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PREPARATION OF A WHITE PAPER ON
MANUFACTURING SECTOR

UC/NIU/86/045

[NIUE]

Technical report: Draft White Paper
on Manufacturing Sector*

Prepared for the Government of Niue
by the United Nations Industrial Development Organization

Based on the work of Abu Sharaf Sadique,
regional adviser on industrial development

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Explanatory Notes

Value of local currency - New Zealand Dollar (NZ\$) during the mission
(May 1986) in United States Dollars (US\$):

1 US\$ = 1,754 NZ\$

Abbreviations

GDP - Gross Domestic Product
NNDP - Niue National Development Plan
QAS - Quarterly Abstract of Statistics

Abstract

This report forms the major output of project SI/NIU/86/045 - Preparation of White Paper on Manufacturing Sector. It was prepared on request of the Government of Niue, based on the work of Abu Sharaf SADIQUE, regional adviser on industrial development, ESCAP/UNIDO Division of Industry, Human Settlements and Technology, as one of the results of a fact-finding mission to the Pacific Region. He stayed in Niue from 14 May to 4 June 1986.

The total work force available in the country is limited. This limited work force is further constrained by lack of skill and expertise, both in industrial and technical trades and in business management. In view of the difficult problems confronting Niue it will be necessary to start with industries of shorter gestation period, higher return with employment creation ability and largely based on local resources. There should be minimal time lag between the completion of a feasibility report and setting up of production facilities. Dependence on a single or limited range of products for export market will make the economy highly vulnerable to international market fluctuations. Therefore, different types of product lines should be established over time, but as soon as possible.

Industrial activities in the country are reviewed in detail. The Government policy for industrial development during 1980 - 1985 and the Niue National Development Plan 1980 - 1985 have been evaluated as a ground work for further industrial development. Based on the results of analyses, interviews and own findings, a proposal for a feasible strategy for industrial development of Niue has been elaborated.

In an Annex short descriptions of projects and an activity plan to prepare detailed project proposals are provided.

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I. Review of industrial activities

1. Niue is one of the developing Pacific island countries with a small and currently declining population. The most recent estimate of its population is 2556*. Its GDP was estimated at NZ\$6651,000 in 1983-84**. At present the industrial sector forms a very small part of the economy. There are 731^{1/} persons employed in different economic activities out of which only 31 (or 4.2%) are in the manufacturing sector. This is not only small but in fact indicates a decrease as in 1984 (1 October 1984) there were 101 persons employed in the manufacturing sector in a total of 936 i.e. 10.3%.

2. A comparative overview covering all sectors is given in Table 1 below:

TABLE 1. Employment by Type of Economic Activity

<u>Kind of Economic Activity</u>	1.10.84		30.9.85	
	N ^O	%	N ^C	%
1. Agriculture	199	21.3	92	12.6
2. Quarrying	11	1.2	15	2.1
3. Manufacturing	101	10.8	31	4.2
4. Electricity	16	1.7	25	3.4
5. Construction & Maintenance	98	10.5	69	9.4
6. Trade, Restaurants & Hotels	89	9.5	98	13.4
7. Transport & Communication	43	4.6	55	7.5
8. Finance, Business Services	1	0.1	-	-
9. Community, Social & Personal Services	378	40.3	346	47.4
10. Total	936	100.0	731	100.0

Source: 1984 Mini Census of Population Report and QAS December 1985

3. Industrial activity is concentrated on handicrafts and food processing for export, viz, lime juice, coconut cream, passion fruit and honey. But here also a general downward trend is noticeable as will be evident from the following Table 2:

TABLE 2. Value of Exports F.O.B./NS\$

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
Passionfruit Products	70552	24747	45376	14142
Lime Products	10392	12384	33629	18895
Honey Products	19769	7378	16463	19567
Coconut Cream	269125	433544	20748	-
Handicrafts	44013	21356	23482	22544
Football	124943	114925	61387	22559

Source: QAS Dec. 1985 and QAS March 1986 (unpublished)

* March 1986 unpublished figure.

** Source: Government file on statistics.

1/ Quarterly Abstract of Statistics (QAS), December 1985, Department of Economic Development, Government of Niue.

4. The other manufacturing activities are the sawmill and precast cement concrete blocks carried out by the Public Works Department and some sausage-making and soft drink bottling by one private retailer. But their total contribution to the already small manufacturing sector, and to the economy as a whole, is negligible.

5. Other determinant characteristics, some peculiar to Niue's economy, which must set the background for any meaningful industrial planning are the following.

6. Firstly, the population of Niue is declining due to migration to New Zealand, of which they are citizens. This can be seen from the following population Table 3.

