuticals) rather than a very wide and loosely defined one (for example, capital goods). There are a number of practical reasons for this. A small number of participants will make organization easier; there is more of common interest between such participants; it is easier to reach decisions; it is easier to agree on representatives who can speak for the national industrial sector or sub-sector at regional or subregional meetings; and it will permit more concentrated and informed discussion at meetings.

10. The industrial sector or subsector chosen, however, should not be too narrow. It is likely to be easier to reach decisions if the coverage is wide enough to include a variety of products, for instance, pharmaceuticals as a whole or agricultural machinery as a whole rather than a narrow range of pharmaceuticals or of agricultural machinery.

The choice of industrial sectors or subsectors

41. The criteria to determine priorities in the choice on this basis, of a particular industrial subsector for early action could be as follows:

- (i) The extent of the interest shown by Governments and private industry in possible action in a particular sector;
- (ii) The number of countries that have substantial productive capacity in a particular sector;
- (iii) The priority that the particular sector has in the industrial development plans of the countries concerned;
- (iv) The scope that the particular sector offers for specialization and rationalization, whether horizontal (division of production programmes in multiproduct enterprises), vertical (mutual subcontracting of parts and components for similar end-products) or supplementary (the addition of new production lines);
- (v) The scope for market growth and exports as a result of pooling of markets as well as rationalization and cost reduction;
- (vi) The scope for regional import substitution and increased trade between the countries.

Economies of scale

42. The advantages that may accrue from the implementation of regional, subregional or multinational industrial projects are not necessarily restricted to a few large industrial undertakings where economies of scale are considered to be very important. Even with an expanded market the identifiable joint industrial projects among the developing countries of the South Pacific would perhaps be medium-sized. It might be feasible to develop industrial projects of medium size where economies of scale are also available and where complex management problems and very large capital investments associated with very large industrial undertakings can be avoided through co-operation among a limited number of countries. In support of this view, the following arguments are advanced:

- (i) The economies of scale increase rapidly with the growth of an enterprise from small to medium size, but only marginally with growth from medium to large size. This observation is particularly valid for low-wage economies where labour-intensive techniques are often preferred for employment reasons;
- (ii) Diseconomies of scale do not usually appear as a firm grows from the small size to the medium size. They arise as the firm grows from the medium to the large size;
- (iii) Many of the cost-reducing techniques of large-scale industries can be fairly easily adapted for application to the medium-sized undertakings, particularly if the latter specialize in a narrowed range of products;

- (iv) The principle of the division of labour, i.e. the breaking up of tasks into their component parts or processes and their distribution to individuals, groups or specific machines, is an approved method to enhance productivity in any scale of operation and is not at all limited to large-scale manufacturing enterprises;
- (v) Specialization in the production of specific commodities by a particular group or region is also not limited to modern large-scale industries;
- (vi) Finally, standardization, commonly claimed to be the product of large-scale industries, was in reality initiated by medium-sized machine - tool manufacturers, who introduced such basic engineering standards as preferred dimensions, standard fits and limits, uniform screw threads and connecting elements;
- (vii) Simplification, i.e. the art of limiting the multiplicity of inputs, is certainly not the domain of large-scale industries. Actually, its cost-reducing effect is greater in the medium-scale range.

43. The above arguments strengthen the view that regional or subregional industrial projects of medium size can be promoted by co-operation among a limited number of countries without sacrificing the benefits or economies of modern production. The fact, however, remains that the medium-sized enterprises should be organized in such a way that the application of the cost-reducing techniques is feasible to the maximum extent. Each enterprise should be located entirely within a single country, thus eliminating the obstacles arising from multinational operations. Acceptance of this principle might enhance the possibilities of subregional industrial co-

operation among a restricted number of countries with not too big a market and including a limited number of industrial projects of medium size. Many of these industries fall under the assembly type industries, where subcontracting opportunities for projects for the manufacture of parts, components and accessories are very important.

