PD-ABC-620

U N C L A S S I F I E D

AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D.C. 20523

PROJECT PAPER

SOUTH PACIFIC

Market Access and Regional Competitiveness

879-0018

March 8, 1991

U N C L A S S I F I E D

TDABC-600

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) — Amendment Number

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: REGIONAL DEVELOPMENT OFFICE/SOUTH PACIFIC

3. PROJECT NUMBER: 879-0018

4. BUREAU/OFFICE: 04

5. PROJECT TITLE (maximum 40 characters): MARKET ACCESS AND REGIONAL COMPETITIVENESS

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 09 DD 30 YY 97

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)
A. Initial FY 91 B. Quarter 4 C. Final FY 95

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY 91 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(367)	(150)	(517)	(5,250)	(2,250)	(7,500
(Loan)	( )	( )	( )	( )	( )	(
Other U.S. 1.						
Other U.S. 2.						
Host Country		50	50		850	850
Other Donor(s)						
TOTALS	367	200	567	5,250	3,100	8,350

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1) ARDN	730	140				4,500		4,500	
(2) PSEE	700	840				3,000		3,000	
(3)									
(4)									
TOTALS						7,500		7,500	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 810 | 830 | 867 | 890

11. SECONDARY PURPOSE CO: 710, 650, 270

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	BL	BU	LAB	DEL
B. Amount	30%	40%	50%	100%

13. PROJECT PURPOSE (maximum 480 characters)

TO INCREASE SOUTH PACIFIC ACCESS TO AND COMPETITIVENESS IN AMERICAN MARKETS.

14. SCHEDULED EVALUATIONS
Interim MM 01 YY 94 MM YY Final MM 01 YY 97

15. SOURCE/ORIGIN OF GOODS AND SERVICES
[X] 000 [X] 941 [ ] Local [ ] Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ____ page PP Amendment.)
THE RDO/SP ACTING CONTROLLER HAS REVIEWED AND CONCURS WITH THE METHODS OF FINANCING, PAYMENT VERIFICATION AND AUDIT CONTAINED HEREIN.

John R. Dial
John Dial, Acting Controller, Mar. 8, 1991

17. APPROVED BY
Signature: John B. Woods — JOHN B. WOODS
Title: REGIONAL DIRECTOR
Date Signed: MM 03 DD 08 YY 91

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTI
MM DD YY

AID 1580-4 (8-79)

Attachment B

NAME OF COUNTRY: South Pacific Regional

NAME OF PROJECT: Market Access and Regional Competitiveness

NUMBER OF PROJECT: 879-0018

1. Pursuant to Sections 103 and 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Market Access and Regional Competitiveness Project (the "Project") for the South Pacific Region involving planned obligations of an amount not to exceed Seven Million Five Hundred Thousand United States Dollars ($7,500,000) in grant funds over a five-year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help finance foreign exchange and local currency costs of the Project. The planned life of the Project is approximately six years from the date of the initial obligation.

2. The Project consists of technical and other assistance to promote trade and investment between selected nations of the South Pacific and other countries, notably the United States.

3. The project agreements, contracts and memoranda of understanding, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and delegations of authority, shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

4. <u>Source and origin of Commodities, Nationality of Services</u>;

Commodities financed by A.I.D. under the Project shall have their source and origin in the United States (A.I.D. Geographic Code 000), except as A.I.D. may otherwise agree to in writing. To the extent permitted under the Agency's buy America guidance cable dated December 5, 1990, State 410422, procurements with an estimated value of $2.25 million will be from local, South Pacific Region sources (A.I.D. Geographic Code 879).

a

Except for ocean shipping, the suppliers of commodities or services shall have the United States or, to the extent described in the Project Paper, the South Pacific Region, as their place of nationality, except as A.I.D. may otherwise agree to in writing. Ocean shipping financed by A.I.D. under the Project, except as A.I.D., shall otherwise agree to in writing, shall be financed only on flag vessels of the United States.

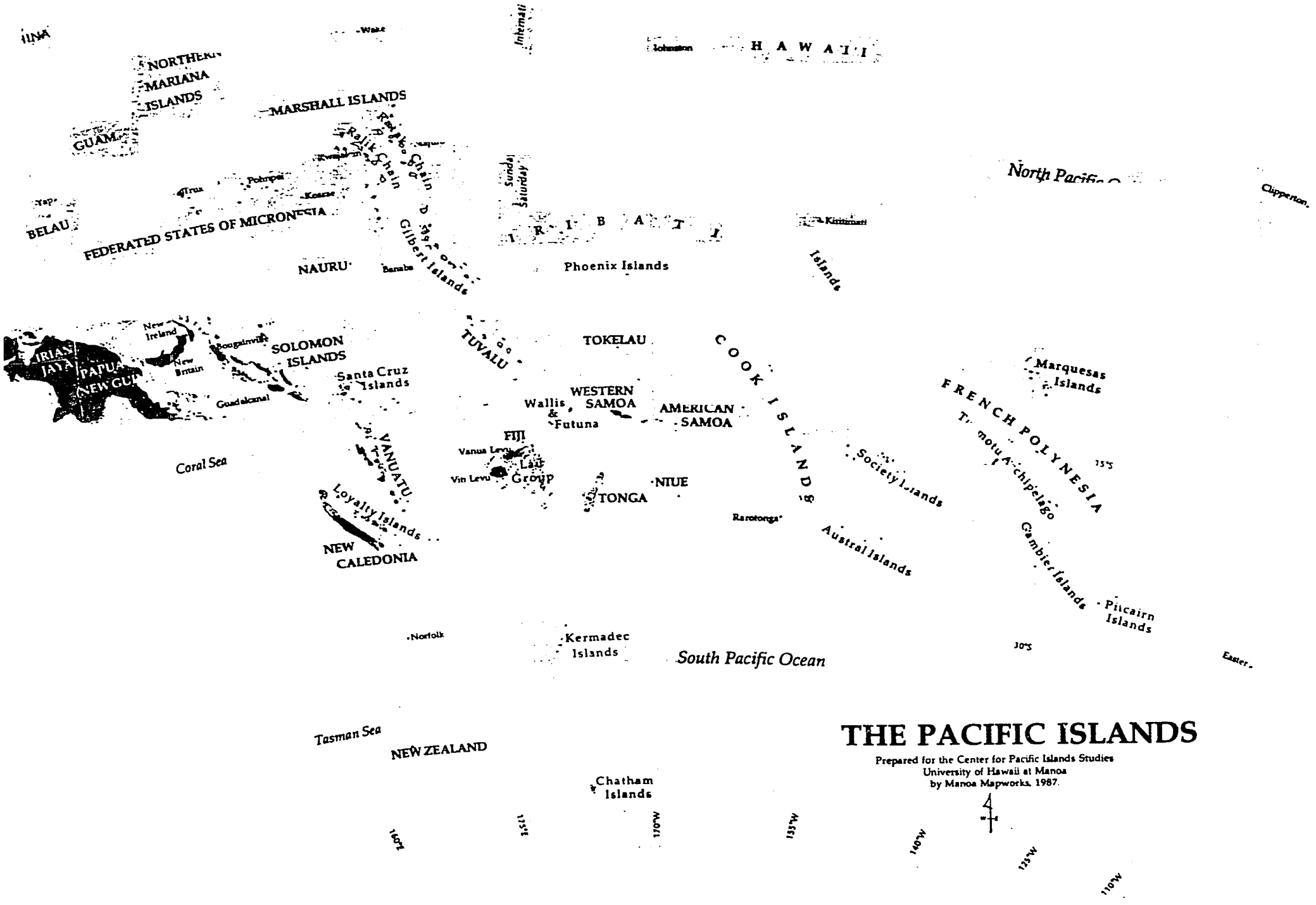
Henry H. Holsman Jr.
Assistant Administrator
Bureau for Asia and Private Enterprise

3/29/91
Date

Clearances:
APRE/DR/PD:GMorris (draft)
APRE/DR/TR:TNicastro (draft)
APRE/A:KBoyd (draft)
APRE/IBS:PHubard (draft)
APRE/SMIE:MFarbman (draft)
APRE/FPM:JGelb (draft)
APRE/GC:MKitay
APRE/PB:PDel Bosque (draft)
PPC/WID:TPulley (draft)
DAA/APRE:GLaudato 3-29-91

APRE/DR/PD:MHuffman:lsl:rev. 3/26/91:MAMEMO

b



THE PACIFIC ISLANDS

Prepared for the Center for Pacific Islands Studies
University of Hawaii at Manoa
by Manoa Mapworks, 1987.

ACRONYMS

ACDI	Agriculture Cooperative Development International
ADB	Asia Development Bank
AIDAB	Australian International Development Assistance Bureau
ANU	Australia National University
APEC	Asia Pacific Economic Cooperation
APRE	Asia/Private Enterprise Bureau
ASEAN	Association of the South East Asian Nations
BCL	Bougainville Copper Ltd.
BDDP	British Development Division in the Pacific
BTI	Business Trade and Investment
CACCI	Confederation of Asia/Pacific Chambers of Commerce and Industry
CAD	Commercial Agriculture Development (RDO/SP Project)
CDC	Commonwealth Development Corporation
CIDA	Canadian International Development Agency
CIF	Cost Including Freight
CTAHR	College of Tropical Agriculture & Human Resources
DHT	Dry Heat Treatment
EC	European Community
EDB	European Development Bank
EDF	European Development Fund
EEC	European Economic Community
EEZ	Exclusive Economic Zone
EI	Entrepreneurs International
ESCAP	Economic Social Commission for Asia and the Pacific
EWC	East-West Center
EXIM	Export Import Bank
FAO	Food and Agriculture Organization
FCS	Foreign Commercial Service
FFA	Forum Fisheries Agency
FFGEA	Fiji Fresh Ginger Exporters Association
FIAS	Foreign Investment Advisory Service
FIMCO	Friendly Islands Marketing Cooperative
FLP	Fiji Labour Party
FPDC	Fresh Produce Development Company
FS	Forum Secretariat
FSP	Foundation for the Peoples of the South Pacific
FTIB	Fiji Trade and Investment Board
FY	Fiscal Year
GATT	General Agreement on Trade & Tariff
GDP	Gross Domestic Product
GPNG	Government of Papua New Guinea
GRAC	Government Regulations Advisory Committee
IBRD	International Bank for Reconstruction & Development
IESC	International Executive Service Corps
IFC	International Finance Corporation
ILI	International Law Institute
ILO	International Labor Organization
IMF	International Monetary Fund
IPA	Investment Promotion Authority
IQC	Indefinite Quantity Contract

ITC	International Trade Commission
JICA	Japanese International Cooperation Agency
K	Kina Papua New Guinea Currency
LDA	Livestock Development Authority
MARC	Market Access and Regional Competitiveness
MOU	Memorandum of Understanding
MTAP	Market and Technology Access Project
NFD	National Fisheries Development
NFP	National Federation Party
NGIP	New Guinea Islands Produce
NGO	Non-governmental Organization
NIDA	National Investment Development Authority
NMA	National Marketing Authority
NZAID	New Zealand Aid
OAS	Organization of American States
OPIC	Overseas Private Investment Corporation
PACD	Project Activity Completion Date
PAFCO	Pacific Fishing Company Limited
PAMI	Pacific Asian Management Institute
PBDC	Pacific Basin Development Council
PBEC	Pacific Basin Economic Council
PECC	Pacific Economic Cooperation Conference
PEP	Profitable Environmental Protection
PFC	Pacific Forum Line
PIC	Pacific Islands Conference
PID	Project Identification Document
PIDP	Pacific Islands Development Program
PIIDS	Pacific Islands Industrial Development Scheme
PIMAR	Pacific Islands Marine Resources
PIMRIS	Pacific Islands Marine Resources Information System
PIO/T	Project Implementation Order/Technical
PITO	Private Investment and Trade Opportunities (AID Asean Project)
PM	Prime Minister
PNG	Papua New Guinea
PNGCS	Papua New Guinea Child Survival
PROAG	Project Agreement
PSC	Personal Services Contractor
PVO	Private and Voluntary Organization
RAP	Regional Aids Prevention (RDO/SP Project)
RCO	Regional Contracting Officer
RDO/SP	Regional Development Office/South Pacific
RDO/SP/BDO	Regional Development Office/South Pacific/Business Development Office
RFP	Regional Family Planning (RDO/SP Project)
SI	Solomon Islands
SIC	Small Industry Center
SIPL	Solomon Islands Plantation Limited
SOPAC	South Pacific Applied Geosciences Commission
SPAFH	South Pacific Alliance for Family Health
SPARTECA	South Pacific Regional Trade and Economic Cooperation Agreement
SPC	South Pacific Commission
SPESS	South Pacific Economic Statistical Summaries

SPF	South Pacific Forum
SPITS	South Pacific Investment and Trade Service
SPOCC	South Pacific Organizations Coordinating Committee
SPPF	South Pacific Project Facility
SPRAD	South Pacific Regional Agriculture Development (RDO/SP Project)
SPREP	South Pacific Regional Environment Program
SPTC	South Pacific Trade Commission
SRO	Single Regional Organization
STL	Solomon Taiyo Limited
T	Pa'anga Kingdom of Tonga Currency
TCSP	Tourism Council of the South Pacific
TFF	Tax Free Factory
TIA	Trade and Investment Advisor
TIBS	Trade and Investment Business Service
TIMS	Trade and Investment Monitoring System
TDP	Trade Development Program
UNDP	United Nations Development Program
UNIDO	United Nations Industrial Development Organization
USAID	Unites States Agency for International Development
USDA	United States Department of Agriculture
USDH	United States Direct Hire
USDO	United States Disbursing Office
USG	United States Government
USP	University of the South Pacific
USTIA	United States Trade and Investment Agent
USTR	United States Trade Representative
VITA	Volunteers In Technical Assistance
VT	Vatu Vanuatu Currency
WB	World Bank
WS	Tala Western Samoa Currency
WS	Western Samoa
WSTEC	Western Samoa Trust Estates Corporation
WTC	World Trade Center
WTI	World Trade Institute

MARKET ACCESS AND REGIONAL COMPETITIVENESS
(879-0018)
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EXECUTIVE SUMMARY

The ten independent nations of the South Pacific assisted by A.I.D. face special problems in their efforts to establish identity and economic opportunity in the world economy. As small, relatively undiversified island economies, physically isolated from the larger trading nations, they have become dependent on high levels of imports and have suffered disproportionately the shocks of traditional commodity price fluctuations and the natural disasters common to the region. Small populations offer comparatively small domestic markets and diseconomies of scale which require a major focus on developing export markets to secure foreign exchange and economic growth.

Poor economic performance in the 1980s has triggered a gradual transition from heavy government interference in markets and import substitution industry biases to outward-looking economic strategies increasingly focussed on the private sector to lead the way to economic growth. However, cultural conservatism has moderated the pace of change. Faced with critical shrinkages in market value of tradition bulk commodity exports, countries are finding new ways to tap potential in non-traditional, higher value horticultural, marine resources and manufacturing production.

Expansion and diversification of exports to and attracting investment from important overseas markets in Asia, North America and Europe represent the key to future economic growth of the Pacific Island countries. But securing market attention and sustaining international market standards and image beyond the limited and stagnating economies of Australia and New Zealand has eluded much of the private sector. The purpose of the MARC project is to increase South Pacific access to and competitiveness in American markets.

With governments' concurrence and cooperation, the project will work with the private sectors of the two largest economies in Melanesia (Fiji and Papua New Guinea) and in Polynesia (Tonga and Western Samoa). Project components will help to create a business environment attractive to investors, develop production standards in non-traditional product fields suited to the American and other large international markets, develop marketing skills and understanding geared to success in the American markets and establish a profitable network of relationships between the business communities of the South Pacific and those of the U.S.

The project is planned for a total obligation of $7.5 million over five years, and six years of implementation. Of keen interest to all ten A.I.D.-assisted countries in the region is project sponsorship of the start-up of a U.S.-based investment and trade service to assist and promote South Pacific interests in U.S. markets for market niches, investment and sourcing; and to ease U.S. business' access to information on opportunities in the South Pacific. The project will emphasize cost-sharing by businesses and industry associations benefitting from project activities. Project facilities and services still needed after five years should be self sustaining through fees for service and business and government contributions.

MARKET ACCESS AND REGIONAL COMPETITIVENESS
(879 - 0018)

PROJECT PAPER

REGIONAL DEVELOPMENT OFFICE/SOUTH PACIFIC
January 1991

"This summit is intended to underscore my interest in making sure that I know you personally and understand your views and concerns. Please know that it is only one evidence of the interest we will continue to have in you and your peoples...

To help strengthen the economies of the South Pacific, I am pleased to announce:...four additional A.I.D. development assistance programs to enhance economic growth through private sector development, emphasizing agricultural and marine resources..."

I will ensure that the details of these initiatives will be expeditiously made known to your governments."

President George Bush
Opening remarks at the United States
Pacific Island Nations Summit
Honolulu, October 27, 1990

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MARKET ACCESS AND REGIONAL COMPETITIVENESS (MARC) (879-0018)

I. SETTING AND PROJECT RATIONALE

A. THE SETTING - NEW COUNTRIES IN ECONOMIC TRANSITION

The South Pacific contains ten countries assisted by A.I.D.: the four Melanesian countries of Fiji, Papua New Guinea, Solomon Islands and Vanuatu; the Micronesian country of Kiribati; and the five Polynesian countries of Cook Islands, Niue, Tonga, Tuvalu and Western Samoa. As a group, these countries share features that hamper their successful economic and political entry into the polity of larger trading nations. Except for Papua New Guinea, these countries are physically small; all have dispersed, multi-island land bases within immense oceanic exclusive economic zones. They are geographically isolated from each other and from the larger market nations. Their populations are small, ranging from less than 3,000 in Niue to 3.8 million in Papua New Guinea, totaling altogether no more than 5.5 million people. This equates to small domestic markets for their production, which makes them dependent on external trade for major income generation. The average annual GDP per capita is approximately US$800. (See Annex E)

Six of these countries have been independent for fewer than twenty years. Before independence, all were enclave societies, politically and economically, each functioning largely within the sphere of its colonial power and geographic neighbors in the Southwest Pacific. Their newness as nations brings inexperience in democratic representative governance. The recent referendum in Western Samoa was the first move there to modify the oligarchic system of matai-ruling chiefs in order to permit universal suffrage. Modifications in the centuries-old nobles and commoners relationships and powers in the Kingdom of Tonga are also underway. Kiribati, Niue and the Cook Islands are successful models of democratic governance. While Fiji had two miltary coups in 1987, it has had a stable interim civil government and has scheduled elections in 1991.

Most of the countries have only a fledgling private sector. The larger scale private enterprises in most cases continue to be dominated by foreign firms and investors. The services industry (e.g. banking, insurance, accounting, law, shipping) and the manufacturing industry are largely run by Australian and New Zealand firms which have a strong political and economic influence in the Pacific Islands business community. Much of the region's commercial trade is also concentrated in the hands of large foreign or local non-indigenous trading companies. The latter are often family-owned businesses and increasingly are operated by a second generation who are locally-born. Examples are the Vietnamese Than family of Vanuatu and the Chinese Lee family and Indian Patel and Hari families of Fiji. While these commercial beginnings, familiar in other developing countries, have moved the island economies out of a purely subsistence, non-monetary state, they may also have inhibited the growth of a strong indigenous private sector.

Agriculture and fishing have traditionally been the primary sources of employment and income for most islanders. The vast majority of the region's population, particularly in Melanesia, is involved in semi-subsistence agriculture and fisheries. There has, in fact, been no real sustained economic growth in the Pacific Island countries over the last five years, in part because of costly import substitution policies but also because of plummeting prices for traditional primary export commodities (Annex I). Relatively high population growth rates, low remuneration in traditional agriculture and the desire for skills development and greater opportunity have accelerated migration into urban areas and abroad. Training and retaining a skilled workforce has become a major new challenge for both rural and urban commercial sectors (Annex H).

In the South Pacific of the 1990s, governments and their private sectors are both striving to make the transition from public sector-dominated, semi-subsistence societies to modern, commercial export-oriented economies. The countries are pushing to diversify beyond the traditional government-controlled and lower value bulk commodity exports of copra, sugar, coffee and palm oil to private sector produced and marketed higher value export products such as ginger, vanilla, fresh fish and maricultured marine products (e.g. seaweed), garments and other light manufactures, and tourism. They see this as an avenue to increased employment, a higher standard of living for their people, a reduced burden on government resources and less dependence on external aid.

Countries differ widely as to where they are in this transition process. Fiji has taken the lead with major deregulation of the economy, the instituting of an attractive package of investment incentives such as the tax free factory scheme, the 'corporatization' of commercially-oriented parastatals and the

creation of a quasi-independent trade and investment board that is successfully working with the private sector to promote the country's trade and investment opportunities in the world marketplace. Western Samoa, the first Pacific island nation to gain independence (1962), is just beginning to tackle seriously the problems created by heavy government interference in all aspects of production and marketing, by inefficient and obstructionist government support services such as Customs, and the matai-controlled system of governance which has stifled progress and public voice in both the economic and social spheres. The Kingdom of Tonga, which maintained its independence throughout the era of colonization in the Pacific, has struggled with its own oligarchic system (the extended royal family) of controls, resulting in only very gradual deregulation.

There is a psychological struggle inherent in this transition process between the desire for the development changes and modernizing influence brought about by encouraging broader-based foreign investment with an open market exports orientation, and the desire to protect customary practices and maintain local control or 'ownership' of economic resources and activities. Governments often justify continuation of excessive government involvement in the economies of these countries on the basis of their role in moderating the pace of change.

Nevertheless, with experience now seasoned by some years of national independence and its attendant responsibilities as well as some exposure to the challenges of important world markets, both governments and private business in the South Pacific have the will and the commitment to participate more fully in the economic and political comity of world nations. Policies and development strategies for the 1990's are gradually shifting away from heavily subsidized, import substitution industry and protectionism and toward export-led growth with and through the private sector. There is, increasingly, a common vision among Pacific Island nations that expansion and diversification of exports to larger overseas markets in Asia, North America and Europe and attracting the investment to stimulate this expansion represent the key to future sustained economic growth, democratic stability and political participation in a global economy.

B. THE 'HONOLULU SUMMIT' COMMITMENT

During the 'Honolulu Summit' on October 28, 1990 between President Bush and Pacific Island leaders, Ratu Sir Kamisese Mara, Prime Minister of Fiji and spokesman for the island leaders, stated that "political stability and the principles of democracy and freedom can only flourish in a climate of economic growth and prosperity. ...The United States [can] play a major role in ensuring that the Pacific region remains politically stable by assisting economic development." The President made commitments to

Pacific Island leaders of new U.S. initiatives that encourage economic productivity and a new era of relationships between the United States and the South Pacific Region. These new initiatives, including four new A.I.D. projects, will identify commercial investment opportunities, stimulate increased trade flows and assist in private sector development. The **Market Access and Regional Competitiveness (MARC) Project** is a central response by A.I.D. to both the Pacific Islands' request and the President's commitment.

C. COMMON PROBLEMS HAMPER ECONOMIC DEVELOPMENT

The countries of the South Pacific to differing degrees all face a series of common problems. Import dependence ranges between 40 and 70 percent of GDP which intensifies the importance to these countries of foreign exchange earnings. High import expenditures are typically supported by external financial transfers from donors averaging 30 percent of GDP, and from high levels of remittances from overseas islanders. Only Fiji and Papua New Guinea with their larger, more developed economies are less strained by this problem. Large percentages of official assistance go into overseas procurements for public sector projects and other island government expenditures which inflate government budgets with little positive benefit to the private sector. While increased self-sufficiency is a goal of most of the island countries, there is a growing conviction among leaders that its achievement, even to a modest degree, will only be possible by reining in government and expanding private sector production and successful export marketing.

Because of relatively small domestic markets and high import ratios, the countries must generate increasing levels of income and foreign exchange through exports if they are to maintain their standard of living and strive toward some measure of future economic growth. Most of these countries, however, have experienced significant loss in market value of the traditional export products on which their economies and the majority of their economically active smallholder populations have depended for the past hundred years. This condition has been exacerbated by the recent downturn of the Australian and New Zealand economies (and consequently import demand), whose markets have provided protected access for Pacific Island exports under the SPARTECA Trade Agreement over the last decade. This has caught the island countries unprepared to enter into other more competitive and demanding international markets. Only the economy of Papua New Guinea with its valuable minerals sector is less affected economically by this problem; but socially, even this country can not afford to ignore the attendant loss of opportunity and income for the smallholder producers who represent the majority of its population.

There are important **social and political factors underlying these problems:**

- Steady population growth averaging 2.2 percent per annum on a land and reef-limited natural resource base is creating higher dependency ratios per tenured square foot and a growing landless population of unemployed who are migrating to population centers where they remain unemployed or underemployed.

- The limited scope of opportunity for young skilled and educated islanders has resulted in a steady emigration, often illegally, of the ones best qualified to build new industry and modern economies.

- Dependency on aid contributions is likely to increase (with contributions dominated by one or two donors, e.g. EC and Japan) without some major efforts to strengthen the private sector's role in these economies and to shift production and marketing foci.

- Deterioration of terms of trade and with them the quality of life of islanders, manifested in reduced income and loss of employment opportunities, can lead to increased social instability and crime, particularly in urban areas. This has happened lately in the Solomon Islands, Western Samoa, Fiji and Papua New Guinea.

- In recent worldwide ratings of the degrees of political and personal freedoms among the world's nations, these relatively new countries in the South Pacific collectively earned one of the higher averages. Continued lack of economic growth and even economic regression will jeopardize these freedoms and the representative governing structures on which these island nations are based.

D. PROTECTIONIST POLICIES OF POST-INDEPENDENCE

Many island governments, in the nationalistic fervor of independence during the 1960s and 1970s, established dominant government control of their economies. Actions included greatly expanding government-run production and marketing parastatals, favoring and protecting inefficient import-substitution enterprises, and undertaking other interventionist actions to

protect indigenous interests. These actions and their accompanying attitudes persisted through the mid 1980s. In many ways, this initial protectionism has retarded sustainable economic and social development in the island countries during their first decades of nationhood. Policy and attitudinal changes have begun to occur now that trends have clearly demonstrated that public sector dominance and protection of the economy is detrimental to the attraction of investment, to the growth of efficient business and industry and to their successful penetration of competitive and demanding international markets.

E. POOR INDUSTRY PREPARATION FOR COMPETITIVE MARKETS

There is good potential in the South Pacific Island countries, given their climate, southern hemisphere location, relatively pest-free and unpolluted environment and lower labor costs (except Papua New Guinea) to develop and market high value wood, horticultural, floricultural, and marine products as well as specialty tourism and light manufactures. (See Annex I.) However, the conduct of business by both private and public sectors is not yet geared to meet the conditions of a highly competitive marketplace such as North America. Deficiencies lie in the fields of quality and dependability of supply; organization of dependable product transport and transport technology between the islands and North America, proper product processing and packaging, and orderly and appropriate approaches to international marketing. Industries are being developed piecemeal among numerous independent cottage scale enterprises rather than systematically among organized groups of producers, unified and supported by industry-established standards and extension services. These critical matters require attention if markets, once accessed, are to be successfully sustained in America or elsewhere.

F. PROBLEMS OF ACCESS TO INTERNATIONAL MARKETS

The SPARTECA trade agreement among South Pacific countries and Australia and New Zealand has introduced South Pacific businesses and industry to the rigors of the competitive marketplace only to a limited degree. The South Pacific has had very little experience with large, complex international markets such as those of North America. South Pacific businesses and trade and investment arms of governments tend to be frightened by the sheer size of the American marketplace and do not understand how it works. They have few professional contacts in the product and financial markets. On the trade side, island businesses most often depend on extended family ties in the U.S. to undertake marketing, frequently with disastrous results. Lack of familiarity with U.S. quarantine and trade regulations has resulted in serious business losses for enterprising island businesses venturing unprepared into the U.S. marketplace. For investment attraction, Pacific Island countries are dependent on slim official representation based in the U.S. Their official political and representational duties leave them

insufficient time to network within U.S. business and financial communities to stimulate interest in Pacific Island investment opportunities. Access to information and contacts and assistance with promotion will be key to Pacific Islands' success in the U.S. markets.

G. A SLOW DONOR RESPONSE TO THE PRIVATE SECTOR

The donor response to these new economic development challenges presented by the Pacific Island countries has been slow. A major reason for this is that donors have mainly operated government-to-government assistance programs in the form of conventional development projects implemented through government ministries or enterprises. (See Annex J.) While private sector development and business environment improvement have been popular donor themes in recent years, the problems have typically been defined by and activities executed by government ministries with little direct benefit to the private sector. The current development challenge requires designing and delivering foreign assistance in a manner which directly involves the private sector in the definition of the problems and opportunities and in their respective resolution or realization.

H. COUNTRY SPECIFIC PROBLEMS AND OPPORTUNITIES

The major constraints and opportunities to increased trade and investment by/with South Pacific countries become repetitious with each country analysis. Yet, each country emerges at a different stage along a trade and investment development continuum and with a different articulation of the priorities in terms of the order and willingness to address the key issues. The trade and investment constraints and opportunities for the South Pacific region are discussed in greater detail in annexes H and I and are summarized below for countries targetted by the MARC project.

1. FIJI - A LEADER IN TRADE

> We have all been persuaded that real development can only be done by, and in the private sector. [However,] we can not dismiss or minimize the role of government. A successful private sector has difficulty operating in an indifferent governmental environment.
>
> Hon. Berenado Vunibobo
> Fiji Minister of Commerce and Trade
> February, 1990

a. The Opportunity

The Minister's remarks are indicative of attitudes which have led Fiji, the region's second largest economy, to build over the last four years a platform of successful economic policies. These in turn have launched the country and its private sector on the path to an internationally competitive, export-oriented economy geared to long term sustainable growth. All major sectors, including most recently the primary products sector, have undergone a degree of deregulation. New wage guidelines are shortly to be put in place. A generous regime of incentives including tax and duty concessions and export allowances has already attracted substantial new foreign investment, generating thousands of new jobs. The centerpiece of these incentives is a tax free factory scheme which is booming and has enabled Fiji to launch seriously into light manufacturing. The government is making a major effort to cut unnecessary government expenditures, to contain escalating costs such as those of the military, and to de-bureaucratize government controls and procedures which hamper or impede decision-making processes, efficiency and productivity in both the public and private sectors.

The country has the region's only separate statutory body to promote trade and investment through export-oriented private sector development. The Fiji Trade and Investment Board (FTIB), established in 1981, works closely with both the private sector (both Fiji-based business and foreign investor groups) and the government, deftly executing its function between the two and earning trust and credibility in both sectors.

The economy is moving away from a dependence on bulk sugar exports and tourism and is diversifying through exciting new private sector initiatives into higher value commodities such as seasonal ginger, spices, citrus, fresh chilled fish, furniture, sports garments and cut flowers. These fledgling industries are getting encouragement and support from government but are not being coddled. (See Annex I for more detail on trade potential in non-traditional products.)

Fiji wants to move away from its export dependency on the markets of its major trading partners, New Zealand and Australia whose recessions are slowing Fiji's economic stride. Both government and the private sector see the long term trading future and directions for Fiji products well into the next century to be in the larger Pacific Rim countries and are directing their efforts toward these markets. North American markets are a major element of this market diversification strategy.

b. The Problem

Fiji has largely been exporting to the less demanding markets in Australia and New Zealand under protective terms permitted by SPARTECA. Its manufacturers and producers and its key government services of Customs and Quarantine are comparatively inexperienced and ill prepared to meet the standards of the highly competitive markets of the large Pacific Rim countries, particularly those of Japan and the United States.

Fiji's growing export sector has not had access to up-to-date information on overseas markets, the technologies and conditions required to produce a competitive product, and ideas for new product lines. Sources of such information are not well known and hefty entry fees to international technology and market information systems have been effective barriers to the spread of production and marketing knowledge relevant to overseas markets.

The presence of Fijian products in the U.S. marketplace, except for sugar (under a quota system) and a bit of tourism, is almost nil. It is clear from a few market successes that only specialized or seasonally-advantaged, high-value niche export markets will be small enough and lucrative enough to be served by the small operations of Fiji's entrepreneurs competing with Asian and Caribbean/South American businesses. Fiji-based business and the FTIB lack the contacts and the market knowledge peculiar to the American taste and way of doing things to be able to identify new niche markets, promote and secure them readily.

The business environment has improved enormously under the guidance of a few strong figures in key influential positions in government and business. However, top managers in government services who may lack understanding or object to the high pressures of meeting the requirements of export-oriented business still present a serious obstacle to appropriate decision-making and public service efficiencies in support of the private sector. Equivalently, there often exists a lack of understanding in the private sector of the precise requirements for and constraints on government managers doing their job as promptly and 'correctly' as business may require, perpetuating the problems for both sides.

There is currently a fair amount of discussion in Government on the subject of privatization and a number of senior government officials would insist that "privatization" has taken place during the past several years as statutory agencies have been transformed into registered stock corporations. The term for this used locally is "corporatization." The fact that most of these bodies become companies whose stock is 100 percent owned by the government is overlooked. There is no official inventory of the government-owned enterprises to indicate the size and nature of the privatization task;, but there are about twenty good candidates, many of them operating at a loss.

2. PAPUA NEW GUINEA - UNREALIZED POTENTIAL

> The days of a bloated, inefficient and unresponsible public sector are not just numbered, they are finished. We can no longer depend on the public sector to create jobs... Real and sustained growth -- in employment, in the development and diversification of agriculture, in lessening dependence on imports, and in broadening our export base -- can only come through a confident, expanding and less regulated private sector... My Government believes its fundamental role in this process is clear. We must create and maintain the right economic, political and social environment for lasting private sector growth, and we must do so now.
>
> Hon. Rabbi Namaliu
> Prime Minister
> June, 1990

a. The Opportunity

Spurred by the economic crisis created by the closing of the Panguna Mine in Bougainville, the Namalui Government has taken the opportunity to make and implement a series of tough decisions which form the core of a new economic program. This program reverses the trend of dependence on government for economic growth to full support to the private sector as the vehicle for growth and development of the country and its resources in the future.

The government has defined its greatest challenge as that of providing the right environment for private sector growth and confidence. To this end, the Prime Minister established in March 1990 the Government Regulatory Advisory Committee (GRAC) comprised of senior private sector and public sector members. The GRAC has been charged to identify all major issues of concern to the private sector, to propose effective remedies or achievable programs for change and, once accepted by Cabinet, to monitor their implementation. The principal private sector representatives driving GRAC are the respective presidents of the PNG Chamber of Commerce (representing nine local chambers) and the Port Moresby Chamber of Commerce, and the executive director of the Institute of National Affairs, a private thinktank promoting dialogue with Government on important topics of public policy. (Annex H.)

In May 1987, the PNG Cabinet approved proceeding with the privatization of six of thirty-five state-owned enterprises in the portfolio of the Department of Finance and Planning. Since that time, with a change in government and the Bougainville crisis with its attendant loss of government revenues, this initiative lost its priority. With the Prime Minister's new economic reform program, privatization has once again become high on the government's agenda. The government's first priority is the preparation of a

comprehensive privatization strategy covering the entire public sector, not just the thirty-five companies wholly or partially-owned by the Department of finance. This would now include the major statutory companies such as the national airline, Air Niugini, which were off limits in 1987. To promote this reform initiative, the Prime Minister has appointed a joint private-public sector privatization committee.

The government is committed to support and encourage growth of private sector investment -- both national and foreign -- especially in employment-creating industries. A major objective of the government's economic restructuring package therefore is to dismantle the disincentives to investment and end the real obstructions which have become institutionalized over the years. The first major step has been taken, in the abolishment of a moribund regulatory body (the National Investment Development Authority) and its replacement with a statutory commercial body, the Investment Promotion Authority (IPA). The Act enabling this is expected to pass Parliament and be gazetted by July 1991. Guided by a joint government/business board, the new Authority will perform two major functions: (i) investment promotion, attraction and approvals including structuring of domestic-foreign joint ventures; and (ii) facilitating the smooth and efficient entry and assimilation of foreign investment into Papua New Guinea. The commercial operation is expected to be self-sufficient in three years through fees charged for its services.

b. The Problem

Papua New Guinea is the wealthiest country in the South Pacific region in terms of its natural resources but its potential remains largely undeveloped. Only one quarter of its arable land is currently effectively utilized. Much of the country is still forested, though with timber of variable commercial quality, and that resource is being depleted by indiscriminate logging. Its fisheries and marine products potential remains largely undeveloped. Its rich deposits of gold, copper and oil have attracted significant foreign investments, creating valuable foreign exchange, but these investments generate few local jobs. Secondary industry remains small.

Despite its natural riches, the country has been largely unsuccessful in attracting new investment into sectors outside the enclave mining (including oil) sector. Government protection of 'local' interests is broadly institutionalized in laws, administrative procedures and official attitudes with a degree of corruption across the board. This has created a host of disincentives especially discouraging to foreign investment, the

main source of private investment for the country. The system has also undermined or withheld support from many promising local business and industrial initiatives by groups that are not wholly indigenous.

The country operates under an archaic system of land law designed during its colonial period more to control land use than to promote productive development. Some 97 percent of the land is held communally or traditionally with no legal framework under which a credible registration system and open market can develop. This has led to permanent land disputes and lengthy and expensive compensation negotiations between landowners and commercial interests. Land compensation issues triggered the Bougainville crisis. Besides holding land out of more productive uses, the system creates an environment of constant threat to private property and any investments on it. (The government has embarked on a Land Mobilization Program with IBRD and AIDAB funds to get at some of these land issues.)

There is a generally poor understanding and acceptance of business principles (e.g. the contributory-participatory role of the shareholder, the honor in profit, inseparability of investment and management and of investment and saving) and business terminology and processes (e.g. privatization, joint ventures and equity partnerships). This lack of understanding is often behind government's delays in decision-making and the promulgation of obstructive policies and procedures, particularly at the line department levels, that hurt business and drive away investment interest. Few businesses are so structured as to be able to free their chief executives for the important strategic analysis of the business environment. While they understand the problems very well, they are too busy attending to the details of operating their businesses under difficult conditions to have much time for collective efforts to overcome the structural problems they face.

Not least of all, the country is facing a serious law and order problem of indiscriminate attacks, mainly in urban areas, against person and property, both foreign and local. It is referred to as the war between 'the haves' and 'the have-nots.' A seven percent annual rate of urbanization in the 1970s and at least five percent in the 1980s and attendant unemployment have contributed significantly to this problem. A seriously deteriorated national system for education and skills training has exacerbated the related problem of employing the extra 60,000 pairs of hands coming annually into the labor pool.

3. TONGA - A WELCOMING BUSINESS ENVIRONMENT

> The primary objective to be pursued in the 1990s is to boost economic growth through growth of export earnings.
>
> Honorable James C. Cocker
> Minister of Finance
> June, 1990

Relative to the economies and private sectors of Fiji and Papua New Guinea, those of the countries in Polynesia are very small. Yet they are facing similar problems -- a dependency on export markets because of small domestic populations to consume production, loss in market value on principal traditional exports, and business environments heavy with government interference detrimental to economic growth prospects in and through the private sector.

The countries with the largest economies and populations in Polynesia are Tonga: GDP $66 million, population 99,000 and Western Samoa: GDP $105 million, population 162,000. Both are showing some promising change toward free market principles and reform of national administrations to encourage the private sector to flourish. Of the two, the small Kingdom of Tonga has fewer resources but is much further advanced in creating the conditions that encourage the growth of profitable international trade and investment.

a. The Opportunity

In the Kingdom of Tonga, policies since the 1970s have emphasized diversification of the economy and fostering of growth of the private sector. Gradual liberalization of the economy began during the 1980s. The most significant change amended the Commodities Board Act in 1983 to allow farmers the freedom to export goods directly overseas (rather than through government channels) to expand export markets. The government's Budget Statement for 1990-91 has made growth of export earnings the primary objective to be pursued in the 1990s to boost economic growth.

The Tonga Commodities Board is being dismantled and all profitable elements privatized in 1990-91. The freeing up of farmers to pursue new markets independent of government marketing controls has led to the development of lucrative new non-traditional exports of vanilla to the U.S., chilled fish to Hawaii and Japan, watermelon to New Zealand and seasonal squash to Japan. Most production is by smallholders. In order to meet the tough conditions of international markets and achieve economies of scale, most producers have organized into private commercially-run cooperatives such as the A.I.D.-assisted Friendly Islands Marketing

Cooperative (for vanilla, squash, chilled fish and handicrafts) and the newer Tonga Growers and Multi-Purpose Cooperative Society Ltd for squash and melon.

Tonga has long had a favorable business climate for foreign investors, attractive investment incentives, a reputation for prompt execution of bureaucratic approvals and a relatively low cost and readily trainable labor force. A highly successful small industries zone, the Small Industries Center in the capital Nuku'Alofa, offering for-lease serviced lots and factory shells, has given a big boost to the manufacturing industry such that other centers are planned as well as additional incentives to attract larger foreign investments. Most of this can be attributed to the efficient operations of Ministry of Labour, Commerce and Industries. This ministry has the approval from Parliament to explore models for setting up an independent, private sector-oriented Industrial Development Corporation which would be charged with assisting the private sector achieve trade and investment development and promotion in international markets.

b. The Problem

The problems are standard ones, scaled down to the size of the Tongan private seccor and its potential. The largest issue and the key ingredient to future business growth is access to off-shore investment sources for new starts or expansion. This issue is a priority for foreign as well as domestic businesses located in Tonga. Assistance is needed with targeting or prioritizing investment opportunities, developing investment strategies and promotional materials.

Understanding competitive market requirements and carrying out successful marketing of Tongan-produced products in the larger markets of the U.S., Europe and Japan is a real problem for the relatively small firms of Tonga. Entrepreneurs generally are heavily involved in the day-to-day details of production and lack the time, access to substitute management, and often the resources to make 'blind' trips into foreign markets to search for product niches. And the Kingdom of Tonga, at present, has no institutional support (like Fiji's Trade and Investment Board) to help export-oriented industries penetrate new markets or seek equity partners.

While the business environment is quite favorable and continuing to improve, the traditional postures of a centuries-old Kingdom, which still retains attitudes of oligarchic rule, have stifled the development of an effective forum between government and the private sector. It is only because the private and public sectors are so small and keeping secrets is difficult to do that dialogue informally between government and business interests occurs at all on issues such as labor and tax legislation which are vital to business operations.

4. WESTERN SAMOA - BEGINNING OF MAJOR REFORM

a. The Opportunity - Western Samoa

Western Samoa is well-endowed with natural resources. Of 500,000 acres of potentially cultivable land, only 160,000 are currently in use. It has the soils and climate that enable it to produce exceptionally high quality crops (e.g. taro, cocoa) superior to those from other islands in the South Pacific. The resources of its sea area are only beginning to be harvested for international markets.