TABLE 3. Population estimate on the basis of births, deaths & net migrations

31.3.86	30.9.85	30.9.84	30.9.83	30.9.82	30.9.81	10.3.79	28.9.76
2556	2781	2881	3004	3133	3281	3578	3843

Source: Mini population Census 1984 and QAS Dec. '85 & March '86 (unpublished)

7. Secondly, employment in Niue is dominated by the public service i.e. the government and the statutory authorities. These included such industrial and commercial activities as production of honey, and processing of passionfruit, copra, lime and operation of the hotel. However, recently the processing facility for passionfruit, copra and lime and the management of the hotel have been leased out to private entrepreneurs. Even then the public sector remains the principal employer as will be seen from the following Table 4.

TABLE 4. Employed Persons by Sector and Kind of Economic Activity (30 Sep 1985)

Kind of Economic Activity (ISIC)	Public Sector	Private Sector	Total
1. Agriculture	92	-	92
2. Quarrying	15	-	15
3. Manufacturing	12	19	31
4. Electricity	25	-	25
5. Construction & Maintenance	65	4	69
6. Trade, Restaurants & Hotels	13	85	98
7. Transport and Communication	54	1	55
8. Finance, Business Services	-	1*	-
9. Community, Social & Personal Services	337	9	346
10. Total	613	118	731

Source: QAS, December 1985

*This is also included in item 9.

8. Thirdly, the economy is characterized by subsistence agriculture and shifting farm practices. The land is of poor quality and ownership is held communally by families. Agriculture (including farming, fishing poultry and animal husbandry) is primarily a part-time profession of almost everyone in the country whether employed in the public or the private sector or self employed or full time students. Timber extraction is limited to wage employment in the public sector with hardly any private sector activity.

The supply of passionfruit,** copra and lime** for industrial processing also comes from this subsistence sector, grown in small scale as cash crops. There is no full time large-scale commercial farming in this country. This makes the food processing factory vulnerable to an organizational difficulty of gathering enough throughputs to keep running the plants continually and profitably.

9. Fourthly, the manufacturing sector is highly vulnerable to external market fluctuations, transport limitation for export and weather and natural hazards. Declining production in the football sewing factory is due to the fall in demand in New Zealand. The main direction of Niue's export is to New Zealand which is serviced by once a month shipping by a small vessel and once a week air service which serves principally as a passenger airline, both maintained on subsidies. This currently limits the quantity of goods that can be shipped out of the country. Weather and natural hazards are yet another factor affecting the present manufacturing facilities. The cyclone in 1979 followed by the drought of 1982-83 had considerably affected production of coconut, passionfruit and lime which caused breakdown in the operation of the food processing factory.

10. Fifthly, while the economy is dominated by the public sector, employment itself is critically dependant on external assistance, notably budgetary support from the New Zealand government to run the services. The extent of this dependance can be gauged from the following Table 5.

TABLE 5. Abstract of Revenue and Expenditure *(NZ\$)

	1984 (Revised)	1985-86 (Estimates)
1. Niue government income from internal sources in the Revenue Account	2943000	2933000
2. New Zealand Budgetary Support	4300000	4687000
3. Manpower Supplement (NZ)	642000	710000

Source: Government of Niue, Report, Instructions, Appropriation and Estimates of Expenditure and Revenue 1.4.85 to 31.3.86.

11. Sixthly, Niue has a well-developed infrastructure. It has trunk and feeder roads connecting all the villages, an international airport, reticulated water and electricity supply in all the villages, one hospital, one high school, a University of South Pacific Centre and an industrial trade school run by the government. Health service and education are almost free and housing is subsidized. Furthermore, the wage/compensation structure in the public service is higher relative to other South Pacific Island

** These are supplied mainly from government farms.

countries, and higher than even that prevailing in the private sector in Niue.

II. Government's policy for industrial development during 1980-85

12. Being aware of the multiple problems and constraints faced by the country and the economy, the government had adopted the first Niue National Development Plan (NNDP) for 1980-85. By this plan period the Government wanted to achieve the following objectives:²

- i) To increase the proportion of the total government expenditure met from the local revenue.
- ii) To establish a private sector actively involved in production.
- iii) To create the best possible climate for growth of private commercial activity and, where necessary, to actively intervene with subsidies.
- iv) To increase productivity in the public sector, particularly the economic activities, to the point where substantial expansion was possible.
- v) To ensure the availability of a full range of financial infrastructure both for private sector development and for government financial control.
- vi) To minimise unemployment by keeping a balance between declining employment in existing government activities and new employment.
- vii) To stop population decline by actively encouraging Niueans to stay in Niue and for those who have left to return to Niue.