Method of co-operation: Trade liberalization, "Complementation Agreement" and the "Package deal" Approach

44. There is little doubt that the type of comprehensive integration established in Europe and Latin America covering free trade areas, customs unions and common market arrangements are neither practicable nor desirable in the immediate future in the South Pacific Region. In the present socio-economic and political context, partial integration based upon a project/industry approach is a more feasible and a more efficient instrument. In this context the following three approaches could be applied.

- (i) co-operation in selective trade liberalization;
- (ii) co-operation in the form of "complementation agreements";
- (iii) co-operation in the form of "package deal" agreements for the allocation of industrial projects between countries

All of these approaches should be looked upon as complementary techniques which may be pursued individually, simultaneously or in combination.

45. Co-operation in selective trade liberalization involves trade liberalization among participating countries in selected products or industries with due regard to international trade and tariff obligations arising, for instance, out of membership in GATT. This technique is aimed at increasing efficiency and achieving a more economic use of resources both in the short and long run by increasing trade among the Pacific Islands and permitting a greater degree of specialization. The long-run objective would be a limited free trade area. In the past intra-regional trade among the Pacific Islands has been very small,

probably in the vicinity of one per cent of total trade ^{1/} and there are great barriers to expansion. Trade liberalization alone, does not necessarily bring about the advantages of regional co-operation, nor does it necessarily enable the problems of equity and a fair distribution of benefits to be satisfactorily solved. Further, in the short run, the effects of trade liberalization on existing industries enjoying high protection may be extremely adverse and may outweigh benefits derived from increased trade and from new investment made possible by wider markets. In the South Pacific, inadequate transport facilities, limited communication and imperfect competition implies that market forces alone are unlikely to achieve desired results. The levels of import duties among the countries of South Pacific are already low. Further revisions will perhaps not present a serious problem, once co-operation develops. It is for these and other reasons that in most cases trade liberalization is a necessary but not sufficient condition, which has supplemented by arrangements for planned development of new and existing industries.

46. Co-operation in the form of "complementation agreements" is aimed at expanding trade at the level of the individual industry or a small group of related industries and the promotion of an appropriate degree of specialization among plants, including industrial processes, in member countries, with a view to exploiting economies of scale and a better utilization of (excess) capacity. The emphasis is on a deliberate planned rationalization and specialization of existing industries followed by trade, tariff and other policy adjustments with due regard to efficiency and fair distribution of gains. This technique has considerable merit: - where industries already exist; - where the number of firms involved is small; - where conditions for establishing a unified regional market may be more easily fulfilled for

^{1/} ESCAP: Economic and Social Survey of Asia and the Pacific, E/CN.II/L.412, 10 January 1975, page 344; see also UNCTAD: Economic Co-operation and Integration among Developing Countries (TD/B/609, Vol.II) 20 May 1976, page 147.

certain industries or group of products than for others; - where differences between industries are so great that an individual approach is indispensable. In this approach industrial entrepreneurs commit themselves to undertaking specific action in the field of production, trade or investment leading to regional specialization. They also guarantee manufactures of other countries' acceptance of their commitment to production in agreed areas and to avoid developing competitive capacity during the period covered by the agreement. Investment and financial co-operation can be pursued through joint ventures with participation from different countries. The technique relies heavily on the initiative of the private sector, assisted by governments in international sectoral negotiations leading to a treaty between participating governments. The "complementation agreement" approach has been attempted in Latin America, within the context of LAFTA. The experience gained in these countries may prove to be a useful guide for the applicability of this approach to the South Pacific Region. The experience of Caribbean Free Trade Area (CARIFTA) may also be useful in this regard.