The country is just moving into an era of major reform which Price Waterhouse, the main international accounting firm advising business in Western Samoa, observes is the first effort at comprehensive reform they have seen in over ten years. Largely financed and promoted by a $15 million, five year Asian Development Bank loan, the totality of the policy and institutional reform, if implemented, will make a significant difference to business in all sectors, but particularly in agriculture and agro-industries. Divestiture by government of agro-based enterprises and leasing out a significant proportion of the 20,000 acre WSTEC plantation estates to a freehold land-starved market are just a few of the measures announced in the Budget Statement for 1990.

Despite past problems of doing business in Western Samoa, there are still new industries trying to get a foothold in the international markets. Air freighted cut flowers and fresh chilled fish as well as small tourist resorts of six to twenty-four units are but three examples of initiatives currently being pursued by a mix of enterprising local business people and foreign investors. Having lost 26 percent of the value in current prices of its exports (mainly traditional bulk commodities) during the 1980s, the economic future of Western Samoa depends on such new initiatives.

b. The Problem - Western Samoa

Among all the countries in the South Pacific, Western Samoa's development, and particularly that of the private sector, appears most disadvantaged for reasons of culture and tradition. The society from village to senior government offices and parliament are run by a system of hereditary chiefs, frequently older and less educated. They consolidated power in Matai-run village councils and government at Independence and have resisted change ever since. This stranglehold has discouraged the ambitions of the younger, better educated technocrats and would-be entrepreneurs, driving a high percentage to migrate. There is a serious shortage of skilled manpower in the public and private sectors. It has also resulted in an environment of favors and corruption based on whom you know and to whom you may be related. As recently as October, 1990, a referendum vote of the people came down in favor of universal sufferage and open candidacy for

government representation which, if implemented, will gradually dilute the traditional matai system of control.

Very high levels of foreign remittances, possibly as much as fifty-five percent of the GDP in 1989, and steady generous levels of foreign aid have provided a comfortable maintenance budget for the standard of living in Western Samoa. For that reason, government has not been forced to develop the kinds of investment incentives and business climate that would attract private foreign investment. This factor and a frequent turnover of the government in power have left potentially productive reform packages such as the Industrial Free Zone Act of 1974 on the shelf.

The climate for any kind of business in Western Samoa, whether service industries such as commercial banks, exporters, manufacturers or primary producers, therefore, is very difficult at this point. The government is heavyhanded with business, placing what are felt to be excessive controls and procedures on all aspects of their operations. The services on which business depends such as water, power, Customs, quarantine/inspection, air and sea port and shipping operations are undependable or poorly delivered. As indicated earlier, while the population is well educated, there is also a shortage of skilled labor and high culturally-attributed absenteeism among those who are employed.

5. COMMON THEMES

A common theme runs through these and other countries in the South Pacific. Converging development problems and economic circumstances are forcing Pacific Island administrations in both public and private sectors to place top economic priority on diversifying into new higher value products and first and second stage processing of primary products that can be competitive in international markets. Countries are pressing hard to penetrate new international markets beyond the Southwest Pacific. For the first time since independence, governments are charging their own private sectors with this development challenge rather than retaining it within government enterprises. They are also more actively pursuing foreign investors and expertise to help them accomplish the exports and market diversification on which their economic future depends. In most cases, both governments and private sectors are just at the beginning of this challenge.

With the **Market Access and Regional Competitiveness (MARC) Project**, A.I.D. takes up this challenge to work with the private sector to develop the product quality and industry performance required by competitive international markets, and to access and secure new niche markets in North America for South Pacific-produced products. The project will also work jointly with the private sector and governments to create the business environment necessary to attract investment and support the operations of modern and efficient private export industries.

II. PROJECT DESCRIPTION

A. GOAL AND PURPOSE

The **goal** of the project is **economic growth through increased private South Pacific trade and investment flows**. The focus is American trade and investment markets--where South Pacific products and business partnerships are largely nonexistent and from which American investment and U.S.-made products flow only modestly into the South Pacific nations. The indicator of the goal's achievement will be an increase in the traditional measure of GDP per capita.

The **purpose** of the project is structured in two parts both of which are essential to achieving the goal. The first element of the purpose is **to increase Pacific Island country access to American markets** by assisting the private sector in understanding market operations, the expectations and niche opportunities there and by facilitating private sector contacts and appropriate promotion in the American markets of South Pacific products and investment opportunities. The second element of the purpose is **to increase Pacific Island competitiveness in American markets** by assisting selected industries properly to gear their product development and delivery for market success and by working jointly with government and industry to achieve a responsive and supportive environment for modern export industry development and absorption of investment.

By helping to establish a condition in the private sector of the ability to access and operate knowledgeably in the American markets and to market products of higher value competitively, the project is expected to achieve at the purpose level **four principal measureable outcomes**: 1) increased diversification of exports into higher value non-traditional products, 2) a fifty percent increase in the value of exports from the region to U.S. markets, 3) a fifty percent increase in private U.S. investments into the non-mining sectors of Pacific Island economies from U.S. sources, and 4) an increase by at least one quarter of U.S. products and services marketed in the South Pacific region.

Market access will largely be accomplished through information exchange and interpretation for business interests in the South Pacific and in the U.S. Market information and contact networks serving mutual trade and investment interests of South Pacific and American businesses and industry associations will be established through a U.S.- based service. At the industry level in the South Pacific, these international networks are expected to facilitate the information and education role of industry associations toward their members regarding product development technologies, standards and marketing opportunities in North American markets. Project resources will be used to transfer the skills of market niche identification, securing and follow-through to South Pacific

industries and individual businesses and also transfer the knowledge and ability to mount successful product and investment promotions. Through project efforts to improve market access for South Pacific products, higher visibility of and access to U.S. products and services by South Pacific entrepreneurs seeking better quality and more favorably priced production inputs should may be a secondary benefit.

To achieve **market competitiveness** will require work within both private and public sectors since the current business environment and attitudes and practices in both sectors are major factors affecting competitiveness. Project activities will encourage governments to reduce interference by policy, regulation or public enterprises in commercial operations and markets best run by the private sector. Governments will need to transfer to the private sector, or at least to commercially-run statutory bodies serving the private sector, the tasks of trade promotion and investment attraction. Industry and government dialogue on issues critical to trade and investment growth within South Pacific countries and between them and the U.S. must be officially recognized and formalized. At the industry level, new or existing export industries with competitive market potential will become streamlined to reduce production costs and materials wastage and to maximize product quality and reliability for international markets. Competitiveness will be signaled by South Pacific products and investment opportunities achieving visibility and credibility in key American markets and the ability of the private sector to sustain that image.

B. PROJECT APPROACH

The MARC project is designed with certain guiding principles:

Private Sector Focus - The intent is to work to the greatest extent possible with and through industry associations and their individual business members. In the South Pacific, most official project assistance for private sector development has been channelled through governments into public sector infrastructure, training and credit projects, such as the Small Industry Centers in Tonga or the system of business advisors in the Solomon Islands' Ministry of Commerce, or lines of credit in national development banks. The private sector has benefitted very little from these resources and almost nothing has gone directly to the development of the private sector (outside of government-controlled traditional plantation agriculture). The MARC project will respond to the needs as they are defined by entrepreneurs and industry (including also producer and exporter) associations in the private sector.

Country Before Region - Despite their smallness and newness, the countries of the South Pacific and their private sectors have strong national identities and, for the most part, a healthy national competitive spirit with other countries in the region. Business constraints and opportunities are largely defined by the country environment in which a business is working. Extensive canvassing in the region reveals that most businesses and T/I arms of governments prefer that the project work begin at the national level. Reaching down initially from a regional facility such as was proposed in the Project Identification Document would be too distant and supply-driven. Instead, an actual project presence (fulltime or part-time) in a country working directly with business groups, individual entrepreneurs and relevant parts of government is deemed essential to generate and pursue the "real" private sector agenda for action.

"Hands - On" Assistance - The project will sponsor American business - to - South Pacific business "hands on" transfer of industry and product-specific market planning and skills designed to improve market access and competitiveness in American markets. This will be done through contact networks to be established in the U.S. business community on behalf of the South Pacific for technical assistance, information, partnership opportunities and input sourcing possibilities. The sourcing function will be done in part by linking up with the resources of organizations such as the International Executive Service Corps and VITA and their networks of American business and industry experts. These aspects of project operations will be managed by the U.S.-based component of the MARC project, SPITS.

Synergism With Other RDO/SP Projects - The A.I.D. Strategy for the region focuses more than 73 percent of its resources in four projects to achieve economic growth through the development of and operating efficiency of the agro-marine based private sector. Three projects focus on the production side of commercial fisheries, agriculture and environmental protection. They are Pacific Islands Marine Resources (PIMAR, 879-0020) already underway and Commercial Agriculture Development (CAD) and Profitable Environmental Protection (PEP) which have PID approval. This project will complement these by forging important links to American markets and business interests, and resolving policy and regulatory constraints in the business environment. For example, PEP assistance to smallholders to develop eco-tourism related to preservation of vital ecosystems will benefit from MARC introductions to U.S. ecotourism markets and investment interests. PIMAR, which is introducing new production technologies, needs help with U.S. marketing. CAD efforts to stimulate higher value production such as organically grown vegetables and fruits will benefit from MARC work on business environment improvement. The purposes of all four projects will be served by attraction of U.S. private investment to the South Pacific through MARC services.

C. PROJECT COMPONENTS

The project will have a delivery network that will operate at three geographical levels: U.S., country and region. See Annex C - Institutional Relationships for details. The achievement of the project's purpose will be largely dependent on the ability of work at the three levels to mesh.

- The **U.S. level** in the form of a South Pacific Investment and Trade Service (SPITS) will function as the principal information, technical assistance and training arm of the project and will serve as a point of contact and assistance in the U.S. marketplace for the South Pacific private sector and for U.S. businesses interested in the South Pacific.

- The **country level** will concentrate on country-specific business environment improvement issues and industry-specific opportunities to establish or strengthen trade and investment with North American markets. Countries have been selected which show the greatest potential to benefit from the full scope of the MARC project. These are Fiji, Papua New Guinea, Tonga and Western Samoa. During the early years of the project, other countries in the RDO/SP region, in particular the Solomon Islands, Vanuatu and the Cook Islands may still benefit from occasional small project-funded activities but any shift in the primary country program foci to these or other countries will be deferred until after the midterm project evaluation in January 1994. The key resources committed will be in the form of country-based trade and investment advisors, accompanied by annual programs of short term technical assistance, training and information dissemination.

- The **regional level** will have overall responsibility to promote a mutually-supportive and complementary working relationship among the project's various components. It will also foster relationships with South Pacific regional organizations and other donors whose programs and resources, where complementary, may afford the project greater leverage for accomplishing its objectives. Finally, it will respond to requests from other RDO/SP countries beyond the primary project countries and channel assistance to them as appropriate.

1. US LEVEL: SOUTH PACIFIC INVESTMENT AND TRADE SERVICE (SPITS)

The MARC project will establish in the United States the South Pacific Investment and Trade Service (SPITS), a system of services primarily to serve as a support to the South Pacific private sector. It will also provide a resource for U.S. businesses seeking trade and investment development opportunities in the South Pacific where this would benefit the development of the region's private sector. (See Annex K for details.)

The SPITS function is to establish a services network to provide the support needed in the U.S. marketplace and in the field which will help enhance trade and investment flows between the South Pacific and the United States. It is a vital part of the project's geographical framework. The network will foster and guide South Pacific businesses and industry associations to develop their trade and investment interests in the United States. It will serve as a technical logistician for identifying and organizing the appropriate long term and short term technical assistance, market research and promotions, training/exposure visits or information packages to meet South Pacific business needs at the country and regional levels and within the U.S. marketplace. The SPITS is to establish, operate and maintain networks for contacts, information, technical assistance and other resources. This operating style should lead to the leveraging of other resources from within the networks it creates or aligns with. (See Annex C-2, Institutional Relationships.)

The SPITS will have four main functions which should evolve in response to demand and need once the system of services is operational:

a. **Contacts Network** - The SPITS will establish and operate a network of contacts with key U.S. businesses and industries that are willing and interested to work with the South Pacific private sector(s) on trade and investment development which may also represent new opportunities for U.S. business in the South Pacific.

b. **Coordination With Other U.S.G. Agencies** - The SPITS will establish a working knowledge of and relationship with the key resource people and programs within A.I.D and other U.S.G. agencies whose operations could enhance private sector trade and investment between South Pacific nations and the U.S. These would include the AID Trade Development Program (TDP), Overseas Private Investment Corporation (OPIC), U.S. Department of Commerce including the Foreign Commercial Service (FCS), the U.S. Trade Representative's Office (USTR), U.S. Customs, U.S. Department of Agriculture (USDA), the Food and Drug Administration (FDA), and the Export Import Bank (EXIM). (See Conclusions of Analyses and also Annex J.)

c. **Management of U.S. Technical and Training Resources** - The SPITS will identify appropriate sources in the United States for technical assistance, training and information relevant to the varied needs of South Pacific industry and varied individual private firms that are gearing up to penetrate U.S. markets or attract U.S. investment. It will be responsible for organizing and managing the U.S. side of access to and delivery of such resources to the South Pacific private sector(s).

d. **Information and Data Service** - The SPITS will establish and maintain an on-line information service and disseminate such information on a fee-for-service basis to South Pacific clients and to U.S. clients interested in doing business in the South Pacific.

While Hawaii, an important market to the Pacific Islands, will certainly be scoped into its networks, the **central operation** of the SPITS should be on the mainland U.S. to be easily accessible to and by U.S. trade and investment markets. Networks should be particularly well developed on the U.S. West Coast because of the existing familiarity of shippers, importers, U.S. Customs and the markets with the South Pacific and vice versa . Also, the largest South Pacific populations in the United States and Canada reside along the West Coast and serve as a ready market for South Pacific products. Finally, private sector representatives from the South Pacific as well as trade and investment (T/I) arms of governments have indicated a desire to use the SPITS as a logistical point of departure for information, guidance and assistance with organization of their U.S. business missions. Therefore, ease of access by South Pacific users to the services of SPITS should also be a consideration. The actual system for organizing, deploying and managing SPITS services will be designed by the principle MARC contractor.

To operate the SPITS successfully, it needs to have a strong identification with the private sector and real lines of cooperation and interest established within the U.S. business/industry and finance communities. Part of the strategy for setting up the SPITS will be to promote and organize a **U.S. - South Pacific Business Council in the United States** to help guide and support the activities of the SPITS, to facilitate the cooperation and participation of U.S. business, and to serve as a counterpart to local U.S. business councils formed in individual countries whose private sector is ready for this type of market focus.

Experience has shown that an operation such as the SPITS is best structured on a **progressive cost recovery basis** to establish basic private sector principles, the seriousness of its clients and credibility for its services. This may be accomplished through membership fees, a schedule of fees-for-service, commissions based on services delivered both to South Pacific and U.S. clients, both private and public, or some other combination of alternatives. These may be modest during its start-up phase, as the utility of the services is confirmed and the scope of SPITS services refined. The remuneration scheme should be part of a longer term strategy to gradually phase out USG development assistance resources. In the later years of the project, a more developed and better networked South Pacific private sector may no longer need certain services, others may be absorbed by private sector vendors in the South Pacific or the U.S., and still others may be assumed by a stronger official commercial representation by South Pacific nations in the U.S. As part of its terms of reference, the principal MARC contractor will develop and implement a short term strategy for the commercial operation (to the degree feasible) of SPITS services and a longer term strategy for the gradual phasing out of obsolete services and the sustainability of essential services beyond the withdrawal of USG-financing. Because of the new and untested nature of the SPITS, an assessment of the performance and continued utility of SPITS services to the South Pacific private sector and trade and investment arms of governments will be undertaken as part of the mid-project evaluation to guide A.I.D. and the contractor in the application of the longer term strategy.

2. COUNTRY LEVEL: FIJI COMPONENT

The MARC project will place a U.S. market-experienced Trade and Investment Advisor (TIA), specialized in business development for export marketing, in Suva, Fiji whose primary task will be to help the Fiji private sector realize greater trade and investment opportunities in the North American markets. The primary project contractor will recruit and field the TIA. In-kind office services and space will be accorded to the advisor by the Fiji Trade and Investment Board (FTIB), a statutory body whose mandate is to service private sector T/I needs. The advisor will not be located in A.I.D. so as to enable identification with and fulltime dedication to the needs of the private sector.

The "independence" of the position is determined by FTIB, representatives of the private sector and RDO/SP to be important to enable the advisor to operate as much as possible outside the politics and bureaucracy of the Fiji government and to avoid aligning with any one private sector group, where none is wholly representative of the private sector. Yet, the location in the FTIB is considered equally important to give official legitimacy to the function and to construct modes of operation for trade and investment with the U.S. involving both government and business interests which can be institutionalized within the FTIB for long term sustainability. (See Annex C-3.)

The scope of the TIA's responsibilities will include as principal elements the following:

- work directly with the private sector and the FTIB to define and help resolve commonly experienced business environment constraints (both in Fiji and the U.S.) to the growth of trade and investment with the U.S. markets. This might involve activities such as communicating U.S. product market standards, preferences and demand for categories of products that are being or could be Fiji-produced or introduction of Fiji officials to commercially-run quarantine services to assist the transition to a private service;

- work with industry associations to identify production and marketing problems and to design and implement targeted short-term assistance activities such as formulating and implementing industry-wide production and marketing standards that will be respected in international markets, in particular those of North America;

- identify and work directly with individual entrepreneurs who have a product with potential for U.S. markets, providing support through the SPITS in the form of information on market structure and competition, key U.S. industry contacts, market information tours or industry secondments, investor or partnership opportunities, access to production input sourcing from the U.S., preparation for market identification and promotion;

- work with the staff of FTIB to gear up its information system to incorporate U.S. trade and investment market information relevant to Fiji and its production potential including details on trade and Customs regulations affecting Fiji;

- work with the private sector and the staff of FTIB to prepare properly trade or investment promotion missions to the U.S., and to prepare for trade or investment investigation missions from the U.S.; and

- o work with National Economic Summit Consultative Groups and with other private sector groups advising government on business environment issues to define and carry out project-funded activities in fields where the U.S. may be able to offer specialized skills and experience such as in privatization of public enterprise or environmental standards for industry.

The TIA will have access to a country short term resources budget and will be able to organize delivery of activities through SPITS or RDO/SP for short term technical assistance, training, sponsorship for seminars or workshops, resources for technical observation or promotional missions, target issue research, information access and limited equipment and supplies. Examples of the types of activities are presented in section C.6 below. An annual workplan including the use of short term resources will be prepared by the TIA and approved by RDO/SP.

In conjunction with RDO/SP, the TIA will be expected to organize on an informal basis from among contacts in the private and public sectors a system for feedback and guidance on project activities, performance and relevance. In Fiji, this group may be the forerunner of a U.S. - Fiji Business Council.

Performance evaluation of the TIA will by done jointly by the FTIB Director, a representative from the private sector and the RDO/SP. A close working relationship with SPITS, RDO/SP and the American Embassy/Fiji, Economic/Commercial Office will be essential.

3. COUNTRY LEVEL: PAPUA NEW GUINEA COMPONENT

The MARC Project will concentrate in Papua New Guinea initially on business environment improvement issues and opportunities for stimulating U.S. investment in PNG ventures. It is expected that the mid-project evaluation will recommend some shifting of resources to greater export stimulation between PNG and the U.S. The project will place one trade and investment advisor (TIA) in Port Moresby in the Chamber of Commerce network in the private sector, supplemented by short term resources; and, in the public sector, will plan a targetted program of short term technical assistance to the new commercially-run Investment Promotion Authority, a statutory body whose function is central to the government's private sector-oriented economic reform strategy (See Annex C-4.)

As in Fiji, the TIA in conjunction with RDO/SP/PNG will be expected to establish informally a system of contacts for feedback and guidance on project activities. This is particularly important given the initial project focus on issues of business environment improvement which may be politically and culturally challenging.

a. TIA - PNG Chambers of Commerce

The MARC Project will place a Trade and Investment Advisor, specialized in business and market development, in the PNG Chamber of Commerce which is the umbrella organization serving the interests of the nine local chambers in Goroka, Kimbe, Lae, Madang, New Ireland, Port Moresby, Rabaul, Sepik, and Western Highlands. The TIA will be contracted and fielded by the primary project contractor.

The immediate critical activities of the TIA will be to assist the PNG Chamber of Commerce and its member chambers to represent more effectively the views and interests of private investors and business people in the major policy and regulatory reform process that is currently underway between the private sector and government. These activities would include working with chamber representatives to pursue in greater depth issues affecting the business environment and remedies to carry out through the joint public/private Government Regulatory Advisory Committee or other vehicles to be defined. Coordination and joint efforts with the Institute for National Affairs, a private sector-sponsored policy research body, may be expected, particularly to produce educational products communicating business environment issues which are aimed at the public service, the elected assemblies, both national and provincial, and the schools.

Once the reform process is well along, the TIA will shift emphasis to serve as a resource person to chamber members seeking assistance in production and marketing of products for North American markets and/or identifying potential U.S. investor interest in production opportunities in PNG. As in the case of Fiji, the TIA will have access to a country short term resources budget, the uses of which will be identified by the TIA and approved by RDO/SP in an annual workplan. The PNG Chamber and its local chambers will contribute from the outset to the funding and logistics of the position, eventually absorbing fully the costs and responsibilities by the end of the project. Because of the nature of the work to be done in policy reform and the role of the TIA within the umbrella of chambers of commerce in PNG, the incumbent will be under the collective direction of the PNG Chamber of Commerce Board consisting of the elected presidents of the nine local chambers of commerce. Performance evaluation will by done jointly be this group and the RDO/SP.

The RDO/SP has a branch office in Port Moresby which will have day to day responsibility for monitoring project activities. A close working relationship with SPITS, RDO/SP and the American Embassy/PNG, Economic/Commercial Office will be essential.

b. TA Program-PNG Investment Promotion Authority

The PNG Investment Promotion Authority (IPA) is a newly created statutory body whose joint private/public board is charged by Parliament to organize the systems and implement the reforms

necessary to attract foreign investment outside the minerals sector to the country. The MARC Project will support the design and execution of an annual plan of short term assistance to the IPA, jointly approved by the IPA Board and RDO/SP, to enable the Director to achieve objectives in investment policy and regulatory reform, institutional development for investment attraction and U.S. market linkages for new investment markets. This project element will focus initially on business environment improvement for investment attraction and is expected to be executed cooperatively with the International Finance Corporation/Foreign Investment Advisory Service which has been asked by government to structure the basic national institutional and policy strategy for foreign investment attraction.

The initial task will be to work with the IPA Director to identify operating systems and conditions, attitudes, procedures, and policies of importance to international investors and to assist in their architecture. This will include work with the Government Regulatory Advisory Committee and through GRAC, with other arms of government on reforms to investment policy, institutional procedures and practices. It will also include work with the government's privatization committee and with potentially interested investors, both domestic and foreign, to structure and carry out elements of the government's national privatization strategy.

Short term technical assistance will also be used to help the IPA determine opportunities within the PNG economy for potential investment or partnership and communicate these to appropriate investor groups or other investment-interested organs (e.g. OPIC) in the United States. The SPITS will be used as a resource point in the U.S. for initial contact by American investors on investment matters in PNG and will assist them to secure the necessary information and to understand the business environment. Project resources may be used, wherever possible in conjunction with resources from other USG agencies (e.g. OPIC, TSP), to assist with the preparations in the U.S. and in PNG for receiving investment missions and in helping investors to satisfy internal official requirements throughout the process of investigation, proposal and approval of a new investment.

Short term TA to PNG and the resource(s) of the SPITS in the U.S. will be available to keep the IPA and PNG business community current on the information requirements, costs, incentives, disincentives, and other issues affecting investment decisions by U.S. investors and to work with them to improve the attractiveness of the PNG environment for U.S. investors. On a case by case basis, assistance will be provided to local businesses to identify, prepare for and negotiate with potential joint venture partners from the United States and elsewhere.

4. COUNTRY LEVEL: POLYNESIA COMPONENT - TONGA, WESTERN SAMOA

Because the business communities and T/I activities are of much smaller scale in the individual countries of Polynesia than in the larger economies of Fiji and Papua New Guinea, the MARC project will provide assistance using a sub-regional approach. This component will be managed out of RDO/SP and will focus on the relatively larger Polynesian economies of Tonga and Western Samoa. As an initial step, an advisory group will be organized in each country with key representatives principally from the private sector but also with limited and selective representation from the public sector. Each advisory group will work with the RDO/SP to establish an annual workplan of activities to be carried out under the project. The activities will be organized and carried out primarily using the management and technical resources of the project contractor(s) and the SPITS. These sources are expected to be able to mobilize assistance in the different forms identified in C.6 below and appropriate to a variety of possible needs concerning business environment improvement, definition and communication of investment opportunities to international markets and product development and export marketing to the U.S. and other Pacific rim markets. Examples of needs are described in Annexes H and I for Tonga and Western Samoa. The performance and accomplishments under these annual workplans will be evaluated annually by RDO/SP in preparation for successor plans.

If, at the time of the mid-term evaluation (or sooner if additional project funds become available), long term TIA presence is determined to be necessary to achieve development objectives of the project in the countries of Polynesia, a reallocation or augmentation of project resources to make this possible will be recommended at that time.

The base of intermittent project operations in Tonga will be in the Chamber of Commerce which is the most representative body of the private sector operating in the Kingdom and has official recognition from the government. The point of coordination with government will be the Ministry of Labour, Trade, Commerce and Industries or the Industrial Development Corporation, if this proposed statutory body (to be charged with the responsibilities nationally for trade and investment) becomes operational.

In Western Samoa, the base of intermittent project operations will in the offices of the American Charge d'Affairs because of the absence of a broadly representative body in the private sector. The point of coordination in government will be the Department of Trade, Commerce and Industry.

As in the case of all other project components, monitoring and evaluation of performance of, in this case, short term assistance activities will be done annually by RDO/SP with contributions from the private sector and governments of the assisted countries. The scope of project activities in both countries is expected to target needs relevant to project objectives of all private sector groups as well as business environment improvement issues which affect the success of international trade and investment development by the private sector. (See Annex C.)

5. REGIONAL FUNCTION: RDO/SP BUSINESS DEVELOPMENT OFFICE

As a central coordinating and monitoring point for project activities, the RDO/SP Business Development Office will establish a MARC **Regional Advisory Council** composed of the RDO/SP Project Officer, the contractor's COP, the T/I advisors assigned to countries, the SPITS chief, representatives from business and government actively following MARC project progress in the target countries, and representatives from the U.S.- South Pacific Business Council. The purpose of the Regional Advisory Council, would be to review annually progress made during the previous year, to assess the business climate in the region and in the U.S. in general and in the four key countries in particular for meeting project objectives, to recommend actions to improve performance and impact and to provide guidance for the following year.

The RDO/SP will be looking for opportunities to promote project development objectives and achieve economies of scale by identifying and exploiting opportunities for regional or sub-regional cooperation which furthers trade and investment development. Sponsoring workshops on critical regional issues such as air and sea freight services to and from the region or organizing regional or sub-regional activities focusing on the common problems in several countries of a particular industry such as wood products are examples.

At the regional level, the RDO/SP will also be the point of contact for requests from other countries in the RDO/SP region which are not designated as primary target countries but have needs to which the project might accord limited, small scale assistance. As financial and management resources permit, assistance on an activity by activity basis will be extended to the remaining RDO/SP countries. RDO/SP will decide which activities to accept based on resources available, complementarity with project objectives and probable degree of positive impact.

The RDO/SP will have important opportunities to identify and promote cooperation with the programs of other donors, regional organizations and U.S.G. agencies which would contribute to achieving project objectives. (See section V Institutional Analyses, below and Annex J.) Initially, the RDO/SP expects to work towards this end with:

- OPIC which is proposing to mount U.S. investment missions to the South Pacific region starting in 1991 and has also committed to reserve a percentage of its proposed Asia Pacific Growth Fund for venture capital investment in businesses in the Pacific Islands;

- the U.S. Department of Commerce and its yet to be designated South Pacific counterpart in the former's efforts to organize and launch a Joint U.S. - South Pacific Commercial Commission and the latter's role of coordinating Pacific Island government participation in the commission;

- the newly established International Finance Cooperation South Pacific Project Facility located in Sydney which is looking for bankable Pacific Islands projects to present to the investment markets. RDO/SP has agreed to cooperate with the IFC SPPF in exploring U.S. investment markets in cases where project feasibilities indicate a potential investment opportunity suited to U.S. market interests;

- the existing trade offices in Sydney and Auckland for the Pacific Islands, financed by Australia and New Zealand respectively, whose experience with trade and investment issues for the region and familiarity with the serious operators in the private sectors should prove most valuable.

The RDO/SP will, of course, have responsibility for the standard implementation and monitoring and evaluation responsibilities which are discussed in sections III.C and IV, below.

6. SHORT TERM RESOURCES AND ILLUSTRATIONS OF THEIR USE

Important aspects of the MARC project will be carried out through the use of specialized and carefully targeted short term resources for technical assistance, training, sponsorship of seminars or workshops, technical observation or promotional missions, target issue research, information access and limited purchase of equipment and supplies. The delivery of these resources will be part of the scope of the primary contractor and the SPITS with management oversight provided by RDO/SP through the approval and performance evaluation of annual workplans setting forth the use of short term resources.

Activities using the types of resources identified above will be designed to the specific demands and estimated needs of private and public sector clients as these needs are identified at each geographic level. Examples below are merely illustrations:

a. **Short Term Technical Assistance**

PNG - Assistance with the preparation of a comprehensive national privatization strategy and with carrying out certain aspects of it.

REGIONAL - Targetting assistance to specific food processing industries which show promise for expanding in international markets to help them upgrade food processing, packaging and marketing practices and to overcome technical and management constraints.

WESTERN SAMOA - Assistance to the cut flowers industry to gear selection of plant species, production procedures and packing for American markets.

b. **Short Term Training**

FIJI/PNG - Sponsor the Fiji Trade and Investment Board and the new PNG Investment Promotion Authority Heads of Investment Promotion to attend a two-week program offered by the World Trade Institute of the World Trade Center, N.Y.on getting U.S. firms to invest in your country.

REGIONAL - Candidates from news operations sponsored to attend or receive in situ training on business and trade news reporting, use of market statistics, etc., including advice on what and how to report on international markets and business technologies.

PNG - Sponsor PNG team to attend Center for Privatization seminars in preparation for implementation of the national privatisation strategy.

c. **Seminars/workshops**

REGIONAL - Workshop to identify and analyze problems and issues of both clients and agents in providing appropriate and affordable air and freight routes and services between the individual Pacific Island countries and the Pacific Rim markets with emphasis on U.S. markets -- formulating solutions and/or recommendations on relevant issues.

SUB-REGIONAL - Industry-specific workshop to discuss the procedures, regulations and problems of exporting various types of products to the U.S. markets e.g wood products, handicrafts, tropical fruits and vegetables, garments.

d. Technical Observation/Promotion Visits

FIJI - Members of the Fiji Furnituremakers Guild to visit the U.S. furniture and upholstery industry in Southeast to examine industry organization, technologies, design, also a visit to discuss market and product potential for U.S. markets with major furniture importers like Storr of California.

REGIONAL - Preparation and technical/promotional visit of private tourism vendors in the South Pacific to the U.S. market to further contacts and organization of industry. U.S. marketing strategy for the region to be completed February 1990 by Marketing Investigations Inc. of L.A.

TONGA - Technical research/observation visit by government and business representatives to efficiently functioning national trade and investment bodies to guide the design of the Industries Development Authority for the Kingdom.

e. Target Issue Research

Examination of U.S. trade and quarantine regulations to determine how they affect the export of individual products from individual countries in the South Pacific to the U.S. Determination of problems and opportunities.

Research and technical assistance to work with export industries to identify pollution issues and cost effective approaches to pollution prevention and resource maximization in production.

f. Information Access

Sponsoring subscriptions to U.S. business and industry technical and marketing journals for use by industry associations and T/I arms of governments.

Publishing special insets in regional business and trade news magazines and newspapers on new developments in U.S. industry technologies and marketing information and opportunities of relevance to South Pacific business communities and industries.

Assisting private national and regional business and trade news publishers to establish the contacts for dissemination of information on South Pacific business operations and investment and marketing opportunities to the business communities in the U.S.

III. COST ESTIMATES AND FINANCIAL PLAN

A. COST ESTIMATES

1. LONG TERM TECHNICAL ASSISTANCE

The project will finance two trade and investment advisors: one each for PNG and Fiji. The costs for the PNG advisor are based, with minor adjustments to reflect a more typical costing situation, on a 1990 contract with a U.S. consulting firm for work in PNG which included four long term advisors. The costs for the Fiji advisor are based on the PNG costs with adjustments to reflect lower housing and other costs in Fiji. These costs are also comparable with other RDO/SP experience with American PSCs in the South Pacific.

The costs include: salary, overhead, all the usual allowances and differentials, home office support, $7,000 per year for field office costs (secretary, office rental if needed, etc.), $10,000 per year for regional travel and fixed fee. This is based on the expectation that the advisors will be provided by a U.S. contractor.

2. SPITS

As the SPITS is a new concept, providing a system of services as opposed to a representational office, it is difficult to estimate its costs. The nearest comparison is the South Pacific Trade Commission financed by the Australia Department of Foreign Affairs and Trade (subsumes Australian AID) in Sydney which provides services similar to those planned for this project for approximately US350,000/year. The Australian operation is staffed at the level of one full time person, a senior administrative assistant, a secretary and some part time specialized assistance.

3. SHORT TERM TECHNICAL ASSISTANCE

This cost assumes eight to twelve person months a year at an estimated cost of $25,000 per person month. This amount is all inclusive (i.e., salary, overhead, travel costs, per diem, etc.) and based on recent contracts in the South Pacific.

4. MARKET RESEARCH AND PROMOTION

This assumes in most years 20 people travel from the region to the United States for a two week period. Although a few trips to other countries might be financed, for costing purposes it is assumed that all will go to the U.S.. This amount of $5,000 per participant includes 14 days per diem at $125 per day ($1,750), air fare ($2,000), and misc. expenses such as local transportation, communications, materials, sponsor costs, etc. ($1,250).

5. TRAINING

This will finance short term participant training for about 10 people from the region per year to the United States for four to six week training courses such as those offered by Entrepreneurs International, the World Trade Institute, the Intrados/International Management Group and the International Law Institute. The $10,000 per participant estimates 30 days per diem at $125 per day ($3750), airfare ($2000), tuition ($3000) and miscellaneous expenses such as local transportation, communications, materials, sponsor costs etc. ($1250).

This line item also will finance about three workshops or seminars per year in the region, with 20 people attending each event at a total cost of $20,000 per event. This amount includes regional airfare, per diem, meeting room costs, etc. It does not cover costs of any outside consultants for the event, attendance by the long term advisors or assistance by SPITS or other contractor personnel which are included in other costs above. The budget also includes one regional meeting per year of the project's Regional Advisory Council (airfare, per diem, meeting room, etc. for the invited personnel but no honoraria).

6. COMMODITIES

This includes $40,000 for some office equipment, reference materials and furniture for two long term advisors the first year. In addition, it includes $30,000 per year for a limited amount of commodities (office equipment, reference materials and furniture) for industry associations supported by the project plus commercially-oriented statutory T/I bodies of government supporting trade and investment needs of the private sector if such commodities should be needed in support of the project's purpose and cannot otherwise be financed. No commodities will be provided to private business firms.

7. RDO/SP MANAGEMENT

This is the annual costs of one local hire personal services contractor (PSC), based in Suva. The incumbent will assist the USDH project officer with project monitoring and implementation. It is based on the assumption that the PSC presently employed by RDO/SP will be contracted for this role. Since the PSC is a resident hire, rather than one recruited from the U.S., the costs are significantly lower than would be the case if a PSC were recruited from the U.S. This annual amount includes regional travel costs.

8. HOST COUNTRY AND PRIVATE SECTOR CONTRIBUTIONS

The standard 25 percent country contribution is not required for this project because this is a regional project not directed to a specific country. Therefore, a formal assistance relationship with each country will not be established through a grant agreement. Instead, a memorandum of understanding between A.I.D. and individual governments will be executed setting forth the private sector development objectives of the project and a mutual concurrence to cooperate in their realization. The resources will be contracted separately, primarily with a U.S. contractor, to deliver services to and for the private sectors of the region.

In **Fiji**, the host country, through the Fiji Trade and Investment Board, will provide office space and support services to the long term advisor. Equipment and furniture will have to be project supplied. The estimated value of Fiji in-kind contribution is $50,000.

In **Papua New Guinea**, the PNG Chamber of Commerce will provide office space and secretarial assistance to the long term advisor in Port Moresby and in local chambers when the advisor is up-country. Some communications, equipment and furniture will have to be paid for out of project costs. The Investment Promotion Authority will provide temporary office space and support services to short term intermittent advisors. The estimated value of PNG in-kind contributions is $75,000.

In **Tonga**, the Tongan Chamber of Commerce will provide office space and support to short term advisors working with the private sector.

In **Western Samoa**, the American Consulate in Apia will provide office space and support services to intermittent short term advisors working on project-related activities with the private sector and government. The private sector will provide in-country transportation and other support wherever possible and needed. The value of Tonga and Western Samoa in-kind support is estimated at $25,000.

The **private sector** will contribute to the cost of project services by paying a portion of expenses for market research and promotion, training, technical assistance to a specific industry association or individual firm and participation in workshops or seminars. The estimated value of these cash contributions is $380,000.

In addition, fees paid by both private sector and governments for services provided by SPITS are estimated at $320,000.

9. INFLATION AND CONTINGENCY

An inflation factor of five percent per year beginning with year 2 is included in the budget estimates. A contingency of ten percent is also provided.

B. FINANCIAL PLAN

1. CONTRACTOR

As described in Section IV Implementation Plan, it is anticipated that most project inputs will be provided by one U.S. contractor under one A.I.D. direct contract. (Note: inputs do not include audits, evaluations or RDO/SP monitoring.) It is likely that the contract will be awarded to a relatively large consulting firm or consortium experienced with working for the U.S. government, including A.I.D.. The financial competence of the contractor to safeguard project funds and provide satisfactory accountability would be a factor in the evaluation of proposals. Quarterly progress reports would include financial data for monitoring the expenditure and status of funds.

Reimbursement to the contractor would be made monthly by check issued by USDO in Bangkok after RDO/SP has reviewed and approved the monthly voucher. No advances would be made if the contractor is a profit making firm.

2. AUDITS AND EVALUATIONS

Primary responsibility for project and contractor audit is with the Regional Inspector General's office in Manila. Funds are included in the budget for independent external audits by private firms as needed during the life of the project. The budget also includes funds for two formal evaluations. RDO/SP will contract for and pay directly for the evaluations.

3. RDO/SP MONITORING

RDO/SP will pay directly the PSC assisting the USDH project officer by checks issued by USDO in Bangkok.

C. INITIAL BUDGET ESTIMATES

BUDGET ESTIMATE
(FY in US$ 000)

	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96	Total
1. LT TA	-	430	560	330	60	60	1,940
2. SPITS	-	120	330	300	250	200	1,200
3. ST TA	-	200	300	300	200	100	1,000
4. Market Research & Promotions	-	50	100	100	100	50	400
5. Training	20	180	180	180	180	60	800
6. Commodities	-	70	30	30	30	-	160
7. Audits & Evaluations	-	-	20	80	20	80	200
8. RDO/SP PSC	-	25	50	50	50	25	200
Sub-Total	20	1,075	1,570	1,600	1,160	575	6,000
9. Contingency 10%	-	110	160	160	115	55	600
10. Inflation 5%	-	55	160	260	255	170	900
Grand Total	20	1,240	1,890	2,020	1,530	800	7,500

Other contributions -- Regional and Local:

Cash Contributions:

SPITS Fees	-	-	20	50	100	150	320
Market research	-	5	10	10	10	5	40
Workshop fees	-	5	5	5	5	5	25
Participant trng.	-	10	10	10	10	-	40
ST Techn. Assist.	-	50	75	75	50	25	275
					Sub-Total		700
In-Kind Contributions							
Support for TIAs	-	30	35	35	25	25	150*
				Total Other Contributions			850

* Fiji	50
PNG	75
Tonga and W Samoa	25
	150

MARC PP
BUDGET PLAN BY TYPE OF FUNDS
(US$ 000)

Budget Item & Percentage LC Costs	Foreign Exchange	Local Costs	Total Costs
1. LT TA (40%)	1,140	800	1,940
2. SPITS (5%)	1,140	60	1,200
3. ST TA (20%)	880	220	1,100
4. Market Research & Promotion (10%)	360	40	400
5. Training (50%)	400	400	800
6. Commodities (80%)	30	130	160
7. Audits & Evaluations (50%)	100	100	200
8. RDO/SP Monitoring (25%)	150	50	200
Sub-Total	4,200	1,800	6,000
9. Contingency (30%)	420	180	600
10. Inflation (30%)	630	270	900
TOTAL	5,250	2,250	7,500

JUSTIFICATION FOR LOCAL COST FINANCING

1. Although the two long term advisors are expected to be Americans under contract with a U.S. contractor, a number of costs are local currency costs by nature (local meaning South Pacific Region). These include housing and utilities, travel within the region as no American carrier flys in the South Pacific at this time, educational allowances, office furniture and equipment, local secretary, office supplies, official communications, etc. The best estimate is that this will be about 40% of the cost of each advisor.

2. About 5% of the SPITS costs will be local costs for travel and per diem within the region by the SPITS representative.

3. About 20% of the cost of short term advisors will be local costs for travel and per diem within the region.

4. Only 10% of the market research and promotion costs will be for local costs such as travel and per diem within the region and to third countries.

5. About one half of the training costs will be local; e.g., travel, per diem, rental of meeting room and related workshop costs for workshops and seminars held within the region.

6. Probably about 80% of the commodities would be bought locally; mainly office furniture, equipment and supplies where the costs of buying from the U.S. would be prohibitive or U.S. products would not meet required specifications (electrical system for example).

7. Audits probably will be done by local accounting firms as the contracts would be too small to be given to U.S. firms ($20,000 each). A portion of evaluation costs would be local; e.g., travel and per diem within the region.

8. RDO/SP monitoring will require some travel within the region. This is estimated as 25% of the PSC contract.

9 and 10. Since 70% of the costs for all budget items is for foreign exchange costs, this ratio is also applied to contingency and inflation allowances.