13. The Government was conscious that the major thrust to achieve these objectives, without lowering the level of per capita income should be in the direction of establishing manufacturing and business ventures, mainly in the private sector in the medium and large scale agro-based industries.³ The Government believes that many opportunities exist in both export and import substitution industries and the Government-run activities which can be taken over by the private sector. Business in Niue is less constrained by any lack of physical infrastructure than by lack of experience in business and lack of commercial credit. The small local market does constrain the development of many industrial activities, but free access to the New Zealand market and the difference in wage rates make it possible for viable manufacturing businesses to be established.⁴

14. The following incentives and facilities were also announced in National Development Plan.⁵

- 1) Relief from company tax, and from duty on imported capital items and raw materials.
- 2) Restricted trade (quotas, import tariffs etc.).
- 3) Accounting and management assistance.
- 4) Moral, technical and political support from Government.
- 5) Assistance in obtaining and financing overseas technical expertise and marketing information.
- 6) Assistance in assessing viability of enterprise.
- 7) Loans and grants for part of capital.

2 NNDP p13

3 NNDP p36

4 NNDP p64

5 NNDP p64-65

- 8) Guarantees of re-employment for suitable periods for Government servants who wish to go into business.
- 9) The training policy of Government to deliberately assist the private sector by allowing bonded students who complete their studies to satisfy the terms of their bond by accepting employment in the private sector.

15. The Government had envisaged some additional activities to achieve the mission set forth in the Plan. These are summarized below.

1. Establishment of an industrial zone with a view to siting manufacturing industries close to available water, power, transport and labour resources.^{/6}
2. A long-term research project on land ownership issues as a framework for improving land tenure systems.^{/7}
3. Encourage tourism moderately and discourage "knapsack" tourists to avoid negative social impact but with moderate private sector involvement in accommodation facilities.^{/8}
4. Improve the presently low standard of public transport with encouragement for private involvement.^{/9}
5. Investigate the possibilities of extending the existing runway at the airport.^{/10}
6. Continue training programmes in commercial and industrial arts.^{/11}
The government later decided to extend these facilities to people who wished to join private sector.

III. Review of NNDP 1980-85 Policies

16. Nearly at the end of the Plan period the Government had noticed that even the modestly ambitious aims projected in the Plan were not materialized. The country continued to lose population as shown in Table 3. Together with the population, the number of persons economically active and employed, also declined. This was more marked in the private sector. A comparative picture of this decline is given below at Table 6.

TABLE 6
Number of Persons Employed and Economically Active
in the Private Sector

<u>Date</u>	<u>Total</u>	<u>Manufacturing Sector</u>
30.9.85	118	19
1984	N.A.	N.A.
30.9.83	176	42
31.3.83	184	63
30.9.82	178	49
31.3.82	167	60
31.8.81	201	44
30.9.80	194	55

Sources: QAS's, Dec 1985; Dec 1983; June 1983; Dec 1982; June 1982; March 1981; Sept 1980 (N.A. - not available). The figures include staff workers, wage workers, part-time workers, and unpaid family part-time workers.

6 NNDP p28-29 9 NNDP p76
7 NNDP p29 10 NNDP p79
8 NNDP p60 11 NNDP p128

17. The decrease in the number of persons employed in the private sector, especially in the manufacturing sector, can be partly explained by the intermittent nature of operation of the Food Processing plant and the reduction in employment opportunity in the football sewing factory. But it was also true that no new private or public sector industries were established and operated during this period which could make a difference in the employment opportunity in the industrial sector. Being conscious of this situation the following announcement was made in February 1984, quote:

18. "The Government of Niue has recognised the need for the development of industry in order to broaden the economic base of the country as a whole. In consequence of that recognition, it has instituted certain measures to achieve those objectives. Those measures involved the grant of fiscal and other concessions as well as the development and improvement of infrastructure required for the establishment and efficient operation of industrial enterprises.

Criteria for the Grant of Fiscal and Other Concessions

19. "The grant of concessions and other forms of encouragement to investors will normally be based on one or more of the following criteria:

- (a) the employment potential of the enterprise to be established or expanded;
- (b) the use of local raw materials and local personnel;
- (c) the capacity to increase exports and/or reduce imports;
- (d) the ability to earn and/or save foreign exchange;
- (e) the provision of^a product or service which is not currently produced in Niue and which is required in the national interest;
- (f) the capacity to produce by-products or materials from which other products can be made;
- (g) the spin-off effects of the enterprise;
- (h) the adequacy of the management of the enterprise.

Forms and Fiscal and Other Concessions

20. "Requests for the fiscal and other concessions will be considered by Cabinet and each case will be assessed individually.

(a) Income Tax

- (i) exemptions of all or part of income from taxation;
- (ii) reduction in the rates of taxation on all or part of the income;
- (iii) extension of the period during which losses may be carried forward;
- (iv) allowance of special deduction from assessable income.