47. Co-operation in the form of "package deal" approach for the allocation of industrial projects between countries may be defined "as a technique of regional co-operation in which the member countries of the regional scheme agree to allocate certain specified industrial activities for a specified, agreed and limited period of time (say, up to 10 years), to individual member countries, and in which they also agree to grant uni-directional trade liberalization and any other incentive measures to the resulting imports of the manufactured products from the particular country to which the project has been allocated". The aim is to make possible through investment co-ordination cum trade liberalization the establishment of a number of efficient and low-cost industrial plants, enjoying economies of scale, which could not be established without such co-operation. This approach may be attempted either

through the case by case approach or the package approach. The case by case approach is based upon ad hoc negotiations, each case being considered separately by reference to some generally established criteria. The simplicity of this approach is well recognized, but the difficulty of providing benefits to all countries at each round of negotiation obviously complicates negotiation and surely makes some governments reluctant to agree on the opening of their own market for the establishment of an industry in another country. The "package approach" technique requires the participating countries to agree upon a "package" of several industrial projects to be allocated to each country for an agreed period of time. The negotiation of a package agreement is obviously conducive to an agreement more easily being reached since each country can more easily visualize its expected share of benefits, but it does require very detailed feasibility studies and carefully planned procedures of implementation for the subsequent investment phase. Considerable advantages exist in adopting the package approach since it offers a great degree of flexibility with regard to allocation of projects which are suitable for the resource endowments of each country. Obviously there seems to be great merit for the South Pacific Islands to adopt the "package approach" since this approach can: - contribute to making a perceptible change in the industrial structure through the creation of new industrial capacity; and - open up new industrial opportunities for all countries including the less-developed and smaller islands and further reduce the tendency existing in the other approaches towards polarization of industrial activities in a few countries.

49. A comprehensive systematic examination and evaluation of alternative approaches is necessary for the formulation of meaningful programmes and policies towards regional co-operation. The choice of approach can only be made by the South Pacific Islands through a careful examination of the merit

of each approach as related to the socio-economic and political environment of the region and national objectives. There is little doubt that the geographical, demographic, economic, social and cultural characteristics of the South Pacific Islands are unique and that therefore no approach nor experience from other integration schemes can be automatically transferred without substantial modification and adaptation based upon systematic analysis. In fact there is need for devising a technique, specifically suitable for small countries having limited raw material resources. In this context major - though not exclusive - emphasis should be placed on medium-sized "foot-loose" industries where capital intensity and transport costs are not predominant and where market and raw material considerations do not play a significant role with respect to location of industry.

A mechanism needed

50. There has surely to be a mechanism and forum which will provide a powerful impetus to member countries to give a trial to co-operative action. The value of an appropriate mechanism is great since, in its absence, project ideas, however well-defined and persuasively argued, are not able to take off the ground and remain elusive. Innovative approaches in this regard are needed to induce fresh efforts in the direction of creating an economic and financial forum conducive to co-operation among countries of the South Pacific.

51. The South Pacific countries have already two organizations to take the initiative in this respect. These organizations are the South Pacific Commission and the South Pacific Bureau for Economic Co-operation. They have their headquarters within the South Pacific and have already achieved success in bringing the countries together and helping them to develop some infrastructures essential to the economic advancement of these countries. The same organizations could also take up the idea of joint industrial

projects, once these have been identified and developed. The South Pacific Commission mainly addressed its work and resources to regional fisheries and environment. The participating governments are Australia, Fiji, France, Nauru, New Zealand, Papua New Guinea, United Kingdom, United States of America and Samoa. The Commission was set up 32 years ago under the Canberra Agreement. It has its headquarters at Noumea in New Caledonia.

52. Another important regional organization of the developing countries of the South Pacific is the South Pacific Bureau for Economic Co-operation which was set up about six years ago. It has its headquarters in Suva, Fiji. The Bureau works in co-operation with the South Pacific Commission. Most of its work has been devoted to the areas of trade and communications, particularly shipping, aviation and telecommunications. The Bureau's work extends over a number of sectors such as regional trade, trade promotion and marketing, regional transport and communications, agriculture and industry. Its work also extends over such areas as aid and aid co-ordination, the Law of the Sea, environment and energy; regional and international relations with the South Pacific Commission, the University of the South Pacific, the United Nations and other international agencies including United Nations Development Programme, Economic and Social Commission for Asia and the Pacific, United Nations Development Advisory Team, Asian Development Bank, the Commonwealth Fund for Technical Co-operation and other agencies, the European Economic Community and East-West Centre. The Bureau is to co-operate with ESCAP and ADB in the Industrial Survey of the South Pacific, one task of which will hopefully be to identify some industrial projects which the countries of the South Pacific could develop co-operatively.