IV. IMPLEMENTATION PLAN

A. OVERVIEW

The field of trade and investment development is new to the RDO/SP portfolio and to the South Pacific region and the project is starting implementation during a period of serious constraints on foreign assistance budgets. The MARC project falls into a category of regional private sector trade and investment projects of which A.I.D. has done only one, the Caribbean Basin Initiative. A second, the ASEAN PITO project, is just beginning implementation. A.I.D. experience with country-specific T/I projects is considerably more broad with valuable and, in some cases, costly lessons learned. Though by virtue of their single country scope such projects are less complex. For these reasons, RDO/SP has decided to take maximum advantage of A.I.D. experience with trade and investment while at the same time attempting to minimize learning curve costs and hefty overhead expenditures.

Under this strategy, RDO/SP will seek initially to contract directly with a T/I and A.I.D.- experienced 8a firm. In the event that regulations for 8a contracting or the experience of available candidates prove unworkable for meeting project needs in an FY91 contract action, RDO/SP will seek to establish a short list RFP of candidates with proven T/I experience with A.I.D.

A pre-implementation conference among representatives from principle project countries to discuss project implementation and performance monitoring will guide the structuring of memoranda of understanding (also known as memoranda of cooperation) with project countries, provide content for the RFP and contractor negotiations and the preparation of start-up work plans.

The non-obligational instrument of a memorandum of understanding MOU (as distinct from the obligational instrument of a project agreement) will be executed between the USG and each principal country to define in principle the scope of MARC and the basis for cooperation between parties in its implementation.

A Regional Advisory Council, principally of private sector representatives, will meet annually in the South Pacific to review project progress and discuss opportunities to improve the positive impact of project activities.

The RDO/SP Business Development Office in Suva, Fiji complemented by the RDO/SP branch office in Port Moresby, will be the central point for project management and coordination. It will guide, monitor and evaluate contractor performance; establish the

Regional Advisory Council and convene its meetings; cooperate with other USG agencies, other donors and relevant South Pacific organizations; and manage other aspects of the project, in particular requests from other non target countries in the region.

B. MAJOR IMPLEMENTATION ACTIONS

1. PRE-IMPLEMENTATION CONFERENCE

After the project is authorized but before MOUs have been executed and the principle project contracting actions have been completed, RDO/SP will host a pre-implementation conference to bring together key concerned people from the several countries (both government and private sector) who had been involved with or consulted during the project design or could play a principal role in project implementation. A few resource people from the U.S. might also be expected to participate. Some participants might later serve on the Regional Advisory Council once it is organized. (See section C.4 below).

The purpose of the meeting would be to (a) brief the representatives on the final project design, (b) discuss the proposed structure for project implementation at the U.S., country and regional levels (c) exchange up-dated information on private sector development and trade and investment issues specific to target cuntries and the region, and (d) plan the scope of cooperation of both the private sector and government in the countries with RDO/SP in the execution of the project. The costs of the meeting would be paid from project funds. The participation of the economic/commercial officer or advisor from U.S. Embassies in the region (e.g. Fiji and PNG) may be anticipated. If project resource levels for FY91 are prohibitively low and/or participation in the meeting is constrained by the requirement for representatives to travel internationally, separate meetings may be held in each target country preceeding negotiations for a bilateral memorandum of cooperation on the project.

2. OBLIGATION OF FUNDS

For several reasons, the conventional bilateral project agreement (proag) is not a suitable instrument for obligating funds and establishing a cooperating country agreement for implementation of this regional project. These reasons are cited below:

a. Flexibility In Providing Inputs

The type, timing and magnitude of inputs to be provided to each participating country cannot be accurately predicted. The private sector in each country is not monolithic, but consists of private companies and their industrial and business associations. Individuals will decide whether to participate in a manner appropriate to their individual enterprises and based on how they

perceive the project will benefit them. The private sector and governments in some countries will move faster than in others. The project must have the flexibility to respond quickly to the needs of governments (mainly in matters of policy), associations (mainly in organization, startup and improved ways to respond to the needs of its members), and individual firms (specific help with T/I matters, production or marketing problems, etc.).

Obligating funds in proags would greatly reduce the flexibility to provide inputs to various countries as needed, when needed and in the type and quantity needed. To move obligated funds from one country to another would involve amending two proags, an internal de-ob/re-ob action involving AID/W (considerable paperwork) with an adverse effort on the political and working relationship with the country losing the obligated funds.

b. One Contractor In Several Countries

In addition to the needed flexibility described above, the contractor would be providing services to several countries and to the regional as a whole. Financing this type of contract with funds obligated in several bilateral proags would present an accounting and administrative nightmare.

c. Paperwork - Obligating Funds

If funds are obligated through proags, there probably would be at least four proags (e.g. Fiji, PNG, Tonga, W. Samoa) with each proag requiring one major and several minor project implementation letters. Each year the additional tranches of funds would require signatures from <u>each</u> country for a formal amendment of the proag and amendment of the PIO/T before the contract could be amended to provide additional funds. This adds up to a substantial amount of paperwork. With the contract being the obligating document, only one amendment to the PIO/T would be required for the RCO to amend the contract. No cooperating country signature would be required to amend the PIO/T.

d. Cooperating Country Contributions

If a proag is used, an assistance relationship with the country is automatically established. This means that the country will be required, under Section 110 of the FAA, to provide at least 25% of the costs of the project component being carried out in the country. Since much of the assistance will be costly long term and short term technical support services directed at the private sector, it is unlikely that the cooperating country government could provide the required contribution. Also, there is no umbrella private sector organization that would have the funds or could commit its membership to provide the required contribution. Instead, the private sector is relatively unorganized and

fragmented in most Pacific Island countries. However, both the governments and the private sector will be making contributions to support project activities as described in Section II.C, but the total estimated value of these contributions is only $850,000 or 10 percent of the project costs.

e. Obligation By Contract

To overcome these difficulties, RDO/SP intends to obligate the major portion of the project funds through a multi-year AID direct contract with an American firm. The balance of project funds will be obligated by several smaller Mission contract actions on a fiscal year basis guided by annual program levels and project implementation requirements. For example, establishing baseline data for country and project performance indicators will be a separate Mission-contracted project action in FY91 as part of project start-up.

3. MEMORANDA OF UNDERSTANDING

A "memorandum of understanding" or "memorandum of cooperation" (rather than a proag) will be signed with each country to establish the country's agreement for the project to work in that country. It will represent the government's written agreement on a number of points which are standard provisions in a proag e.g., country contributions, approval to operate in the country, relief from duties and taxes, participation of the government in the project, etc. Therefore, this non-obligating MOU document will be negotiated and signed with each country in which the project is to operate.

This approach is similar to that used by AID/W centrally funded projects whereby funds are obligated by AID through direct contract, but MOUs are signed with each country where the project is to operate independent of a bilateral project.

The MOU would meet a political objective of a country's government dealing directly with the U.S. Government on a bilateral basis without unduly restricting implementation. It would also enable the government to participate in planning the role of the project in its country.

The MOU might be called a "memorandum of cooperation" or a "cooperation agreement." The label is not as important as the contents and how it is negotiated with the governments. The MOU would include the general magnitude of inputs to be provided to the country (e.g., an estimated 10-12 person months of consulting assistance, 1-3 trade/investment missions to the U.S., etc.) rather than the line item budget that is common in proags. It should not be necessary to amend the MOU during the life of the project since it is not an obligating document unless there should be radical change in the program for a country. However, RDO/SP

intends to consult with the governments annually on progress of implementation and plans for the subsequent year either directly or through the mechanism of a national project advisory group.

The Regional Legal Advisor was consulted on this approach, concurs with it, and will assist RDO/SP in drafting the MOUs.

4. CONTRACTING FOR IMPLEMENTATION

RDO/SP proposes to execute one principal AID direct contract with a U.S. firm to provide major project inputs. While RDO/SP has considered the possibility of engaging separately PSCs to fill the two long term positions in the field (1 in PNG, 1 in Fiji), we believe one contract rather than three would promote the cooperation and networking between SPITS, the T/I advisors and the RDO/Business Development Office. Close cooperation among these project components will be essential for effective performance. RDO/SP has investigated the possibility of one firm being able to provide all core project inputs, including operating the SPITS. Since joint ventures will be encouraged, RDO/SP believes that a sound technical proposal can be put together in response to the RFP.

RDO/SP plans to solicit through the RCO a proposal from an 8A firm with maximum T/I experience and good performance ratings with A.I.D. to provide the core implementation requirements of the project. If this is not successful, a short list request for proposals (RFP) to T/I and A.I.D. - experienced firms will be issued. The resulting contract would be complemented and supported by an effort to establish a close cooperation between the field and U.S. operations of the project and APRE bureau expertise and centrally-managed resources. From year to year, this is expected to lead to selective smaller buy-ins to central projects such as MTAP, TIS and PEDS and the use of other relevant agency resources such as OIT's Entrepreneurs International Program, all of which have a proven track record and can expand the flexibility and responsiveness of the project to T/I development needs in the region. This cooperation would also keep project management aware of additional add-on resources which could augment project levels in any given fiscal year.

RDO/SP would prepare the usual PIO/T but, because bilateral project agreements will not be executed, signatures from individual countries governments would not be required. However, countries' concerns, as expressed in the pre-implementation meeting, would be considered in negotiating the contract. The PIO/T would be submitted to the Regional Contracting Officer (RCO) in Manila for issuance of the request for proposals (RFP). Relevant APRE staff will be asked to review and offer suggestions for improving the terms of reference for the contract. The RFP will include the usual provision concerning subcontracting with **Gray Amendment** firms. The technical evaluation of the proposal would be done by RDO/SP with some regional representation under the

guidance of the RCO who would negotiate the contract. If the candidate is an 8a firm, the RDO/SP may need AID/W assistance to ensure timely SBA review and approval.

The processing of a personal services contract for a program assistant for the RDO/SP Business Development Office would be handled by the RDO/SP Administrative Office.

Three other groups of contracting actions remain: (i) monitoring, evaluations and audits; and (ii) payments for the pre-implementation meeting and subsequent meetings of the project's Regional Advisory Council (travel, per diem and meeting facilities); (iii) miscellaneous small project activities. Decisions on the most appropriate mode of contracting for these minor actions will be made as these actions occur; e.g., IQC, purchase orders, etc. These will not place a major burden on RDO/SP or the RCO.

5. WORK PLANS

The contractor's chief of party, within three months after contract execution, would prepare a work plan in two parts. Part I would be a life of contract very general work plan while Part II would be a detailed plan for the first year. Part II will be further revised and detailed by the two longterm TAs upon arrival at post. Within one month after the end of each contract year, the COP would prepare update the LOP work plan and prepare a detailed plan for the following year.

The work plan would be prepared with the guidance and assistance of the RDO/SP project officer and formally approved by RDO/SP in writing. Each work plan would indicate what actions could be carried out by the contractor without prior written concurrence from RDO/SP and what actions would require additional consultation and approval.

Since flexibility and fast responses are essential to effective project implementation, the work plans would not be considered as "fixed in concrete" but as a management tool to be revised as circumstances should require.

6. APPLICATION OF BUMPERS AND LAUTENBERG AMENDMENTS

a. The Bumpers Amendment

Section 521 (b) of the Appropriations Bill restricts the use of certain foreign assistance funds for agricultural export activities which would have a "significant impact" on the export of U.S. agricultural commodities.

This restriction is not likely to come into play for this project since the project is directed toward gaining access to the

U.S. market. Therefore, the products would not be competing with U.S. exports.

In addition, it is unlikely that the volume of exports from any one country or all countries of the South Pacific of any given product would be of sufficient volume to have a "significant impact" on US. exports. For example, Cook Islands exported only about $250,000 of Papaya in 1988; Fiji exported about $2.5 million of ginger in 1989; Tonga exported about $600,000 of root crops to several countries and about $1.5 million of squash to Japan in 1989. These numbers indicate that the level of production in the South Pacific is so low that even if the region should export to a third country an agricultural product that competed directly with U.S. exports, the export would not have a significant impact on U.S. exports.

b. THE LAUTENBERG AMENDMENT

Section 521(c) of the appropriations act prohibits A.I.D. funds from being used: (1) to directly procure feasibility studies, prefeasibility studies or project profiles of potential investment in, the manufacture, for export to the U.S. or to third country markets in direct competition with U.S. exports, of import-sensitive articles; or (2) to assist directly in the establishment of facilities specifically designed for the manufacture, for export to the U.S. or to third country markets in direct competition with U.S. exports of import-sensitive articles. Import-sensitive include textile and apparel articles, footwear, handbags, luggage, leather wearing apparel, etc.

Fiji has a rapidly growing textile industry ($35 million of exports in 1989), a portion of which is to the U.S. under bilateral agreements. Tonga has a small knitwear industry which exported 5,000 units (10% of its production) to the U.S. in 1988. A small Tongan company makes about 7,000 leather jackets per year for export to Australia. MARC activities to support commercial activities such as these might run afoul of the Lautenberg Amendment unless carefully structured.

Key factors in determining whether an activity might conflict with the Lautenberg Amendment include: (a) whether the article is on the import-sensitive list, (b) whether the type of activity being financed is of a prohibited type, (c) destination of the export and (d) whether the assistance is direct or indirect. Unlike the Bumpers Amendment, the Lautenberg Amendment does not have a "degree of impact or harm" test.

c. In summary, it is unlikely that the Bumpers Amendment would prohibit any project activities but there is a slight possibility that the Lautenberg Amendment would prohibit or restrict some project activities. Therefore, a mechanism is needed for project implementation that would ensure that no project inputs

would be in violation of either amendment. The following procedures will be incorporated into project implementation:

(1) The contract for provision of project inputs will contain a provision prohibiting A.I.D. assistance to an enterprise that conflicts with these amendments.

(2) The key contractor personnel, including the SPITS personnel and the T/I advisors, will be briefed by RDO/SP on the restrictions of these two amendments. They will be instructed to consult with RDO/SP about the application of these amendments prior to taking any actions which might conflict with them.

(3) The substance of the two amendments will be explained at regional and national advisory group meetings so the private sector will be aware of these project limitations.

(4) The contractor's quarterly progress reports will comment on whether any activity, ongoing or planned, might be affected by the amendments.

7. START - UP ACTIONS

Some of the major startup actions by RDO/SP prior to the contractor's commencing work include: (a) making arrangements for and carrying out the pre-implementation conference; (b) drafting and negotiating the MOUs with the countries initially involved with MARC (PNG, Fiji, Tonga and Western Samoa); (c) drafting the PIO/T for use by the Regional Contracts Officer (Manila) in preparing the request for proposals; (d) making the technical evaluation of proposals; and (e) arranging for the establishment of the Regional Advisory Council and informal national advisory groups.

Some of the startup actions after the contract is awarded include: (f) contractor orientation and introductions in region; (g) briefing the contractor's two T/I advisors and the head of SPITS; (h) forming of an informal national project advisory group by each long term TA; (i) initiating SPITS operations; and (j) advising the South Pacific countries of the services offered by SPITS.

8. REPORTING

More attention than usual will have to be given to the format and content of the contractor's quarterly progress report. In addition, each country advisor and the SPITS will submit directly to RDO/SP a brief report quarterly on project events, problems and ideas to RDO/SP. This staff reporting is needed to monitor the work of people in other countries and to stay abreast of what is expected to be a rapidly moving project with many diverse actions in several countries. The format for the quarterly reports will be provided to the contractor soon after the contract is signed.

9. EVALUATIONS

The details of the two evaluations are in Section V. Monitoring and Evaluation Plan. The first evaluation will be a more important implementation tool than usual due to the innovative and flexible nature of the project and the changing environments in which it is working. It would assess events of the first two years and provide guidance for the remaining life of project. It might well lead to a redesign of the project.

C. RESPONSIBILITIES

1. THE CONTRACTOR

The contractor will provide all the project inputs as listed in the project description and the financial plan sections. These include: (a) providing one trade and investment advisor in each of two countries (Fiji and PNG) and (b) staffing and operating a South Pacific Trade and Investment Service SPITS whose principal functions would include (c) providing specialized short term technical advisors and on-site training as needs arise, (d) preparing and managing market research and promotion T/I missions to the U.S. and preparing to receive missions from the U.S., (e) managing seminars, workshops and short term training programs regionally or within individual countries, (f) providing and managing short term training and field visits in the U.S. (g) meeting information needs of South Pacific businesses and industry associations on U.S. markets and products, production and management technologies, trade regulations and (h) establishing a network of U.S. contacts in industry, government and academia and a data bank of information relevant to the project.

The T/I advisors will have office space in appropriate government or private sector entities in their countries or rent separate office space. The location will be resolved during negotiations of the MOUs. Each advisor probably will need a secretary, office furniture and equipment, etc. to be financed by the project. The contractor will be responsible for hiring the secretary and procuring the necessary office furniture and equipment.

The contractor will designate a chief of party (COP) to represent the contractor on all contractual and work matters. The COP is expected to maintain a close working relationship with the appropriate RDO/SP staff and with the longterm TA advisors in Fiji and Papua New Guinea. The COP would participate in the Regional Advisory Council.

The contractor will account for all funds disbursed to it by A.I.D. and submit to RDO/SP monthly and quarterly progress reports. A coordinator or backstop officer in the contractor's home office will handle the usual support functions.

2. COUNTRIES

The MOU would indicate the government's commitment to project principles and its willingness to cooperate with project implementation. It would designate a government's authorized representative for the project and would detail the specific in-kind support to be provided. All governments will arrange for customary duty free import privileges, assistance with clearing personal and official effects through customs, issue necessary permits and visas for all official travel.

3. REGIONAL DEVELOPMENT OFFICE/SOUTH PACIFIC

The Regional Development Office/South Pacific, as A.I.D.'s field mission for the region, will prepare the PIO/T for the contracting action and make the technical evaluation of the proposal under the guidance of the Regional Contracting Officer in Manila.

RDO/SP will designate a senior USDH officer in its Business Development Office BDO as project officer. The project officer, assisted by a PSC program assistant financed by the project, will carry out all the usual duties of a project officer. For this project, however, due to the lack of specificity in the project design of actions, types and amounts of inputs, etc., A.I.D. must exercise more than the usual monitoring and control of project implementation. This will be accomplished by such means as: (a) monthly as well as quarterly progress reports, (b) frequent meetings of the coordinating committee, (c) frequent field trips by the project officer to the other countries, accomplished at times by the COP, to monitor progress and activities, (d) annual meeting of the regional advisory council, and (e) the COP being stationed in Suva for ease of communications and face-to-face meetings.

The RDO/SP Business Development Office will have four basic functions executed by one senior USAID officer and a program assistant, supplemented by short term project-financed assistance:

- Overall project management to include organization of implementation, contracting, on-going country and project monitoring, evaluation of project personnel, project evaluation and modification as required and on-going coordination with other South Pacific organizations and donors whose mutual interests and resources could enhance project impacts.

- Maintenance of central coordination to ensure a strong operational network among the project components of SPITS, PNG, Fiji, Polynesia including sharing of resources and lessons-learned and fostering sub-regional opportunities for T/I cooperation among countries to achieve greater industry-wide impact and economies of scale.

- Maintenance of overall flexibility and responsiveness of the project to changing conditions, demands and opportunities in the region, within individual countries and at the market level in the United States. This process will be aided by the operations of the Regional Advisory Council and the national Project Advosiry Committees.

- Response to requests from other countries in the RDO/SP region for small scale assistance geared to strengthen trade and investment flows with U.S. markets. These other countries are Solomon Islands, Vanuatu, Tuvalu, Kiribati, Cook Islands and Niue.

In close cooperation with the RDO/SP/BDO, the RDO/SP branch office in Port Moresby will play a major role in the day-to-day monitoring of MARC project activities in Papua New Guinea.

D. SCHEDULE OF MAJOR START - UP ACTIONS

March 15, 1991	Project authorized
March 29	Pre-implementation conference-Fiji Negotiation of MOC
April 1	PIO/T to RCO, Manila
April 22	RFP released
May 6	Pre-implementation conference-PNG Negotiation of MOC
June 5 - 14	Preliminary technical proposal review and implementation discussions by RDO/SP staff in AID/W.
July 20	Closing date for final proposal
August 2	Technical evaluation completed
August	WID mission to RDO/SP on gender issues
August	Pre-implementation conference in Polynesia Negotiation of MOC with Tonga and Western Samoa
August	SBA contract approval secured if 8a firm
September 2	Contract executed with U.S. firm
September	ANU contract executed for project baseline data and performance indicators
October	Contractor COP orientation trip to So. Pacific
October	Organizational meeting of Regional Advisory Council
December 1	Contractor life of contract and detailed first year workplan submitted
December 15	SPITS operational
January 1992	Long term TIAs arrive in Fiji and Papua New Guinea
March	PSC executed for RDO/SP program assistant
September	Contractor's first year work plan completed

V. MONITORING AND EVALUATION PLANS

The duties of the RDO/SP project officer and the project funded PSC assistant will include monitoring the implementation of the project. The reporting requirements of the contractor will be specified in the contract. The RDO/SP intends to work with the Australian National University South Pacific Social and Economic Database Program to establish baseline country and project performance indicators at the outset of project implementation which will be used for monitoring and evaluation.

A. MONITORING

Major monitoring actions of the project officer and the PSC assistant include:

1. Communicate regularly with the contractor's chief of party, the chief of operations for SPITS, the individual TIAs in Fiji and PNG and with Regional Advisory Council members to monitor performance and review the progress being made against the approved annual work plan.

2. Make regular field trips to PNG, Tonga, Western Samoa (and other countries as appropriate) to meet the country advisor (PNG), representatives of the private sector and relvant government officials to review progress of activities, discuss future actions and plans, etc.

3. Review monthly and quarterly progress reports of the contractor and compare progress against approved work plans and budgets.

4. Hold a meeting annually with the Regional Advisory Council to review progress and to discuss future activities.

5. Arrange with the Australian National University, National Center for Development Studies, Pacific Islands Social and Economic Database for baseline data and monitoring of country and project performance indicators on trade and investment activities of the ten countries. Note: ANU is the only organization that has a comprehensive and operational database for the region

The various monitoring activities should be concerned with such questions as:

- Is the implementation of the annual work plan on schedule and within budget. If not, what corrective actions should be taken?

- Is progress of the project on schedule? If not, what are the problems and who needs to act to resolve them?

- Are there unforeseen events or obstacles which are significantly retarding progress? If so, does the work plan or contract need to be revised to reflect these?

- If there are special successes or breakthroughs which merit recognition or consideration for replication elsewhere, are these being properly documented and communicated?

B. EVALUATIONS

Two formal evaluations will be made: an interim evaluation about 2.5 years after implementation begins (target is January 1994) and the final evaluation at the end of the project. These formal evaluations will examine the same types of questions outlined for monitoring, but go into more depth to assess progress toward the purpose.

The interim evaluation team would consider whether the project should be expanded to other countries, should add additional country advisors, and should be extended in time and have additional funds added. Due to the innovative nature of the project, periodic adjustments of policies, program and procedures will be needed to keep pace with new challenges and opportunities. These adjustments might be extensive enough to warrant a partial project redesign by the evaluation team. There has been some concern expressed that the level of anticipated measureable outputs may be overly ambitious. This is hard to judge in a field of development that is new to A.I.D. in the South Pacific region and has not yet been attempted by any other donor with respect to relationships with North American markets. The set of assumptions on which the project is based and the experience of two to three years of implementation should be examined during the interim evaluation and project targets modified to a more precise quantification of achievable objectives.

The evaluations teams will focus on such questions as:

- Is adequate support being provided to the project by the host countries governments and private sector?

- Are the working relationships between the SPITS, the country advisors, governments and private sectors and RDO/SP satisfactory?

- Is the work of the SPITS cost effective?
- Is the work of the country advisors and other project inputs resulting in increased exports and U.S. investments?
- Are the implementation arrangements working satisfactory or are changes needed?

A final evaluation will assess the end of project status and whether the purpose and all outputs were achieved. Progress will also be measured by the comparison of initial baseline data with that gathered at regular intervals during the project.

VI. CONCLUSIONS OF ANALYSES

A. TECHNICAL ANALYSIS

The structure of the technical approach of the project was arrived at following an elaborate consultative design process which included preparation by resident country experts of trade and investment country studies (Summarized in Annex H); a two week design issues workshop with the design team and multinational representatives of business, T/I arms of governments, T/I media, universities and relevant South Pacific regional organizations; and extensive interviews with private and public sector representatives and other donors in Fiji, Papua New Guinea, Solomon Islands, Tonga, Vanuatu and Western Samoa -- the largest economies in the region.

In addition, a large body of existing relevant literature was examined including T/I project experience of USAID elsewhere in the world and of other donors in the South Pacific Region. It should be understood in reviewing the analyses which follow that the statistical data on individual countries and the region of the South Pacific are inconsistent, often out of date and conflicting between sources. Based on a synthesis of oral and written materials, a best effort has been made to present a coherent picture of the conditions of the environment, the T/I development opportunities it presents and the importance of a project approach which concentrates on the private sector.

1. Private Sector Focus Essential To Success

The South Pacific comprises eleven independent or self governing nations, all but three of which (Western Samoa, Nauru, Cook Islands) have been self governing for twenty years or less. With small populations, all have been dependent on export markets to generate national revenues. Most countries had structured highly protective, government-dominated economies, heavily aid-

dependent during their early years of nationhood. This protectionist public sector model for development has discouraged the development of a strong, competitive private sector as well as natural diversification and change of export foci to maximize returns in international markets.

Many of these nations are now in the process of genuine reform efforts to transfer the responsibility for economic development including export diversification and value added processing to the private sector. Until recently most resources to aid the private sector have been channelled through government bodies resulting in large leakage into administrative expenditures, inaccurate problem and needs definition, and little measurable impact on the private sector and the securing of new or expanded export markets. Governments and the private sector are aware of this and the climate is now receptive for donor project assistance which flows directly to business associations and private entrepreneurs to achieve private sector-based economic development objectives.

2. Market Understanding Through U.S. - Based Presence

The business communities in the South Pacific lack realistic understanding of market and product supply opportunities in the U.S. and how to realize them. A lot of this is the result of lack of access to information and contacts that would help comprehend the range of opportunities and access them. In wide ranging interviews across eight countries including Australia and New Zealand (the region's principal trade partners), the conviction was that a U.S.-based trade and investment service is critical to establishing understanding and increasing trade and investment flows between the South Pacific and the U.S. Meanwhile, on a smaller scale, the value of a market-based T/I service has been proved to the South Pacific nations through the government-funded operations of existing New Zealand(Auckland) and Australia(Sydney)-based trade offices.(See Annex K.) Facilitating business contacts, educating potential investor and importer networks, assisting in market niche identification and promotion, smoothing rough or unfair regulatory procedures, clarifying market specifications and assisting businesses and industry to improve marketability of products at the production and packaging end are all aspects of these services that work.

3. Approach To Providing Technical Services

Potential private sector beneficiaries or clients of the MARC project have emphasized the importance of technical assistance, survey missions, training, and information exchange that is technically precise, to the operational and marketing needs of their industries. For this reason, the MARC project will emphasize direct business to business or industry to industry technical services exchange such as the linking up of the

Furnituremakers Guild in Fiji with the U.S. furniture making industry in the Southeast U.S. The project may also make use of of industry practitioners such as VITA and IESC to provide hands-on advice to the private sector in the South Pacific.

B. ECONOMIC ANALYSIS

Standard economic rate of return analyses are not possible for this type of trade and investment project authorization because the exact enterprises and industries that will benefit from its services are not known in advance of authorization. The beneficial effects of the U.S. trade and investment business service can not be readily quantified until it has been operational for a period of time and a pattern of demand for services is established. A full-scale economic impact analysis executed as part of the mid-term project evaluation is recommended. Short of rate of return analyses, there are projected economic costs and benefits which can be reviewed and are summarized below.

1. Cost Effectiveness of Project Design

a. Project Inputs

Independent T/I advisors working with or on behalf of the private sector in a country is the selected approach for the project's country levelinputs. This was determined to be superior to major alternatives as follows:

-- a regional-based service in Suva (proposed in the PID) could not provide as steady and comprehensive a source of advice to private sector and T/I arms of government whose orientation and mode of operation are geared to problems and opportunities of the national environment.

-- advisors assigned as supplemental staff to government ministries whose operational relationship with business has traditionally been weak would not enable the advisors to work both directly with any element of the private sector or on behalf of the private sector.

A private trade and investment business service for the South Pacific based in the U.S. private sector marketplace was determined superior to major alternatives as follows:

-- a regional-based service in Suva (proposed in the PID) would not provide a presence in the target marketplace and offer the opportunity of more easily networking with U.S. business, which is key to increased trade and investment with the South Pacific.

-- a U.S. based service located within an existing USG agency or office would not create a private sector identity (which is essential to its credibility) and probably could not become a self-sustaining operation through fees for service.

b. Bilateral Negotiating Vehicle

The decision to execute a memorandum of understanding (MOU)(see Implementation Plan) with individual beneficiary countries rather than a standard Project Agreement (Proag) with each country is a cost effective approach to project implementation. In this type of project one can not predict the exact nature, magnitude or timing of the demand per country. Where a Proag negotiates and obligates an annual lump sum amount per country, the MOU allows flexibility in providing inputs to countries as needed and in the amount needed, maximizing the ability to respond to targets of opportunity as they arise in the region and minimizing pipeline problems. The MOU also reduces the bureaucratic management costs and time loss implied by Proags by eliminating the lengthy processing of Amendments to Proags and PIO/Ts with accompanying negotiation and approval of participating countries.

2.Economic Benefits and Potential Economic Returns

a. Beneficiaries

Economic returns or benefits are expected at several levels. Increased income from increased or value added to exports and more efficient production is the expected benefit to industries and individual businesses. In some cases, reduced cost of production inputs from cheaper sourcing and more effective use of inputs as well as reduced incidence of unmet or rejected orders will reduce losses and generate significant cost savings. A second round of benefits can be expected to reach private sector production/exporter/promoter associations which will be the vehicles for reaching industry in many cases. A third round of benefits can be expected at the level of the individual smallholder/producer or business employee through higher and more diversified demand for production, the likely generation of more jobs and easier access to private support services for production and marketing.(See Annex H.)

b. Increased Trade and Investment Potential

The countries in the South Pacific region have valuable natural resource endowments in arable land, forests, minerals and marinelife whose value are only just beginning to be realized and exploited in a manner to maximize return from the international markets to the countries themselves. A prolonged slump in the prices of traditional exports and an awakening to the loss of

opportunity and value to foreign interests through activities such as large tract foreign logging licensing have provoked most countries in the South Pacific to seek domestic and foreign investment for developing their own value-added industries, to encourage diversification of export production and markets, and to turn toward their own private sectors as the logical means of accomplishing this economic development strategy.

With this encouragement, the private sector has been actively pursuing production and marketing of commodities in which the countries have comparative advantage in international markets by virtue of opposite seasons to the temperate zone countries, small specialty niche markets, favorable climate and relatively pest-free environments, reasonably dependable production inputs and moderately low labor costs. The most promising fields for export production and marketing are in horticulture (cut flowers, seasonal vegetables and fruits, organically grown vegetables and fruits, spices, citrus, coffee and root crops); manufactures (garments, furniture and other wood products, wood and fiberglass boats, leathergoods); marine products (fresh chilled and frozen fish, maricultured pearls, trocchus shell, seaweed, beche de mer, mother of pearl, giant clam, prawns and lobster); and tourism (small and medium scale all purpose resorts, specialty tourism such as scuba diving, and eco-tourism such as birdwatching) (See Annex I.)

c. Economic Trends

The Pacific Island nations all experienced poor growth in the 1980s. This has been attributed largely to unproductive economic strategies dominated by government enterprise which heavily regulated the private sector and discouraged through import substitution policies the development of real world competition and competitive performance. Lack of diversification in major exportables, dependency on markets in Australia and New Zealand and the high vulnerability of these small island economies to external factors such as bulk commodity price slumps all contributed to poor performance. Political commitment to positive change is now assured but the transition of economies has been gradual.

Recent World Bank surveys covering five major economies in the region have projected an average GDP growth rate of 4.1 percent in 1990/94 and 4.3 percent in 1995/99 up from 2.2 percent during 1985/89. And, these surveys have projected an average growth rate of exports in goods and services of 5.6 percent in 1990/94, and 5.3 percent in 1995/99 up from 1.1 percent during 1985/89. Higher economic growth and export performance in all countries of the region are dependent on two parallel and mutually dependent channels of activity both of which are principal foci of MARC's efforts: (i) an intensified government effort of policy reform and incentives to advance structural change in the economy that creates an open, export competitive and supportive business environment; and (ii) increased private sector investment and investment

efficiency through the pursuit of commercial export opportunities particular to each country and new markets where a competitive edge or niche markets exist. (See Annex H and I.)

d. Measuring Economic Impact

The five year project is short-lived for effective measurement of significant change. Financially it will only make a modest contribution to a large need. Both of these factors will affect measurement of outcomes. However, it will be assumed that if a real annual increase is achieved in net export revenues/income from U.S. markets by sector and by firms in a project-assisted country over the five year period of the project and the five years post-PACD, the project activities will have proven their economic viability. For the U.S. component, an economic measure of viability will be the degree to which the U.S. based trade and investment service becomes self-supportive through fees and other non-USG sources of income during the five year project and maintains or increases this independence in the five years post PACD.

The percentage and volume change in U.S. investment in the South Pacific nations will also be measured and partially attributed to the project, particularly in sectors where U.S. firms have benefitted from project resources either directly or indirectly. Greater precision in these measurements and additional or different approaches to measurement will be determined after project implementation has advanced and such measures can be established based on some experience of who the ultimate beneficiaries are and how the project resources may actually be used in each country.

C. SOCIAL SOUNDNESS ANALYSIS

Those involved in export business in the South Pacific are a mixture of foreign investors, non-indigenous residents (Asian, Antipodean, European) whose families immigrated to the South Pacific during the colonial era, and indigenous populations. But this last group is a small minority. There is an understandable bias among those in positions of social and political authority toward broadening the opportunities for successful entry of more indigenes into commercially viable export activities.

1. Social and Cultural Context

Administrations of the colonial era concentrated the bulk of export industries in the hands of foreigners and gave little encouragement either through the national educational curricula or through industry management promotion systems to the development of indigenous (or non-indigenous, non-Western) businessmen and women. These conditions, for most countries, except the Kingdom of Tonga which was never colonized, only ended a few decades ago. In addition, barriers to successful business behavior have existed

culturally for indigenous populations whether they be Melanesian, Polynesian or Micronesian. A summary of the principal ones follows.

--For the majority of people in the South Pacific, life begins and thereafter usually remains rooted within a small territorially localized group of people who regard themselves as closely related kinfolk. The individual's primary social, political and emotional identification and responsibility is with this kin-based community in a rural or urban context or overseas. High levels of remittances to kin groups from overseas members is symbolic of the strength of kinship ties. The leaders of such communities act as effective gatekeepers to their communities, shaping and maintaining community attitudes. Any efforts to introduce new ideas will encounter enormous difficulties if community leaders do not find them acceptable. (See Annex H, especially Western Samoa.)

--In both Melanesia and Polynesia, wealth is traditionally accumulated for redistribution and not for individual gain. The maintenance of proper and harmonious social relations takes precedence over economic profit. In some societies, an individual's success and earning of personal profits is something to be ashamed of. In most countries there is no entrepreneurial tradition, as economic structures have typically been communal with leaders or chiefs controlling the resources. The typical failure of islanders engaged in business enterprises is their succumbing to community pressures to use earnings for consumption rather than reinvestment. Undercapitalized, they quickly go out of business. At the employee level, inconsistent work patterns and high absenteeism are common and often tied to social obligations which dictate the individual's behavior more than economic gain.

--International business principles, management structure and operations fundamentally are built on Western concepts and values. In the past, these 'Western' ideas have clashed with or been compromised by strong traditional community structures and cultural mores of South Pacific societies. But the effects of international communications and the dissemination of industrial cultural values and technologies are being felt -- in different ways -- in Pacific towns and villages alike. Aspirations to 'modernize' and possess the trappings of a modern consumer society are strongly expressed in the current generation of youth and young professionals. This and the desire to create more jobs in the formal sector is changing attitudes in the societies toward business development. However, there still exists a generally weak understanding within the societies, even at the highest levels in government and business of key business principles. And school curricula even at the university level still pay little attention to 'commerce.' These conditions have slowed the progress of policy reform and economic restructuring imperative to private sector-led economic growth.

--Few women are in business and only a handful in export businesses. This is largely attributed to cultural attitudes and social treatment of women which have assigned them an inferior social status to men and, until recent decades, largely denied them access to education. The subordination of women by men is most apparent in the context of the domestic household. Attitudes of male household members, particularly in Melanesia, discourage and prevent women from working or entering business. Communal values and decision-making procedures, as well as the division of labor, tend to make women considerably less assertive and resistant than men. Working women are treated with less respect and receive unequal wages, incentives and working conditions to men. Women's groups, often organized in association with the church, have commonly been the only entree into economically productive activities. Increased awareness and improvements in educational levels among women are gradually changing their attitudes towards personal achievement. (Note: PPC/WID will assist RDO/SP to assess gender issues and opportunities for MARC project implementation planning.)

--There is a psychological struggle inherent in the modernization process between the desire for the development changes and modernizing influences brought about by encouraging broader-based foreign investment with an open market exports orientation, and the desire to protect customary practices and maintain local control or 'ownership' of economic resources and activities. Governments often justify continuation of excessive government involvement in the economies of these countries on the basis of their role in moderating the pace of change.

2. Beneficiaries and Acceptability of Project Activities

Project beneficiaries are expected to fall into five categories with maximum opportunity for direct benefit expected at category 1: industries and category 2: business associations representing a body of productive enterprises. Moderate opportunity for direct benefit will reach category 3: individual firms or enterprises and category 4: government policymakers and administrators of government services critical to export and investment attraction. The category likely to be affected least directly is category 5: individual employees and producers.

Direct interviews and analysis in the six largest economies (Fiji, Papua New Guinea, Solomon Islands, Tonga, Vanuatu and Western Samoa) have indicated a high receptivity in categories 1 through 4 for the scope of project activities proposed. Members of these categories operate daily in the dualistic societal structure of conflict between traditional and 'modern' attitudes and practices and, conscious of this, will design and manage their assistance requests consistent with this reality. Category 5, whose members would likely represent the most highly sensitive social and cultural group, are not the target of project activities. With the focus on resource-based export opportunities, however, they will be

ultimate beneficiaries. For project activities executed within countries for all categories, in-country personnel will be used in combination with off-shore expertise as necessary in the planning, design and execution of project activities. Activities involving policy and regulatory reform and attitudinal change, however, will require sensitive local participation in the design and execution of activities. For example, the Institute of National Affairs in Papua New Guinea, has dedicated its efforts to reaching societal consensus on the most difficult issues facing the country's development.

In each target country, the trade and investment advisors will be expected to establish an informal network of advisors from business and government to guide the planning and execution of project activities. RDO/SP will undertake this function in countries where there will not be long term advisors. (Tonga and Western Samoa). The project will also have a **Regional Advisory Council** of advisors from across the region and the U.S. to guide and critique annually the overall progress and direction of project activities. Both the informal national advisor groups and the formal regional group are expected to aid the project management to select, design and execute activities in a form and manner that will lead to the greatest participation and benefit in the socio-cultural contexts within which the project is operating.

D. INSTITUTIONAL/ADMINISTRATIVE ANALYSIS

1. Island Country Public and Private Sector Institutions

The South Pacific is institutionally weak in the field of trade and investment services both in the government and business sectors. In the public sector, countries are just shedding their colonial era government marketing boards and elaborate ministerial controls over all aspects of trade and investment. At the same time governments in Papua New Guinea, Vanuatu, Tonga, and Western Samoa are beginning to examine successful models of quasi-governmental or private economic development institutions of Asia and Europe to guide their development of similar institutional infrastructure to meet their own needs.

a. Fiji Trade and Investment Board (FTIB)

Fiji led the way with the establishment in 1981 of the Fiji Trade and Investment Board (FTIB), a statutory body of government which is based on the model of Singapore's Economic Development Authority. FTIB has developed in recent years a fairly sophisticated range of trade and investment promotion and information services which are the envy of other countries in the region. It receives its operating budget from the Fiji government and seeks annually a combination of donor resources and private sector cost absorption to undertake its work program. It is,

however, criticized for being insufficiently networked with the private sector its operations too politicized by government, and its focus too narrowly concentrated on tax free zone/scheme activities at the expense of other industry interests. The current administration of FTIB and the private sector are working to improve and broaden the institution's response to private sector needs. (See Annex H.) Despite its shortcomings, the FTIB is the most qualified institution to participate in project activities in conjunction with business organizations and individual firms.

b. Papua New Guinea Investment Promotion Authority

The Government of Papua New Guinea is currently moving through a series of major institutional and policy reforms to stimulate and attract more foreign investment. As part of this effort, they have dismantled a moribund and dysfunctional government investment registration parastatal and are replacing it with a new statutory body, the Investment Promotion Authority (IPA), which will be commercially-run, eventually self-supporting through business registration fees, and is to be guided by a private sector-majority board. The project will work in part through this new institution to help reinforce its private sector and commercial orientation and to develop the program structure and environment for attracting U.S. investment.

c. Commercial Industry and Business Organizations

The private sector in these countries is also just beginning to get seriously organized at the industry level both to advance private interests with government in specific improvements to the business environment and to develop, organize and support export production and marketing aimed at the highly competitive international markets. The form of organization varies from country to country but includes mainly private, nonprofit business or industry associations, private exporter firms, and private cooperatives. The project will work directly with such organizations as: the Chambers of Commerce, the Institute of National Affairs, the Spice Industry Board and the Fresh Produce Development Company P/L in Papua New Guinea; the Fiji Fresh Ginger Exporters Association, the Fiji Furnituremakers Guild, Fresh Fish Exporters Ltd, the Hotels and Restaurants Association and the Fiji Employers Consultative Group in Fiji; the Friendly Islands Marketing Cooperative, the Institute of Tongan Small Businesses, the Tongan Chamber of Commerce, the Tonga Growers and Multi-Purpose Cooperative Society Ltd in Tonga; and the Chamber of Commerce and the Manufacturers Association in Western Samoa.