(See Section 50 of the Income Tax Ordinance 1961)

(b) Import Duties

- (i) exemption of import duty on all or a selected list of all materials, plant and equipment required for factory construction and establishment of the enterprise;

- (ii) reduction in the rates of import duty on all or a selected list of materials, plant and equipment required for factory construction and establishment of the enterprise;
- (iii) exemption of import duty on all raw materials imported solely for use in the production of goods for exports, subject to review every 12 months.

(c) Capital

In order to assist small investors to establish productive enterprise in Niue, the Government has set up a Development Fund to provide loans to those investors who are unable to obtain funds from other sources at reasonable rates of interest. Loans approved by the Development Fund Committee will normally be repayable over a period of not more than six years at a concessional rate of interest (currently 3 per cent per annum for agricultural-related and 7 per cent per annum for other commercial/industrial ventures) and subject to a grace period ranging from three to twelve months depending on the nature of the project involved, as well as other relevant factors. In certain circumstances the Committee may consider guarantee the whole or part of a loan made to an investor by another lending organisation or institution.

(d) Factory Accommodation

The Government of Niue provide factory accommodation in a building completed early in 1982. The rental will be below the market rate for similar type of accommodation (currently \$4.00m²/year).

(e) Labour

The Government will at its own expense and in exceptional circumstances, provide an enterprise with a given number of factory personnel to ease the financial burden involved in its establishment or expansion and to facilitate the training of such personnel to improve their efficiency and, where necessary, to replace expatriate staff. The Government will freely grant work permits to non-Niueans for employment in those enterprises which require skills that are not currently available in Niue.

(f) Repatriation of Capital and Exportation of Profits and Dividends

The Government of Niue will not apply any restrictions on the repatriation of capital and the exportation of profits and dividends in respect of any enterprise which has been financed from funds from outside sources. In certain circumstances the Government may require the management of an enterprise to retain a certain proportion of its profits for employment in Niue.

Infrastructure Facilities

22. "In order to ensure the efficient operation of enterprises in Niue the Government has provided certain infrastructural facilities and is improving these as well as developing new facilities. These facilities include -

- (a) arterial and access roads;
- (b) postal, telephone and telegraphic services;
- (c) electricity and water services;
- (d) commercial banking services;*
- (e) facilities for the training of skilled personnel;
- (f) health services;
- (g) internal transport services;
- (h) air and shipping services.

Supply of Information to Potential Investors

23. "Technical, statistical and other information of an unclassified nature may be obtained from various Government Departments, Offices and statutory bodies." unquote.

Source Reference for quotation: Government of Niue: CM(83)151 dated 18 October 1983.

23. The incentives and privileges announced by the above policy declaration compare favourably with those granted by other Pacific island developing countries. But they failed to generate any new investment either by Niuean entrepreneurs or foreign investors.

24. The National Development Plan had set the objectives of greater production of handicrafts to bring in additional income to Niuean families.^{/12} But the decline in population coupled with alternative sources of income, especially in the public service, have deflected that upward movement and stagnated production. There does not appear to be any future in substantial increase in either employment or income in the making of traditional handicrafts items. New and more value intensive items have to be introduced to enable people to take up this profession as a career.

25. Agriculture also does not at present provide a firm base for industrial activity. The National Development Plan had assumed the continuation of traditional subsistence farming.¹³ It was expected that this will maintain the level of food production required by the country and also make enough surpluses to cater for the export market and raw material supplies for agro-based industries. The subsistence farming fulfilled its obligation to supply traditional food to the community. But it has been unable either to effectively sustain the existing industries or contribute to new industrial or commercial ventures. The full potential of land and sea resources of Niue is yet to be exploited. This will require a major review and reconsideration of land management system.

26. The government's policy to reduce the level of public service employment by encouraging employees to set up industrial and commercial ventures did not produce result. The lack of entrepreneurship noticeable in the general public was also reflected in the public service. This was due to a lack of technical and managerial skills besides absence of entrepreneurial quality. The persons in public service who will have these qualities are in the higher echelons of the government who cannot leave the service without affecting the policy of localisation of the public service. Another effect of releasing top public servants for private entrepreneurial activities will be a lowering of the standard

* This is currently under negotiation.

12 NNDP p45

13 NNDP p45

of public service as the proportion of less qualified people will overwhelm. Hence release of public servants has to be in groups consisting of people from different grades and various skills.

27. The policy of divesting government business to the private sector has met with only limited success in the form of leasing out Niue Hotel and the Food Processing Factory. There has been no taker yet to accept the challenge of taking over of even existing and running businesses. The training policy of the Government designed to foster private business has also not fructified because of a lower standard of expertise attained by the certificate holders and absence of training in management which is crucial for a successful venture. It is necessary to redirect Government's effort in this sphere.

28. There is a need to critically evaluate the policy of guaranteed re-employment for Government employees who go into business. The guarantee itself may be dysfunctional to business enterprise and an additional barrier to risk taking and striving for success. A total severance of link with public service but with reasonable compensation and adequate assistance for starting and managing an enterprise should be more worthwhile.