53. Although in the initial stages, the South Pacific Commission and the South Pacific Bureau for Economic Co-operation could be instrumental in generating a political will on the part of the countries of the South Pacific

in the acceptance of the idea of the joint industrial projects, subsequently a specialized mechanism will have to be set up to carry the projects forward towards development and implementation.

Comparative advantages of location

54. Many important considerations and intricate problems are involved in the identification, development, actual operation of joint industrial projects and the sharing of benefits arising from such projects among the participating countries. These matters have been thoroughly examined in two important reports on the subject - the Asian Industrial Survey and the ASEAN Industrial Survey - both undertaken under the auspices of the United Nations. Progress so far, however, has been meagre in the implementation of joint projects, although some advance is in evidence in the implementation of a few industrial projects of the ASEAN countries. It may be that this process is necessarily time involving.

55. Eventually, the basis of co-operation in the development of joint industrial projects among a number of countries has to be the concept of comparative advantage and countries in the South Pacific would specialize in the activities for which they are better fitted. The regional industrial structure should be linked to resource endowments at national levels. However, experience elsewhere has shown that a step-by-step approach towards co-operation involving consultations and negotiations among the countries and organizations concerned would be needed to ensure mobility of the factors of production such as skilled labour, capital, technology and management, which is already present in the South Pacific to some extent.

56. It is important to consider the potential for further expansion of industry individually or jointly in the light of factors which give the developing countries of the South Pacific nations comparative advantages in some

manufactures. These advantages are likely to accrue from the processing of some local raw materials, relatively low wage rates and, for import substituting industries, the natural protection given by remoteness, high transport costs and infrequent services. In export processing, the main savings from the location of industries in the island countries may accrue from such factors as weight-loss in processing, with consequent savings in freight or from a need to process the product while it is still fresh. However, these savings may be counterbalanced by increases in costs due to designing and operating plants at too low a volume of throughput, or from operating plants in remote and high cost locations. The development of regional industrial projects based on the South Pacific markets may, however, be desirable and profitable.

57. One specific factor may be mentioned. The wage rates in the South Pacific developing countries are very much lower than those in Australia and New Zealand, but they vary markedly. The lowest rates within the South Pacific are about those in some of the world's least developed countries, but others are considerably higher. It should also be remembered that many of the world's poorer developing countries have well established industrial areas able to achieve high levels of productivity through developed skills and economies of scale which give them some comparative advantage. Table 3 gives some wage data which are variable and only approximate.

Table 3

Hourly wage rates in manufacturing, 1975
(Male rates - unskilled)

<u>Developing Pacific</u>		<u>Developing Asia</u>	
Papua New Guinea	0.90	Hong Kong	0.60
Fiji	0.60	Korea	0.45
Solomon Islands	0.25	Philippines	0.25
Western Samoa	0.30	Singapore	0.60
French Polynesia	0.75	Sri Lanka	0.25
New Caledonia	1.45		
New Hebrides	0.45		
Tonga	0.30		
Gilbert Islands	0.40		
American Samoa	1.00	<u>Australia</u>	5.15
Cook Islands	0.40		
Niue	0.55	<u>New Zealand</u>	3.40

Note: Some data are slightly more recent. All data converted to US\$ and rounded to nearest 5¢

Source: Commonwealth/SPEC: Industrial Development and Trade Relations in the South Pacific, London, 1978, p. 24.

58. There are two cases available to illustrate the savings that may result from the transfer of a manufacturing operation to a remote low cost location. Case A is taken from a 1974 UNCTAD report made for the Kingdom of Tonga by J.L. Enos and relates to the proposed transfer of a durable consumption goods manufacturing operation from New Zealand to Tonga, the product being exported to Australia. Case B is taken from a 1976 report to the New Zealand Ministry of Foreign Affairs by W.D. Rose and others and relates to a proposal to manufacture garments in Samoa for export to New Zealand. Table 4 demonstrates the cost comparisons.