2. South Pacific Regional Intergovernmental Organizations

Several regional intergovernmental organizations or institutions are expected to contribute to the project's ability to achieve its objectives. Principal among these are the Forum Secretariat, the South Pacific Commission,the Tourism Council of the South Pacific and the Asia Pacific Economic Council. (Annex J). The membership is limited to governments and networking with and services for the private sector are limited.

a. Forum Secretariat (FS)

The FS is the political and technical secretariat of the Forum's members, the 15 independent South Pacific nations and self-governing, freely associated states in the South Pacific including Federated States of Micronesia and Marshall Islands. FS is mandated to assist members on issues of economic development including trade, transportation, energy and telecommunications. It arranges the annual Forum Meeting and the Post-Forum Dialogue in which the U.S. participates. It is a possible candidate for organizing the field end of the U.S.- South Pacific Trade Commission proposed during the recent Honolulu Summit.

b. Forum Fisheries Agency (FFA)

The FFA is under the Forum umbrella and provides technical support to Forum countries on the development of marine resources. It manages the U.S. Fisheries Treaty in conjunction with RDO/SP. In conjunction with the South Pacific Commission, it manages most of the research on South Pacific fisheries and marine products.

c. Tourism Council of the South Pacific (TCSP)

The TCSP is a technical secretariat representing the interests of national (government) tourism organizations in the South Pacific including, in addition to the Forum island countries, the French territories of French Polynesia and New Caledonia, and American Samoa. Its fundamental objective is to foster regional co-operation in the development and promotion of tourism in the island nations of the South Pacific. The U.S. is a major target of its tourism marketing strategy and promotion program over the next five years.

d. South Pacific Commission (SPC)

The SPC is an intergovernmental development organization of which the U.S. is a founding member. It is based in New Caledonia serving the needs of 22 Pacific island governments in the South Pacific, including independent nations, freely associated states and territories of the U.S. and France. It

operates conventional assistance programs in the fields of health, agriculture, fisheries, population, and the environment. The likely points for project coordination will be with the Statistics Office which is collecting basic economic and trade data on the South Pacific, the SPC Plant Protection Office (Suva) working on post-harvest processing and quarantine issues, the Pacific Women's Development Program, and the South Pacific Regional Environment Program it houses.

4. U.S. Public Sector Institutions

a. A.I.D.

Beyond the field management structure discussed in the Implementation Plan, A.I.D. offers a range of resources and institutional experience through APRE, TSP, the ASEAN field Office and central projects such as the Market and Technology Access Project (MTAP) which might augument project resources and capabilities.

b. Overseas Private Investment Corporation (OPIC)

OPIC has been almost inactive in the South Pacific over the last decade although the five Aid-assisted countries of Fiji, Kiribati, Papua New Guinea, Tonga and Western Samoa are eligible for OPIC insurance and finance programs. But, at the Honolulu Summit, its current leadership made a commitment to Pacific Island leaders to organize a major U.S. investment mission to the South Pacific in 1991 as a first step toward greater activity and to allocate $100 million of the $300 million Asia Pacific Growth Fund to venture development in the Pacific Islands of the North and South Pacific. The MARC project will cooperate with OPIC on activities of mutual interest and maintain a steady line of communication on investment activities affecting the South Pacific.

c. Department of Commerce (DOC)

The DOC has no presence in the Pacific Island nations of the South Pacific. The Foreign Commercial Service officer assigned to Hawaii is reputedly responsible for U.S. commercial interests in all the Pacific Islands nations but has no contact with any of the key public or private players in the South Pacific as far as RDO/SP is aware. The DOC made a commitment to Pacific Island leaders during the recent Honolulu Summit to organize a standard joint U.S.- South Pacific trade commission for the region. The MARC project will plan to cooperate with DOC on activities of mutual interest such as the joint trade commission and maintain a steady line of communication on T/I activities in the South Pacific of interest to U.S. business.

d. U.S. Embassies For the South Pacific

The MARC project will cooperate with U.S. economic/commercial officers in the South Pacific Island nations, currently stationed in Fiji and Papua New Guinea. The project will also cooperate with U.S. Consular Offices in the Solomon Islands and Western Samoa which are the resident official U.S. presence in these countries. The U.S. Charge' in Apia has offered to have the project's trade and investment advisor for Polynesia work out of that office.

e. Pacific Islands Development Program (PIDP)

The PIDP, financed by the U.S. Information Agency and operating out of the East - West Center of the University of Hawaii, is a small research group and program whose annual work program is approved jointly by the Center and by a standing commission representing the Pacific Islands heads of state. For the last two years, it has focussed its attention and resources on researching major issues affecting the private sector in the Pacific Island nations. The project will cooperate with the PIDP on activities of mutual interest.

f. Pacific Basin Development Council (PBDC)

The PBDC, financed primarily by the Department of Interior, works on activities in the American Territories and the Compact nations of the Federated States of Micronesia and the Marshall Islands. At present PBDC is examining issues and opportunities for increasing trade and investment between the territories and nations in the North Pacific with the U.S. and with the nations in the South Pacific. The project will cooperate with the PBDC on activities of mutual interest.

5. U.S. Private Sector Institutions

a. U.S. National Committee For Pacific Economic Cooperation (U.S. - P.E.C.)

This private membership organization of representatives from business, academic institutions and government agencies is part of the larger body of the Pacific Economic Cooperation Conference. Companion bilateral groups or committees exist in Japan, Taiwan, Australia and New Zealand. Its principal activities involve policy research and analysis related to GATT and to issues of trade among Pacific Rim nations. The U.S Committee has tried for several years to organize a trade and investment program or service for the South Pacific but tabled the idea after failure to come to an agreement on the scope of an activity. Other

bilateral committees are continuing to work on a proposition. The forte of U.S. P.E.C. would be its work on trade policy which falls within the scope of the project under business environment improvement. The project will cooperate with the U.S. National Committee of P.E.C. on any future activities of mutual interest.

b. U.S., Pacific Basin Economic Council

The U.S. PBEC is the U.S. representative arm of PBEC, a private business organization working on trade issues and opportunities on behalf of its members. The focus of its work and its membership is mainly in the Pacific Rim countries. Fiji is the first Pacific Island nation to join its ranks through the Fiji Employer's consultative Group. PBEC both through its larger regional organization and through the U.S. representative may prove a useful resource to Pacific Island business associations and business firms wishing to become better networked and acquainted with the private sector within the greater Pacific.

VII. CONDITIONS, COVENANTS AND WAIVERS

Since the project will not use bilateral project agreements to obligate funds, no conditions precedent are needed. The memoranda of understanding to be signed with several governments will contain covenants concerning the commitment by the governments to provide the support and in-kind contributions described elsewhere in this PP.

AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D.C. 20523

PROJECT PAPER

Annexes A-L

SOUTH PACIFIC
Market Access and Regional
Competitiveness
879-0018

March 8, 1991

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ANNEX A

ACTION: AID INFO: EXEC

VZCZCVA0774
RR RUEHVA
DE RUEHC #0537 1381054
ZNR UUUUU ZZH
R 181053Z MAY 90
FM SECSTATE WASHDC
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BT
UNCLAS STATE 160537

LOC: 101 171
20 MAY 90 1053
CN: 27008
CHRG: AID
DIST: AID

AIDAC

E.O. 12356: N/A
TAGS:
SUBJECT: SOUTH PACIFIC REGIONAL: MARKET ACCESS AND REGIONAL COOPERATION PID APPROVAL (879-0018)

1. AA/ANE HEREBY APPROVES THE SUBJECT PID AND AUTHORIZES RDO/SP TO PREPARE PROJECT PAPER (PP) FOR AID/W REVIEW. ALTERNATIVELY, RDO/SP IS INVITED TO SUBMIT AN INTERIM PAPER WHICH ADDRESSES THE ISSUES BELOW. BASED ON A SATISFACTORY REVIEW AND APPROVAL OF THE INTERIM PAPER, AID/W WOULD BE PREPARED TO RECOMMEND AUTHORIZATION OF THE PP IN THE FIELD.

2. ANE PROJECT REVIEW COMMITTEE (PRC) REVIEWED THE SUBJECT PID ON MARCH 1, 1990 WITH REGIONAL PROGRAM OFFICER AMY OSBORN AND CONSULTANT DON DEMBOWSKI OF DEVELOPMENT ASSOCIATES. THEY DESCRIBED THE CHANGING BUSINESS ENVIRONMENT IN THE SOUTH PACIFIC, THE NEW OPENNESS OF GOVERNMENTS TO MARKET SOLUTIONS VERSUS DIRECTED ECONOMIES, AND THE GROWING INTEREST IN ENTERING NON-TRADITIONAL MARKETS.

3. THE PRC CONCURS THAT THE TIME IS APPROPRIATE FOR ASSISTANCE TO SOUTH PACIFIC NATIONS IN THEIR EFFORTS TO

PROMOTE MARKET BASED DEVELOPMENT APPROACHES. HOWEVER, THE PRC RECOMMENDS THAT THE PROJECT PAPER (PP) ELABORATE MORE ON PRIVATE SECTOR PARTICIPATION IN THE MARC DESGN PROCESS, AND PROJECT IMPLEMENTATION PROCEDURES. SPECIFICALLY, THE FOLLOWING ISSUES SHOULD BE ADRESSED DURING PP DESIGN.

4. WE SUGGEST THAT THE PROJECT BE PHASED: IT CAN START ON A SMALL SCALE WHILE PRIVATE SECTOR ORGANIZATIONS ARE DEVELOPED TO TAKE A MORE DIRECT ROLE IN SUCH AREAS AS BUSINESS INFORMATION SERVICES, EXPORT AND INVESTMENT PROMOTION, AND POLICY ANALYSIS AND DIALOGUE. DURING THIS INITIAL PHASE, ONLY THOSE GOVERNMENTAL OR REGIONAL ORGANIZATION ACTIVITIES THAT HAVE A PROVEN WORTH TO THE PRIVATE SECTOR SHOULD BE SUPPORTED. SPECIFICALLY, ON-GOING DATA COLLECTION AND ANALYSIS, RESEARCH, AND PROMOTION ACTIVITIES OF REGIONAL ORGANIZATIONS SHOULD BE SUPPORTED ONLY IF 1) EVALUATION SHOWS THEM TO BE OF PROVEN PAST OR IMMEDIATE FUTURE

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BENEFIT TO LOCAL PRIVATE ENTITIES, OR TO LOCAL OR U.S. EXPORT OR INVESTMENT, AND 2) THEY DO NOT PRE-EMPT SERVICES THE PRIVATE SECTOR COULD PROVIDE.

5. THE PP SHOULD IDENTIFY AREAS OF POSSIBLE REFORM OF GREATEST PRIORITY FOR PRIVATE SECTOR LED GROWTH AND THEN IDENTIFY THE MOST EFFICIENT AND EFFECTIVE MEANS TO ACHIEVE THIS REFORM. THIS MAY LEAD TO SOME USE OF REGIONAL ORGANIZATIONS.

6. WE ALSO LOOK TO THE MONITORING AND EVALUATION PLAN TO PROVIDE FOR AT LEAST ANNUAL REVIEWS OF USEFULNESS OF PROJECT ACTIVITIES TO PRIVATE SECTOR DEVELOPMENT AND POLICY REFORM. PRIVATE SECTOR ACTIVITIES SHOULD GENERATE TANGIBLE BUSINESS RESULTS IN THE NEAR TERM. THE MISSION SHOULD HAVE QUICK RELEASE MECHANISMS BUILT INTO EACH COMPONENT SO THAT WE CLEARLY ARE NOT COMMITTED TO LONG TERM SUPPORT OF ACTIVITIES THAT ARE NOT CONTRIBUTING TO SUSTAINED ECONOMIC GROWTH AND EXPORT-ORIENTED BUSINESS DEVELOPMENT.

7. WITH THIS CURTAILMENT OF INITIAL ACTIVITIES AND A WILLINGNESS TO DROP COMPONENTS NOT CENTRAL TO PRIVATE SECTOR DEVELOPMENT, REDUCED TOTAL FUNDS NEEDED FOR THE PROJECT SHOULD RESULT. EXPERIENCE WITH PRIVATE SECTOR PROJECTS ELSEWHERE IS THAT CAPACITY TO USE A.I.D. FUNDING IS LIMITED, EVEN WHERE THE LOCAL AND U.S. BUSINESS COMMUNITY IS MORE DEVELOPED THAN IN THE SOUTH PACIFIC. YOU MAY WANT TO CONSIDER A PROJECT AT ABOUT

U.S. SIX MILLION DOLLARS INSTEAD OF THE EIGHT MILLION PROPOSED IN THE PID.

8. IF MISSION ELECTS TO SUBMIT AN INTERIM PAPER, A MONITORING AND EVALUATION PLAN IS NOT REQUIRED. ALL OTHER CONCERNS SHOULD BE ADDRESSED IN AN INTERIM PAPER. EAGLEBURGER
BT
#0537

NNNN

ACTION: AID INFO: EXEC

VZCZCVA0728
PP RUEHVA
DE RUEHC #3631/01 2671724
ZNR UUUUU ZZH
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UNCLAS SECTION 01 OF 02 STATE 323631

LOC: 221 137
24 SEP 90 1723
CN: 39577
CHRG: AID
DIST: AID

AIDAC

E.O. 12356: N/A
TAGS:
SUBJECT: SOUTH PACI[illegible] ACCESS AND REGIONAL COMPETITIVENESS (MARC) INTERIM PAPER APPROVA (879-0018)

REF: (A) SUVA 02832; (B) STATE 160537

1. SUMMARY. AA/PRE HEREBY AUTHORIZES MISSION TO DEVELOP A PROJECT PAPER (PP) FOR THE MARC PROJECT WHI[illegible] REFLECTS RECOMMENDED IMPROVEMENTS AND ADDRESSES QUESTIONS RAISED IN THIS CABLE. GIVEN THE WIDE ARRAY OF ACTIVITIES TO BE UNDERTAKEN AND THE PROJECT'S EXPERIMENTAL NATURE, BUREAU REQUESTS MISSION TO SUBMIT PP TO AID/W FOR FINAL REVIEW AND APPROVAL. MISSION ALSO IS REQUESTED TO PREPARE AND SEND AN INITIAL ENVIRONMENTAL EXAMINATION (IEE) AT ITS EARLIEST CONVENIENCE FOR THE MARC PROJECT. END SUMMARY.

2. THE PROJECT REVIEW COMMITTEE (PRC) REVIEWED THE INTERIM PAPER ON AUGUST 30, 1990. GENERALLY, THE MARC INTERIM PAPER RESPONDS WELL TO BUREAU CONCERNS RAISED DURING THE PROJECT IDENTIFICATION DOCUMENT (PID) REVIEW REGARDING PRIVATE SECTOR PARTICIPATION IN THE MARC IMPLEMENTATION PROCESS. THE PRC COMMENDS MISSION'S INNOVATIVE STRATEGY TO ESTABLISH LOCAL, PRIVATE TRADE AND INVESTMENT BUSINESS SERVICES (TIBS) INSTITUTIONS. HOWEVER, THE COMMITTEE RECOMMENDS THAT RDO/SP FOCUS MORE SHARPLY ITS PROPOSED INTERVENTIONS AND SCOPE OF PROJECT ACTIVITIES. SPECIFICALLY, THE FOLLOWING ISSUES SHOULD BE ADDRESSED AS MISSION CONTINUES TO DEVELOP AND REFINE THE PP.

3. SEVERAL THEMES RUN THROUGH THE INTERIM PAPER CONCERNING THE PURPOSE OF MARC. THE PROJECT HAS ELEMENTS WHICH FOCUS ON EXPORT AND INVESTMENT PROMOTION, TECHNICAL ASSISTANCE, AND INSTITUTION BUILDING. THE REVIEW COMMITTEE SUGGESTS RDO/SP FRAME ITS PROPOSED INTERVENTIONS AND ACTIVITIES WITH A CLEAR STATEMENT OF MARC'S PRIMARY OBJECTIVE. THE PROJECT PURPOSE NEEDS TO BE JUSTIFIED ON THE BASIS OF SOUTH PACIFIC COMMERCIAL AND ECONOMIC CONDITIONS WITH EMPHASIS ON TRADE, INVESTMENT AND JOINT VENTURE OPPORTUNITIES.

4. RDO/SP CURRENTLY IS DESIGNING AND IMPLEMENTING SEVERAL PRIVATE SECTOR BASED AGRICULTURAL, MARKETING, AND ENVIRONMENTAL PROJECTS. IN LIGHT OF THESE EFFORTS, THE PP SHOULD PRESENT A RATIONALE FOR A SEPARATE PROJECT APPROACH FOR MARC, AND HOW MARC WILL BE INTEGRATED WITH RDO/SP ONGOING AND PLANNED EXPORT ORIENTED PROJECTS.

5. THE PRC ENDORSES MISSION'S OVERALL STRATEGY OF USING TIBS TO IDENTIFY AND PROMOTE NICHE PRODUCTS. THE COMMITTEE URGES MISSION TO ARTICULATE MORE CLEARLY PLANS FOR DEVELOPING AND MARKETING THESE PRODUCTS BASED ON MARKET SIGNALS. THESE MARKET SIGNALS SHOULD STEM FROM TWO SOURCES: 1) PRIVATE SECTOR PRODUCERS AND EXPORTERS IN THE SOUTH PACIFIC BUSINESS COMMUNITY; AND, 2) AMERICAN AND OTHER POSSIBLE INVESTORS AND TRADE PARTNERS. THE PROJECT SHOULD FOCUS INITIALLY ON IDENTIFYING MARKETS AND ASSESSING THE DEMAND CHARACTERISTICS OF THESE MARKETS. THE PP SHOULD NOTE POTENTIAL COMPETITORS FOR THESE MARKETS SUCH AS CENTRAL AMERICA AND MARC'S STRATEGY FOR COMPETING.

6. AID/W SUPPORTS MISSION CONCEPT OF PHASING THE ESTABLISHMENT OF COUNTRY-LEVEL AMERICAN TRADE AND INVESTMENT BUSINESS SERVICES (AMTIBS) IN SELECT COUNTRIES. GIVEN THE WIDE ARRAY OF ACTIVITIES TO BE UNDERTAKEN IN EACH OF THE COUNTRIES AND THE EXPERIMENTAL NATURE OF THE MARC PROJECT, WE PROPOSE THAT THE SCOPE OF THESE AMTIBS BE LIMITED INITIALLY TO THREE REPRESENTATIVE COUNTRIES: FIJI, PAPUA NEW GUINEA (PNG) AND TONGA. ESTABLISHING AMTIBS IN THESE THREE COUNTRIES WILL ENABLE MISSION TO ASSESS THE NET TRADE, REVENUE GENERATION, EMPLOYMENT IMPACTS, AND OTHER DEVELOPMENTAL BENEFITS OF AN EXPORT AND INVESTMENT STRATEGY. THE PRC AGREES WITH THE PLAN TO EVALUATE PERIODICALLY SELECTED COUNTRIES BEFORE EXPANDING THE PROJECT TO OTHER AREAS. MISSION SHOULD INDICATE WHEN AND HOW IT WOULD DETERMINE THAT THERE ARE SUFFICIENT MARKETS AND COMMERCIAL DEMAND FOR MAXIMIZING THE IMPACT OF ITS RESOURCES. ONCE THESE AMTIBS ARE ORGANIZED, MISSION SHOULD EVALUATE THEIR PERFORMANCE TO DETERMINE WHETHER THE TIBS HAVE FACILITATED ACCESS TO U.S. OR OTHER REGIONAL MARKETS, AND IF OTHER AMTIBS SHOULD BE ESTABLISHED. PP SHOULD IDENTIFY PROCESS FOR SELECTING PERFORMANCE BENCHMARKS AND ASSESSING PERFORMANCE AND THE EVALUATION SCHEDULE.

7. THE INTERIM PAPER DELINEATES PUBLIC AND PRIVATE SECTOR ATTITUDINAL CONSTRAINTS TO BUSINESS AND TRADE DEVELOPMENT AND INVESTMENT PROMOTION, AND DISCUSSES ACTIVITIES TO ADDRESS THESE CONSTRAINTS AND IMPROVE THE

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SOUTH PACIFIC BUSINESS ENABLING ENVIRONMENT. THE PP SHOULD ELABORATE, TO THE EXTENT POSSIBLE, HOW THIS PROJECT WOULD MOBILIZE PRIVATE AND PUBLIC ORGANIZATIONS TO RESOLVE ECONOMIC POLICY AND REGULATORY PROBLEMS WHICH INHIBIT EXPORTS, JOINT VENTURE RELATIONSHIPS, AND OTHER ACTIVITIES CONTEMPLATED UNDER MARC.

8. THE INTERIM PAPER TARGETS AMERICAN TRADE AND INVESTMENT MARKETS AS THE GEOGRAPHIC FOCUS OF MARC ACTIVITIES. WHILE THE REVIEW COMMITTEE CONCURS THAT AMERICAN MARKETS SHOULD BE THE INITIAL FOCUS OF MARC SINCE SOUTH PACIFIC-AMERICAN TRADE AND BUSINESS PARTNERSHIPS ARE LARGELY NON-EXISTENT, AID/W ENCOURAGES RDO/SP TO EXPLORE OTHER MARKETS SUCH AS EAST AND SOUTHEAST ASIA AND EUROPE. THE REVIEW COMMITTEE UNDERSTANDS THAT THE INTERNATIONAL FINANCE CORPORATION (IFC) AND THE PACIFIC ECONOMIC COOPERATION CONFERENCE (PECC) WILL BEGIN INVESTIGATING SOUTH PACIFIC INVESTMENT OPPORTUNITIES. RDO/SP SHOULD INDICATE HOW IT WILL WORK WITH THESE AND OTHER REGIONAL AND INTERNATIONAL ORGANIZATIONS, AND THE DEGREE TO WHICH MARC CAN LEVERAGE THE SERVICES OF SUCH ORGANIZATIONS TO ACHIEVE THE PROJECT OBJECTIVES.

9. THE FINANCING PLAN IN THE PROJECT PAPER SHOULD IDENTIFY: (1) THE SPECIFIC USES OF PROJECT FUNDS FOR THE ESTABLISHMENT AND OPERATION OF THE TIBS, INCLUDING A PRELIMINARY PLAN FOR OPERATIONAL AND FINANCIAL SELF-SUFFICIENCY; AND, (2) PROJECT INPUTS WHICH WILL BE FUNDED UNDER THE QUOTE ACTIVITIES UNQUOTE COMPONENT (SEE BUDGET ON PAGE 10). THE RELATIONSHIP BETWEEN SUPPORT TO THE TIBS AND PROJECT ACTIVITIES IN SUPPORT OF BUSINESS ENVIRONMENT IMPROVEMENT, ETC SHOULD BE CLARIFIED, BOTH IN THE PROJECT DESCRIPTION AND THE BUDGET. IT WOULD BE HELPFUL TO EXPLAIN FURTHER HOW PROPOSED TECHNICAL ASSISTANCE EFFORTS RELATE TO SPECIFIC PROJECT COMPONENTS.

10. THE FINANCING PLAN SHOULD DETAIL THE FLOW OF GRANT RESOURCES, ESPECIALLY SUPPORT OF AMTIBS AND BUSINESS COUNCILS (BCS). THE REVIEW COMMITTEE QUESTIONED THE PLAN TO CHANNEL FUNDS TO COUNTRY AMTIBS AND BCS THROUGH THE NETWORKS ESTABLISHMENT AND SUPPORT SERVICE (NESS). THE PP SHOULD CLARIFY HOW THIS PROCESS WILL WORK, I.E. A DEFINITION OF AMTIB ACTIVITIES TO BE FUNDED,

DISBURSEMENT MECHANISMS, AID REVIEW/APPROVAL PROCEDURES, AND AUDIT REQUIREMENTS.

11. FINALLY, THE NEED FOR A NETWORK ESTABLISHMENT AND SUPPORT SERVICE SHOULD BE JUSTIFIED AND ITS ROLE ARTICULATED CLEARLY. PARTICULAR ATTENTION SHOULD BE GIVEN TO THE WORKING RELATIONSHIPS EXPECTED FOR THE NESS, AMTIES, THE U.S.-BASED SOUTH PACIFIC TIB AND BUSINESS COUNCILS. AN ORGANIZATIONAL CHART CAN BE USED TO ILLUSTRATE THESE RELATIONSHIPS AND LINKAGES. ADDITIONALLY, THE PP SHOULD DESCRIBE WHEN AND HOW THE NESS WILL BE PHASED OUT AND WHAT, IF ANY REGIONAL ORGANIZATIONS--PUBLIC OR PRIVATE--MIGHT REPLACE IT. THE ROLE AND FUNCTION OF THE PROJECT-FUNDED RDO/SP MANAGEMENT STAFF ALSO SHOULD BE DEFINED. BAKER
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SOUTH PACIFIC
MARKET ACCESS AND REGIONAL COMPETITIVENESS
PROJECT NO. (879-0018)
LOGICAL FRAMEWORK

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
PROJECT GOAL			FOR ACHIEVING GOAL TARGETS
Economic growth through increased trade and investment flows	Increased GDP per capita Increased foreign exchange earnings from trade Improved terms of trade	1. Reserve Bank Economic and Trade Statistics 2. Australian National University Pacific Islands Database 3. South Pacific Commission Economic and Trade Statistics	1. Governments adopt policies and regulations to support private sector 2. Political stability in region and in target countries.

PROJECT GOAL	END OF PROJECT STATUS EOPS	MEANS OF VERIFICATION	FOR ACHIEVING PURPOSE TARGETS
To increase Pacific Islands' access to and competitiveness in American markets	1. Two new higher value non-traditional products exported per country. 2. Fifty percent increase in the value of exports to U.S. markets. 3. Fifty percent increase in U.S. investments in the non-mining sectors of island economies. 4. One-fourth increase of U.S. products and services marketed in the South Pacific.	1. Project Reports 2. National Statistics Office Reports 3. Commercial Bank Reports 4. Reports of T/I Arms of Governments	1. Continued interest and commitment to promote private sector activities. 2. Private entrepreneurs are able to overcome traditional cultural constraints to business success.

OUT PUTS TARGETS	MAGNITUDE OF OUTPUTS	MEANS OF VERIFICATION	FOR ACHIEVING PURPOSE
MARKET ACCESS			
1. Private sector marketing networks established and maintained between South Pacific and U.S. business communities.	1. A business contacts network for marketing, production and product technology, and investment sourcing is established through SPITS are maintained by private or quasi-private sector means.	1. Project reports 2. Reserve Bank Investment and Trade Statistics 3. Commercial Bank Reports 4. Reports of T/I Arms of Governments 5. International Trade Reporting Covering South Pacific 6. Government policy and budget documents.	1. Tradeable goods and services marketable in the U.S. exist in the South Pacific countries 2. Investment potential in the South Pacific countries is attractive to U.S. markets. 3. Govt's willing to set up or participate in business/govt forums to discuss private sector issues.
2. South Pacific - U.S. business councils exist and are linked to a counterpart(s) in the U.S.	2. Private South Pacific - U.S. business councils operating in two of the four target countries and are linked to counterpart in the U.S.		
3. Knowledge and ability to mount successful product and investment promotions for U.S. markets is established and is sustainable.	3. Trade and/or investment promotional materials for five non traditional export industries or businesses per country prepared and tested in U.S. markets.		
4. Ability to identify and secure moving and changing market niches exists and is sustainable.	4. Twelve new market niches for South Pacific products identified in U.S. markets.		

OUT PUTS	MAGNITUDE OF OUTPUTS	MEANS OF VERIFICATION	FOR ACHIEVING PURPOSE TARGETS
COMPETITIVENESS			
5. Government policies and regulations changed or initiated in support of private sector development.	5. New Policies and regulations directly supportive of private sector development in general and export industry in particular exist in all four target countries.		
6. Business and government dialogue on issues critical to T/I growth is institutionalized (made formal and permanent).	6. Joint private/public fora to discuss business environment improvement issues are created or strengthened in all four target countries.		
7. Industry associations are started or strengthened to support industry to produce and market internationally competitive products.	7. Industry associations for non traditional export products are started or strengthened in all four target countries.		
8. Existing or new export industries are streamlined to minimize production costs and maximize product quality and reliability.	8. Six existing or new export industries per target country are streamlined to compete in international markets.		

OUT PUTS	MAGNITUDE OF OUTPUTS	MEANS OF VERIFICATION	FOR ACHIEVING PURPOSE TARGETS
9. Niche markets for South Pacific products established in U.S. markets and maintained.	9. Eight new niche markets for South Pacific produced-products are secured and orders received and filled by new and existing firms.		
10. New U.S. investment venture capital is placed and joint ventures initiated.12. Increased number of U.S. products and services exported to South Pacific region.	10. All four targets countries succeed in attracting U.S. venture capital and wholly or partially U.S.-owned business ventures.		
11. Government-owned commercial enterprises have been privatized.	11. A national privatization policy and strategy exists in three out of four countries and success is achieved in marketing government commercial-owned enterprises in four countries		
12. Increased number of U.S. products and services exported to South Pacific.	12. Twenty-five percent increase in use of American-made products and services by South Pacific business and industry.		

INPUTS	IMPLEMENTATION TARGETS	MEANS OF VERIFICATION	FOR ACHIEVING PURPOSE TARGETS
	US$000		
1. Long Term TA (2 positions)	1,940	Project Records & Reports Audits	1. Governments allow donors to assist directly the private sector. 2. Governments and private sector willing to contribute their share.
2. West Coast Office	1,200		
3. Short TA	1,100		
4. Market research & Promotion	400		
5. Training	800		
6. Commodities	160		
7. Audits & Evaluations	200		
8. RDO/SP PSC	200		
	6,000		
9. Contingency 10%	600		
10. Inflation 5%	900		
Grand Total	7,500		
11. Fees earned by West Coast Office	320		

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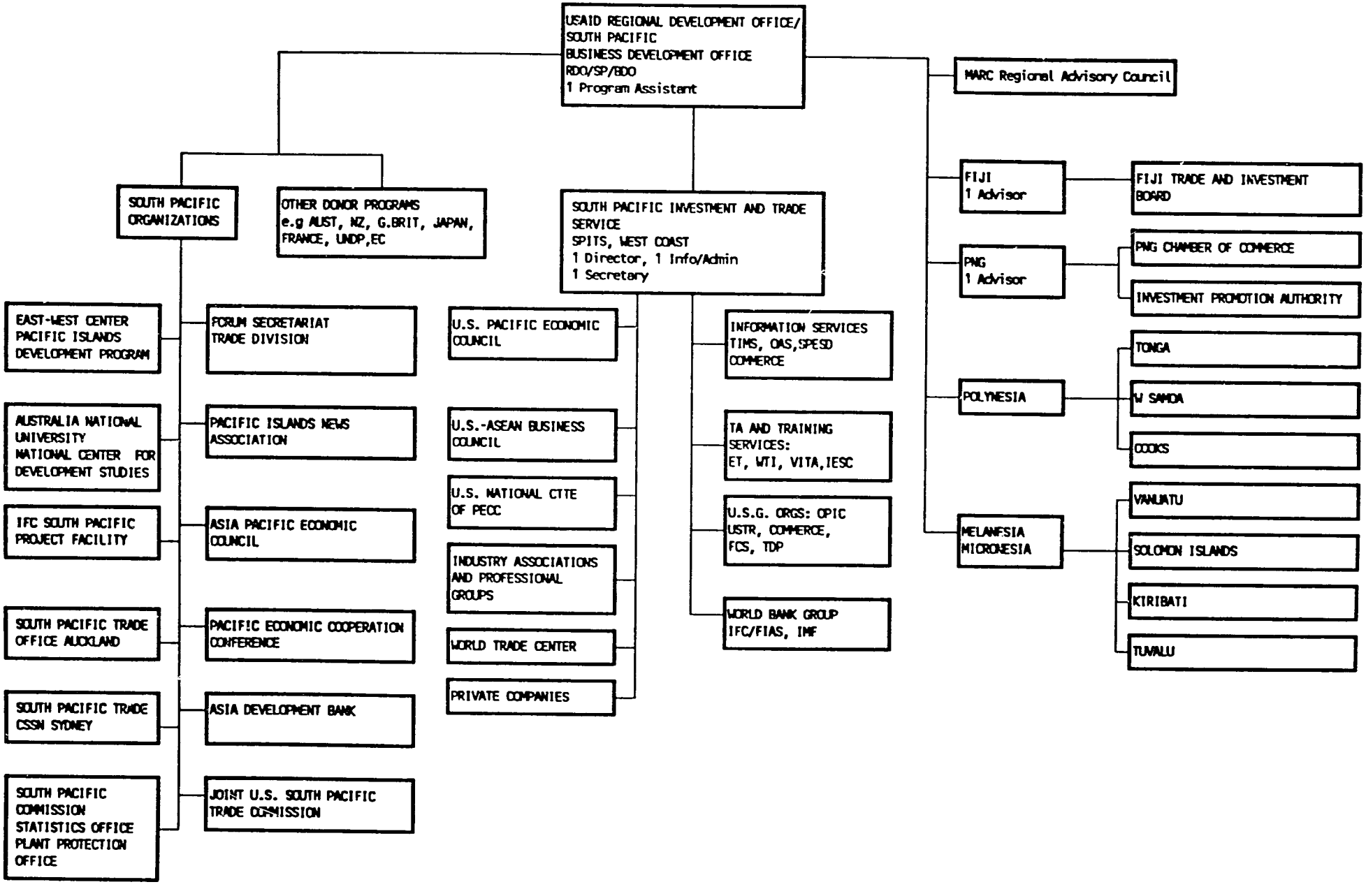
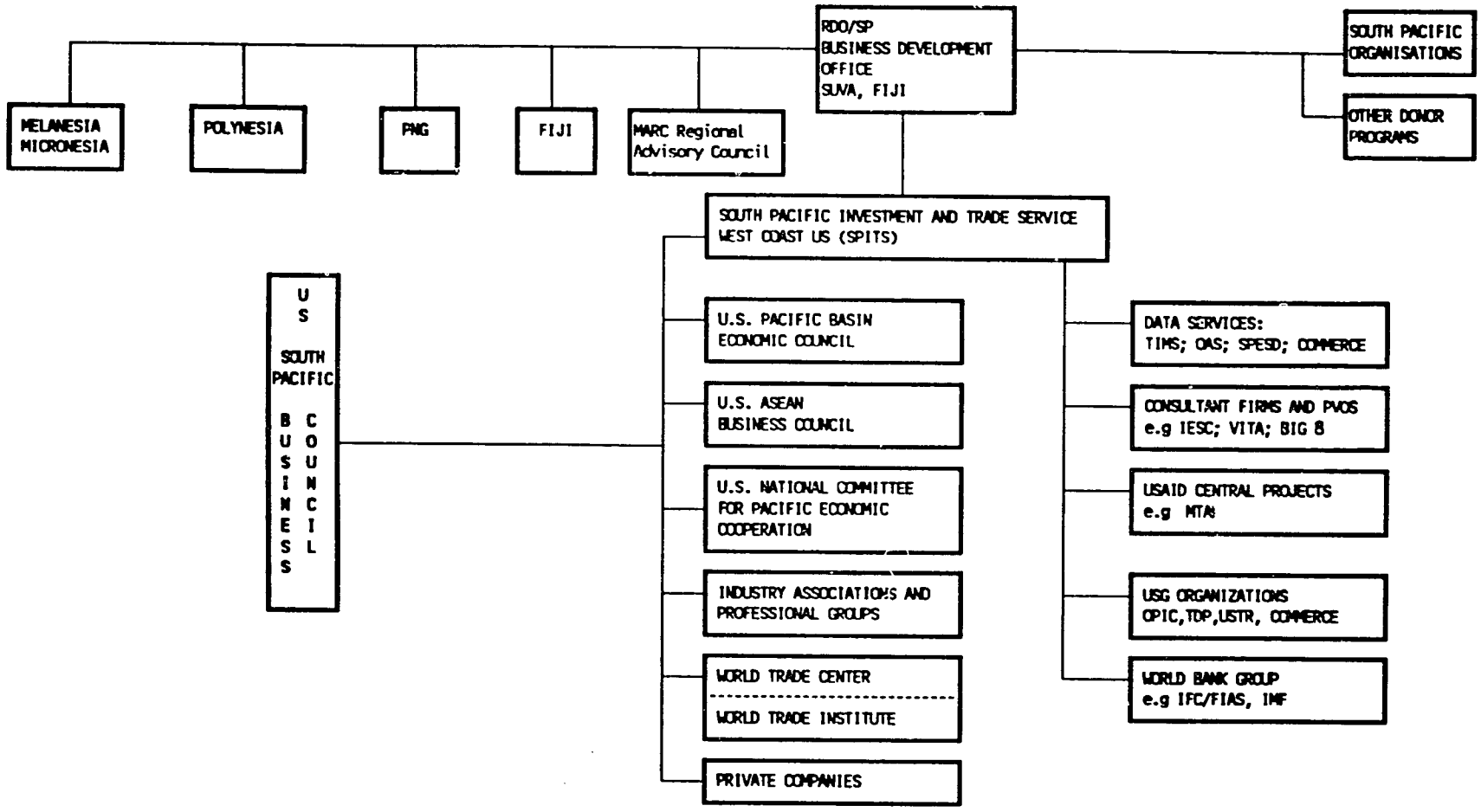
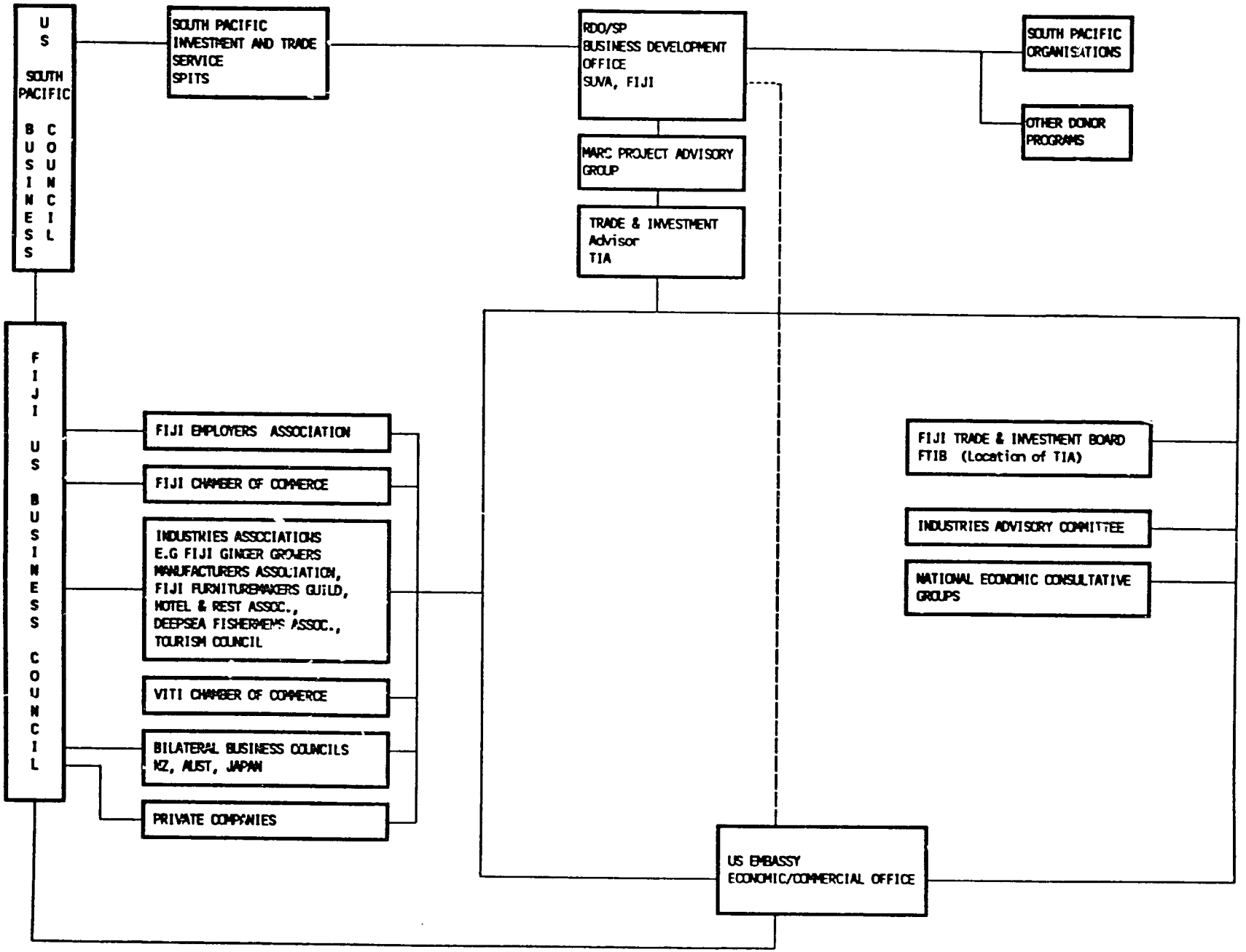
MARC INSTITUTIONAL RELATIONSHIPS



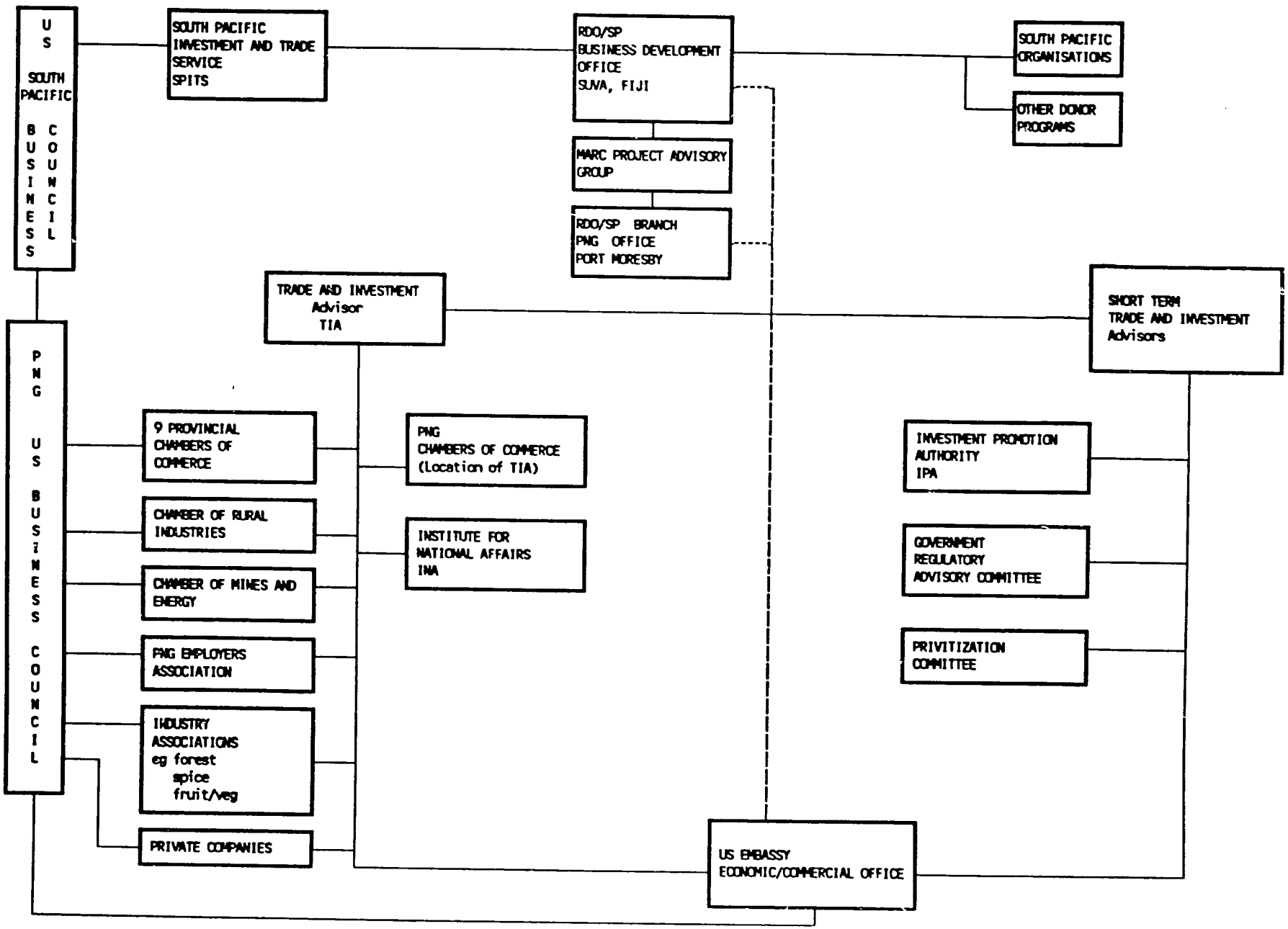
MARC U S COMPONENT



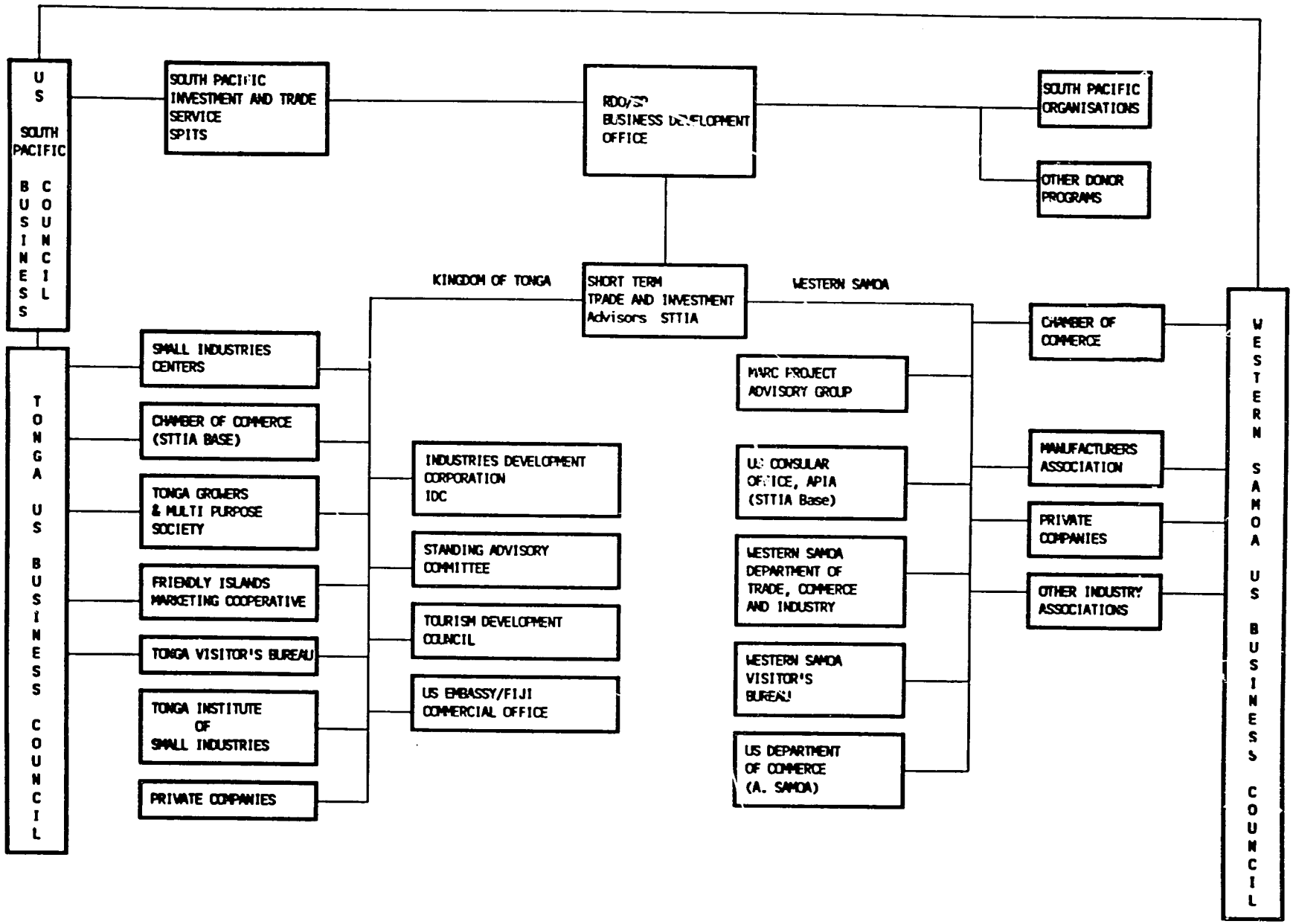
MARC FIJI COMPONENT



MARC PAPUA NEW GUINEA COMPONENT



MARC POLYNESIA COMPONENT



ANNEX D

STATUTORY CHECKLIST

ANNEX D

STATUTORY CHECKLISTS

COUNTRY CHECKLISTS

Ten countries are incl·ded in this regional project: Cook Islands, Fiji, Kiribati, Nauru, Niue, Papua New Guinea, Solomon Islands, Tonga, Tuvalu, Vanuatu and Western Samoa (the "Countries"). The responses set forth below are applicable to all of the Countries unless otherwise explicitly noted. Only the checklists which apply to [1] FAA funds in general and [2] Development Assistance funds in particular are used. Section (b)(2) of the Country Checklist is for ESF funding only and is not applicable.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FY 1991 Appropriations Act Sec. 559(b). Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?