IV. Strategy for Industrial Development of Niue

29. The Government has decided that the time has come for Niue to take bold and decisive steps in order to sustain the country as a viable economic entity. It is imperative that manufacturing sector is developed on a priority basis to form the nucleus for an economic development programme. This will necessitate important departures from past policies and concepts and of renewing emphasis on some others.

30. It will be necessary for the community to understand and appreciate the dynamics of the process of industrial development. The government will establish a forum where policies of industrial development can be discussed with the concerned and interested parties.

31. In this paper broad policies for industrial development will be outlined. It is well understood that this should cover all government policies and actions which affect industry. These will also be enunciated here.

32. However, only formulation of policies will not be sufficient to bring about an economic breakthrough unless these are supported by concrete programmes. For this purpose the responsible department of government will prepare and maintain portfolios of investment proposals to generate interest of potential investors. A preliminary identification of some of these projects is given in the annex to this paper. The Government will take positive steps, also outlined in the annex, to evaluate these ideas and formulate project proposals.

Population and Workforce

33. Population is obviously the crux of the problem of Niue. The government feels that full time gainful employment with adequate compensation is one of the crucial factors to arrest the rate of decline of population. The public service which is at present the principal employer cannot

provide for any more opportunities in the traditional sectors. Moreover, employment opportunities have to be created not only for the male population, but for females as well to ensure reasonably high family incomes. Large scale employment of females, especially married females, may act as a pull for Niueans to stay on in the country and effectively retard the current rate of emigration.

34. In the 1984 mini-census of population, 87 persons were recorded as unemployed involuntarily and actively looking for work. This was also the main group from which people emigrated. Since then another group has come of age and joined the labour force. As employment in both the private sector and in public service have contracted, the number of unemployed workforce is estimated to have remained at the same level. Today the total workforce available for employment is estimated to be 850. This includes those already employed, and those who will be employed in the food processing factory when it goes back to higher production. As this includes 613 persons in the public service the actual number left for planning purpose for new industrial units on the basis of current situation, is thus only 237. From this group some more are expected to emigrate. This is too small a group to form the basis of a plan for an industrial sector in addition to all other economic sectors (agriculture, construction, trade, transports etc.).

35. The Government have therefore decided to adopt three measures to change this situation. The three together forms a single package and each one unavoidable. The following are the measures to be adopted.

- i) There must be a substantial reduction in the number of Government employees. This will be accomplished by taking several other steps. Some of the activities of commercial nature will be released to the private sector at market value rather than the investment cost which may be higher. The public servants employed in those activities will be released. It is expected that the private sector will combine these released activities with some of their other operations or otherwise improve efficiency and thereby employ lesser number of workers than released by the public service. This excess number will be available for employment in new enterprises. Additionally, the structure of the public service will be further reorganised and reduced. This may lead to mechanization of some of the services and thereby increase the output per worker. This may release about 200 persons from the public service for employment in other sectors. The employees so released will comprise all the different levels in order to avoid the organisation from becoming unbalanced or inefficient. Wherever situation so demands, the Government will release senior officials to manage industrial enterprises. If suitable qualified persons are not immediately available, these positions will be filled by expatriates until junior officials are trained and gather adequate experience to hold those positions. This is a reversal of the policy of indigenization of public services, but the Government feels that this is needed by the present unique situation.

The Government is well aware of the larger social implication of this proposal. These people will therefore be adequately compensated. Firstly, the Government will continue to pay

them 60% of their last wage for a period of two years even if they find an alternative employment. Secondly, the Government will assist them in training themselves in a required trade and in finding alternative employment. These two activities are further described below. Simultaneously, the Government will revoke the offer of re-entry in Government employment for employees who leave to start an enterprise of their own. As an alternative they will be compensated in the same scale as mentioned above i.e. pay them 60% of wages for two years by which time they will be expected to establish themselves in the private sector.

There is a possibility that the people so released will tend to leave Niue. But the Government feels that the opportunity and confidence to find gainful employment within the country will motivate a majority of them to stay on and live and thrive in the country.

The public service in Niue is well established and functioning reasonably efficiently in carrying out those activities normally assigned as public service functions, and those which by circumstance it had to undertake. The main thrust needed now to be provided through public service is economic growth and development. The Niue Public Service Commission could perhaps give due consideration and greater emphasis in this area.

- ii) Preference will be given to industries which employ female labour in order to provide opportunities to married women with a view to increasing family income of the population.
- iii) For an interim period, to avoid possible shortage of workers in any industry, the government will allow entrepreneurs to employ foreign workers on non-renewable contracts of up to three years and to continue to do so until the availability of local workers is assured. This will not be restricted to any particular skill, trade or level.