Table 4

Two cases of cost comparisons
(\$NZ000)

<u>Case A</u>	<u>New Zealand</u>	<u>Tonga</u>	<u>Difference between Tonga and New Zealand</u>
Management and supervision	59	81	22
Factory operatives	232	57	-175
Materials and freight	1,496	1,544	48
Other expenses	92	144	52
Total Costs	1,879	1,826	- 43

<u>Case B</u>	<u>New Zealand</u>	<u>Western Samoa</u>	<u>Difference between Western Samoa and New Zealand</u>
Management and supervision	100	149	49
Factory operatives	243	79	-164
Materials and freight	420	367	- 53
Other expenses	158	203	45
Total Costs	921	798	-123

Source: Commonwealth Secretariat/SPEC: Industrial Development and Trade Relations in the South Pacific, London, 1976, p. 45.

59. In both cases Tonga and Samoa have substantial advantages in wages cost but have disadvantages in other respects. The overall position is that both projects would cost less on the transfer of the operation. This position, is however, complicated by certain policy measures such as increased export taxation incentive allowance and the impact of tariff policy. The outcome on the transfer of industrial operations is, therefore, uncertain in the existing conditions.

60. Among the countries within the South Pacific area, the conditions for the expansion and redeployment of industries appear to be favourable. It is reported that the two developed countries of the South Pacific, namely,

Australia and New Zealand, are inclined to support the creation of increased industrial capacities in the developing countries of the area, both by extending assistance, in a number of ways, to establish new factories there as well as by participating in the redeployment of some industrial undertakings in which these countries may have a comparative advantage, under the industrial development schemes both countries have adopted.

INTERNATIONAL ASPECTS

61. The questions to be briefly touched upon in this section are two: (i) technical assistance to the developing countries of the South Pacific in the required fields from the United Nations system and other international sources; and (ii) the liberalization of trade and the promotion of foreign investment in the South Pacific.

Technical assistance from the United Nations system and other international sources

62. The developing independent countries of the South Pacific are members or associate members of the United Nations Economic and Social Commission for Asia and the Pacific, Bangkok. These countries are Fiji, Papua New Guinea, Samoa, the Solomon Islands, Tonga, Cook Islands, the Republic of Kiribati, Tuvalu, the New Hebrides and Niue. They participate in the UN deliberations and profit by the advisory services system of the United Nations in various fields such as trade, industry, natural resources, statistics, etc. Special considerations have been given to the technical assistance requirements of the developing island countries of the South Pacific. As already pointed out, ESCAP-ADB-SPEC Industrial Survey of the South Pacific will soon begin its work. UNIDO has been rendering technical assistance to many countries of the region in the form of expertise and training. The development of these programmes have been co-ordinated by the UNIDO Senior Industrial Development Field Adviser, stationed in Suva. UNIDO is also providing assistance to the South Pacific region as a whole through various regional projects on Product Planning Design and Marketing Promotion Methods (DP/RAS/79/030); Vegetable Fats and Oils (DP/RAS/79/031); and Harmonization of Industrial Incentives for the South Pacific Region. Other UN bodies and specialized agencies have been rendering assistance to the developing countries of the South Pacific in their respective fields. These organizations include the World Bank, ADB, FAO and others.

63. A special mention should be made of the activities in some countries of the area, initiated by the United Nations Development Programme through which other organizations of the UN system work there. There is a UNDP Regional Office for the area, located in Suva, Fiji. Quite recently, it has opened a sub-office at Apia in Samoa. These arrangements will substantially activate the United Nations programme of technical assistance in the area. The UNDP office in the area has co-operated with some countries in developing UNDP technical assistance programmes which have been integrated with their national development plans. As already pointed out, the South Pacific Bureau for Economic Co-operation has a close liaison with the United Nations bodies and agencies and other international organizations like the Commonwealth Fund for Technical Co-operation, and the European Economic Community.

Trade liberalization and foreign investment

64. Apart from technical assistance and bilateral loans and grants for development received by the developing countries of the South Pacific from the United Nations system and countries like Australia, New Zealand, the United Kingdom, France and the USA, what is important from the point of view of the establishment of export-oriented manufacturing activities in these developing countries is their access to developed country markets. It is trade and not aid alone that is important.