   No.

2. FAA Sec. 481(h); FY 1991 Appropriations Act Sec. 559(b). (These provisions apply to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, narcotics education and awareness, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs

   None of the Countries is "a major illicit drug producing country" or a "major drug transit country".

are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government): (a) Does the country have in place a bilateral narcotics agreement with the United States, or a multilateral narcotics agreement? and (b) Has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without Congressional enactment, within 45 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (1) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals agreed to in a bilateral narcotics agreement with the United States or in a multilateral agreement, to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, to prevent and punish drug profit laundering in the country, and to prevent and punish bribery and other forms of public corruption which facilitate production or shipment of illicit drugs or discourage prosecution of such acts, or that (2) the vital national interests of the United States require the provision of such assistance?

3. 1986 Drug Act Sec. 2013. (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to

None of the Countries is "a major illicit drug producing country" or a "major drug transit country".

Congress listing such country as one: (a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country?

4. FAA Sec. 620(c). If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where: (a) such citizen has exhausted available legal remedies, (b) the debt is not denied or contested by such government, or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity?

None of the Countries is currently in violation of FAA Section 620(c).

5. FAA Sec. 620(e)(1). If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

On two occasions in the past few years, U.S. tuna boats were seized by a Country government which found them intruding into that Country's declared EEZ. Fines were paid and the boats were returned to their U.S. owners. On May 31, 1990, a U.S.-owned fishing vessel was seized by representative of the Government of the Cook Islands; the seizure does not fall withing Section 620(o) because the seizure was for fishing within the territorial waters of the Cook Islands, and took place in those territorial waters.

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6. FAA Secs. 620(a), 620(f), 620D; FY 1991 Appropriations Act Secs. 512, 565. Is recipient country a Communist country? If so, has the President: (a) determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism, or (b) removed a country from applicable restrictions on assistance to communist countries upon a determination and report to Congress that such action is important to the national interest of the United States? Will assistance be provided either directly or indirectly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, South Yemen, Iran or Syria? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan?

None of the Countries is currently defined as a "Communist country" under Section 620(f)(1) of the FAA.

7. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property?

No.

8. FAA Sec. 620(l). Has the country failed to enter into an investment guaranty agreement with OPIC?

No.

9. FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made?

No. U.S. fishing vessels have been seized in the EEZs, which are not considered to be international waters. Not applicable under the circumstances.

10. FAA Sec. 620(q); FY 1991 Appropriations Act Sec. 518 (Brooke Amendment). (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1990 Appropriations Act appropriates funds?

(a) No.

(b) No.

11. FAA Sec. 620(s). If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

Not applicable.

12. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

No.

13. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.)

None of the Countries is currently in arrears on its contribution to the United Nations budget.

14. FAA Sec. 620A. Has the President determined that the recipient country grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism or otherwise supports international terrorism? No.

15. FY 1991 Appropriations Act Sec. 556. Has the country been determined by the President to: (a) grant sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (b) otherwise support international terrorism, unless the President has waived this restriction on grounds of national security or for humanitarian reasons? No.

16. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures? No.

17. FAA Sec. 666(b). Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? No.

18. FAA Secs. 669, 670. Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) No.

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19. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device?

No.

20. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.)

Most of the Countries were represented. None is known to have disassociated itself from the communique issued.

21. FY 1991 Appropriations Act Sec. 513. Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance?

No, except Figi in 1987. In this case, assistance was resumed in December, 1988 by Presidental declaration; following consultations with Congress.

22. FY 1991 Appropriations Act Sec. 539. Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin?

Yes.

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23.	<u>FY 1991 Appropriations Act Sec. 586D(a)</u>. Is the country in compliance with the United Nations Security Council sanctions against Iraq? If not, has the President determined and certified to Congress that [1] assistance to the country is in the U.S. national interest; [2] that such assistance will directly benefit the needy people in that country; or [3] that such will be humanitarian assistance for foreign nationals who have fled Iraq and Kuwait?	Yes. Not applicable.

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

a. FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

No.

b. FY 1991 Appropriations Act Sec. 535. Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

No. The funds will not be used for family planning programs.

2. Economic Support Fund Country Criteria

a. FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest?

Not applicable.

b. FY 1991 Appropriations Act Sec. 559(d). Has this country met its drug eradication targets or otherwise taken significant steps to halt illicit drug production or trafficking?

Not applicable.

ANNEX E

TABLES

TABLE 1

Selective Economic Indicators For The South Pacific Region

Country	Land area sq miles	Sea area sq miles	Population	Population density	Pop growth rate	GDP	GDP per capita	Merchandise exports	Merchandise imports	Trade balance	Aid
Cook Is.	96	732000	17600	183	0.3	45843.98 US$'000 f.c. 1987 CIQS	2604.50 US$	2793.20 US$'000 fob 1989 CIQS	43737.18 US$'000 cif 1989 CIQS	-40943.98 US$'000 1989 CIQS	11035.67 US$'000 1987 spess
Fiji	7310	480000	722000	99	2.0	1097.01 US$m f.c. 1989 RBF	1519.54 US$	394410.48 US$'000 fob 1989 RBF	643875.78 US$'000 cif 1989 RBF	-249465.30 US$'000 1989 RBF	19496.29 US$'000 1987 spess
Kiribati	276	1420000	68207	247	2.0	31940.47 US$'000 f.c. 1988 KSY	325.44 US$	5230.61 US$'000 fob 1988 KSY	22102.68 US$'000 fob 1988 KSY	-16872.06 US$'000 1988 KSY	18509.00 US$'000 1988 KSY
Niue	104	156000	2900	28	2.6	3823.62 US$'000 1984spess	1366.02 US$	88.56 US$'000 1986spess	1671.21 US$'000 1986spess	-1582.65 US$'000 1986spess	5085.03 US$'000 1987spess
Papua New Guinea	184676	1240000	3804000	21	2.7	3902.32 US'mill proj DP 1989	1025.85 US$	1304.05 US'mill fob 1989 Stat .Ab	1346.11 US'mill fob 1989 Stat .Ab	-42.07 US'mill 1989 Stat .Ab	351028.24 US$'000 1987 spess
Solomon Islands	11022	520000	285176	26	3.5	109272.27 US$'000 1988 CBSI	383.17 US$	71458.02 US$'000 fob 1989 CBSI	106441.07 US$'000 cif 1989 CBSI	-34983.05 US$'000 1989 CBSI	24660.47 US$'000 1987 spess
Tonga	260	280000	99000	354	0.3	66.11 US$mill 1986	236.11 US$	9.56 US$mill fob 1988/89	54.47 US$mill cif 1988/89	-44.91 US$mill 1988/89	12891.65 US$'000 1987 spess
Tuvalu	10	351000	8600	860	2.8	3527.83 US$'000 1985 spess	430.29 US$	14.76 US$'000 1986 spess	2721.17 US$'000 1986 spess	-2706.41 US$'000 1986 spess	5894.62 US$'000 1987 spess
Vanuatu	4752	272000	154665	33	3.3	119.64 US mill p.p. 1987 N/acc	773.57 US$	22.10 US mill fob 1989 S.Ind	70.85 US mill cif 1989 S.Ind	-48.75 US mill 1989 S.Ind	25295.48 US$'000 1987 spess
Western Samoa	11745	116000	162000	14	0.6	105204.37 US$'000 p.p. 1986 N/acc	649.41 US$	12547.33 US'000 fob 1989 CBSB	75026.20 US'000 cif 1989 CBSB	-62478.88 US'000 1989 CBSB	18078.31 US$'000 1987 spess

Sources: spess - South Pacific Economies Statistical Summaries; CIQS - Cook Islands Quarterly Statistics; RBF - Reserve Bank of Fiji Quarterly Review; KSY - Kiribati Statistical Yearbook; AIDAB - Australian International Development Assistance Bureau; DP 1989 - Development Plan 1989-93 Economic Policy and Fiscal Strategy; N/acc - National Accounts of Vanuatu/Western Samoa; S.Ind - Statistical Indicators of Vanuatu; CBSB - Central Bank of Western Samoa Statistical Bulletin; Stat. Ab - Statistical Abstract of Papua New Guinea; CBSI - Central Bank of Solomon Islands Annual Repor

Note: GDP per capita has been calculated using GDP and population figures as given although they may not be from the same year.

TABLE 2

POLITICAL STATUS OF PACIFIC ISLAND NATIONS

CURRENT OR FORMER COLONIAL POWER	INDEPENDENT NATION	SELF-GOVERNING IN FREE ASSOCIATION	CONTINUED DEPENDENT STATUS
New Zealand	+*Western Samoa (1962)	Cook Islands (1965) Niue (1974)	Tokelau
United Kingdom	+*Fiji (1970) +*Tonga (1970) Tuvalu (1978) +*Solomon Islands (1978) + Kiribati (1979) + Vanuatu (1980)		
Australia	Nauru (1968) +*Papua New Guinea (1975)		
France	* Vanuatu (1980)		French Polynesia New Caledonia Wallis & Futuna
United States		*Marshall Islands (1986) *Federated States of Micronesia (1986)	American Samoa Guam Commonwealth of Northern Marianas Belau

* = United Nations Membership

+ = World Bank Membership

Years in parentheses indicate date independence or free association was achieved.

Vanuatu appears twice in the list of independent nations because it was jointly ruled by the United Kingdom and France.

TABLE 3

COUNTRY CURRENCY EQUIVALENTS

FIJI

CURRENCY EQUIVALENTS

Annual Averages

1981	F$1.00 = US$1.17
1982	F$1.00 = US$1.07
1983	F$1.00 = US$0.98
1984	F$1.00 = US$0.93
1985	F$1.00 = US$0.87
1986	F$1.00 = US$0.88
1987	F$1.00 = US$0.82
1988	F$1.00 = US$0.70
1989	F$1.00 = US$0.60

PNG

CURRENCY EQUIVALENTS

Annual Averages

1981	K 1.00 = US$1.4695
1982	K 1.00 = US$1.3371
1983	K 1.00 = US$1.1422
1984	K 1.00 = US$1.0599
1985	K 1.00 = US$0.9877
1986	K 1.00 = US$1.0404
1987	K 1.00 = US$1.1114
1988	K 1.00 = US$1.1571
1989	K 1.00 = US$1.1653

SOLOMON ISLANDS

CURRENCY EQUIVALENTS

Annual Averages

1981	US$1.00 = SI$0.8702
1982	US$1.00 = SI$0.9711
1983	US$1.00 = SI$1.1486
1984	US$1.00 = SI$1.2737
1985	US$1.00 = SI$2.4808
1986	US$1.00 = SI$2.7415
1987	US$1.00 = SI$2.0033
1988	US$1.00 = SI$2.0825
1989	US$1.00 = SI$2.2932

TONGA

CURRENCY EQUIVALENTS

Annual Averages

1981	US$1.00 = T$0.8702
1982	US$1.00 = T$0.9859
1983	US$1.00 = T$1.1100
1984	US$1.00 = T$1.1395
1985	US$1.00 = T$1.4319
1986	US$1.00 = T$1.4960
1987	US$1.00 = T$1.4282
1988	US$1.00 = T$1.2799
1989	US$1.00 = T$1.2637

VANUATU

CURRENCY EQUIVALENTS

Annual Averages

1981	US$1.00 = Vt 87.83
1982	US$1.00 = Vt 96.21
1983	US$1.00 = Vt 99.37
1984	US$1.00 = Vt 99.23
1985	US$1.00 = Vt 106.03
1986	US$1.00 = Vt 106.08
1987	US$1.00 = Vt 109.85
1988	US$1.00 = Vt 104.43
1989	US$1.00 = Vt 116.04

WESTERN SAMOA

CURRENCY EQUIVALENTS

Annual Averages

1981	WS$1.00 = US$0.9649
1982	WS$1.00 = US$0.8297
1983	WS$1.00 = US$0.6496
1984	WS$1.00 = US$0.5441
1985	WS$1.00 = US$0.4557
1986	WS$1.00 = US$0.4474
1987	WS$1.00 = US$0.4716
1988	WS$1.00 = US$0.4810
1989	WS$1.00 = US$0.4408

ANNEX F.

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
SUMMARY OF SOUTH PACIFIC PROGRAM STRATEGY FOR 1991-1994

APRIL 24, 1990

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
SUMMARY OF SOUTH PACIFIC PROGRAM STRATEGY FOR 1991-1994

U.S. President George Bush has said: "We believe that the most powerful engine for economic development and growth--in fact, the only engine that works-- is the entrepreneur, large and small. And entrepreneurship is a product not of massive aid packages, but of free and open economies that do not carry crushing burdens of taxation and regulation and that maintain the rule of law, including contract and property law." This theme underlies a major shift in the U.S. foreign assistance program worldwide to focus its support on vitalization of the private sector within a favorable, open policy and regulatory environment. Stimulation of business development and trade is embraced as the principle means to stimulating sustainable economic growth, the ultimate objective of the U.S. foreign assistance program..

The U.S. development assistance program for the South Pacific, managed by the Regional Development Office/South Pacific (USAID) in Suva, Fiji, assists ten countries in the 5.6 million square mile South Pacific region: Papua New Guinea, Fiji, the Solomon Islands, Vanuatu, Kiribati, Tuvalu, Tonga, Western Samoa, the Cook Islands and Niue. These countries vary widely in natural resource endowments, population size and cultural characteristics; but, in relation to other parts of the globe, they already share a genuine commitment to representative government, open economies and growth of a vital private sector.

Sustained economic growth should be possible for most countries if certain market imperfections and structural obstacles are diminished. The 1991-1994 USAID program for the South Pacific will promote sustained, broad-based national economic growth:

-- through increasing income to private enterprise and entrepreneurs from agro-marine commerce, including commercial environmental protection schemes;

-- through strengthening of the private sector to be able to expand and sustain a larger, more diversified export trade base, particularly in agro-marine products;

-- through public/private sector collaboration in regional and national policy and regulatory reform affecting private sector growth; and

-- through containing government-borne health services costs.

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PERCENT OF USAID PROGRAM	STRATEGIC OBJECTIVES
60%	1. INCREASE PRIVATE SECTOR INCOME FROM SELECTED AGRO-MARINE PRODUCT DEVELOPMENT AND MARKETING INITIATIVES
13%	2. INCREASE GOVERNMENT RELIANCE UPON MARKET-LED GROWTH POLICIES
27%	3. STRENGTHEN COMMUNITY-BASED PRIVATE AND PUBLIC SECTOR PROVIDERS OF HEALTH PRODUCTS AND SERVICES

STRATEGIC OBJECTIVE 1

INCREASE PRIVATE SECTOR INCOME FROM SELECTED AGRO-MARINE PRODUCT DEVELOPMENT AND MARKETING INITIATIVES.

The major economic activities in the Pacific Island countries are agribusiness, forestry, marine resources and tourism. These activities hold most of the potential for increasing income since they capitalize on major natural resource endowments and currently employ 70 percent of the economically active population. Economic growth in most countries will require private commercial production and processing, trade and investment in higher value agro-marine export products.

This strategic objective will be achieved by providing assistance primarily to private entrepreneurs and business organizations. Assistance will focus on product identification, market assessment and analysis, market-oriented production and packaging, introduction of new technologies, and identification of creative financing and partnership arrangements. Broadening the role of the private sector in financing and implementing commercial environmental protection schemes will be assisted to encourage sustained productivity of natural resource-dependent industries and to secure resource systems vital to future growth.

Four projects are being developed to address this strategic objective. They are: (1) Pacific Islands Marine Resources (PIMAR), (2) Commercial Agriculture Development (CAD); (3) Profitable Environmental Protection (PEP); and (4) Market Access and Regional Competitiveness (MARC). Of the four projects, the PIMAR project is approved and will begin this year to provide a total of US$12.5 million over five years to Papua New Guinea, Solomon Islands, Kiribati, Tuvalu and Cook Islands. The other three projects are being designed.

STRATEGIC OBJECTIVE 2

INCREASE GOVERNMENT RELIANCE UPON MARKET-LED GROWTH POLICIES

Product-specific development and marketing as served in the first objective is not sufficient, we believe, to achieve sustainable economic growth in Pacific Island countries. Systemic conditions which create a business environment unfavorable to promoting private enterprise, increasing international market shares, and attracting foreign investment need to be addressed; for they significantly influence the success and longevity of agro-marine business as well as most other private sector commercial ventures.

Assistance will be provided to private entrepreneurs, to governments and regional organizations to address systemic problems whereby private sector growth and self-reliance are discouraged. There could be assistance to countries to identify and reform aspects of policy, legal or regulatory systems which discourage investment and trade both within the domestic and international economies. In some countries, the influence and impact of the private sector on economic growth are hampered by poor organization and fragmentation among its members. Better organization would enable the private sector to represent, protect and promote its interests effectively. Among most Pacific Island countries, private sector access to global markets, especially markets beyond the Southwest Pacific, could be extended by improving private sector knowledge of market criteria, improving systems for market identification and analysis, and professional networking and trade promotion in global markets. There is room for improvement of private sector provision of affordable services in training, market information exchange, administrative and technical support services, and for reducing dependency on limited government and donor programs.

One region-wide project is being developed to address this strategic objective, the Market Access and Regional Competitiveness project (MARC). Its design and implementation will also serve strategic objective 1, as noted above, and be closely integrated with the activities under projects serving that objective. The MARC project is expected to operate primarily through private sector-guided and managed regional assistance facilities. But it also will work directly with governments and through regional organizations, particularly where assistance is requested on policy and regulatory reform issues that may have regional as well as country-specific economic consequences. The project is expected to begin implementation in late 1990.

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STRATEGIC OBJECTIVE 3

STRENGTHEN COMMUNITY-BASED PRIVATE AND PUBLIC SECTOR PROVIDERS OF HEALTH PRODUCTS AND SERVICES

The governments of the South Pacific are by and large highly responsive to popular demand for public social services; but increased demand and expectations for health care from public systems and escalating costs have in many cases exceeded what government budgets can afford. These problems are compounded by the high costs of overcoming distance and remoteness of the multiple islands or difficult terrain of various countries, by public health care systems undifferentiated on the basis of ability to pay, and by the paucity of private sector alternatives.

Within the South Pacific region, Papua New Guinea, Vanuatu and Solomon Islands have some of the biggest health problems but also offer population/market sizes that could interest private commercial providers of health care services and products. In addition, in the face of rapidly expanding demand, networks of private voluntary and non-governmental organizations, including various church and community groups, are beginning to provide cost-effective health care services that serve as an extension of or alternative to overburdened public health care delivery systems. This can be effective too in a small, dispersed island country where ill health is a major problem, such as Kiribati.

USAID assistance to address this strategic objective will focus on countries with the greatest health care needs as well as potential for promoting private sector provision of services. Regional and bilateral projects will assist family planning, AIDS prevention and mother and child health care. Technical assistance, training and other support will concentrate on strengthening private, community-level providers of health services and products. Some of these efforts will be implemented through cooperation with experienced regional institutions, including the South Pacific Alliance for Family Health, the South Pacific Commission, and the Foundation for the Peoples of the South Pacific. Market assessments will be undertaken to interest private corporations in providing health services and supplies to Pacific Island populations, particularly concerning family planning and AIDS prevention.

Three projects are being developed to address this strategic objective. They are: (1) Papua New Guinea Child Survival (PNGCS); (2) Regional Family Planning (RFP); and (3) Regional AIDS Prevention (RAP). The Market Access and Regional Competitiveness project may also assist modestly in market assessments for private sector marketing of services and products. The PNG Child Survival project is beginning implementation now. A separate child survival assistance effort began earlier this year in Vanuatu. The other two projects are completing project design and will begin implementation in late 1990.

ANNEX G

SOUTH PACIFIC COUNTRY BACKGROUNDS AND CULTURAL/POLITICAL ANALYSES

by

Robert Kiste

February 1990

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1. OVERVIEW OF REGION

The notion that the Pacific islands may be considered a "region" of the world was initially suggested by European explorers. The islanders had no conception of the region as such. Another notion developed by Europeans was that the Pacific could be divided into three culture areas. These divisions are somewhat arbitrary and obscure the fact that the boundaries are not clear cut. Nonetheless, Melanesia, the "black islands," (denoting the dark skin pigmentation of its inhabitants), lies in the southwestern Pacific south of the equator and is usually considered to have five components from west to east: New Guinea (the entire island), the Solomon Islands, New Caledonia, Vanuatu, and Fiji. In reality, Fiji is a transitional island grouping. Fijians are primarily of Melanesian racial stock but are culturally more aligned with the lighter skinned peoples of Polynesia.

Micronesia, "little islands," is appropriately named because most of the islands are low lying coral atolls situated north of Melanesia, and with a few exceptions, north of the equator. A band of islands known as the Carolines lies north of New Guinea and the Solomons and includes several island groupings (Yap, Truk, Pohnpei, and Kosrae). To the north are the Mariana Islands (of which Guam is the southernmost). The atolls that make up the Marshall Islands form part of Micronesia's eastern boundary. The atolls of the Gilbert Islands (now part of the nation of Kiribati) lie to the southeast and extend a few degrees south of the equator. Lastly, the island of Nauru is southwest of the Marshalls, also below the equator.

Polynesia, "many islands," is the largest of the culture areas and may be thought of as a triangle drawn from the apex of Hawaii in the north, Easter Island in the southeast, and New Zealand in the southwest. However, the western leg of the triangle must be bowed westward to include Tuvalu with the rest of Polynesia.

Writing in the 1940s, the anthropologist Felix Keesing noted that these cultural divisions were artifacts of European thought and had little if any meaning for the islanders themselves. Keesing was correct for his time, but island peoples have subsequently come to assume the identities of Melanesians, Micronesians, and Polynesians, and these identities are important in the shaping of regional affairs.

Important for an understanding of the Pacific, one must distinguish among several island types and realize that the physical characteristics of the islands coupled with the time depth of human occupation have largely influenced the degree of linguistic and cultural differentiation and the nature of settlement patterns. First, there are two basic types of high islands: continental and volcanic.

The major islands of Melanesia are continental in type and are the most complex geologically. By far, they are the largest of the Pacific islands, have the largest populations, and the largest resource bases. They have rivers and other fresh water sources and considerable agricultural potential. Three (New Guinea, New Caledonia, and Fiji) have proven mineral resources. Mountains, deep valleys, swamps and rivers, and the generally rugged terrain divide populations into small, somewhat isolated, and self-contained communities. Malaria is a scourge in New Guinea, the Solomons, and Vanuatu, and these are the least healthy areas of the region.

Volcanic islands are smaller and geologically less complex. Most are volcanic peaks that rise abruptly from the surrounding seas, and settlements are commonly located on coastal plains, and in former times, inland valleys between volcanic ridges. Most have freshwater sources. While volcanic soils are less productive for agriculture, they do allow a fairly wide variety of subsistence crops and a few commercially viable ones.

Of the third island type, the low lying coral islands are the least well endowed. The most common is the coral atoll, a series of islands (motus) that surround a central lagoon and are built upward from a submerged or sinking volcanic rim. Elevations reach only a very few feet above high tide level. Atoll soils are poor, and fresh water is scarce. The most benign atolls have perhaps a dozen subsistence crops at best, and the poorest have only three. Copra, the dried meat of the coconut, is the only cash crop. Out of necessity, atoll dwellers are heavily dependent on marine resources.

While most coral islands are perched on submerged volcanic peaks, some have experienced a reverse geological process and have been uplifted. In such cases, the central lagoon disappears, and the island's border is elevated scores of feet above the sea. Soils remain coralline and poor, and freshwater is limited or non-existent. They are among the most inhospitable islands of the Pacific.

While the continental islands dominate Melanesia, they are mixed with volcanic islands and atolls. Volcanic islands are the major islands of Polynesia countries, but atolls are also abundant. The islands of Micronesia are mostly atolls, but there are some volcanic ones.

All island nations are faced with problems of communication, transportation, and shipping. Most are separated by large expanses of water, and they are distant from major world centers of commerce and production. With the exception of single island countries such as Niue and Nauru (uplifted coral islands), Pacific countries are comprised of many islands which are scattered over large ocean

areas. At best, inter-island shipping services are erratic and unreliable.

On the largest islands, particularly the rugged continental ones, settlements are widely dispersed from low coastal areas to the highlands, and the very terrain prevents the linkage of communities by roadways. Those that do exist are often in poor repair and inadequate. The road systems exact a toll on motor vehicles; breakdowns are common and their life expectancy is short. One-way radio transmission from the government center to the hinterlands is the major form of communication in most Pacific countries.

With regard to languages and cultures, Melanesia is the most complex, and the diversity is enormous. The number of languages may be conservatively estimated to be in the neighborhood of 1,200 (at least 1/5 of all the known languages of the world), with the nation of Papua New Guinea (the eastern half of the island of New Guinea) having about 750. Cultural differences reflect the linguistic diversity, but there is a widespread form of political and social organization. While hereditary chiefdoms and social stratification are found in a few areas, most Melanesians are divided into small and equalitarian (from the standpoint of males) communities, each of which is a politically autonomous unit. Typically, each such polity is headed by a "big man," an achieved status. Men acquire the status by deeds of warfare (not necessarily a thing of the past), oratory skills, demonstrated leadership ability, and the capacity to acquire and distribute wealth. A "big man's" status is never secure, and ambitious younger men are always standing off stage waiting for their opportunities.

The fragmentary nature of Melanesian societies is also sustained by wide spread beliefs in black magic and witchcraft which remain strong. The very nature of the area made missionization and colonization extremely difficult in the past, and represents major obstacles to nation building, cooperation, and economic development today.

In contrast to Melanesia, hierarchical systems prevailed, and in some instances, continue to exist in Polynesia and Micronesia. The most well endowed and largest of the island groupings in Polynesia were highly stratified societies with hereditary paramount chiefs and distinct social classes. In several instances, European intervention helped transform paramount chiefdoms into monarchies.

As a common pattern, the paramount chiefs of Polynesia controlled all resources, land and sea alike. The chiefs were endowed with sacred qualities and were removed from common labor. They and the highest ranking classes were the pivotal points for the collection and redistribution of food and other resources. While beliefs in magic, both benign and evil, existed and continue to exist, they have not been as socially divisive as those of Melanesia.

As the above suggests, there are significant differences between the societies of Melanesia and Polynesia (and Micronesia). Polynesian chiefdoms represented large aggregations of communities and people under common rule. Centralized authority was an integral facet of Polynesian culture. In some island countries, chiefs retain much of their traditional power. In other instances, chiefly authority has been diminished, but nonetheless, traditional leaders continue to wield considerable influence. Accustomed to centralized political systems, it can be argued that the modern nation state represents a transition to a new form of governance, but not a radical break from the past. In contrast, for Melanesians, the creation of the nation state with centralized political authority is a thing of alien design, and its success is yet to be determined.

The status of "big man" is symbolic of another important difference between Melanesian and Polynesian societies. Melanesian societies were and are male dominated. Women are definitely inferior in social status, and by and large, do not participate in political and major decision making processes. Women are viewed as the keepers of children and pigs (highly valued in the area), and a variety of taboos separate the sexes.
In Polynesia, males occupy most chiefly and other important public roles, but women are not without influence. Women in chiefly roles are not unknown, and often, women have social hierarchies that parallel those of males. The sisters and other female relatives of chiefs and other notables have enjoyed exceptionally high status, and this has carried over into contemporary times.

With all of their differences, however, there are certain features that are common to the vast majority of Pacific societies. The basic social unit is one variety or another of an extended kinship group. They are variously referred to as clans, lineages, or simply extended families. The extended kin group has a depth of several generations, and its members constitute a landholding corporation.

An islander's primary loyalty and identity are rooted in the extended corporate kin group; obligations to relatives and persons of traditional authority take precedence over other concerns; and the attachment to ancestral landholdings has an almost mystic quality. In spite of the differences that exist among island societies, entrepreneurship in the Western sense is not compatible with the traditional cultural values that are held by a majority of Pacific islanders. The accumulation of wealth has been an integral part of island cultures, but in both Melanesia and Polynesia, wealth was accumulated for redistribution and not individual gain. The maintenance of proper and harmonious social relations takes precedence over economic profit. The alienation of ancestral lands is anathema to most Pacific islanders.

The strength of Christianity in the Pacific islands is often underestimated by outsiders. Missionization began as early as the late 1600s in Guam, and by the late 1700s the mission effort was well on its way in parts of Polynesia. Missions spread across the entire Pacific during the 1800s, and almost no area now remains untouched. It is an understatement to indicate that the missionaries were quite effective. Most everywhere, islanders accepted their teachings, and Christianity has been modified, integrated into, and made an integral part of Pacific cultures.

Initially, there was a great chasm between Protestant and Catholics, and the islanders took their new religion seriously. In some places, religious wars erupted and were only curtailed by the gunboats of the colonial powers. Christianity restructured indigenous conceptions about time. The notion of the seven day week was introduced, and quite commonly today, the activities of tne week are scheduled arourd sabbath and mid-week meetings and services. The religious picture had been made much more complicated in the last quarter century by the arrival of a wide variety of new, and often fundamentalistic, Christians sects. Once cohesive communities have been divided and disbanded by raging differences over religious doctrines.

Lastly, the recently emerged independent and self-governing states are extremely proud of their new political status and their entry into the comity of nations on the world scene. Five of the independent states have achieved membership in the United Nations. Any insinuation or suggestion that they are not on an equal footing with other nations of the world is met with anger and distress. Dealing with the new nations of the region requires a sensitivity for such concerns.

2. PROFILE OF USAID-ASSISTED COUNTRIES

Today, between 80 and 85 percent of Pacific islanders are rural dwellers. The above generalizations characterize traditional societies and remain valid for most contemporary rural areas. The tempo of change, however, has accelerated since World War II, and most Pacific countries today face a number of common problems.

Most urbanization has occurred during the past quarter century. It is largely unplanned, continuing at a rapid rate, and is accompanied by a number of ills not unlike those found in other areas of the world. Infrastructure is often inadequate and over burdened. Traditional forms of authority have been weakened, and there are problems of social control and delinquency, especially among youth. A number of health problems also attend urbanization: psychological stress, alcohol abuse, malnutrition (especially among infants and youth), and an increase in communicable diseases (of particular concern is sexually transmitted disease including AIDS) and the so-called diseases of civilization (cardiovascular problems, diabetes, hypertension, etc.). Islanders are attracted to urban areas in search of employment, education, medical care, and relief from the sameness of rural life. Contributing to the movement to urban areas, Pacific populations are among the fastest growing in the world. Over one-half of all islanders are under the age of 16, and when this age cohort begins to reproduce, there will be an even greater spurt of population growth. At the same time, aspirations are at any all time high, and all of these factors place a burden on island economies. As indicated, and with the exception of Fiji and Papua New Guinea, the islands have meager terrestrial resources, and their economies are small, fragile, and vulnerable to fluctuations in world markets and natural disasters.

Generally, urban areas are composed of several segments. In most cases, there is a relatively small urban elite made up of the best educated islanders; they occupy positions in government, the civil service, the service professions, a usually small private sector, the church(es) and church organizations. Individuals often move among these sectors or occupy positions in one or more. They are the most Westernized and open to innovation. However, those who enjoy statuses of privilege and influence in traditional hierarchies or the churches may be conservative in certain arenas.

Other urban dwellers are islanders from outer islands with little or no formal education who have been attracted to towns in hope of bettering their lot. They are often on the fringes of the cash economy, live in shanty settlements, and have a relatively poor quality of life. All urban areas have their expatriates, and they form a small but influential minority.

The ten countries that are the concern of RDO/SP may be clearly divided into those that are ethnically and racially homogeneous and those that are heterogeneous in composition. The line is

essentially drawn between the five Polynesian countries (the Cook Islands, Niue, Tonga, Tuvalu, and Western Samoa) and the one Micronesian country (Kiribati) on the one hand and the four Melanesian states (Fiji, Papua New Guinea, the Solomon Islands, and Vanuatu) on the other.

The Cook Islands and Niue have a special political status known as "free association" with New Zealand, and the other eight are recognized by the international community as sovereign and independent states. (A ninth sovereign and independent nation is Nauru which is not included in the RDO/SP region).

In 1974, Niue also became a self-governing state in free association with New Zealand. The arrangements are the same as those with the Cooks. Niue conducts its own regional affairs, but it has been content to leave external relations (few as they are) in the hands of New Zealand. Both the Cooks and Niue receive extra budgetary support from New Zealand as well as assistance from other donors.

a. <u>The Cook Islands</u>

The Cook Islands are divided into northern and southern island clusters separated by about 500 miles. With the main exception of the high volcanic island of Rarotonga in the south, most are coral formations, atolls in the northern group and atolls and uplifted islands in the south. Total land area is 93 sq mi (240 sq km), and total sea area is 750,000 sq mi (2,176,000 sq km). Rarotonga with its urban center of Aruvua is the largest island with a circumference of 22 miles. Land ownership is limited to Cook Islanders.

The population is reportedly between 16,000 and 19,000 with about 70 percent of that number in the southern islands and 25 percent on Rarotonga. Estimates of the number of Cook Islanders resident in New Zealand range from 20,000 to 24,500. The majority of school graduates emigrate. Many Cook Islanders live most of their adult lives in New Zealand and return to the islands late in life. Most are bilingual.

The Cooks have a 24 member Parliament, and suffrage is universal. The cabinet is formed by the Prime Minister and six other ministers chosen by the former. A 15 member House of Ariki (hereditary chiefs) serves in an advisory capacity and considers traditional matters. There are elected councils on the outer islands.

Cook Island politics is often tumultuous. The formation of new political parties, the fragmentation of old ones, and shifting political alliances are commonplace. Charges of corruption and nepotism are the norm. Nonetheless, there has been considerable stability of government, and two men have dominated the political scene, and with one or two short breaks, served as Prime Minister

since the achievement of self-government. A new Prime Minister was elected last year.

Out migration represents a loss of labor, and places a restraint on economic development. Rarotonga and a few of the other southern islands have considerable agricultural potential. However, especially for the young, agriculture is not viewed as a desirable occupation, and while there is evidence to the contrary, it is not considered a profitable endeavor.

There is a shortage of skilled indigenous personnel, and expatriates remain in many senior service positions and dominate the management of local business. The Cooks, especially Rarotonga, is experiencing a tourism boom, and this is the primary engine for economic growth. With the exception of small hotels and motels, tourism is primarily owned and operated by expatriates. Most local employment is in the service professions. In contrast with other Pacific nations, the Cooks is not rich in marine resources. Overseas remittances are an important part of the local economy.

b. Niue

Niue is a single and isolated island with a precipitous and broken coastline, and it is one of the smallest nations in the world. It has a total land area of 100 sq mi, and a sea area of 65,000 sq mi. Land is inalienable.

The population has witnessed a steady decline. In the late 1970s, the residents of Niue numbered about 3,500. Approximately 100 Niueans depart for New Zealand each year. The current population is said to be between 2,000 and 2,500, with the latter figure being the more likely. One report indicates that Alofi, the administrative center, has 20 percent of the population, while another source indicates that it has 900 residents. The remainder of the population is scattered among several villages over the rest of the island. Niueans are bilingual.

The number of Niueans resident in New Zealand is estimated at three to four times the number of those resident on the island. A commonly heard jest about Niue notes that the last person to leave should turn off the lights.

For administrative convenience and the provision of services, it has recently been suggested that the entire resident population should be moved to Alofi. New Zealand and the government of Niue are attempting to make life more attractive on the island, and as one means towards this end, television has been introduced within the last month or so.

Niue has a 20 member Legislative Assembly that elects the Premier, and suffrage is universal. The Premier selects four members of the

Assembly, and they constitute an executive cabinet of four. The office of Premier has been occupied by the same man since self-government was achieved, and his son appears to be a likely successor. In contrast to the Cooks, political life here is calm. There are no hereditary chiefs, and heads of extended families have a voice in affairs pertaining to land.

Out migration contributes to the lack of skilled labor on Niue, and wage labor is only available with the government. Attempts to grow limes and passionfruit for processing into juice and pulp have not been successful, but there are modest beekeeping and handicraft industries. While not reported, presumably remittances are significant for the local economy. New Zealand has recently expressed displeasure at the management of financial subsidies and assistance grants, and a critical review is underway.

c. Kiribati

The Gilbert Islands were part of the British Gilbert and Ellice Islands Crown Colony. The Gilbertese are Micronesian, and the Ellice Islanders are Polynesian. The former far outnumber the latter, and with independence on the horizon, the Polynesians feared domination by the Micronesians and demanded a separate state. The Ellice Islands became the independent nation of Tuvalu in 1978, and in the following year, the Gilberts along with the Phoenix Islands and parts of the Line Islands became the independent nation of Kiribati (pronounced kirybahss).