Training and Retraining of Workforce

36. There is an acute shortage in the quantum and level of trained people in Niue, which exacerbate the limited number of workforce. There is not only a shortage of every kind of industrial trade skills, but also in the basic management skill. Even people with Niue trades certificate do not acquire the desired level of skill. This situation can be changed only by opening up possibilities of imparting training to a larger group of people. The government proposes to set up training facilities and approach international institutions like UNIDO or some bilateral aid giving agencies for assistance. The level of skill of trainees for trade certificates will be increased by extending the training period by one year to give practical training so that they can sit for New Zealand trade certificates. The government will also assist in providing training facilities in non-traditional specialised skills required by any particular industry.

Land and Sea

37. Besides human resources, the only two other resources that the country has are the land and the sea. But these two resources are not being fully exploited now. The Government proposes to take the following actions in order to generate resources in terms of investible income surpluses and raw materials, for manufacturing industries.

- i) The problem with land is the current tenurial system and the acceptance of subsistence farming. This must change if the economy is to be vitalized. The Government will invite and encourage investment in large scale commercial farms. The Government will provide all assistance, using legal provisions where necessary, to enable those prospective investors to obtain long term lease of the legally possible maximum of 66 years, from the registered owners. There is expected to be a shortage of labour for these farms. The Government will allow lease holders of these commercial farms to employ imported foreign workers on non-renewable contract of 3 years.
- ii) The Government will enter into agreements with foreign vessels to fish within its economic zone on payment of fees and on sharing of the catch to feed industrial enterprises.

Scale of Manufacturing Units

38. The Niue National Development Plan 1980-85 had indicated a preference for medium and large scale industries. The Government is now convinced that the present economic structure and the small workforce cannot support large scale industries. The emphasis from now on will be on small scale industries with a higher degree of automation and product-mix flexibility.

Tourism

39. The present level of investment to develop tourism will continue. Government will encourage private investment in small scale service industries like restaurants, bars and motels not only in the capital Alofi, but other villages also. This will however be done within limits to avoid any negative impact on Niuean social and cultural values and norms. If feasible and justified by increase in the number of tourists, the government will allow private sector investments to develop tourist villages. This will create demand for Niuean manufactured products and generally propel increased economic activities.

Private Sector

40. The Government has already announced considerable incentives to the private sector and is following an open door policy for foreign private investors. As mentioned earlier* these incentives compare favourably with those obtaining in other countries. Nevertheless, in view of the seriousness of the situation and immediacy of the problems faced by Niue, additional concessions are being announced now, as detailed below.

- a) Fiscal and other concessions to be granted to an investor will be unconditional as long as the investment is in a new

*See paragraphs 18-22 of this paper.

manufacturing enterprise. The criteria announced in 1984 will be considered to be completely relaxed for these type of enterprises.

- b) For investment in new manufacturing enterprises the following concessions will be granted without exception.
- i) Exemption from all income tax for the first 3 years of commercial operation. During the next 2 years income tax will be due at 50% of the applicable rates.
 - ii) Losses will be allowed to be carried for additional one year beyond the first five year period.
 - iii) Exemption will be granted from import duty on all plant and equipment required for factory construction and establishment of new manufacturing enterprises.
 - iv) Exemption will be granted from import duty on raw materials imported solely for use in the production of goods for export.
 - v) Small investors will be assisted with development loan on concessional basis as already announced.
 - vi) The Government will freely grant work permits for employing non-Niueans who are employed on non-renewable contracts for up to 3 years. This will not be restricted to any skill, trade or level of employment. Additionally, if any of these new manufacturing enterprises employ Government employees who leave their jobs permanently for this purpose, the Government will continue to pay 60% of the last salary/wage of those individuals for a period of 2 years.
 - vii) The Government will continue to grant the concession on repatriation of capital and remittance of profits and dividends as currently available.

Public Sector

41. The Government believes that manufacturing units should best be set up in the private sector. This will ensure adequate capital resource availability and will not further burden the already extended public exchequer. In fact the Government is willing to divest itself of some of the business activities now being managed in the public sector. But so far the response from private sector has not been encouraging. What response the Government in future can expect from the private sector is uncertain. On the other hand the problems faced by the country today are of immediate nature. When the viability of the country itself is at stake the Government cannot sit idle and watch and hope for the best. It must take initiative now or it never can in future. Therefore if economic and financial feasibility is established for any manufacturing enterprise, the Government will not hesitate to look for funds to establish such a unit in the public sector. In this case also the Government will give prior consideration to joint venture with private capital participation, whether local or foreign.

42. However, these units will not be organised as Government departments or statutory corporations. These will be formed as limited companies with specified authorised and paid up capital with stocks which can be traded. The employees of these units will not be Government employees. This form will enable easier disinvestment of shares to private owners, which the Government will endeavour to do.