65. Australia and New Zealand are the traditional developed country markets for the products of the developing countries from within the area. The other developed countries most likely to provide markets for the South Pacific manufactures from the developing countries are the United States, Japan and Western Europe. The developing countries of the South Pacific have

access to these developed country markets under the Generalized System Preferences and other arrangements. Europe has been important for raw materials from the South Pacific and there are significant opportunities available to Fiji, Samoa, Tonga and Papua New Guinea which are associate states of the European Common Market under the Lome Convention. Opportunities are also available to the Solomon Islands, the Republic of Kiribati, Tuvalu, French Polynesia and New Caledonia in the countries of the EEC. The conditions governing access of manufactured products from these countries and territories into the EEC are very important.

Europe

66. With the European Economic Community, not all Pacific Countries have the same kind of trade agreements. Four countries - Fiji, Tonga, Western Samoa, Papua New Guinea - are party to the Lome Convention and six others - the Solomon Islands, New Caledonia, French Polynesia the New Hebrides, Kiribati (Gilbert Islands) and Tuvalu have very similar advantages. Four others, Nauru Tokelau, the Cook Islands have no special relationship with the Community and enjoy the treatment under the EEC's Generalized System of Preferences. Thus a preferential customs treatment is shown to some countries of the Pacific and this should be regarded as an impetus to the development of more manufactured products for export to the Community. Ways and means should be found to further liberalize the trade arrangements and to remove the handicaps of some of the countries. The real problem however is that the volume of manufactured exports from these countries to the European markets is rather small.

United States

67. Only American Samoa has a special preferential customs treatment with the United States. All other South Pacific countries are to receive benefits under the United States Generalized System of Preferences.

This offers duty free entry into the United States for some 2,700 products mostly manufactures and semi-manufactures. Exports, however, have to qualify certain value-added requirements, namely, the sum of the cost on the value of materials produced in the beneficiary country and the direct costs of processing must equal at least 35 per cent of the appraised value of the article at the time of entry into the United States. Imported materials may be counted towards the 35 per cent criterion. Other requirements are that there should be no threat to domestic U.S. industry and that goods must be imported into the US direct. There are also some other restrictions in respect of products, which do not make the US trade policy really very liberal for the South Pacific.

Japan

68. Japan also has a system of preferences for developing countries in which all South Pacific countries (except American Samoa, New Caledonia and French Polynesia) can participate. Japan's GSP has two parts - a "positive" list of agricultural products on which preferences are granted, and a "negative" list of industrial products not eligible for GSP treatment. Agricultural products are entitled to various rates of preferential duty. Most industrial products covered by the scheme were entitled to duty free entry, but they are subject to quantitative restrictions.

69. Thus there are different types of agreements relating to the entry of exports from the developing countries of the South Pacific into the developed market economies. These are not liberal. However, the extent to which the developing countries of the South Pacific can benefit from these will depend on the volume of their export trade. In particular, the volume of their export trade in manufactures with the developed countries is rather small. However, even a small market share in

developed country markets would have a significant impact upon the industrialization of the developing countries of the South Pacific. Significant opportunities exist in this regard and some form of regional co-operation in the field of joint export promotion may be visualized.

Foreign investment

70. The initiation of small scale industries development programmes in a systematic way, as advocated for the developing countries of the South Pacific, and the development of joint industrial projects in the area will require foreign investment. The availability of domestic resources for investment is very limited. Loans and grants from external resources in greater quantities are, therefore, essential for the development of infrastructural facilities for development in general and for industrial development in particular. Resources are also necessary for building up institutional arrangements for industrial development in the developing countries of the South Pacific. Foreign investment and participation are essential for the establishment of industrial projects particularly in terms of capital goods, management, technical skill and know-how which these countries badly need. It has been seen in the cases of individual countries that some of them like Fiji, Papua New Guinea and others have welcomed foreign investment and laid down conditions for the creation of what may be called a favourable industrial climate.

Annex

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