Kiribati is one of the poorest nations in the Pacific. It is comprised of 33 atolls with a collective land area of 280 sq mi spread over an ocean expanse of 2,000,000 sq mi. The northern atolls are in a wet zone, but the southern ones lie in a dry belt, and the atolls there provide only a marginal existence. The administrative center is located in the southern part of Tarawa Atoll in the northwest. Land is inalienable.

Kiribati is the only Micronesian country in the RDO/SP region. The population numbers around 60,000 people, one-third of whom live in or around the government center. The Kiribati language is related to other Micronesian languages to the north and west, and only a minority of islanders are truly bilingual. Unlike the Cooks and Niue, the citizens of Kiribati do not have free entry to the country of their former colonial ruler. Kiribati has a 36 member parliament. The Cabinet is composed of the President, Vice President, and not more than eight other members of the legislature. The President is nominated from among the ranks of the parliament and elected by the populace at large with universal suffrage. The presidential term is four years, and there is a limitation of three terms.

Since independence in 1979, the same man, young and still in his forties, has held the office of president; he is now in his third term. The President has demonstrated strong leadership capabilities, and he has become an influential figure in regional affairs. His national goals are clear: to avoid over dependency on external assistance, limit government expenditures, and achieve a good measure of self-sufficiency for his country. He has little liklihood for success, and his philosophy cannot be said to be shared by many of his countrymen. The country's only incidence of social unrest occurred in the early 1980s when the president attempted to reduce the working hours of civil service employees as an economy measure. The effort resulted in a strike that brought the country to a standstill. There are several would be candidates for the presidency, but their leadership abilities have not been tested. The transition to a new president will be a crucial juncture for the future of the nation.

There are local governing councils on the outer islands, and they have considerable autonomy. Kiribati is considered one of the most free and open nations in the region.

The Kiribati economy is primarily a subsistence one. Little of economic value exists on the outer islands, and the nation's small cash economy is centered on Tarawa.. Copra and fish are the only exports, and have never amounted to more than five million dollars a year. The copra trade is managed by the government, and a modest fishing industry is government owned but operated on a commercial basis. There is a government operated Marine Training School that teaches basic seamanship, and several hundred Kiribati males are employed on overseas ships. Their remittances represent a significant contribution to the economy. The private sector is limited to small retail shops, restaurants, and other service operations. The opportunities for tourism are extremely limited. There is a lack of skilled labor, and in proportion to the size of the population, there is a large expatriate work force.

The climate for private enterprise has not been conducive. Only recently has the government been convinced that the privatization of some of its operations might lessen the costs of its responsibilities and have some advantages. In the traditional culture, which remains strong on all of the outer islands, there are sanctions against individuals who are viewed as having too much wealth, and there is antagonism toward individual economic success.

The government has one important economic asset. The Revenue Equalization Reserve Fund was created at the time of independence. It is a trust fund derived from the remaining revenues from phosphate mined on the island of Banaba. The deposits were depleted in 1982, and at the end of 1987, the fund was valued at $200 million. Income from the trust is used by the government as revenues, but the capital is not touched.

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The seas surrounding Kiribati are rich in marine resources, and license fees for fishing rights are an important source of government income.

d. Tuvalu

Tuvalu consists of nine coral atolls, eight of which are inhabited. The total land area is about 10 sq. mi., with a sea area of 347,000 sq. mi. The administrative center is located on Funafuti Atoll. Land is inalienable.

The people of Tuvalu number between 8,000 and 9,000; about 30 percent live on Funafuti. Like the people of Kiribati, Tuvaluans do not have free access to the United Kingdom, the former colonial authority. English is widely spoken, but many out islanders are monolingual.

Tuvalu has a 12 member parliament, and the cabinet is formed by the Prime Minister and four other ministers. Since independence in 1978, transitions between governments have been smooth, and the country now has its fourth Prime Minister. There are island councils on the outer islands, and suffrage is universal.

Basically, Tuvalu has a subsistence economy. The only cash crop is copra, and there is no tourism. Marine resources are the country's most promising asset, and license fees for fishing Tuvalu's waters are an important source of revenue. At independence, a Maritime Training School similar to that of Kiribati was established, but data on the number of men employed on overseas vessels are not available.

In 1968, a trust fund for Tuvalu was established by Australia, New Zealand, the United Kingdom, and Tuvalu itself. Japan and South Korea later contributed. The fund was initially capitalized in the amount of $27 million, and it is now valued at $30 million. Reports vary indicating that the fund yielded $2.25 million or $1.4 million in 1988. Which ever is correct, these sums would represent somewhere between 1/4 and 1/2 of the government's recurring budget. As in the case of the Kiribati trust, capital is not depleted.

e. Western Samoa

In 1962, Western Samoa became the first Pacific island country to gain political independence. The former colonial authority was New Zealand. The nation is composed of two major islands, Upolu and Savai'i, and several small ones. Total land area is 1,093 sq mi with a surrounding sea area of 46,332 sq mi. Most sources indicate that the population is about 160,000, 99 percent of whom live on the two main islands. The capital, Apia, is located on Upolu, and it has about 20,000 residents. In the past, Western Samoans had relatively free access to New Zealand. Recently, New Zealand introduced severe limitations on the number of migrants, but these

have not been particularly effective and have caused resentment on the part of the Samoans. The estimates of Western Samoans living overseas range from 50,000 to 60,000, and the number resident in New Zealand is thought to be around 40,000, half of whom have been born there. In Western Samoa, English is widely spoken, but the command of the language is not good in many rural areas. Many older people are monolingual.

Western Samoa is a conservative nation, and its people place great value on "fa'a Samoa," the Samoan way of life or Samoan custom. Fa'a Samoa has an especially rich and elaborate ceremonial life, and a considerable amount of time and resources are allocated for the fulfillment of social obligations and the observation of Samoan etiquette.

The basic kin group is the "aiga," an extended family. The aiga is the landholding unit, and 80 percent of all land is held in customary fashion. The head of the aiga is the "matai" or chief. The matai directs the work and activities of the aiga, and he is the manager of its lands, allotting parcels to aiga members. The land is for their use as long as it is kept in production, but it remains the property of the extended family. In theory and differing from the prevailing pattern of hereditary chieftainships in most of Polynesia, the matai is chosen from the ranks of the aiga on the basis of ability. In practice, sons often succeed their fathers as matai. The several matai of a village form the village "fono" or council, and they manage village affairs.

Western Samoa has been described as a "limited democracy." At the national level, the Fono, parliament or Legislative Assembly, has 47 members. Of the 47, 45 are matai, and suffrage is limited to the matai. Matai nominate other matai for office, and only matai may vote for their Fono members. The other two are chosen by an open role made up of citizens of European descent. The head of state is one of two of Samoa's highest ranking chiefs, and he appoints the Prime Minister, the man who commands the support of a majority of the Fono. The Prime Minister appoints his own cabinet, and the membership may vary in number.

The conservative nature of the Western Samoan state is largely a product of the matai system. The matai control the country from the village to national level, and they often occupy positions in the church and the business sector. There is some strain between the matai system and Western parliamentary processes, and in recent years, there has been considerable political turbulence with frequent changes of government. There is building sentiment among the better educated youth that the matai system as it pertains to the Fono should be abolished in favor of universal adult suffrage. Such notions are undoubted fueled by the large resident population in New Zealand; and, in turn, dissatisfaction with the matai system encourages further migration to New Zealand. Some Samoans find the system oppressive, and while they may voice such feelings

in Auckland, there is a reluctance to express them openly at home. To fall out of favor with one's matai has its consequences.

Western Samoa has abundant land, relatively good soils, and substantial rainfall. Most Samoans are "affluent" subsistence agriculturalists, and local food supplied are more than sufficient. There is an unrealized potential for the production for a wider range of crops for both domestic consumption and commerce. The economy is stagnant, however, with copra the chief cash and subsistence crop. The economy is more dependent on coconuts than at the time of independence, in fact, but the stands of coconut trees are aged and declining in productivity. Tourism is fairly undeveloped. Offshore fishing resources are largely untapped, and there is little in the way of manufacturing. There are significant timber resources but they will be depleted in about 20 years, with logged areas being replanted with fast growing but less valuable species.

There are a number of obstacles inhibiting economic development. (1) There is an inherited dependence on coconut production at a time when the commodity is less valuable on the world market. (2) There is a large remittance flow from overseas, and it serves as a major disincentive. (3) The traditional social and land tenure systems inhibit individual initiative; products from the land as well as wages are shared communally under the direction of the matai. (4) There is excessive government intervention in the economy, e.g., the coconut and cocoa industries are under government monopoly and the government provides half of all formal employment. (5) Out migration depletes the pool of educated and skilled labor; 75 percent of all high school and university graduates emigrate. (6) The small private sector is dominated by individuals of mixed Samoan and European descent and a few Australian firms, and this has resulted in some resentment and distrust. And (7) Unions in the public sector are strong, and crippling strikes are not uncommon.

The quality of life in Western Samoa is relatively good, and much of it is sustained by "affluent" subsistence agriculture and overseas remittances. Samoan values and the emphasis on fa's Samoa frustrate outside economic strategists and would-be planners. In a region of the world where Christianity has great influence, the churches in Western Samoan are particularly strong, and a great deal of effort and resources are spent on competitive church building and activities. From the point of view of the Western change agent, such a commitment represents a further obstacle to development.

f. Tonga

Tonga became a completely independent state in 1970. It is the only Pacific island country that can claim never to have been a colony, although it had very much been under British influence, if not control. In 1900 and fearing the intervention of other European powers, Britain initiated a Treaty of Friendship with Tonga. The latter agreed not to enter into treaty arrangements with other nations, and Britain gained control and veto power over Tonga's foreign relations. The treaty ended with independence, and Tonga is a sovereign state today.

Tonga is divided into three main island groups, Vava'u, Ha'apai, and Tongatapu, and there are many other small islands. There is a total of 160 islands, 36 of which are inhabited. Nuku'alofa, the capital, is located on the island of Tongatapu.. The total land area is a little over 260 sq. mi. and the total sea area is about 270,000 sq. mi. (figure debatable). The population of Tonga is a little more than 100,000 with about 25 percent living in Nuku'alofa. There is significant out migration, but reliable numbers do not seem available. Tonga has no special relationship with any metropolitan power that would provide free access for its citizens. Some 90 percent of Tongans have a good to fair command of English, and 70 percent receive some secondary education, a large proportion for a Pacific population.

Typical of many Polynesian societies, pre-European Tonga was characterized by warfare and power struggles among competing hereditary chiefs. After European intervention, one chiefly line consolidated several important titles, and a monarchy emerged. Tongan society has three tiers: the monarch, a set of 33 nobles, and a commoner class.

The constitution of 1875 declared all land to be the property of the King, and the monarchy has been characterized by great stability. The first King died in the late 1800s, and his successor lived until 1918. Queen Salote succeeded to the throne. She was a remarkable and imposing monarch who dominated Tongan politics through her almost half-century rule and death in 1965. Her son, King Taufa'ahua Tupou IV, is the fourth of the line and current monarch. His seventieth birthday was celebrated on July 4, 1988.

In Tonga's constitutional monarchy, the King appoints the Speaker of the parliament (Legislative Assembly) and the Cabinet which includes the ministers of government and the governors of Ha'apai and Vava'u. The Cabinet becomes the Privy Council when presided over by the King. The Legislative Assembly is composed of the Speaker, members of the Cabinet, seven nobles elected by the 33 nobles of Tonga, and seven representatives of the commoners are elected by universal suffrage of Tongans over 21 years of age. The King is head of state, and a Prime Minister is head of government.

There is some dissatisfaction with the monarchy, but its extent and depth are difficult to gauge. As indicated, in comparative terms Tongans are a relatively well educated Pacific population, and it seems unlikely that an educated people would accept such a rule without question. As in the case of Samoans resident abroad, one hears more criticism about the monarchy from overseas Tongans than from those who live at home. Nonetheless, the next succession to the throne could precipitate some demands for change in the political structure.

Tonga has no significant resources. It has no minerals, and timber reserves are small. Fishing is primarily for local consumption, and large scale tuna operations are beyond the capacity of Tonga's present economy. While there are plans (or more correctly perhaps, dreams), the tourist industry is small. There is a lack of skilled labor, and out migration represents a brain drain. About 50 percent of the labor force is involved in semi-subsistence, small holder agriculture.

Given Tonga's population density, land is scarce. Every male Tongan at age 16 is entitled to receive about eight acres of land (a small town allotment and a larger rural parcel). There is not enough land to go around, and at the same time, some land held by overseas Tongans is unused. Nonetheless, there seems to have been some improvement in agricultural production since 1980. Coconuts remain the main cash crop with no significant changes. However, there has been an increase in the production of vanilla for export and food crops for local consumption. Vanilla is an excellent crop. It has high cash value, is labor intensive, and has low shipping costs. Other crops have performed well, and there is potential for further growth in the export agricultural sector.

Although Tonga has no great resource base and agriculture has not realized its potential, the Tongan economy has been described as a success story. As elsewhere, remittances from abroad make a substantial contribution. More significantly, there have been major advances in the manufacturing sector since 1980. The royal and noble families that control the country are deeply involved in the private sector, and as one result, the government has implemented economic policies that provide strong support for the business. Incentives to encourage the private sector include tax holidays, the duty free import of capital goods, and a quick review process for the creation of new businesses. The government has created and owns a Small Industry Center (SIC) in Nuku'alofa, and another one is planned for Vava'u. A total of 150 businesses (not all located in the SIC) have been created, 1/3 of which are foreign owned. The small firms employ from eight to 20 workers, but one large one has 500 employees. Raw materials are imported, and Tongans supply the labor. Products include woolen sweaters, a variety of leather goods, garments, paints, and yachts. The total number employed in manufacturing is now over 3,000. Tonga has diversified its economic base, and if improvements can also be

achieved in agriculture, the economy could make another major advance.

g. Vanuatu

Vanuatu became an independent nation in 1980. Prior to independence it was known as the New Hebrides and had a unique colonial history. In 1906 and in an effort to protect their own interests and keep the Germans from gaining a foothold, the British and French established a condominium to govern the island group. The arrangement has often been referred to as pandemonium, as two separate colonial administrations were established, one for French subjects and one for the British. Islanders fell somewhat between the two, and they were subject to a separate set of administrative regulations and procedures. The duel administration left a legacy of two separate school systems, and the islanders are divided along Anglophile and Francophile lines. There are about 115 indigenous languages in Vanuatu, and the country has three official languages. English, French,and Bislama (a variant of the Melanesian pidgin English, sometimes referred to as Neo-Melanesian). Educated islanders speak either English or French, their own indigenous tongue, and Bislama. Ethnic and cultural diversities parallel linguistic ones.

Vanuatu consists of about 80 islands with a land area of 4,556 sq mil and a sea area of 262,548 sq mi. Port Vila, the administrative center, is located on Efate Island. According to Vanuatu's constitution, "all land belongs to the indigenous custom owners and their descendants." The population of 145,000 is scattered over the entire island grouping, with Port Vila having about 25,000 residents. Largely self-sufficient village subsistence agriculturalists account for approximately 80 percent of the total population.

Ni Vanuatu (person, people of Vanuatu) do not have access to either of the two former colonial authorities, and until fairly recently, the only significant movement of people in and out of the country was to New Caledonia for work in the nickel industry. That has largely ceased, and there is no sizeable overseas contingent of Ni Vanuatu. In contrast to Samoans and Tongans, most Ni Vanuatu have had little experience outside of their local village areas, and only a very small minority have been abroad. Vanuatu was the only Pacific nation to experience a violent transition to sovereignty.

As the country was moving towards independence, a secessionist movement emerged on two islands in early 1980, and in spite of attacks on police stations and looting, independence was declared on July 30. The new government requested the assistance of Papua New Guinea's defense force. The rebellion was crushed, and more than 200 rebels were sentenced to imprisonment.

The Vanua'aku Parti headed by a former Anglican priest and Prime Minister was in firm control of the government, and he and his party have led the nation ever since. The Vanua'aku Parti is Anglophile, and there are several opposition parties, including at least one that is primarily Francophone in orientation. The Francophones have never been included as ministers or significant members of the government, and tensions remain between the two groups.

Suffrage is universal, and parliament, the Representative Assembly, now has 46 members. The Prime Minister and head of government is elected by secret ballot by the parliament, and he chooses his own Council of Ministers. Together they cannot exceed one-quarter of the members of parliament. The President and head of state is elected by an electoral college from within the parliament and regional councils. The office is largely ceremonial. There is a National Council of Chiefs composed of custom chiefs elected by their peers. It advises on matters of custom and has influence but no real power. General elections in 1983 and 1987 returned the Prime Minister and his Vanua'aku Parti to power, and the next election is scheduled for 1991.

Violence occurred again in May, 1988. Fueled by a former government minister and Vanua'aku Parti secretary-general, riots and demonstrations over contested lands around Port Vila erupted in the capitol. The President, the secretary-general's uncle, attempted to dissolve parliament and dismiss the Prime Minister and the government. The President tried to form an interim government headed by his nephew, but the movement failed. Both men and others were tried on sedition, convicted, and imprisoned.

In April, 1989, they were acquitted by an appeal court; they are now preparing for the 1991 election. They and their own political party now plan to defeat the Prime Minister and the Vanua'aku Parti by peaceful means. The governments of Australia and New Zealand supplied the government with riot control equipment and stood ready to evacuate their own citizens resident in the country. A great amount of attention and bad publicity appeared in the press, and the tourist industry was damaged for months. The incident occurred after tourism and the economy in general had suffered serious setbacks as a result of a severe hurricane which struck Efate in early 1987. The economy and tourism have since recovered, but the next elections will be crucial for the nation's future.

Vanuatu has an abundance of fertile land and rich sea resources. There is a severe lack of skilled labor, and the country may be said to be under populated. There are a number of other obstacles to economic development. The custom land tenure system is rigid. There is no entrepreneurial tradition, and rural dwellers are primarily motivated to earn cash for only occasional needs, e.g., school fees.

The foundation of the cash economy is coconut products and tourism. Tourism is a major export earner and provides 15 percent of urban employment. The tourist industry is largely foreign owned, but it provides local markets for fish, beef, and agricultural crops. Hotels have recently been refurbished and hurricane damage repaired. The government and foreign investors are currently negotiating the development of further tourist resorts and facilities. Copra is the country's primary rural industry, but 60 percent of the coconut palms are aged and well past their prime production.

Timber reserves have largely been depleted by previous foreign enterprises. Cocoa and coffee have modest near term potential. Fishing is mainly for domestic consumption, and there is no commercial fishing for tuna and other species on the high seas. Manufacturing is practically non-existent.

Government policy is generally favorable to private enterprise, and there is an attempt to develop offshore tax free banking and investment operations.

h. The Solomon Islands

A former British colony, the Solomon Islands gained independence in 1978. There are six large islands and scores of smaller ones. Total land area is about 11,000 sq mi with a sea area of somewhat over 1,000,000 sq mi. The capital is Honiara on Guadalcanal, the largest island. Land is inalienable.

The population was 285,796 in 1986, and it is anticipated that it will reach about 319,000 in 1990. The residents of Honiara number about 45,000. The Solomon Islands' birthrate is among the highest in the world (3.5% annual growth), and the population has increased 45 percent since 1976. Solomon Islanders do not have access to the country of their former colonial ruler, and there is little population movement out of the country.

The official language is English, but more people speak pidgin or Neo-Melanesian. There are almost 90 indigenous languages in the country. The literacy rate, 13 percent, one of the lowest in the region.

The government has a Westminster system with a Prime Minister and single chamber National Parliament with 38 members. The Prime Minister chooses his own Cabinet, limited to 15 ministers including himself. Suffrage is universal. Personalities tend to be more important than political parties, and political allegiances are ever shifting. At last count, there were five political parties, but these too tend to be in a constant state of flux. During the 12 years since independence, changes of government have occurred about every second year, and during the first seven or eight years of sovereignty, the office alternated between two men. The

transitions in government, however, have been smooth, and democratic processes have prevailed without challenge. The country is divided into four districts, and these in turn are divided into eight areas with locally elected governing councils.

Given the rapid increase in population, the economic prospects for the Solomons are not encouraging. There is a shortage of land and skilled and middle management personnel, capital is limited, the infrastructure (roads, inter-island shipping, communications) is poor, and only fisheries and forestry offer much potential for future economic growth. Subsistence agriculture is the mainstay of the Solomon Islands economy and engages nine out of every ten households. About 25,000 islanders are wage laborers, two-thirds of whom are employed by government, either national or provincial.

Natural and cultural factors account for the shortage of land. Only Guadalcannal has extensive flat areas conducive to cultivation. Elsewhere, extremely rugged terrain and poor soils on volcanic and coral ridges limit production. As to access to land, 88 percent of all land is custom land held by traditional extended family kin units. Both local and foreign entrepreneurs have difficulty securing rights to land. In one recently reported example, a very prominent Solomon Island man (former Secretary-General of the South Pacific Commission and Solomon Islands roving ambassador to the United States, Canada, Mexico, the United Kingdom, and the United Nations) and his wife were required to wait two years before gaining government approvals and secure access to land before launching a restaurant in Honiara.

The lion's share of private business is in the hands of large foreign companies, primarily Australian. A small Chinese community (about 300 individuals), has control of much of the country's small scale merchandising. Indigenous business operations are small and concentrate on imports and retail for consumption, and due to the lack of familiarity with sound management, many fail within a short time. Larger-scale manufacturing is almost non-existent. Tourism is small with little growth predicted for the future. For a variety of reasons, including natural disasters, rice cultivation and a cattle industry have not been successful.

Exports are primarily limited to fish (47% of all exports), timber (35%), and copra, palm oil, and cocoa (5% each). Fishing and forestry offer the greatest potential. The commercial fishing industry with two tuna canneries (one a joint Japanese/government venture and the other solely government owned) is successfully providing 1,500 jobs and 1/10 of all government revenue. A third cannery is planned, and more fishing vessels are being acquired. It is anticipated that the fishing industry will double in the next decade. Most other fishing is for subsistence.

While the forestry industry accounts for about 1/3 of exports, the industry is not well managed, and for the sake of the future,

drastic improvements are needed. The industry is totally dominated by foreign companies, mainly Japanese and Taiwanese, and it is strictly a cut and export operation. Between 25,000 and 30,000 acres of a reserve of between 500,000 and 620,000 acres are cut each year. Little attention is given to environmental concerns, commitments by logging companies to local landowners are often not kept, and only about 2,500 acres are replanted annually. This renewable resource is not being renewed.

The Solomon Islands have a narrow range of options for future economic growth, and with regard to responding to the needs of young people, time is of the essence. As elsewhere, the aspirations of youth are higher than at any time in the past. The young are drifting into Honiara with hopes of employment, and most meet with disappointment. In late 1989, hundreds of young men rioted, destroyed property, and looted shops in Honiara. (An almost identical incident occurred in French Polynesia three years ago.)

i. Papua New Guinea

A former colony of Australia, Papua New Guinea (PNG) gained its independence in 1975. PNG includes the eastern half of the island of New Guinea and a large number of islands off the mainland. The largest of these are New Ireland, New Britain, and Bougainville. And there are numerous archipelagos comprised of many small islands, the most well known of which is the Trobriand Islands. Collectively, there are about 600 islands.

PNG is truly the giant of the region. The total land area is over 178,000 sq mi with sea area of 120,403 sq mi. It is the only developing South Pacific nation with a greater land than sea area. Approximately 95 percent of all land is unalienated and held by the indigenous people according to custom. With some difficulty, it may be leased, but not sold. The mainland has an extremely rugged interior. A complex of mountain ranges interspersed by wide valleys divides the country from east to west. Mountain peaks exceed 13,000 feet, and the highest, Mt. Wilhelm rises to a height of 15,440 feet. Some of New Guinea's people are just below the frost line. The capital, Port Moresby, is located on the south coast of the mainland.

The current population of PNG is consistently estimated at about 3.5 million people, between 65 percent and 70 percent of all of the people in the A.I.D.-assisted South Pacific. The greatest concentration of people is in the highlands; Port Moresby has a population of about 140,000. The number of indigenous languages is somewhere around 750, but that figure may be conservative. Pidgin English is the lingua franca of the country, and it is best known to males. A second creole, Motu, developed in the southeast in the last century, but it is giving way to pidgin. English is the language of the higher levels of administration, commerce and

education (at least at the secondary and tertiary levels). There is no significant migration out of the country, and there is no body of Papua New Guineans resident elsewhere.

While the population of PNG is fragmented into many small linguistic and cultural groups, the very colonial history of the island of New Guinea was one of division by the colonial powers. The Dutch acquired the western half of the island of New Guinea in 1828. In a scramble for Pacific territories in 1884, Germany annexed northeastern New Guinea, and Australia claimed the southeastern part in the name of Great Britain.

With the outbreak of World War I, Australia occupied German New Guinea, and after the war it administered the former German colony as a mandated territory under the League of Nations. British New Guinea was under separate administration and came to be known as Papua. Japan occupied parts of New Guinea during World War II, and after the war, the Australians merged the two administrations. When independence came in 1975, Papua New Guinea had a history of less than 30 years under a single administration. By that date, Dutch New Guinea had been a province of Indonesia known as Irian Jaya for about 15 years. The division between Irian Jaya and PNG is the only land boundary separating two nations in the Pacific.

The government of PNG has a Westminster system with a Prime Minister and single chamber National Parliament. Like the Solomons, political parties abound, and personalities are generally more important than party affiliations or political platforms. The party with the most popular support since independence has been the Pangu Parti; but neither it nor any other party has ever polled a majority. Out of necessity, every government has been formed by a coalition of two or more parties. The National Parliament has 109 seats, and the cabinet is known as the National Executive Council, composed of the ministers of government and chaired by the Prime Minister. Elections are hotly contested, and there is a considerable turnover in the members of parliament. Usually less than half of the incumbents are returned.

Nonetheless, transitions in government have been smooth. Mr. Michael Somare, the George Washington of his county and affectionately known as "the chief" was the first Prime Minister. After 5 years, he was unseated in 1980, only to return to power two years later. Somare was again defeated in 1985, and the third man to occupy the office served until 1988. In that same year, the current Prime Minister Rabbie Namaliu came into office.

The country is divided into 19 provinces each with its own executive officer and legislature. Suffrage at both the national and provincial levels is universal.

The size of Papua New Guinea is deceptive. Like the Solomons, there are natural and cultural variables that limit the amount and

availability of usable land. Most of the mainland is mountainous or covered with dense jungle growth that makes land inaccessible. Further, 95 percent of all land is held communally as custom holdings, and access by entrepreneurs, local or foreign, is difficult.

Approximately 90 percent of Papua New Guineans are subsistence village agriculturalists. However, cash cropping is important to rural dwellers, and they produce copra, coffee, and cocoa. Like other island countries, coconut palms date back to the early colonial period and many trees are senile.

The mainstays of the cash economy are mining and agricultural production. With regard to the former, there are major gold deposits, the largest of which is the Ok Tedi mine in the Western Province. Bougainville, the North Solomons Province, has the third largest copper mine in the world, and it has been producing 64 percent of the value of PNG's exports. There has been a major discovery of oil in the eastern highlands, and production should begin in the early 1990s. Overall, income from the mining and agriculture sectors provides PNG with a positive balance of trade. Exports cover the cost of imported consumer and capital goods. In one respect, one of PNG's major problems is to manage its mineral wealth, and this is one of the causes for secessionist sentiments (see below).

Forestry and fisheries offer considerable potential. Timber reserves are substantial, but the industry is plagued with some of the difficulties encountered in the Solomons. Further there have been charges and some evidence of corruption in the industry on the part of government officials. PNG has one of the largest tuna fisheries in the world, but the industry remains relatively undeveloped. The country's manufacturing base is narrow and concentrated in the mining sector.

There are a number of impediments to economic development. As suggested, the very geography of PNG and the linguistic and cultural diversity of its people represent major obstacles. As generally in the region, there is a chronic shortage of skilled labor. A large public service and the 19 provincial governments are expensive. It seems likely that the volume of Australian assistance removes some motivation for more efficient economic management. PNG is the recipient of one of the highest per capita aid programs in the world. A total of 36 percent of all Australian foreign assistance alone flows to PNG.

A number of social and political problems internal to the country impede nation building and overall development. All urban areas, Lae, Rabaul, Madang, but particularly Port Moresby, have severe problems of law and order. Roving gangs of young men, referred to as "rascals," commit crimes of violence against individuals and property. Indigenous people as well as foreigners are victims.

Intimidation, burglary, rape, assault, and robbery are commonplace. Many homes and buildings have barred doors and windows; security guards protect private dwellings, hotels, and other businesses. Public protests in the mid-1980s brought Port Moresby under nightly curfews. Apparently, the majority of rascals are unemployed or underemployed men who live in squatter settlements around the city.

The linguistic and cultural diversity of PNG's people produce centrifugal forces in the country. The majority of Papua New Guineans do not share a sense of national identity, and their primary allegiances are to local village and kin groups. The government is keenly aware of the problem, and there have been some attempts to use art motifs, indigenous music, and sports to promote a sense of nationhood.

Further separatist forces are at work at the provincial, and in some instances, the sub-provincial level, and some of these were present prior to independence. A case in point is the island of Bougainville, North Solomons Province. Three years prior to independence, the Bougainville copper mine went into production. Geographically and culturally, Bougainville is part of the Solomon Islands, and it was a consequence of colonial history that it was part of the colony of Papua. The people of Bougainville unsuccessfully resisted inclusion in the new nation, and there were threats of secession after independence.

Customary land owners of the Panguna mine site have long been discontented with their share of royalties from the mining operation, and things came to a head in late 1988 and early 1989. A rebel force began attacks on the mine site and its electrical and other support facilities. The mine was closed in May, 1989, and today a full scale guerrilla warfare rages on the island. The government defense force has been ineffective, and expatriates, mainly Australian, are leaving. The Rebels have recently rejected a government peace plan and demanded withdrawal of all defense and police forces and succession from PNG. Income from the mine represented 20 percent of government revenues, and the country is in a budget crisis.

There have been recent disturbances and road closures by local land owners near the Ok Tedi mine, and other provinces with mineral wealth are closely monitoring developments on Bougainville. Island provinces off the PNG mainland have expressed secessionist sentiments, but nothing concrete has occurred. The ability of the government to hold the nation together is being tested. Given the internal problems of law and order and the Bougainville crisis, some Australian observers are of the opinion that the national government has lost much of its authority. The future of PNG is far from certain.

j. Fiji

A former British colony, Fiji became an independent nation in 1970. Fiji has over 360 islands, one third of which are inhabited. The total land area is about 7,094 sq mi, and the total sea area is approximate 1/2 million sq. mi. About 87 percent of the land area is made up of two main islands.

Viti Levu has 4,026 sq mi, and Vanua Levu has 2,145 sq mi. While the terrain is not as forbidding as other Melanesian islands, much of the interiors of the two largest islands are rugged and mountainous. Viti Levu is the most developed of the islands. Suva, the nation's capital, is located on Viti Levu. There are several other much smaller urban centers on the two main islands. About 83 percent of all land is held by indigenous Fijians. It is controlled by the Native Land Trust Board which guards against the alienation of land and protects the interest of the Fijians. At the local level, native lands are held by extended kin groups. The control and ownership of land has long been a major source of contention between indigenous Fijians and Indo-Fijians.

Fiji's multiracial population totals 715,375 people. As estimated 48.7 percent are Indo-Fijians, the descendants of Indians brought to Fiji in the last century as indentured laborers to work the sugar plantations. The indigenous Fijians comprise 46 percent of the population. Others consist of Europeans, part-Europeans, Chinese, and other Pacific islanders. Three quarters of the total population live on Viti Levu, and 18 percent on Vanua Levu. The other 7.2% are spread over the remaining inhabited islands in very small communities.

There is far less linguistic diversity in Fiji than in the other Melanesian countries. There are several distinct dialects of the Fijian language, but the dialect of Bau, the seat of the most powerful traditional chiefs at the time of European intervention, has been widely adopted. Hindi is spoken by the majority of Indo-Fijians. English is the official language and spoken by most of the population.

Prior to the military coups of 1987, Fiji was held to be a model of democracy in a multiracial society. It was a constitutional monarchy within the British Commonwealth, with a Governor-General, the Queen's representative as head of state. Fiji's constitution recognized the multiracial nature of the nation. The parliament had a Senate whose members were appointed and a lower House of Representatives elected through a complex system of communal and common electorate allocated by race. It had 11 Fijian members, 22 Indo-Fijians, and eight general electors representing all others. There was also a Great Council of Chiefs that reviewed legislation affecting Fijians and appointed eight members of the Senate. The remainder of the 22 members of the Senate were appointed by the Prime Minister, the Leader of the Opposition, and the council of

one island inhabited by Polynesians north of the Fiji group proper.

Two political parties dominated the scene until 1987. With one short break in 1977, the Alliance Party, primarily composed of Fijians, ruled the country from independence until 1987, and its head, Ratu Sir Kamisese Mara served as Prime Minister. The National Federation Party (NFP), essentially an Indo-Fijian party, stood in opposition.

In 1985, the Fiji Labour Party (FLP) was formed, and the politics of Fiji was changed forever. The FLP was dominated by younger, less conservative Fijians and Indo-Fijians. The election of April, 1987, produced no clear majority, and the FLP and the NFP formed a coalition that ended the Alliance Party's long tenure. The new Prime Minister was Fijian, but Indo-Fijians were well represented in his Cabinet and government. While Fijian interests and land were well protected, there was fear Indo-Fijians would gain control of the country and land would be alienated from Fijians.

In May, 1987, Lt. Col. Sitiveni Rabuka of the royal Fiji Military Forces led a bloodless coup. The military regime was disappointed in the performance of a series of subsequent interim governments, and in September of the same year, Rabuka staged a second coup. He declared Fiji a republic and severed his nation's formal ties with the United Kingdom. The former Governor General was appointed President of the Republic and head of state by Rabuka, and Ratu Mara was again asked to serve as interim Prime Minister. He and 21 appointed cabinet members comprise the interim government that has ruled since December, 1987. A new constitution is in the process of being drafted. It must be reviewed by the Great Council of Chiefs and a multi-racial committee before approval by the Cabinet.

The military intervention is seen by many as essentially a result of tensions between the country's two major ethnic groups. In reality, however, the threat to Fijian interests were somewhat exaggerated, and to some extent, the coups involved a concern to protect the prerogatives of traditional Fijian chiefs and competition for power among themselves.

While it should have perhaps have been anticipated, the overthrow of democracy came as a surprise to most and had an impact on the entire region. Fiji has been a leader in regional affairs and organizations and served as a model of democracy. The future role of Fiji in the region became uncertain, and a role model was lost. The vast majority of Pacific islanders and governments, however, were sympathetic to the cause of the Fijians, and Tonga barred Indo-Fijians from obtaining citizenship or permanent residency in the country.

Fiji has the most sophisticated economy among the countries assisted by RDO/SP. The population is probably the best educated

and its skilled labor force has been the envy of others. Retail outlets in Suva and those associated with the tourist trade offer a wide variety of goods unmatched anywhere in the RDO/SP area. Much of the economy and local business is in the hands of the Indo-Fijian community, and this has been a source of resentment on the part of the indigenous Fijians and a contributing factor to the strain between the two.

The sophistication of the economy notwithstanding, it is primarily agrarian. Rural dwellers represent the majority of the population, and they engage in a mix of subsistence and cash crop farming. Sugar is the mainstay of the economy. It is cultivated by small scale producers and accounts for over half of the country's domestic exports.

Tourism is the second largest industry, and with some setbacks, it has experienced phenomenal growth since the mid-1970s. There are over 4,000 hotel rooms, and more hotels and resorts are being constructed or planned. Service industries associated with the travel industry have grown rapidly in the last 15 years and will continue to do so.

In addition to sugar, other major export earners are gold, coconut products (copra and oil), and fish. A tuna fishing industry, a former joint venture with Japanese interests, is now totally owned by the government. Tuna is both frozen and canned, and a can manufacturing industry is now in operation. The country is self-sufficient with regard to most timber products, and processed lumber is exported. A thriving garment industry for foreign markets has developed in recent years, and a variety of other goods are manufactured, primarily for local consumption.

The coups of 1987 had a severe but short term impact on the economy. After the first coup, foreign investment came to a standstill, there was an exodus of capital and skilled labor, a halt to sugar harvesting, and a collapse of tourism. The second coup intensified the economic decline.

By 1989, the economy had made substantial strides toward recovery. Sugar production reached record levels, and the tourist industry had recovered. The interim government is promoting foreign investment in both tourism and manufacturing. Australian interests have purchased a major hotel. A Japanese firm has acquired a resort complex west of Suva and plans to spend F$400 million to refurbish it. The Japanese government has pledged support for increased involvement in the tourist industry, and reportedly F$300 million worth of tourism development projects are in the pipeline. With regard to manufacturing, the interim government has established liberal tax holidays and free enterprise zones.

While the above developments are encouraging, established businesses in Fiji are only maintaining the current levels of their

operations; they evidence some reluctance to make further investments. Suva's banks are reportedly overflowing with deposits, but these are not being used for expansion or channelled into new investments.

The coups and post-coup climate have taken another toll. Since the first coup, departures for the purpose of emigration have increased. The number of emigrants climbed from 3,848 in 1986 to 5,394 in 1987. The vast majority of those leaving are Indo-Fijians, and the flow continues. The major destinations are Australia, Canada, New Zealand, and the United States. Their exodus represents a loss of business acumen and educated and skilled labor.

3. CONCLUSIONS ON ECONOMIC STATUSES AND FUTURES

The resources and economies of the ten A.I.D.-assisted nations may be roughly divided into three categories. At one end of the spectrum are the states that have significant economic potential. At the other end, and although it is far from popular to say, there are countries with extremely limited resources that will probably always be dependent on external aid. Other countries form an intermediate category between the two extremes.

Fiji and Papua New Guinea form the first category. Without doubt, they have the resources to achieve a great amount of economic self-sufficiency and eventually lessen their reliance on external aid. Both, however, have their internal difficulties. While largely recovered from the military coups, problems remain for Fiji, and much of the future will be determined by the nature of the new constitution and government. The continuing loss of educated and skilled Indo-Fijians will act as an impediment to development in general.

PNG's internal problems are of an extremely serious nature. No resolution to the Bougainville secessionist movement appears to be in sight, and it could precipitate similar movements elsewhere. Issues at stake are the control of resources (royalties from the mining operation) and cultural and ethnic differences between Bougainvillians and mainlanders. The economy has been badly damaged. PNG's internal problems of law and order, especially in urban areas, remain unresolved.

Two other Melanesian countries are marginal to the category of the more richly endowed nations. Vanuatu and the Solomon Islands are the cases in point. Much depends on the rate of population growth, especially in the Solomons, the management of known resources, and the discovery or creation of new ones.

At the opposite end of the continuum from the Melanesian states are the resource poor coral island nations. However, the two states that are self-governing in free association with New Zealand, the

Cook Islands and Niue, are in relatively good shape. Their political status provides them with financial subsidization and access to the metropole, and, in return, a large flow of remittances back to the home island. For the Cooks, the volcanic island of Rarotonga also provides a major economic advantage and base for a healthy tourist industry.

Kiribati and Tuvalu face the most difficult futures. For such atoll countries, increasing populations will put a severe strain on available resources. Unlike the freely associated states, there is no movement of people between the home islands and the country of the former colonial authority, and thus the only source of remittances is from young men who are working on overseas vessels. Both nations have trust funds, but their yield is small when compared to overall needs.

In the intermediate category are Tonga and Western Samoa. Tonga's recent development of its manufacturing sector represents a significant advance. Otherwise, they are dependent on their agricultural resources and potential. As in the case of the Cooks and Niue, remittances are important contributors to the economy and help sustain a fairly high standard of living. However, it seems likely that both countries will always be aid dependent to a degree. As suggested, barring the discovery of mineral resources or the creation of new industries (off-shore banking and investment operations), the Solomon Islands and Vanuatu may ultimately belong in the same category as Tonga and Western Samoa.

All Pacific nations have economic self-sufficiency as a stated goal, but there is little hope that the majority will come close to achieving it. As populations continue to expand and pressures on limited resources increase, it seems certain that most of the island nations will remain heavily dependent on external assistance. The situation is sensitive. The independent states take great pride in their sovereignty, and economic dependency is correctly viewed as a threat to their recently gained political status. The Cook Islands and Niue share these sentiments, but as noted, the question of their sovereignty is being debated by the international community.

4. OPEN/CLOSED SOCIETIES

With regard to democratic forms of government and procedures, seven of the ten countries have universal adult suffrage, and Fiji formerly belonged to this category. However, when the second class citizenship of females and the deeply ingrained Melanesian cultural practices of sexual discrimination are considered, the three Melanesian countries of PNG, the Solomon Islands, and Vanuatu cannot be characterized as open societies. The countries that have democratic institutions and the least sexual discrimination are four in number: the Cooks Islands, Kiribati, Niue, and Tuvalu. In Raymond D. Gastil's Freedom in the World: Political Rights and

Civil Liberties 1987-1988, Kiribati and Tuvalu have the highest ratings in the Pacific with regard to political rights and civil liberties. The Cooks and Niue are not listed.

As noted, Western Samoa has been described as a "limited democracy." The chiefly matai system is firmly entrenched. Suffrage is limited to matai, and they hold all but two seats in the parliament. By definition, the prime minister must be matai. The position of the matai is further strengthened by reason of the fact that they commonly also occupy influential positions in church hierarchies, and some are entrepreneurs in the nation's private sector. Significant change does not appear likely in the foreseeable future.

Tonga has never pretended to be a democratic society, and, understandably, its royal and noble classes have no such aspirations. While some younger and well educated Tongans desire change, they have little or no leverage to institute reforms. The military coups brought an end to democracy in Fiji, and as late as January, 1990, Rabuka went on record that the military was still essentially the real power behind the interim government. As it seems certain that the new constitution will make Indo-Fijians second class citizens, democracy is unlikely to be reborn in the nation. The marked sexual discrimination that characterizes Melanesian societies is not found in Tonga and Fiji, however.

It is perhaps ironic that the least well endowed nations of the RDO/SP area are the most democratic and open. At the same time, the least democratic and open society is experiencing significant economic prosperity by reason of the fact that its privileged and hereditary classes are engaged in and are supportive of the private sector.