Institutional Assistance to the Private Sector

43. Within the present organisational structure the Government will set up an employment exchange office. This will assist Government employees and private employment seekers to locate suitable employment opportunities and also private investors to identify potential workers within the Government sector or without. A Government employee who is then found suitable for a position in the private sector will be allowed to leave public service.

44. A position of a Director of Business Guidance will be created. He will be of the level of a head of department. He will be initially assisted by one assistant and a secretary. The Director and his assistant will be persons with experience in management of manufacturing enterprises, preferably with experience in small business extension service. The Director and his staff will be appointed on 3-5 years contract service and the renewal of the contract and the positions themselves will be dependant on performance evaluation. Broadly, their functions will be to locate suitable entrepreneurs and also advise them in managing their enterprises and assist them in their dealings with the Government. The position of the Director will be fitted in within the current structure of the public service.

45. The Government expects the industrial development of the country to be brought about mainly by the private sector. It is imperative that both the Government employees concerned with the process of development of manufacturing industrial sector and private entrepreneurs who make decisions on issues relating to industrial development, understand the full implications of their views, attitudes and decisions which affect the development of the sector in particular and the economy in general. It is therefore necessary that a forum is established to enable regular and formal dialogue between these two groups, which should also be participated by others associated with the development process. To facilitate this dialogue on policy issues, the Government has decided to form an Industry Advisory Council. The Council will be constituted by the Government and its membership will be drawn from among persons who have experience and are interested in industry, trade and other allied matters. The focus of the Council will essentially be on policy matters affecting the manufacturing industry of Niue as a whole. This Council will not be a recommendatory body and its advice will not be binding on the Government. It will essentially be a discussion forum. It will be appropriate for the responsible Minister of the Government to chair this Council where the Secretary to the Government and other senior government employees will be present. The Secretary to the Government will be its Vice-chairman. It will meet twice a year. The Government believes that this arrangement for discussion and consultation will contribute positively towards development of a substantial manufacturing sector.

ANNEX TO WHITE PAPER ON INDUSTRY

This Annex has two sections. In Section I is given the names and short descriptions of projects. Section II, contains an activity plan leading to preparation of detailed project proposals.

While taking actions on these proposals, the following will be kept in view.

Firstly, it must be remembered that the total workforce available in the country is limited. This has been discussed in the main body of the White Paper.

Secondly, even this limited workforce is further constrained by lack of skill and expertise both in industrial and technical trades and in business management. A short run remedy to train or find competent Niuean workers is not available.

Thirdly, in view of the immediacy of the problem confronting Niue, it will be necessary to start with industries of shorter gestation period, higher return with employment creation ability and largely based on local resources.

Fourthly, there should be minimal time lag between the completion of a feasibility report and setting up of production facilities. Otherwise with a longer interregnum this report will become outdated, thus requiring a further study.

Fifthly, dependance on a single or limited range of products for export market will make the economy highly vulnerable to international market fluctuations. Therefore, different types of product lines will be established over time, but as soon as possible.

I. Names and Short Descriptions of Projects

1. Honey production & packaging:

- a) At present production of honey is less than optimum due to lesser number of beehives and lack of expertise. Production in the present facility can be increased with a little investment in new equipment and training in beekeeping. Potential of the country in terms of the number of bees that can be sustained has not been investigated. This will be done to establish one or two more units of production. This will generate employment for 4 persons per unit.
- b) Honey is currently being exported in bulk, with a very small quantity bottled for local sale. Honey sold in bottles will fetch higher value. A bottling plant will be set up after production of improved quality of honey under trained manager is ensured.

2. Wax Candles and novelty items:

Wax produced in the existing honey factory is being exported in blocks after preliminary refining. A wax candle and novelty making and packaging facility can be set up. This will require training of workers and provision of equipment.

3. Furniture Making:

- i) Furniture in knocked down condition:- This can be made for export. This, however, will depend on the availability of appropriate quality and quantity of timber. Updating previous surveys of forest resource is necessary.
- ii) High value collector's item in-laid furniture:- The value added of this kind of furniture is high. This line of manufacture can be especially developed if the quantity of exploitable timber is found to be limited. Timber of rosewood type will be required as teak is too hard for inlay work. Mother of pearl can be used for inlay work. It will require a long period of training if a Niuean workforce for this type is to be created. Mother of pearl can be imported from neighbouring island countries.

4. Fish canning industry for fish paste, fish fillet for export:

At present fishing in Niue is carried out by the subsistence sector, The possibility of large scale fishing needs to be surveyed. As there is no sheltered harbour in the country, it may not be possible to develop a commercial fishing sector. It will be necessary to explore the possibility of allowing foreign vessels to fish on payment of fees and on product sharing basis. A cannery for fish paste and fish fillet for export can be set up on the basis of supply from this source.