5. OBSTACLES TO DEVELOPMENT

There are a number of factors that inhibit the development of Pacific island economies. Most have been discussed in the foregoing text, and the following is a list of the more salient ones:

a. Availability of land. In many instances, the interiors of continental and volcanic islands are mountainous and not arable or suited for other purposes. Most land is held in customary fashion by the indigenous people; it is not available for sale; long term leases are difficult. In short, there are natural and cultural variables that place severe limits to the availability of land.

b. Profit motive. The accumulation of wealth for individual profit and gain is foreign and antithetical to traditional cultural value systems. The notion of accumulating wealth is not novel, but wealth was accrued for subsequent redistribution. Traditional values prevail in rural areas where the vast majority of islanders

live, and there are leveling mechanisms and sanctions that are brought to bear on individuals who are too successful in Western economic terms.

c. Natural disasters. Not explicitly mentioned in the text, but nonetheless of great importance, many Pacific islands are vulnerable to a variety of natural disasters. Typhoons, drought, tsunamis, volcanic eruptions, earthquakes, and plant and animal diseases are familiar to the region.

d. Transportation problems. The distances between the islands themselves and between the islands and world centers of trade and production are great, and transportation and shipping costs are detrimentally high. Unreliable and erratic shipping schedules commonly result in the loss of perishable exports.

e. Lack of opportunities. With few exceptions, the islands are poor in resources, and the opportunities for significant development are severely limited. Some, but not all, countries have significant marine resources, but only two have cannery operations. Revenues are dependent upon licenses for fishing island waters, and the island nations realize only a small portion of the value of catches.

f. Limited Agriculture export potential. Almost everywhere, there is an over dependence on coconut products, an inheritance from the colonial era, and their value is declining on the world market. Throughout the region, the stands of coconut palms are senile, and well past their prime production. There is little incentive to replant, and a continued decline in production may be anticipated. Significant export market possibilities for alternative crops are poorly understood.

ANNEX H

COUNTRY CONSTRAINTS AND OPPORTUNITIES IN TRADE AND INVESTMENT

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I. GENERAL:

As part of the MARC project design, Trade and Investment Country Studies (TICS) were prepared by indigenous or locally-based consultants on five South Pacific countries: The TICS were prepared not as economic analyses but as working papers to highlight trade and investment constraints and the general conditions prevailing in the business environment. Fiji, Papua New Guinea, Solomon Islands, Tonga and Vanuatu. (The analyses on Western Samoa was prepared in a separate exercise). The content of the TICS was discussed and elaborated upon during two weeks of country and T/I issues seminars that included private sector governments and university participants.

This annex represents a melting of materials and observations from the TICS and the design discussions, seasoned by interviews in each country. It discusses the economic setting, trade and investment constraints and the potential for MARC activities in these five countries plus Western Samoa for which a TICS was not prepared. While there are more constraints that were presented, the annex screens only those constraints that are capable of being addressed in a donor assistance program, and those activities that are most appropriate to the MARC goals and objectives. Identification of the actual and specific activities that MARC will assist with will occur through an annual identification and prioritization process carried out with each country's private and public sectors during the implementation of the projects.

There are a few conclusions that can be highlighted from the country summaries:

1. <u>Major constraints</u>

The major constraints to increased trade and investment by/in South Pacific countries becomes repetitious with each country analysis - lack of available capital; lack of experienced and trained local manpower; lack of land access; quality/quantity of production; transportation problems; high business operation costs; lack of information and understanding of international business economics. Yet each country emerges at a different stage along a T/I development continuum and with a different generalized priority in terms of order and intensity of addressing its constraints. For example, it is clear that both PNG and Solomon Islands need to address some fundamental issues relating to policy, and regulatory and attitudinal reform before they can expect any success in attracting foreign capital investment.

In the middle range, Vanuatu has a modestly attractive business climate but needs to invest in production in order to have something more substantial to export. And Tonga is unique in

having managed to produce both commodities and manufactured products ready for expanded export markets in a business environment that still needs improvement.

At the other end of the scale, Fiji is quite advanced in terms of creating an attractive environment for foreign investment. Fiji is ready to expand exports to the US once it has made the right connections; whereas constraints of limited and costly transport, shortage of labor, and small production hampers Tonga in the middle range.

2. Common Issues

A number of issues common to several countries emerge from any analysis of South Pacific countries, such as privatization, land tenure and transport limitations. For example, traditional land tenure is a common and major constraint that all countries recognize but few suggestions have been made as to how an outside project like MARC could directly address such a socio-cultural-political issue. If, however, MARC is able to focus on building up local T/I institutional capacity, there is scope for working in partnership with local entrepreneurs and governments to come up with innovative alternatives that maintain custom land heritage rights while affording security to commercial users. Even modest changes could make a difference. For example, in Tonga private sector lessees of land for commercial purposes can obtain long-term leases but there is a five year review of lease rates with no guidelines or cap which effectively reduces the lease period to 5 years. Work by the MARC project to change this small aspect of land management could make an important difference to business operations. An interesting proposal was put forth in the document prepared for USAID entitled "Private Enterprise Strategy Options for the South Pacific" (Arthur Young, 1988, page 63) for land use entrepreneurship." It recommended establishing a country level program to collect and provide information on land utilization options recognizing a full range of economic rents through various land arrangements.

3. Few Models of Success

Outstanding entrepreneurs from South Pacific countries have emerged on the international marketing scene in spite of major constraints. Such successes can be the agents for change in small island economies. MARC should be able to promote models of success as well as support private sector initiatives that can become the agents for change.

4. Focus on High Value Niche Market Commodities

The constraints of limited and costly transport, small labor forces and small production capacities argue for a focus on high value, niche market commodities or products for which a

country has some comparative advantage in production. Clearly in the South Pacific, expansion and diversification of export products from the richly-endowed agricultural and marine resources base of their economies offers the greatest potential for any sustained private sector growth.

II. COUNTRY SUMMARIES:

A. FIJI

1. Economic Summary

Fiji is a collection of 330 islands, principle among which are Viti Levu where the capital Suva is located and Vanua Levu. It has a population of approximately 722,000 (1989). The country claims total land area of 7310 square miles and is located about 2200 miles east of Australia. Fiji still stands out as the most economically progressive country among its South Pacific neighbors in spite of the fact that it is less well endowed than several of its Melanesian neighbors with natural resources.

The Government of Fiji recognizes that the growth of the private sector is an essential element to the development process and actively supports its further growth and development through a generous regime of incentives including tax and duty concessions, export allowances as well as through a variety of institutions committed to promote, facilitate and provide services to investors. The Government is committed to a program of restructuring of State-owned enterprises, primarily corporatization and, to a lesser extent, privatization. Much of the momentum in the economy has come from outward looking policy and legislation enacted in the years since the coup.

The two military/political coups of 1987 created an immediate economic downward spiral for Fiji prompted by uncertainty and depressed confidence in the security of investment in the face of the country's political instability. The sudden flight of financial capital and skilled and professional labor, the virtual collapse of tourism, and the cessation of foreign investment and down-turn in domestic production caused a 20-30% drop in the export earnings of most sectors, depletion of foreign reserves, and a dramatic rise in inflation. In spite of the severe effects these events had on the business climate, Fiji's recovery was rapid and it has since maintained positive growth in GDP (Table 1) which should be boosted by the recent approval of a new constitution (some 27 months after the first coup) and restoration of a stable public image.

Table 1

GDP PERFORMANCE OF THE FIJI ECONOMY, 1986-89
(Fiji Dollars)

Year	Real G.D.P. ($ Million)	Annual Change
1986	761.9	8.3
1987	714.0	-6.3
1988	723.3	1.3
1989	814.3	12.6

GDP Forecast for 1990: 4%

Inflation forecast for 1990: 7-10% against 6.3% in 1989.

SOURCE: Gaunder R., Fiji Trade and Investment Country Study, Suva: USAID, 1990, p.2.

The economic backbone is typically agrarian but with smallholder sugar production constituting over half of the primary exports. The traditional agriculture commodities of coconuts, cocoa and oil palm have experienced dwindling production in response to low world market prices and insufficient capital investment to replant senile trees. Export of fish products through the government-owned tuna cannery PAFCO and, more recently, private sector export of fresh chilled fish has increased the importance of marine resources exports to the economy. Mining of gold has contributed steadily to the country's economy though the unmined reserves are diminishing. Fiji is also fast becoming an important center in the Southwest Pacific for garment production.

Table 2

FORECAST PRINCIPAL EXPORTS OF FIJI FOR CALENDAR YEAR 1990

	(F$ Million)
Sugar	245
Molasses	11
Gold	70
Timber	37
Fish	60
Garments	98
	521

Total domestic exports:	$612	(1989 = $529 million)
Forecast imports for 1990:		$961 million against $900 million in 1989
Sugar production forecast for 1990:		470,000 tones against 461,000 tones in 1989

The greatest potential in the primary sector of agriculture, forestry and marine resources lies in the expansion and diversification by the private sector of select niche market products like ginger, papaya, spices, peppers, specialty coffee, wood furniture, seaweed, shell fish, shell products, red snapper, tuna, coconut based oil soaps, etc. High value per product unit can overcome constraints of small production and high transportation costs.

Tourism is the second major foreign exchange earner and is expected to expand under government promotion policies and renewed confidence in political stability. Because of high capital infrastructure costs, this sector is dominated by foreign ownership and government shareholdings.

Forecasted tourism arrivals for 1990: 260,000-270,000 against estimated 1989 arrival of 250,000.

Forecasted foreign exchange earnings from tourism for 1990: F 220 million against 1989 FY earnings of F 210 million

The 1986-87 coups created a climate of catharsis which welcomed change and permitted the creation of the tax free zone/tax free factory scheme which has had significant positive economic impact in terms of employment and investment attraction. By May 1990, some 228 projects had been approved under the scheme. Of these, the number of projects in operation by sector are as follows:

Table 3

GROWTH OF TAX FREE FACTORY SCHEMES IN FIJI 1988-1990

Sectors	1988	1989	May 1990
Garments	27	53	60
Wood & Furniture	6	9	9
Leather & Footwear	2	7	8
Food	3	3	4
Button & Blanks	2	3	3
Others	3	8	9
TOTAL	43	83	93

SOURCE: Fiji Trade and Investment Board

The above projects are estimated to have generated employment for 4207 in 1988, 8839 in 1989 and 9350 jobs May 1990. The total accumulated investment (mostly from foreign sources) in the above projects was $13.7 million in 1988, $34.1 million in 1989 and is estimated to be $41.5 million in May 1990.

All statistics and trends indicate that tourism in the services sector and garments in the manufacturing sector show good potential for continued growth.

Fiji is also the most advanced country in the region in terms of a business financial sector. There are five full service banks offering a range of financial services at competitive rates and several non-bank financial institutions that are competing for commercial loan and investment portfolios. Despite government pursuit of foreign investment, new investments in Fiji have not yet recovered to pre-coup levels. Assistance for business involved in international trade and investment is effectively coordinated by the Fiji Trade and Industry Board (FTIB) which tries but has not yet succeeded in serving as a 'one-stop shop'. Through FTIB, Fiji has become the only country in the South Pacific capable of taking full advantage of trade quotas and concessions granted under various trade agreements like SPARTECA.

The inward-looking import substitution-oriented policy which resulted in the establishment of numerous highly protected and inefficient industries in the 1960's-70's was discarded in late 1987 and an outward looking, export-oriented policy based on large global markets has been put into place. The adjustment of the economy that had for almost twenty years been based upon the comfortable niche of import substitution to one that is internationally competitive is still continuing in both public and private sectors.

To give impetus to its outward working policy the Government has been gradually liberalizing and de-regulating the economy with the full effect to be accomplished over a period of years yet. The primary sector and industries producing products based on inputs from the primary sector have been the last to be included in the de-regulation process and this inclusion was announced in recent months. The Fiji economy is thriving, outgrowing its traditional markets in Australia-New Zealand, and turning its sights on the larger markets of North America and Europe. The time is ripe for a project with the scope of trade and investment assistance projected under MARC.

2. Fiji: Major Trade And Investment Constraints

The Fiji Trade and Investment Country Study was prepared by Radha Gaunder, former Industries Manager of the Fiji Trade and Investment Board (FTIB) and principal architect of the Fiji Free Trade Factory Scheme and legislation. The study argues that Fiji is far ahead of other Pacific Island countries as far as the establishment of a policy environment and infrastructure facilities for trade and investment promotion is concerned and, therefore, its need for assistance in this arena is different from other Pacific Island countries.

a. Transition to Export-Led Economic Growth Model

The Fiji Government has made a serious political commitment to an export-oriented model of economic development.

This commitment has turned around in just a few years a highly protected import substitution economy. Liberalization and deregulation of the economy is gradual but steady. Based on the Singapore model, Fiji created in 1981 a statutory body, which has become the Government's central agency for trade and investment promotion. Though still politically controlled and directed by Government, the FTIB works closely with the private sector and has established credibility with its clients, both Fiji-based business and potential foreign investors. Other countries in the Pacific are considering copying its operations. The FTIB is indicated by the TICS as the opportune point of contact for coordination within the Government of activities associated with the MARC project.

With a focus on export-led growth in an increasingly open economy, Fiji has experienced a spurt of growth, particularly from manufacturing and tourism. But, with the economies of its principal trading partners Australia and New Zealand slowing down, it is seriously looking at other markets. The recent attempt by the U.S. to impose voluntary export restraints on Fiji exports of nightwear garments shocked both private and public sectors into a realization of its naivete in operating in more highly competitive (and selectively protected) markets.

The United States presents tremendous potential as an export market for Fiji products, but, as a large affluent market, it is very sophisticated and quality conscious. Manufacturers and producer/exporters in Fiji have largely been exporting to less discerning markets of Australia, New Zealand and other Pacific Island countries

b. International Market Constraints

There exist a litany of reasons for the virtual absence of market presence by Fiji products in the U.S. Market constraints include:

- supply/volume constraints
- lack of adequate budgetary provisions for export marketing
- absence of ability and expertise in the area of export marketing
- lack of market information
- high freight cost
- distance to the market
- shipping frequency
- limited air cargo space
- USDA/FDA requirements
- quota restrictions
- high volume market entry levels
- shortage of adequate trained manpower

Some pioneering exporters have overcome these but they have worked for years and at great individual cost to do. While the FTIB has been useful for entry into other markets it has no experience with the U.S. Targeted technical assistance, training, and information assistance at the industry level could speed up the process of market identification, reduce the overall costs of securing markets, and spread out the burden now shouldered by a few.

While Fiji, through the FTIB, has advanced well beyond its neighbors in the development of trade and investment promotional materials, it would need assistance to develop materials targeted for the U.S. markets and to get this material distributed. Development of such materials should be done working closely with national and regional (tourism) promotional organizations who have already done a lot of work of this nature.

It is clear from the few market successes of Fiji products in the U.S. that only specialized, high-value niche markets will be small enough and lucrative enough to be sustained by the relatively small operations of Fiji entrepreneurs relative to Asian counterparts. Sustaining such markets will depend in the long term on whether Fiji will be able to be forward-looking in its training of manpower, both skilled and semi-skilled, for the export sector of the economy. Fiji must be ready and ahead of competitors to jump at new opportunities for niche markets.

c. Attracting Foreign Investment

With its tax free factory scheme, the Government of Fiji has taken giant strides to make Fiji attractive to foreign investors, particularly those from Australia and New Zealand. Until recently, there had been little effort to solicit the interests of Pacific Rim country investors. No investment missions have visited the United States and, apart from a few minor trade delegations, no missions have visited Fiji in recent years.

The Overseas Private Investment Corporation (OPIC) presence in the Pacific Islands region is insignificant. Though OPIC officials have visited Fiji for some years, they have not actively promoted U.S. direct private investment into Fiji. The report leaves little doubt that investors in Fiji would welcome U.S. investors independently or as partners to set up joint-venture projects catering to the export markets. U.S. investors have begun to come in but mainly in the tourism sector. With the fast developing export sector in Fiji, there are also growing opportunities for U.S. enterprises to supply inputs to manufacturers in Fiji. The Fiji market is slowly becoming sophisticated and affluent itself.

Despite progress in investment promotion, investors still face problems. For example, the Reserve Bank does not allow exporters to maintain foreign currency accounts. This forces exporters to bring all export proceeds to Fiji, convert it into local currency and reconvert to foreign currency to make overseas payments. The private sector, through existing influential business councils and representatives, is pressuring government for relief on this and other thorns in the system.

Another facility which could be usefully utilized by a country such as Fiji is OPIC's data bank of potential joint venture partners. However, the cost of using the facility is such that Fiji has rarely used it. Funding assistance for utilization of OPIC's project investor matching facility might facilitate inflow of more US investment into Fiji, particularly in the non-tourism areas.

d. Trade and Investment Information

The TICS states that it is vital that Fiji's emerging export sector have ready access to up-to-date information on overseas markets. Industry manufacturers and exporters cannot afford the hefty entry fees to access the required information from overseas on their own. Therefore it is imperative that it be provided on a national or regional basis.

The Fiji Trade and Investment Board maintains a trade and investment information center and subscribes to various trade and investment related publications. It also receives on a regular basis relevant publications from organizations such as CIDA, ESCAP, UNIDO, ITC, ILO, JETRO, FAO, PIDP, DCLU, etc. and these are available for use by the private sector. It also publishes a monthly newsletter called "Trade and Investment News" which contains information on export opportunities, joint ventures, publications received, etc. The Board is planning to link itself with Singapore's Globalink Trade and Investment Information System. once it can find a source of funds. (Globalink costs approximately US$60,000 annually). Currently it is even beyond the capability of FTIB to provide up-to-date market and investment opportunity-related information to exporters, particularly where entrepreneurs need information tailored to the interests of a specific industry or product.

Market, technology etc related information should be widely publicized on a continuing basis. In this regard local newspapers and regional publications like Islands Business, Pacific Islands Monthly, Trade News of the South Pacific and Fiji News Digest, etc. have indicated their willingness to publicize more international trade and investment-related news for the development of a private sector. For example, at present there is very little knowledge of U.S. relating to quarantine/FDA requirements for island products. Similarly there is very little "knowledge" about

the stock of marine resources available in the exclusive economic zone of the Pacific Island countries with international market potential. The Forum Fisheries agency is trying to remedy this latter deficiency but dissemination is a bigger problem.

The information which is currently available is not disseminated and therefore the trade and investment opportunities which may be there are not being realized. The private sector should be informed of the type of information available and where and how it can be obtained. To make any impact in this area, technical assistance will have to be provided.

e. There is a fair amount of discussion on the subject of privatization taking place in Government at the present time and a number of senior government officials would insist that "privatization" has taken place during the past several years as statutory agencies have been transformed from this status to that of registered stock corporations. The term for this used locally is "corporatization." The fact that most of these bodies remain as companies whose stock is 100 percent owned by the government is overlooked. While there is no official inventory of the state-owned enterprises, about twenty listed below are considered to represent the majority of the universe. Many of these enterprises are operated at a deficit, causing a drain on the national treasury.

1)	Fiji National Bank	100% owned commercial bank
2)	Merchant Bank of Fiji	50% FDB owned equipment finance company
3)	Air Pacific	100% owned airline
4)	Fiji Airways Ltd.	100% owned airline
5)	Batiri Citrus Ltd.	100% NMA owned fruit producer and processor
6)	Tropik Woods Ltd.	50% owned by Fiji Pine Commission
7)	Food Processors Ltd.	100% NMA owned by Fiji Pine Commission
8)	Tropical Products Ltd.	100% NMA owned ginger processor
9)	Pacific Fishing Co. Ltd.	100% owned tuna canning company
10)	Fiji Electricity Auth.	100% Govt. owned utility
11)	Fiji Pine Commission	Statutory authority to be corporatized
12)	Ika Corp. Ltd.	100% owned tuna fishing operation
13)	National Marketing Auth.	100% owned ag. products marketing board
14)	Fiji Sugar Corp.	80+% owned sugar processor
15)	Post & Telecommunications	100% owned by Government

16)	Fiji Int'l Telecom Ltd.	100% owned by Government
17)	Yaqara Pastoral Co. Ltd.	100% owned cattle raising operation
18)	Fiji Stock Exchange	100% FDB owned
19)	Fiji Meat Ind. Board	100% owned abattoir and tannery
20)	Ports Authority of Fiji	100% owned by Government

f. Business Environment Improvement Needs

The climate for business in Fiji is very favorable as compared to many other island countries. With the law and order problem persisting in Papua New Guinea, businesses are looking to relocate to Fiji. Nonetheless there is still serious scope for business environment improvement if Fiji is to successfully emulate the rapid economic progress being achieved in some asian countries.

The study argues that serious drag on appropriate decision-making in support of the private sector is created by top government decision makers who lack the expertise in and understanding of the requirements of export-oriented business. If Fiji is to capitalize on the momentum it has created, the attitude and thinking of key people in the Reserve Bank, Ministry of Finance, Customs and Excise Department, Immigration Department, Labor Department and Inland Revenue Departments will have to be changed.

Recommended vehicles for change include exposure visits to other countries to observe and discuss with counterparts and private sector the consequences of government deregulation. There is an attitude at the top against "bookish development economics" which might be overcome by exposure of government decision makers to worldly business and trade journals such as Fortune, Wall Street Journal and The Economist, none of which are available across the counter in Fiji.

Most of the deregulation and incentive schemes were developed for the manufacturing industry and tourism during the late 1980s. The operation of the primary sector (agriculture, fisheries, forestry) was left untouched during the first wave of reforms to replace the import-substitution era of thinking. But deregulation for this last protected sector is beginning with the abolishing of licensing requirements and reduction of tariffs on agricultural inputs. Production levels and competition have suffered from government over-involvement in marketing, both domestic and international. Privatization of organizations like the National Marketing Authority, the Auxiliary Unit of the Fiji Military Forces, the Fiji Co-operative Association would begin to get government out of the business of marketing, leaving it to the private sector where it can be done more efficiently and profitably.

Business environment improvement education is also needed within the private sector and the TICs recommends establishing a business environment improvement fund accessible by business organizations such as the Fiji Manufacturers Association, the Fiji Chamber of Commerce and industry associations such as the Deep Sea Fisherman's Association, Fiji Ginger Association, Fresh Produce Exporters Association to assist businesses to gear themselves toward achieving a competitive position in overseas markets.

The companion business councils Fiji-Australia Business Council in Fiji, Australia-Fiji Business Council in Australia and similarly for New Zealand, have played an important role in establishing dialogue and contacts between the private sectors of the three countries. They have provided a vehicle for an exchange of vital information and have influence with their respective governments on government-generated trade and investment constraints. These have received no financial assistance from the governments. The TICS argues that Fiji is ready for and could benefit from the establishment of U.S.-Fiji/Fiji-U.S. Business Councils, or alternatively the regional approach of a South Pacific-U.S. Trade and Investment Council with a counterpart in the U.S. This latter alternative would suffer from lack of national identity and the relationship already established within a national private sector.

In summary, Fiji faces more of a challenge to realize new opportunities than overcome existing constraints to advancing into new more sophisticated markets. MARC can help the country realize these opportunities in American markets.

3. Fiji: Potential Marc Activities

a. Trade Impediments	Potential MARC Activities
- economic growth momentum needs new market expansion outside Aust/NZ but entry U.S. market difficult due to inexperience and product quality and supply	- network Fiji via FTIB and industry groups into US marketplace through specialized product trade missions and provide follow-through TA and services as needed to develop/serve niche markets
- inexperience in new private export industries with sophisticated larger markets	- provide individualized marketing and other TA to industries with high value market niche products potential
- limited availability of freight space, inflexible shipping load minimums and high transport costs restrict Fiji competition in US markets	- review options for improving SOPAC-US air and sea freight service to accommodate smaller producers

b. Investment Void	Potential MARC Activities
- image of political instability from coup makes investors insecure about investment risks	- assist FTIB to promote Fiji incentives in US through investor education and investment missions; assist involvement of risk guarantee companies like OPIC; assist legislation for bi-lateral investment treaties
- lack of funding & TA to carry out full feasibility studies for demonstrating potential new industry investment opportunities	- liaise with IFC project facility to cooperate in project identification, feasibility preparation and US market connections

c. Policy Reforms	Potential MARC Activities
- slow to draft legislation for private sector incentives due to shortage of skilled legal experts	- provide TA for legal drafting of particular legislation relating to promotion of trade and investment
- foreign investment requires $500,000 minimum capital and limited to domestic borrowing for working capital only	- support FTIB and industry dialogue for policy change
- closed attitude of some government personnel to understand free enterprise system	- sponsor exposure visits to US for key government decision-makers; sponsor US business experts to deliver field-based training/orientation

d. Financial Deficiencies	Potential MARC Activities
- businesses not aware of range of financial services and are undercapitalized for expansion	- sponsor capital finance seminars and counselling services through FTIB or other business support organizations
- limited availability of venture capital to small to medium scale enterprise	- assist strategy planning and connections to US venture capital companies

e. Labor Shortcoming	Potential MARC Activities
- lack of experienced T/I business sector combined with shortage of mid-management, professional and technical skills for export sector	- sponsor specialized short-term training in financial management sectors as well as experiential learning through industrial twinning

f. <u>Land Access/Use</u>	<u>Potential MARC Activities</u>
- shortage of land for commercial use and inability to use as commercial collateral	- sponsor study of "land use entrepreneurship" scheme to provide alternatives to land remuneration through venture equity shares to landowners and other shared investment incentives
g. <u>Information Gaps</u>	<u>Potential MARC Activities</u>
- no T/I information "library" to provide easy and up-to-date access to all marketing information, esp. for US markets	- assist FTIB to set up operate and maintain a computerized data network for T/I information primarily on US markets and investments and easily accessible to private sector
- lack of good business news and world market publications for Fiji business people	- assist upgrading of national and Fiji-based regional trade news publications and provide FTIB subscription access to relevant industry publications
- lack of T/I promotional materials suitable for use in U.S. markets	- work with FTIB to modify formula of current promotional materials for success in US markets

B. PAPUA NEW GUINEA

1. Economic Summary

Papua New Guinea (PNG) is a South Pacific country with a land area of 90,540 square miles and a population of approximately 3.6 million people occupying the eastern half of the main island of New Guinea and nearby associated islands.

Until the recent Bougainville crisis, one of Papua New Guinea's strongest attractions was political stability. The country is democratic to the core; its traditional village society was based on a natural democracy where all important decisions were made by consensus. Since independence in 1975 there have been only four changes of government, all of which followed parliamentary procedures. With over 1,000 ethnic tribes, and more than 860 distinct languages, however, the sense of nationhood is still building among the populace.

Annual inflation has hovered between 4 and 6 percent throughout the 1980s, but will probably increase to at least 9 percent in 1990 as a result of devaluation. The exchange rate of the Papua New Guinea kina is adjusted daily by the central bank on the basis of its relationship to a weighted basket of currencies.

The economy is characterized by a high level of dependence on a few economic activities for foreign exchange earning and employment generation. In 1989, the agricultural sector accounted for 33 percent of PNG's gross domestic product of 3.4 billion dollars. Mining directly accounted for 18 percent. The service sector, much of which is tied to the performance of mining and agriculture, accounted for 40 percent. The mining sector provides 60 to 70 percent of PNG's foreign exchange, supplemented by agriculture's 20 to 26 percent. However, about 85 percent of the population derives its income and/or subsistence from agriculture. Coffee, cocoa, copra and oil palm are the most important cash crops. Timber and log sales also contribute to the economy.

The importance of natural resources in the PNG economy will continue: oil exploration is increasing in the highlands and the Gulf of Papua, and Chevron Niugini is expected to begin construction on the billion-dollar development of the Iagifu-Hedinia fields in late 1990. The Misima Gold Mine opened in April 1989, and Porgera Gold Mine should come on stream in 1990. Ox Tedi is also expected to increase production in the early 1990s. Gold mining projects are also planned at Lihir. Mt. Kare, and Hidden Valley.

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Mining is the only large-scale industry in Papua New Guinea. Bougainville Copper Ltd. (BCL) located in North Solomons province and one of the world's largest copper mines, provided 35% of PNG's export earnings before its closure in May 1989 due to land disputes related to mining operations. The closure followed several months of frequently violent struggle among Bougainville militants, BCL, the national government, and other Bougainvilleans and PNG nationals on Bougainville for more local control of the mine. The mine also generated 15% of the national budget, 10% of annual GDP and 2% of the national employment. It will remain closed for the foreseeable future. The GPNG is not relying on BCL's reopening as it plans for the present and projects PNG's economic future.

The country's economy measured by GDP showed steady growth in all sectors through the 1980's (see Table 4) until the Bougainville crisis. However, economic activity is expected to recover in 1991 despite the continued closure of the mine.

Table 4

S1.1: GDP BY ECONOMIC ACTIVITY AT CURRENT PRICES
FOR 1985 TO 1989 WITH PROJECTIONS FOR 1990 AND 1991

	1985	1986	1987	1988	1989p	1990	1991
Agriculture, Forestry, Fishing	818.5	828.0	852.4	924.4	856.0	899.8	970.3
Mining and Quarrying	239.2	329.8	490.0	609.5	352.7	377.9	466.0
Manufacturing	264.6	256.3	268.9	294.3	336.9	370.6	416.3
Electricity and Other Services	38.0	40.0	43.6	46.1	49.0	51.3	56.8
Construction	94.1	103.7	101.8	133.2	161.2	177.4	209.5
Commerce, Transport, Finance, etc.	456.9	444.7	472.0	492.8	511.4	498.3	505.8
Community and Social Services	408.5	431.1	460.0	484.6	543.4	554.3	587.5
Import Duties	104.1	121.4	142.4	156.0	203.1	191.0	203.0
Total GDP	2423.9	2555.0	2831.1	3140.9	3013.7	3120.6	3415.2

Source: National Statistical Office
Note : p = provisional

Statistics on major exports of PNG by sector (see Table 5) show the country to be steadily losing value for its traditional agricultural export commodities except for logs in the forestry sector. (Export licensing for log exports has now been hatted for environmental reasons and the desire to develop a value-added industry).

Table 5

EXPORTS CLASSIFIED BY COMMODITY 1985 TO 1989
(In millions of Kina, nominal)

	1985	1986	1987	1988	1989
Mineral	489.9	561.2	714.9	861.5	676.1
Gold	318.8	398.5	422.9	405.1	317.0
Copper	164.2	156.0	281.9	446.9	344.9
Silver	6.9	6.7	10.1	9.5	14.2
Oil					
Agriculture	330.2	331.9	268.9	255.2	273.6
Coffee	117.5	208.5	134.7	113.5	140.0
Cocoa	62.5	56.4	56.2	46.0	44.0
Copra	33.4	10.0	15.2	19.4	16.4
Copra Oil	23.7	10.4	14.5	17.4	15.8
Palm Oil	61.6	28.3	23.9	32.9	37.9
Rubber Oil	3.9	3.0	3.1	4.4	2.7
Tea	11.5	7.5	5.6	6.3	6.7
Other	16.1	7.8	15.7	15.3	10.1
Forestry	67.3	74.7	110.9	97.5	93.9
Logs	58.4	68.0	103.0	90.5	86.6
Other	8.9	6.7	7.9	7.0	7.3
Marine	12.1	7.9	11.0	7.5	8.0
Other	46.7	45.1	37.5	54.4	65.0
Total	946.2	1020.8	1143.2	1276.1	1116.6

Source: Bank of Papua New Guinea
Note : In the historical period "Other" includes re-exports and
: immigrants effect.

As serious as the Bougainville crisis is, in 1989 the persistent low prices for export commodities had an even greater effect on most Papuan and New Guineans and the terms of trade. The weighted average price of the country's exports fell by 17.5 percent in the September quarter of 1989, when compared with the same quarter of 1988. The June quarter also showed a decline of

15.2 percent. This drop directly affected the majority of the PNG population that works primarily in agriculture.

The effect of low prices is magnified because specific regions depend nearly completely on only one or two export commodities. The highlands region is dependent on coffee. Coffee prices fell 31 percent over the year (1989), to the lowest level in 15 years. Island areas depend mainly on copra and cocoa production. Cocoa prices have rot been lower for 14 years. (see Table 6)

Table 6

PRICES OF MAJOR EXPORTS 1985 TO 1989
(In Kina per tone, f.o.b, unless otherwise stated)

	1985	1986	1987	1988	1989
Gold(US$/ozm cif)	317	367	447	437	380
Copper(USc/lb,cif)	64	62	81	118	129
Coffee	2894	3927	2079	2533	1761
Cocoa	2022	1768	1634	1230	952
Copra	324	108	180	252	232
Copra Oil	571	253	361	479	423
Palm Oil	498	219	246	321	286
Rubber	722	600	838	977	675

Source: Bank of Papua New Guinea
Note : Prices are annual averages in current terms

Faced with the double troubles of loss of revenue from the BCL closure on Bougainville, and the declining value of traditional agricultural exports, the government adopted in January 1990 the most austere package of fiscal and monetary measures (zero growth target for private sector credit, 10 percent devaluation, K100 million cut in government spending and wage restraint), the country has ever faced. These adjustments include renewed efforts at dialogue with the private sector, and renewed emphasis on PNG's "back-to-basics" conviction that a stable future is really tied to increased, effective, private, non-mining foreign and domestic investment in agriculture and related fields. In PNG's current view, the economic importance of the possible reopening of BCL, and other mineral ventures coming on line, should be considered windfalls. It sees its more basic future in the more diversified development and primary processing by the private sector of its renewable resources - agriculture and livestock, forests, fisheries and marine resources, and tourism. The private sector for PNG is

an inverted pyramid with the small holder producers occupying its broad holder producers occupying its broad base and a small but growing number of entrepreneurs entering the ranks of product processing and marketing, though largely expatriate or resident foreigners. The GPNG recognizes the need to strengthen all levels of the pyramid to achieve its future growth objectives.

There are already signs that smallholder growers grouping production to move away from singular subsistence production and into more diversified crops for domestic and export markets. This trend will be encouraged by future government policy and support program changes. To facilitate the development of a more efficient and expanding private industry in fruits and vegetables for domestic and export consumption, the GPNG in 1989 helped finance and establish the private Fresh Produce Development Company (FPDC) with some assistance from the Government of New Zealand. A FPDC board of private growers has been formed. The FPDC operates independent of the GPNG in order to gain the confidence of the growers and market operators. In time, the FPDC will become the industry's own, self-sustaining association. FPDC estimates that 4,700 small-holders will benefit from assistance to the PNG fruit and vegetable industry, primarily through FPDC's assistance to the smallholder-nucleus estate concept of agriculture production in PNG.

2. Papua New Guinea: Major Trade and Investment

The Papua New Guinea Trade and Investment Country Study was prepared by John Millett, Director of the Institute of National Affairs, a local private research institution in PNG. Millett argues that PNG is at a development crossroads unsure of whether to encourage intensive or extensive growth for the best use of its valuable resources: land, people, minerals, marine environment. But whatever the ultimate decisions taken, they must reckon with a number of constraints to economic and commercial development in Papua New Guinea which complicate most investment projects.

a. Logistical Challenges of the Country's Topology

Papua New Guinea has one of the most diverse and difficult topographies in the world. In particular, extensive mountain ranges and swamps make 70 percent of the land unsuitable for agriculture. The coastline alone is 8300 kilometers in length with over 600 islands. The topography has made it difficult to develop land transport beyond the most rudimentary connections to airports and seaports. Only 21,000 kilometers of road or 40 kms per 1000 sq. kms exist in the country. With the high cost of air and sea transport infrastructure, only vital links have been established. Most freight is carried by sea leaving the difficulty of getting it over land to ports. Airports in the interior service

mainly passenger traffic due to the small size of equipment used. Mining companies have brought in their own exclusive and private airfreight services. An American entrepreneur in partnership with local investors is currently attempting to establish a local airfreight service - the first of its kind outside the mining sector.

A selective ban on fresh fruits and vegetables (from Australia/New Zealand) has enabled local producers to increase production and has encouraged domestic retailers to establish relationships with Papua New Guinean suppliers.

Through a series of economic and social reforms, the Country is moving away from its dependency on the public sector to create jobs and on mining alone to secure its economic future. In a speech to the Port Moresby Chamber of Commerce in June 1990, the Prime Minister Namalui asserted that "Real and sustained growth -- in employment, in the development and diversification of agriculture in lessening dependence on imports, and in broadening our export base -- can only come through a confident, expanding and less regulated private sector,".

b. Critical Constraints-Land, Crime, Labor

Access to affordable land is a serious problem. 97 percent of the land is held communally or traditionally and there is no legal framework under which a credible registration system and open market can develop. This leads to endemic land disputes and lengthy compensation negotiations. The government, which has very limited landholdings itself, is considering the development of industrial estates to circumvent the land problem for certain kinds of investment. The World Bank has committed resources to work with government on the articulation of a workable land registration and leasing system. Any solution will likely be long-term in its realization.

Crime, especially in urban areas has escalated considerably in the last decade which adds to the cost of doing business in Papua New Guinea. This is attributed in large measure to rural-urban migration and increasing unemployment as populations attempt to shift from subsistence to the cash and wage employment economies. The average population growth rate has been 2.4 percent per annum nationally and 5 percent per annum in urban areas. With 42 percent of the total population under the age of fifteen, there is a built in momentum to population growth and a high dependency ratio which may translate into increased law and order problems unless more employment can be created.

Labor costs in Papua New Guinea are exceptionally high in comparison to competitors in Asia and other Pacific island nations. According to statistics issued by the Minimum Wages Board in 1989, shown in Table 7 below, wage rates in agriculture and non-agriculture are 3.3 and 8.0 times higher respectively in PNG than in competitor countries.

Table 7

PNG ECONOMIC SITUATION & OUTLOOK

COMPARATIVE AVERAGE WAGES, BY SECTOR 1985-86

	AGRICULTURE	NON-AGRICULTURE
	RATIO	
Papua New Guinea compared with:		
India	5.1	7.0
Sri Lanka	5.0	12.2
Philippines	3.5	6.5
Western Samoa	2.5	8.6
Indonesia	1.9	5.6
Malaysia	1.7	4.6

SOURCE: PNG Minimum Wage Board 1989

A number of factors contribute to high labor costs. A historically high personnel compensation system was inherited from the former colonial administration. The minimum wage in the formal sector is linked currently to increases in the consumer price index allowing wages to go up a maximum of 6 percent per annum. The Government and private sector recognize the problem and are taking steps to force real wages down. One proposal is to de-link wage increases from cost of living and instead link it to a labor productivity measure.

Labor costs are exacerbated by the fact that only 15.5 percent of the population of employable age are active in the formal economy. Of these, very few are trained managerial personnel. Even skilled labor is scarce. This has been directly attributed to a system of education and vocational training which has seriously deteriorated in the last twenty years. According to 1989 statistics, PNG had only 2000 high school graduates annually.

c. Financial Sector and Foreign Investment Constraints

All commercial bankers in PNG agree that the country lacks a merchant banking capability and that no capital market exists. Long-term debt is not easily available in country though trading banks are expected to provide capital of all maturities. This forces private investment to depend on foreign sources of capital. The higher risk associated with foreign exchange conversion, repatriation of foreign exchange and a difficult and unfamiliar investment environment push up the cost of imported capital and the investment return levels expected by investors willing to risk their capital. According to Millett, investors look for 12-15 percent dividend yield on share and property investments which is 6 to 8 points higher than comparative Australian figures. Despite the costs, the embryonic stages of a multi-service financial system to serve local investment are established and more advanced than in Fiji, Vanuatu and the Solomon Islands.

Foreign investment has been frustrated and excessively delayed by Government investment approval procedures involving a dysfunctional parastatal, the National Investment Development Authority (NIDA), and numerous other offices.

International accounting firms operating in Government in PNG estimate 1 to 1.5 years are needed for a business to obtain approvals to set up operations in PNG. This contrasts with as little as 3 weeks in Tonga. In a recent reform action, the Parliament, led by Prime Minister Namalui moved to abolish NIDA and to set up in its place a commercially-run Investment Promotion Authority (IPA) which will consolidate most investment approval actions under one roof and be geared in its staffing and operation to serve the private sector.

d. Formulation of Government Regulations Advisory Committee

The government is committed to relieving, to the extent possible, these and other constraints dampening business and private sector investment attraction. To this end, the Prime Minister formed in January 1990 the Government Regulations Advisory Committee (GRAC). This Committee is charged to make recommendations and guide the implementation of government reforms necessary to revitalize domestic and foreign trade and investment. While appointed as a short-term advisory committee, it is very likely the private sector will successfully argue for maintaining GRAC as a permanent body. It is now chaired by the governor of the central bank and is composed of the PNG Chamber of Commerce and Industry, the Chamber of Mines and Petroleum, the Governor of the Bank of PNG (the central bank), the Rural Industries Council, the Liklik Bisnismanmeri Association (PNG's micro-business federation), the director of the new Investment Promotion Authority, the

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Institute of National Affairs, a representative of the professional organizations of accountants and lawyers, and the secretaries of the GPNG departments of the Prime Minister, Finance and Planning, Trade and Industry, and Justice.

Issues and recommendations on which GRAC is currently working include:

1) amend the definition of foreign enterprises to one in which there is less than 50 percent national equity, rather than the current 75 percent national equity (50/50 joint ventures will be classed as national enterprises); 2) abolish the current more cumbersome requirement for business to submit training and localization programs and replace it by a training levy on the payrolls of firms; 3) publish a list of all land held by government departments and agencies to be disposed of as soon as possible; 4) by the next budget, reduce to zero the duties currently existing on a long list of agricultural and fisheries inputs; 5) commercialize agricultural extension services; 6) reinforce the pioneer industries scheme and its 5-year tax holiday; 7) develop reasonable guidelines for "compensation" claims by traditional landowners; 8) establish a "permanent resident" visa status for business persons; 9) revise GPNG schemes or guidelines for access by business to public and private sector financing, and 10) advise the government on the replacement of the moribund National Investment Development Authority.

e. Formation of Privatization Committee

In may 1987, the PNG Cabinet had approved going forward with the privatization of six of thirty-five state-owned enterprises in the portfolio of the Department of Finance and Planning. Subsequently, letters of agreement were signed between the Ministry, Dylop Investments, and Kina Securities, two local firms acting in a merchant banking capacity, to value four of the SOE's on a success fee basis. From information recently gained, the effort was not self-sustaining; Niugini Insurance came furthest to completion, however the Malayan company which was high bidder was unable or unwilling to make good on its bid.