5. Fishmeal:

A fishmeal industry on a small scale can be set up from the current catches by the subsistence sector. A larger unit on the basis of commercial fishing, described in serial 4 can be set up subsequently.

6. Animal and Poultry Feed:

Animal feed for cattle and pigs in poultry feed are being imported now. It is possible to set up a small scale plant for producing feed from waste material available in the country with imported essential nutrient pellets.

7. Value intensive handicrafts:

The quality of handicraft items now being manufactured appears to have reached a plateau with little possibility of further growth. The items now being made from timber is of a reasonable good quality, but traditional in nature which brings insufficient return for the craftsman. More value intensive items with mother of pearl inlay or with semi-precious stones can be manufactured. Additional logging of timber is not necessary, beyond the current production.

8. Coral and semi-precious jewellery:

This can be developed mainly for tourists and exports, with imported stones.

9. Printing of stationery and posters:

Currently stationery is being imported. A printing press can be set up to print office stationery as well as high value posters as collectors' items.

10. Garment Making:

Garment making with imported material for export can be established. This can largely employ female workers. At the initial stage expatriate cutter and supervisory staff may be required to maintain acceptable quality.

11. Batik and other cloth printing:

Batik printing, batik painting and other cloth printing can be established as cottage and small scale industries. There seems to be a larger demand for printed cloth than the capacity of the present small (household) unit now in business. There is no unit for batik printing now. There is a possible market in Australia and New Zealand.

12. Metal working and engineering:

- (a) repairs and maintenance services and workshops for simple tools;
- (b) manufacturing units in small scale for nails, nuts and bolts for local consumption; and
- (c) cutlery manufacturing units in small scale for local and export markets.

13. Herbal extracts:

The country abounds in many types of plants. But there has been no survey for commercially valuable herbs and plants. Small scale chemical plants and mechanical extractors can be established for export of products. An intensive analysis to evaluate useful herbs and plants is necessary.

14. Poultry egg and broiler chicken:

Hatchery for chicks and broiler chicken can be set up. This requires small investments and very little training.

15. Fruit skin preserves:

Small scale units to produce and bottle passionfruit and lime skin preserves, using by-products of the food processing factory, can be established for export market.

16. Coir and coir mats, coconut oil and soap and coconut shell charcoal:

A small scale industry can be set up from nuts being produced now and being expanded under government's development schemes, for manufacturing goods mainly for export.

17. Dried and smoked fish for export:

There is a market for dried and smoked fish in Japan, Southeast Asia and Australia. A production facility for this can be set up on the basis of supply from foreign fish vessels as described for item 4 above.

18. Cultivation, canning and processing of lobster and coconut crab:

An export industry on this can be developed but it will need survey and training.

19. Sharkskin, skinning and tanning:

Skinning and tanning of sharkskin can be developed after a survey of resources.

20. Assembly units:

Assembly units for higher value but low volume items can be set up in Niue. One such product can be watches to be assembled from imported components under expatriate supervision. This will be something similar to the football sewing factory.

II. Activity Plan to Prepare Detailed Proposals

The following steps will be taken to put on ground manufacturing facilities for production of goods identified in Section I of this annex.

Step 1:

The list will be discussed with potential bilateral donors (e.g. New Zealand, Australia, USA AID, Japan) or multilateral agencies (UNIDO, FAO), to fund for consultancy services to prepare detailed feasibility studies.

Step 2:

- i) Consultants with specialised knowledge in the particular area (experts on fishery, herbs, furniture making, inlaying specialist, canning and food technologist etc) will be appointed to carry out surveys with appropriate laboratory tests where necessary in order to identify resources available in the country.
- ii) Another group of consultants, wherever appropriate, will carry out a human resource survey for the particular industry and identify promising potential workers who can be further trained on the needed trade. A training programme will also be developed by them.
- iii) A detailed feasibility study, including market surveys where necessary, will be carried out by another consultant.

The three groups of consultants will need to work as a team, with sequential timetable. This is necessary in order to avoid the

possibility of one group of consultants questioning the findings of another in respect of adequacy, appropriateness or quality. It will therefore be more effective if a reputable consultancy firm is engaged to carry all the three functions, instead of individual and separate groups.

Step 3:

The feasibility study thus prepared will then be publicized and prospective investors will be contacted. The International Finance Corporation or other multilateral agencies (Asian Development Bank, World Bank) can then be requested to support the project.

There will be a requirement to prepare the terms of reference for the consultants, negotiate their compensation and monitor their work. For this job, the services of an expert from the Government of New Zealand or from a UN agency (UNIDO, FAO, ESCAP) will be requested for.

For some of the listed industries, detailed feasibility studies may not be necessary. For example, the possibilities of setting up garment factories can be explored directly with prospective investors or importers in New Zealand and Australia.