Until recently, and with a new Government, privatization, although discussed in Government, had been on the back burner. Minister's new economic reform program, privatization has once again become a high priority on the government agenda. The Government's first priority is the preparation of policy guidelines and a comprehensive privatization strategy covering the entire public sector, not just the thirty-five companies wholly or partially-owned by the Department of Finance. This would now include the major statutory companies such as the national airline, Air Niugini, which were off limits in 1987. To promote this reform initiative, the Prime Minister has appointed a joint private-public sector privatization committee, chaired by the head of the reserve

bank. This initiative is not fully support in government. As recently as October 1990, Foreign Affairs Minister, Sir Michael Somare, said in an address to the Port Moresby Chamber of Commerce that he personally had reservations about the success of privatizing state assets in a developing country like PNG. His reasoning was that PNG did not have the technology nor the expertise to make the concept work.

Ir a recent statement to the press (Post Courier 18 Sept, 1990), Prime Minister Namalui said the committee has been given the task of putting together a comprehensive economic package to get the economy going again. Key to its success and improvements in the overall economy will be continued steady progress to remove bureaucratic barriers and promote a wide range of incentives aimed at encouraging private investment. In the longer term increased productivity in the agricultural and services sectors will be fundamental to a more balanced and stable national development.

3. PNG: Potential MARC Activities:

a. Trade Impediments	Potential MARC Activities
- low world market commodity prices decrease production incentives for major export commodities; extension services stifle expansion and improvement of smallholder production potential.	- work with industry associations like FPDC and entrepreneurs of new higher value commodities to develop or strengthen private competitive horticultural/floricultural marketing systems in PNG for domestic and international markets. - assist with market niche identification and structuring for young agro-industries e.g. organic fruit and vegetable; spices; eco-timber in overseas markets where there is evident potential - provide support for privatizing extension services.
b. Inexperienced Private Sector	Private MARC Activities
- few exports of higher value or value-added products due to lack of experience, local skills and investment.	- assist with specialized industry training and TA to improve industry organization, technologies, and approach to both marketing and investment attraction.
c. Finance Sector Shortfalls	Potential MARC Activities
- organizational deficiencies create at-risk situation for PNG Investment Corporation and Fund operations	- assist PNG Investment Corporation and Fund to propose and implement reforms that will lead to more commercially responsible management of resources and possibly to privatization.

- tight commercial and development bank financing particularly for longer term paper

- collaborate with OPIC, the Asia Pacific Fund, other venture capital and investment funds to attract more non-mining foreign capital investment to PNG

- shortage of qualified personnel in Development Bank

- collaboration with ADB in revitalization of Development Bank

d. Lack of Privatization

- little progress on privatizing thirty five state-owned enterprises

Potential MARC Activities

- assist Government in particular, Commercial Investment Division of Department of Finance and Planning in the preparation of and implementation of comprehensive privatization strategy

e. Policy Reforms

- lack of understanding of policy reforms needed to create better business environment for private sector development; over-regulated business sector; inconsistent government administration of policy and regulation

Potential MARC Activities

- lend support to reform initiatives of GRAC through private organizational members and secretariat

- selective exposure & training for key government policy-makers to understand principles of free market enterprise; promote & assist private/public sector dialog to identify and agree on policy reform issues

f. Investment Constraints

- bottle neck in government for foreign investment and business registration; unclear government policies

Potential MARC Activities

- assist government to create a commercially-run one-stop shop for investment approval and promotion

- lack of organized system for investment promotion and absence of targeting, and preparation of best options for presentation to investor markets

- provide assistance to industry associations and eventually to new Investment Board to develop market suitable investment promotion materials and to design investment missions with possible collaboration with IFC Foreign Investment Advisory Service

- help generate industry profiles for entrepreneurs

g. <u>Informational Gaps</u>

- weak, national economic, trade, and business info, statistics and reports; little trade info easily accessible to private sector esp. for US markets

<u>Potential MARC Activities</u>

- provide assistance to development of central info collection and contacts data base within private sector and easily accessible to investors and traders

- support development of capacity to publish and disseminate trade news and industry publications i.e. PNG Trade News

C. TONGA

1. Economic Summary

The Kingdom of Tonga is located 4,000 kms east of Sydney Australia and 6,000 kms south of Honolulu. It comprises 171 islands 36 of which are inhabited with the bulk of the population on Tongatapu. The total land area is 599 sq. kilometers spread over 70,000 square km of territorial sea.

Tonga's population was estimated about 97,000 at the end of 1988, with 72% of the total being on the main island of Tongatapu. The net annual growth rate for the past 5 years has been approximately 1%. This low growth is primarily the result of foreign migration and to a much lesser extent of family planning. The population composition is very homogeneous with over 90% being indigenous Tongan. That proportion was 98% two decades ago, but has since declined due to an increase in the number of non-Tongans entering the country to undertake business, work for the private sector or government, and to an increasing number of mixed marriages.

Under the Constitution of 1875, Tonga became a constitutional monarchy on a model similar to the British system, with the rights and obligations of the Tongan people spelled out. This system is little changed today. (See Annex G Kiste for details). Because the population is essentially homogenous, there exists a particularly cohesive social and political structure which has allowed the Kingdom to resist colonial influence despite its being a British protectorate for some seventy years up to 1970. The Kingdom has, by and large, been able to maintain long term stability in its social and political structure.

The land tenure system is uniquely Tongan wherein all land is ultimately owned by the Crown. Every male of 16 years of age is entitled to apply for rural and town allotments. The leasing of land has been permitted under certain conditions since 1976, mainly due to the fact that resources are no longer adequate to permit allocation to all eligible males. The major problems associated with the decreased land availability arise from the small size of holdings, the relatively short period of leases allowed by legislation, and the limited capacity of the land to absorb more labor. In general, however, almost all have access to land allocated to other members of the family and, although registered holders of land have been allowed to lease their land, it is more common to find that informal leasing arrangements rather than formal leases are utilized.

The economy is based on primary sector production: agriculture, fishing and forestry involving around 85% of all households and 47% of the economically-active population. Primary sector production, principally agriculture accounted for 38.5% of the T$62.8 million GDP during 1988/89. The major products are coconuts, banana, vanilla, various fruits, vegetables and fish.

Virtually all production from the sector originates from smallscale landholdings. The Kingdom's international agricultural trade has been disadvantaged by a narrow resource base, by the distance to markets, by geographical dispersion of the island groups of the Kingdom and the general lack of economies of scale in production.

Among the other sectors that make up the GDP, the services sector accounts for 20%; wholesale and retail trade contributing 11%; the manufacturing sector 10.3% and electricity water and construction about 7.6%. (see Table 8)

Table 8

GROSS DOMESTIC PRODUCT BY INDUSTRIAL ORIGIN, 1984/85-1988/89
(Pa'anga millions)

	1984/85	1985/86	1986/87	1987/88	1988/89
Agriculture, Forestry & Fishing	24.4	25.00	25.90	23.30	24.20
Mining and Quarrying	0.36	0.40	0.40	0.50	0.60
Manufacturing	5.31	6.10	6.30	6.30	6.50
Electricity and Water	0.47	0.60	0.60	0.70	0.80
Construction	4.39	3.30	3.40	3.70	4.00
Wholesale & Retail Trade	6.33	6.70	6.90	6.90	6.90
Transport, Storage & Comm.	3.38	3.50	3.60	4.00	4.40
Finance & Real Estate	2.60	2.60	2.70	2.80	2.90
Comm., soc. & pers. services	10.79	11.60	12.00	12.40	12.50
Comm. @ factor cost	57.87	59.80	61.80	60.60	62.80
Indirect taxes (- subs.)	8.49	8.70	9.00	8.70	9.00
GDP & Market Prices	66.36	68.50	70.80	69.30	71.80
Memo items:					
GDP @ current prices (Pa'anga mil)	80.00	98.90	110.00	119.60	127.00
GDP deflator (annual % change)	120.60	144.40	155.40	172.60	177.60
	1.7	19.8	7.6	11.1	2.9

Trends show a decline in the importance of export agriculture with a counter balancing growth in the manufacturing and services industries. Tourism in the Kingdom has been an important foreign exchange earner for the country generating approximately T$8.6 million in 1989 compared to T$7.9 million for export receipts. These growth trends are a reflection of official development policy which over the past decade has promoted export-oriented industries in non-traditional sectors such as manufacturing and tourism.

Given that the Tongan pa'anga is at parity with Australian dollar, the volatility of the exchange rate between these two countries has resulted in marked fluctuations in the rate of price increases in the Kingdom. The recent establishment of the Central Bank in the Kingdom may or may not alleviate this problem in the immediate future depending on if and when the exchange rate is floated. Because of the particular conditions of the Tongan economy, this pegging of the pa'anga to the Australian dollar has to be discontinued and replaced with a basket of currencies. It is predicted that this will happen before long.

New Zealand and Australia are Tonga's major trading partners. In 1989, New Zealand bought 34 percent and Australia 20 percent of the value of Tongan exports. Similarly with imports, New Zealand provided 30%, Australia 22% with the USA and Japan also increasing in importance as a source of imports. As shown in Table 9 below, US trade with Tonga has increased steadily in recent years.

Table 9

Kingdom of Tonga Trade with U.S. 1985-1989
(T$ Values)

	1985	1986	1987	1988	1989
Total Imports	58,929,518	59,616,157	68,460,096	70,688,883,	68,334,194
U.S.A.	3,345,246	1,821,928	2,611,220	3,896,471	6,133,255
Total Exports	7,783,308	9,484,057	9,552,957	10,555,292	12,183,268
U.S.A. Component	226,435	1,555,480	1,271,656	1,379,766	2,171,304

SOURCE: Ministry of Labor, Commerce and Industries
Government of Kingdom of Tonga

Exports of commodities comprised 6.5% of GDP in 1987/88 with the main products being coconut oil, vanilla beans, banana, desiccated coconut, watermelon and fish. Imported commodities, which are principally consumer goods and intermediate goods, accounted for 58.5% of GDP in 1987/88. The current account balance recorded a deficit of $5.45 million representing 4.5% of GDP. Notably, inflows of private remittances and official transfers, which in 1987/88 reached $51.99 million, have contributed significantly to keeping the external current account of the Kingdom in surplus. Remittances have on average been around 30% of GDP and external grant assistance averaging approximately 20% of GDP. The capital account recorded a surplus of $3.08 million in

1987/88 with the overall balance recording a deficit of $2.37 million, the first deficit to be recorded over the past six years.

External public debt rose from T$21.0 million (34.7% of GDP) in 1981/82 to $48.3 million in 1987/88 (40.3% of GDP). Debt service ratio is low at an estimated 2.4% of GDP. Most of the debt is on concessional terms. The most recent figures for the year ending June 30, 1989 showed a trade deficit of approximately T$59 million causing the current account balance to show a deficit despite continued flows of private remittances, development aid and external loan funds. At the end of December 1989 the Kingdom's foreign exchange reserves were $31.4 million equivalent to five months imports.

All sectors of the economy have however, over the past six years, registered an average positive real rate of growth as follows:

Table 10

AVERAGE GROWTH BY ECONOMIC SECTOR - TONGA

(1982/83 - 1987/88)

Sector	Average Growth 1982/83 - 1987/88
1. Electricity and Water	9.0%
2. Manufacturing	6.7%
3. Finance and Real Estate	5.0%
4. Wholesale and Retail	4.8%
5. Community & Social Services	3.8%
6. Construction	2.0%
7 Agriculture	1.4%
8. Transport & Communications	1.2%
9. Mining & Quarrying	0.0%

SOURCE: Kreag and Sevele 1990 Tonga Trade and Investment Country Study.

Within the productive sectors of the economy in private sector hands, agriculture, which accounts for the largest share of GDP has notably been commanding a lesser share of GDP. This was particularly evident in 1987/88 when its share fell from 41.4% of GDP recorded in 1986/87 to 38.4% in 1987/88. This decline has been directly attributed to the operation of the government owned Tongan Commodities Board (TCB) which was the major exporter of agricultural commodities and had statutory monopoly over coconut,

vanilla and bananas during this period. With an average growth rate of 1.2% over the past six years and a marked decrease of 10.8% from 1986/87 to 1987/88, the Board effectively stifled the market and competition. Since 1988 vanilla has escaped the Board's control and been able to secure significantly higher rates of growth as a single commodity. Various functions of the Board are now in the process of being privatized by Government with assistance from the Asian Development Bank. There is some indication the TCB may try to retain control of 'stabex' supported commodities so as not to lose the export stabilization funds provided under the EC Lome Convention.

Manufacturing has been a growing sector building from 8.9% of GDP in 1981/82 to 10.4% in 1988/89. A significant factor in the growth is a highly successful industrial zone called the Small Industries Center established in 1980 on 12 acres of land to facilitate the growth of light and small scale industries. The output, employment and exports arising from industries located in the Kingdom's only industrial zone, reflect a process of significant development in the manufacturing and industrial sector of the Kingdom. The tabulation below (Table 12) contains statistics from industries located at the Center. The Small Industries Center currently contains 23 companies producing various commodities. From an output level of some $1.4 million in 1982/83, output was recorded in 1987/88 at $3.3 million. Employment levels have risen from 318 in 1982/83 to 511 in 1987/88 with an additional 1,489 persons employed outside the Small Industries Center doing piece work. (see Annex I Tonga Manufacturing). Further significant increases have occurred in the last two years. A second smaller industries center has just been completed in Vava'u and a third is planned as an 8 acre extension to the original center, using Asian Development Bank funding. Industries located in the initial Small Industries Center as of March 1990 are shown in Table 11.

Table 11

INDUSTRIES LOCATED IN SMALL INDUSTRIES CENTER
NUKU'ALOFA, KINGDOM OF TONGA
(as of March 1990)

	Industries	Product/Services
1.	Lynx Craft Company	Bed linens
2.	Jim Beaton's Saddle and Harness	Saddle & harness
3.	South Pacific Manufacturing Company Limited	Woolen Knitwear
4.	Paper Industries (Tonga) Limited	Toilet paper rolls

5.	Tonga Wood Products Ltd.	Wooden toys
6.	Tonga Wire Company Ltd.	Wire
7.	Pacific Industries Ltd.	Slippers and shoes
8.	Asian Paints (Tonga) Ltd.	Paints
9.	Mathews & Associates (Tonga) Limited	Soccer ball, rugby balls
10.	WECO Tonga Limited	Excavators, shipbuilding fabrications
11.	Golden Passions (Tonga) Limited	Fruit juice, bulb
12.	Commonwealth Industrial Gases	Industrial gases, e.g. oxy-acetylene, oxygen etc.
13.	South Seas Yachting Pty Limited	Fiberglass yachts and boats
14.	Sails and Pennant Co.	Sail pennants
15.	Royal Beer Company Ltd.	Beer
16.	South Pacific Leather Limited	Leather jackets
17.	Katalina Jewellery	Jewellery products
18.	Imua Pacifica Ltd.	Black coral jewellery
19.	Tonga Solar System	Solar water heater
20.	Prema & Sons Ltd.	Assembly of bicycles, prams
21.	Pone & Ali Enterprises	Manufacturing of shoes and sandles and repair
22.	Tapueluelu Enterprises Incorporated	Assembly and servicing freezers, refrigerators air conditions and electronic equipment
23.	Sinisia Taumoepeau Enterprises	Screen printing and tapa products
24.	Flemming Electric Co. Ltd.	Servicing and assembly of electrical motors switch gears, electrical pumps etc.
25.	Fletcher Construction	Construction of wooden furnitures, doors and specific wooden items for constructional purposes
26.	Laulili-i-'oe'Hau Enterp.	rubber sandles
27.	Tonga Diesel Services	Repair diesel engines
28.	Tonga Community Development Trust	Roof and floor tiles
29.	Tonga Purified Drinking Water	Purified drinking water
30.	HACO Welding Services	Welding services

Table 12: EMPLOYMENT AND EXPORTS OF THE SMALL INDUSTRIES CENTER - TONGA (IN THOUSANDS OF PA'ANGA)

	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88
Total						
Output	1,411	1,784	1,880	2,646	2,788	3,288
Employment	318	305	330	379	423	511+
Export Value	***	***	804	1,031	1,090	1,248
Paint						
Output	217	180	396	434	465	731
Employment	9	7	7	7	7	7
Export Value	***	***	***	***	***	***
Sports Equipment						
Output	340	400	220	154	36	48
Employment	50	41	13	34	13	6
Export Value	***	***	236	141	34	25
Knitwear						
Output	279	380	243	507	720	668
Employment	90	102	171	180	241	302
Export Value	***	***	236	454	706	668
Excavators						
Output	72	234	267	684	580	100
Employment	9	12	51	60	60	60
Export Value	***	***	231	316	200	70
Toilet Paper						
Output	149	200	242	264	370	350
Employment	9	3	5	5	6	6
Export Value	***	***	***	***	***	***
Jewelry						
Output	70	14	69	70	75	38
Employment	10	10	7	7	7	9
Export Value	***	***	97	80	90	38

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	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88
Furniture						
Output	34	45	68	77	80	35
Employment	14	14	10	10	10	5
Export Value	***	***	***	***	***	***
Wire Fencing						
Output	69	140	140	150	72	59
Employment	5	5	5	6	4	4
Export Value	5	5	5	56	4	4
Leather						
Output						298
Employment						66
Export Value						298
South Sea Yachting						
Output						218
Employment						28
Export Value						130
Royal Beer						
Output						743
Employment						18
Export Value						19
Miscellaneous						
Output	182	192	235	306	390	***
Employment	127	111	66	70	75	***
Export Value	***	***	37	40	60	***
No. of companies	15	15	17	18	21	23

Source: Data provided by Ministry of Labor, Commerce and Industries

+ An additional 1,489 are employed in industries outside the Small Industries Center.

* Represents N/A

While most economic sectors have been performing well, the general Tongan view is that the growth is not as much as had been planned or could be achieved. The problems are attributed largely to specific difficulties in the business environment and inadequate sources of capital. Agriculture is the biggest problem.

Agricultural performance over the past two decades has been disappointing. Exports have been declining significantly in value, volume and range of commodities. (Vanilla has been the exception and its future appears promising). Local analyst attribute performance of the agricultural sector due to the absence of a clearly thought-out and appropriate agricultural policy with definite targets. Instead of concentrating on those commodities in which there is definite comparative advantage, effort and resources have been widely spread. The needs of the sector and incentives it requires have never really been addressed. All kinds of incentives are available to the industrial, manufacturing and tourism sectors but very little, by comparison, to the agricultural sector. Private enterprise development of this sector has also been inhibited by the monopoly of the Tongan Commodities Board on major crops. In a number of cases including agriculture, government aspirations for accelerated growth have overtaken the appropriate policies and practices to accomplish growth objectives. Government has finally begun in its 1990-1991 budget statement and related actions to recognize the importance of paying greater attention to needs of private, export-oriented agricultural industries. Policies and the incentives structure are being strengthened.

The primary articulated objective for the Kingdom in the 1990's is to boost economic growth through growth of export earnings and to provide employment and an equitable distribution of income for all people in the Kingdom. Specific problems to achieving this objective recognized by government in its 1990-91 budget statement include:

a) access to land to enable the set-up of a business which was only partially solved by the Small Industries Center.

b) shortage of managerial, technical and highly specialized skills and knowledge.

c) relatively high level of emigration and the tendency to lose overseas trained personnel.

d) shortages of capital for local lending.

e) lack of cohesive government policy to assist the private sector overcome marketing constraints.

f) lack of exposure in government to the mechanics of being in the private sector.

2. Tonga: Major Trade and Investment Constraints

The Tonga Trade and Investment Country Study (TICS) was prepared by Fred Sevele, a Tongan consultant in private practice, and John Kreag, Deputy Director of the Friendly Islands Marketing Cooperative. The study argues that the need for investment promotion is far greater than that for trade promotion. Furthermore, it suggests that more emphasis on business environment improvement may have the greatest benefit in the shortest period of time for Tonga.

Problems affecting all economic sectors are listed and discussed below:

a. Improving the Business Environment

While the investment climate in Tonga is a favorable one, there is still broad scope for improving the business environment. There are a number of critical constraints which individually and jointly hamper the development of the private sector and economic and social progress in general. These include the land tenure system, shortage of skilled and unskilled manpower, absence of labor legislation, inadequate risk and working capital, a relatively high cost structure, and near absence of communication between public and private sectors on these matters.

There are a host of policy issues on the land tenure system whose resolution is critical to enable access to this vital input for would-be investors in productive business. A wholesale review of land law and lease arrangements with recommended alternatives to facilitate private sector development requirements is needed.

Incentive systems for the manufacturing and small industry and tourism sectors has been addressed by government but little attention has been paid to commercial agriculture and fisheries. Incentives and concessions to import plant and equipment elements across all commercial sectors could enhance productivity and investment attraction. On the other hand, removal of tariff protection from industries that have had sufficient time to progress from infant status and the removal of unnecessary industry subsidy would allow for increased competition which would be of longer term benefit to the country.

The banking sector needs attention. Interest rate policies of the National Reserve Bank do not encourage savings or allow the flexibility to respond to the fluctuating demand for credit. There is a demand for the establishment of a national provident fund which could feed funds into larger joint venture projects. A lot of capital is tied up in land and housing which could be released if the government allowed trading in land leases between Tongan citizens. The TICS called for the establishment of

a private investment corporation to provide a source of equity and investment capital and guidance on how to stimulate the growth of a private sector capital market. More privatization of government operations contributing to this market was also called for.

The private sector has no effective forum with government. This has in part been discouraged by a government system (nobles - commoners) that is not directly answerable to the people. The TICS called for establishing an industry consultative committee initiated by the private sector to liaise with industry organizations.

This committee would begin the two-way interaction between private sector and the public sector. The Chamber of Commerce and the Bank of Tonga are beginning to be asked by Government to sit on various committees as token private sector members but rarely are they consulted at the critical formulation stages of policy and regulation which govern the operation of the private sector.

The Government of Tonga has accepted the concept of private sector development as a major force in accelerated economic growth in the Kingdom. But there is often an expressed inability in its operations to reconcile this concept with the traditional role of government. Economic planners have had little exposure to the appropriate policies they need to institute to allow the private sector to develop to its full potential.

b. Marketing constraints

Marketing Constraints are cited as one of the most important issues needing to be addressed. Government does not have a cohesive policy or institutional vehicle to assist the private sector overcome marketing constraints. Individual entrepreneurs lack the specialized skills and resources to carry out their own marketing unassisted.

Some of the major constraints with regards to the market lie in production volume, cost and quality. Local industrial workers and entrepreneurs need training and exposure to the quality controls in production, packaging technology etc. required by overseas buyers. They alsoneed to gain an appreciation for what it takes to build market credibility and image and keep it. Agricultural produce in particular suffers from the absence of national quality and grading standards and poor facilities for quarantine control. The deficiency in understanding the issues of quality are at both the producer and exporter level. There is also a need for assistance with packaging design and advertising as a cost effective way to increase trade.

The TICS calls for the establishment of a trade commission attached to the Ministry of Foreign Affairs to be an official body for export-oriented industries in the private sector. On the investment side, the Parliament has authorized the Ministry of Labor, Commerce and Industries (MLCI) to investigate models for setting up an independent industries development corporation to promote investment. At present the MLCI handles all trade and investment matters plus a variety of other government responsibilities. While it operates fairly efficiently for a Government Ministry, it does not have the time necessary to effectively promote investment and support the private sector export interests from within the Ministry.

In terms of trade promotion, most Tongan businesses feel that they must target niche markets overseas. To be successful, they believe that they must make personal contact with potential buyers. Therefore targeted short promotion trips for businesses (that have the capacity to increase production and have appropriate products for sale in the U.S.) should be considered as the most likely source of increased export trade. However, in Tonga there are few established industries with goods to sell that have not already secured some market for their current production. Some however, are looking to diversify away from the weakening New Zealand and Australian markets. Others would like to penetrate the U.S. markets but would need access to capital or investment partners for expansion of their current operations to be able to do so.

The TICS team cited investment as a key ingredient needed by Tonga for future business growth. Assistance is needed with investment promotional materials and strategies. Some of this should be targeted to reach the visitor or tourist market in Tonga i.e. a picture book featuring the beauty and products of Tonga. It is suggested that careful planning be undertaken before any investment missions to Tonga are organized including targeting of specific types of businesses desired so as to insure that impediments to such investments are minimized prior to arrival of the Mission. It is felt that with the exception of the need for more hotel rooms to support the tourist industry, investment promotion could be geared to the profile of the businesses sought. Large remittances from overseas Tongans are a target for guided investment into priority industry development.

There is a need for more market information in Tonga particularly as an educational tool for businesses. It was suggested that businesses could greatly benefit from an introduction to trade journals and magazines. Hard copy or 'automated' yellow pages (computer software program) of principal cities in the large overseas markets would be useful.

Connecting Tonga with existing marketing information services via improved telecommunications would put Tonga in

communication with the world markets in general terms but this undoubtedly could not be cost effective for the few exporters that exist. These businesses already have their own targeted market information systems and could probably best be helped on an individual basis.

Virtually no information from the South Pacific Commission or Forum Fisheries Agency is being passed on to the commercial fisheries sector or the commercial agriculture sector in Tonga. Copies of information come into government departments and collect dust. Direct mailing to individual businesses or to industry associations of research, information and survey results of these regional organizations could usefully begin the education of industry.

3. Tonga: Potential MARC Activities

a. Trade Constraints	Potential MARC Activities
- individual entrepreneurs lack the specialized skills and resources to carry out their own marketing; issues of production, volume, quality, & cost; No in-country facility to assist exporters	- industry specific TA and training in quality control packaging advertising for US markets

b. Investment Constraints	Potential MARC Activities
- inadequate investment capital for industry expansion, absence of suitable investment promotion vehicles and materials, no in-country facility to assist investors	- identify range of suitable investment opportunities - assist with development of investment promotion materials - assessment and targeting of overseas U.S. Tongan investment potential - preplanned, targeted investment missions to Tonga. Work with OPIC - exploration of suitable in-country investment promotion facilities to serve as models for national institution

c. Policy Obstacles

- institutional, legal and bureaucratic bottlenecks hinder development of private sector

Potential MARC Activities

- support development of industry consultative group
- assessment of land, policy/law issues affecting private sector & recommended alternatives
- sponsor seminars, study trips and TA to guide key government officials in understanding of private sector needs
- assess financial sector with selective intervention, perhaps assist with privatization of certain government operations i.e. marketing board
- assist government to develop incentive system for commercial agriculture and fisheries

d. Lack of Capital Options

- shortage of investment capital; no risk capital market, no share market for private investment; no banking competition; under capitalization of industries

Potential MARC Activities

- undertake financial sector assessment
- select assistance opportunities that can be fulfilled through specialized TA; leveraging U.S. capital and investment market interests

e. Information Deficiencies	Potential MARC Activities
- lack of business access to basic business and industry information; limited general access to market information on major world markets	- develop information system geared to educating business and industry - modest information system networking geared to actual users - secure direct mailing of regional organizations' info to business and industry

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D VANUATU

1. Economic Summary

The Republic of Vanuatu became an independent nation on 30 July 1980, from the New Hebridean condominium administration of Britain and France. Comprising some 80 islands (most of them inhabited), the total land area of the country is 4,707 square miles of which 45% is considered as potentially arable land. Territorial waters cover approximately 450,000 square kilometers.

The population of Vanuatu is approximately 155,000. It is still largely rural based with only 18 percent concentrated in the two urban areas. Port Vila, the capital (also the seat of government) is on Efate island with a population of 22,000(1986). Luganville on the island of Espiritu Santo is the country's second town with about 6,000 inhabitants (1986).

The country's growth rate is 3.24 percent per annum; at this rate of growth, which is high, the doubling time will be just 21 years. By the year 2000, it is expected that Vanuatu will have a population of 221,000. The current population has 45 percent under 15 years of age and 3 percent over the age of 65. There is little population pressure at this time but given the current growth rates the next decade of development activity will prove to be crucial.

Of the total population, the potential labor force (between ages 15 and 64) is about 70,600 (1986) of which 60,000 are considered to be economically active Ni-Vanuatu. Some 84% are involved in agriculture. Of the balance involved in non-agricultural activities, 42% are in the service sector and trade; 20% hotels and restaurants; 10% transport and communication; 5% manufacturing; 9% construction; and other activities. The labor force is expected to increase at an average rate of 3.3% per annum bringing it to an estimated 83,000 by 1991.

Official estimates of the nations gross domestic product (GDP) were published for the first time covering the period 1983-1985. Current statistics in constant 1983 prices indicate a stagnant economy (see Table 13) with less than 1 percent growth over 5 years from 1983 to 1987.

Table 13: GROSS DOMESTIC PRODUCT BY INDUSTRIAL ORIGIN
AT CONSTANT 1983 PRICES, 1983-87
(Vatu millions)

	1983	1984	1985	1986	1987
Agric., For. & Fish	2649	2831	2771	2606	2591
Plantations	246	259	239	252	251
Other comm. agr.	598	515	543	318	152
Smallholdings	786	922	827	902	865
Subsistence agr.	974	1006	1044	1065	1096
Forestry	45	129	118	69	227
Industry	772	903	940	1024	1282
Manufacturing	311	419	466	466	588
Energy	158	191	192	190	180
Construction	303	293	282	368	514
Services	6729	7111	7256	7121	6948
Trade, Rst., Hotel	3627	3740	3753	3518	3599
Transport & comm.	757	808	770	741	762
Finance Center	819	772	967	1128	1087
Real est., bus.serv.	1393	1542	1629	1721	1614
Gov't serv.	1393	1542	1629	1721	1614
Comm, soc., pers.serv.	72	72	74	76	79
less Imputed bank charges	-465	-410	-548	-654	-727
GDP at producers'	10150	10845	10967	10751	10821

Source: NPSO

Vanuatu has a dualistic economy. The majority of the population are smallholders, operating in a mixed cash crop and subsistence agriculture economy. This traditional sector of the economy is little monetized but this is beginning to change with the opportunities presented by tourism to market production in the population centers. The modern sector, operates primarily in Port Vila the capital and on Santos Island, the country's designated industrial development area. It consists of plantation agriculture in coffee, livestock, copra and cocoa; government and commercial services such as shipping and retail; tourism and the offshore banking services collectively called the Finance Centre and comprising about 100 banks and non-bank financial institutions. The main sources of government are from indirect taxation, important export duties (4% on FOB value), airport and port dues, business license fees, a 10 percent tourist tax on all restaurant and hotel charges and company registration fees.

Currently economic activity can be broadly classified into three categories - agriculture, tourism, and the finance center, all well established:

Agriculture is by far the largest employment sector as well as the only sector to involve both urban and mostly rural dwellers. Including the subsistence economy, it supports 84% of

the population. Agricultural production has traditionally been the mainstay of the Vanuatu economy (discounting aid) providing as much as 60-80% of gross export earnings - depending on world commodity prices - and contributing significantly to the national budget. Only 50 percent of the total arable land is utilized, mainly for copra, Vanuatu's principle export commodity. Other traditional export commodities include cocoa, beef, coffee, and timber. More recent developments have been marine products, logs, kava and other miscellaneous root crops. (See Table 14). Of the total average annual budgets over the past 5 years, 3.5% was spent on agricultural activities exclusive of any direct spending through the service industries. Even so, the country's agricultural potential remains largely unrealized.

Although Vanuatu possesses significant marine resources, the local population are not traditional fishermen and this sector is mainly serviced by foreign fishing fleets paying license fees for access to Vanuatu waters. There is potential for a private resident fishing company, particularly to act as a nucleus support business for local contract fishermen. The country has already implemented a successful village fisheries development program.

In forestry, the country is only just beginning to explore avenues for value-added processing of indigenous timber. Two private companies are already operating under a value-added and sustainable yield concept of resource utilization - Pacific Veneers and Pacific Island Timber Trading Limited. In addition to high quality veneer and kiln-dried sawn timber for poor quality logs, Pacific Veneers is exploring downstream processing potential for furniture, wooden doors.

Table 14

VANUATU PRINCIPAL EXPORTS AND RE-EXPORTS; VALUE

Million Vatu f.o.b.

Period	Copra	Cocoa	Beef & Veal Vivande Chilled or Frozen	Beef & Veal Bovine Processed	Timber Sawn .og	Others	Total	Fish & Others	Petroleum Products	Total	Total Exports & Re-Exports	
1984	2734	135	118	24	147	63	3221	911	263	1174	4395	1984
1985	1392	133	185	1	136	123	1970	1028	265	1293	3263	1985
1986	461	196	146	3	63	101	970	768	103	871	1841	1986
1987	719	207	250	2	208	116	1502	254	186	440	1942	1987
1988	953	117	215	25	106	191	1607	345	162	507	2114	1988
1989												1989
1988: 1st Qtr	239	27	34	22	22	34	378	71	55	126	504	1988: 1er Trim
2nd Qtr	252	6	67	-	9	73	407	101	39	140	547	2eme Trim
3rd Qtr	310	11	60	-	23	33	437	129	23	152	589	3eme Trim
4th Qtr	152	73	54	3	52	51	385	44	45	89	474	4eme Trim
1989: 1st Qtr	153	31	60	-	24	29	297	66	55	121	418	1988: 1er Trim
2nd Qtr												2eme Trim
3rd Qtr												3eme Trim
4th Qtr												4eme Trim
1989: Jan	2	-	17	-	6	7	32	37	15	52	84	1989 1989: Jan
Feb	48	18	20	-	8	11	105	13	19	32	137	Feb
March	103	13	23	-	10	11	160	16	21	37	197	Mar
April												April
May												May
June												June
July												July
August												Aug
Sept												Sept
Oct												Oct
Nov												Nov
Dec												Dec

Prior to independence, the country already had an established **tourist industry** catering to the largely Australian market but with significant migration and visitations from the neighboring French territories of New Caledonia and Tahiti. At the time, both Port Vila and Luganville were renowned for their many and varied restaurants with a predominantly French cuisine. Since independence and the gradual withdrawal of direct budgetary aid by the former administrators, tourism has developed into a significant source of revenue not only for government and the supporting service industries, but for a growing number of surrounding village entrepreneurs supplying a variety of tourist products.

Port Vila was initially the only destination for visiting cruise vessels; however, over the past 10 years, 3 additional destinations have been developed. This has major significance in terms of distributor of national wealth. Tourism is a major export earner for Vanuatu second only to copra. Foreign exchange earnings in millions of vatu were 1544 (1987), 1853 (1988), and 2659 (1989). The Government is actively promoting infrastructure for tourism expansion. Apart from the obvious regional market for tourists, the country is looking further into Asian European and North American markets. U.S. visitors currently claim only 3 percent of the market share or 693 out of 23,865 visitor arrivals in 1989.

The **Finance Center** or tax haven facility was established in 1971 to provide a banking center and jurisdiction of convenience for company domiciliation free of income, corporate, property, inheritance or gift taxes and capital gains. The Center has established English and French expertise in finance, investment, banking, insurance, accounting and law. Employing 400 people, the training it offers Ni-Vanuatu is an entre into modern business. The Finance Center contributes 15 percent of the GDP per annum.

2. VANUATU: MAJOR TRADE AND INVESTMENT CONSTRAINTS

The Vanuatu Trade and Investment Country Study was prepared by Meto Ngarga, formerly a private consultant and Director of the Vanuatu Commodities Marketing Board and now Assistant Director of Vanuatu Air, the internal air service. As he rightly points out, Vanuatu as a country has accomplished an enormous amount in just ten years as an independent nation. The government's second development plan (1987-91) includes as one of its national development objectives the expansion of the private sector. The plan includes encouragement of overseas investment to provide technical, managerial and marketing skills not available domestically, revision of overseas investment regulations to facilitate greater inflow of overseas investment, and encouragement of joint venture enterprises involving participation of local and overseas investors.

Vanuatu already has an environment that generally welcomes overseas investment. Investment incentives in Vanuatu at this time are essentially linked to the fact that Vanuatu is a tax free zone. The country has no income taxes, no corporate taxes, no estate duties, no gift duties, not capital gains taxes, no tax treaties or double tax agreements, no withholding taxes and no sales taxes. Nor are there restrictions on the flow of capital. Capital and profits can move unimpeded in and out of the country. There is no currency control.

Projects approved by the government can receive customs duty exemptions for capital goods, including spare parts and maintenance tools, for a "start up" period. Raw materials or manufactured goods not locally available that are used for production of exports can be imported duty free provided evidence of re-export is proven. There is no difference in applying these incentives to local or overseas investors. There are no specific policies regarding equity participation by foreigners in commercial ventures and joint ventures with Vanuatu citizens are actively encouraged and supported.

The main constraint for business is lack of local skilled labor. The educational system still resembles the former colonial pattern of French-designated and English-designated areas. The complexities of running a dual system have delayed modernization of the educational program, leaving students unprepared for the skill demands of the modern business sector. Consequently, skills in accounting, marketing, finance, computers and most technical skills such as engineering, mechanics must be supplied by foreigners who either stayed on after independence, have migrated to Vanuatu or have been contracted to come.

Much of the economic activity and commerce is controlled by expatriate residents or non-indigenous citizens. This population often aligns politically and cooperates commercially along ethnic and linguistic lines - European versus Asian and Francophone versus Anglophone. The Vietnamese community, the founders of which migrated to the French Condominium of the New Hebrides in the 1930s, is the most significant political and commercial force in the economy. These social characteristics have created a highly fragmented business community.

There is no strong single business organization to represent all business interests. In agriculture there is a Syndicot Agricole catering primarily for the beef industry. In tourism there is the Vanuatu Hotels and Resorts Association, and Vanuatu Duty-Free Association. For the Finance Center there is the Finance Center Association, the Melanesian Shippers Association, and the Melanesian Business Entrepreneurs Association. All of these business organizations plus other minor associations actively

pursue the interests of their members promoting these interests where necessary and possible, locally and overseas.

There is a chamber of commerce of which most of these associations are members. It received political recognition from government only last year after ten years in existence. Because of this recognition, it is only just beginning to emerge as an umbrella organization for business. The Chamber of Commerce is usually the forum to which chamber members, on behalf of their individual and representative interests, bring and thrash out issues affecting their particular business interests. As the chamber has political recognition, it is given an opportunity to influence the government's decision-making process. The Chamber also enjoys the status of international aid agency recognition through its international affiliations and therefore can attract technical assistance aid for its members. It also could act as a medium for attracting international investment though it has not functioned in this role as yet.

There is no Vanuatu statutory body for trade and investment promotion. The Ministry of Trade, Commerce, Industry, Cooperatives, and Energy has the responsibility for promoting investment and receiving applications for project and incentive approvals but operates reactively rather than actively. This mode of operation has left the country open to the deal hunters rather than the serious investors and left the potential in agriculture, marine resources forestry and tourism largely unrealized.

Ministry staff are keen on studying the Fiji model, the Fiji Trade and Investment Board, to assess the viability of such a body for Vanuatu. Elsewhere in government, the Accountant General has recommended to the Minister of Finance that the government consider establishing a single coordinating agency for investment. The absence of such has been perceived as a major constraint to doing business in Vanuatu by OPIC, IFC and local business people. Because the economy of Vanuatu is relatively small and vulnerable, the investment of one or two successful commercial innovations could have substantial national impact both in terms of financial earnings for the country and opening up new monetary sectors for local business people.

In the business and banking sector including the Reserve Bank, the judgement is that government still has too heavy a hand in business and in controlling the means of doing business. The recent issuance by government of letters of deportation without cause or appeal to prominent long-established local businessmen sent a shock through the business and investment communities associated with Vanuatu. Without forewarning or discussion, the government also recently imposed a tax per employee head on all businesses which are 100% foreign-owned, which is regarded by the expatriate controlled business community as a disincentive. Such crises could be avoided or their negative impact minimized by a

more open dialogue between business and government. At present there is little or none.

As in many other South Pacific island countries, access to and control of land is an obstacle to business. By constitutional rights no non-indigenous person can own land and most land has been classified as "custom land". The process of identifying who are the rightful claimants to alienated land tracts is proving a nightmare for the courts and a major constraint to development as no commercial financial institution will accept land as collateral unless supported by signed leases.

Vanuatu is also struggling (as are other island countries) with outmoded legislation and law based on a mixture of old British and French legal codes. The country's constitution states that "until otherwise provided by Parliament, pre-Independence British and French laws shall continue to the extent that they are not expressly revoked or are incompatible with the independent status of the Republic". While this mode of operation was a practical transitional measure, it is now becoming an impediment to attracting investment and to securing clients for the Finance Center. So much so that the Finance Center has teamed its lawyers with those of government to work on updating companies and taxation legislation. This is only a small beginning to a much larger and more complicated task that must marry two legal systems into a workable legal code and pass the acts to operationalize it.

3. VANUATU: POTENTIAL MARC ACTIVITIES

a. Trade Constraints	Potential MARC Activities
- few exportable products; limited knowledge of U.S. markets or conditions necessary for market success. No direct shipping access to Hawaii or Mainland	- work selectively with business industry that might have future U.S. market potential such as wood products, veneer and tourism. Possible industry exposure and promotion info visits

b. Investment Constraints	Potential MARC Activities
- lack of "one-stop-shop" for investment promotion and processing	- TA and possible institutional visits to assist with conceiving appropriate design and scale of body for Vanuatu
- absence of suitable investment promotion materials and no vehicle for distribution or presentation to serious investor markets	- identify opportunities most suited to U.S. investor markets and prepare for presentation to markets
	- collaborate with OPIC in preplanned, targeted investment missions

c. Policy and Legal Environment	- Potential MARC Activities
- outmoded legislation and laws governing business	- TA to assist with drafting of legal and legislative alternatives on key matters: labor, land, taxation

d. <u>Business Voice and Information</u>	<u>Potential MARC Activities</u>
- highly fragmented business community, fledgling Chamber of Commerce, limited access to technical, trade or investment information, high level of mis-trust between business and government communities	- TA information exchange possible twinning between Vanuatu Chamber and American Chamber - sponsor Chamber work and dialogue on thorny issues dividing business community and business and government - sponsor activities to augment the voice of Ni-Vanuatu business in Chamber affairs
e. <u>Business Skills</u>	<u>Potential MARC Activities</u>
- lack of business skills in local Ni-Vanuatu community deficiency in education systems	- successful U.S. exposure to techniques of introducing business to students, encourage increased role of business community
- lack of understanding in government to key business principles	- exposing key government officials to principles of business and implications of contrary policy and planning through seminars, exposure trips, materials

E. SOLOMON ISLANDS

1. Economic Summary

The Solomons Islands is a double chain of archipelago islands located some 1400 kms southeast of Papua New Guinea in the South West Pacific. There are six main islands: Choiseul, Guadalcanal, Malaita, Makira, New Georgia and Santa Isabel. These six together with hundreds of small islands and atolls comprise the 27,560 square kms of the Solomon Islands. Because of the difficult mountainous and volcanic topography of the country, only 50 percent of the country's land base is considered to have real development potential. The Solomon Islands controls a 1.3 million square kilometer exclusive economic zone which is part of its greatest economic assets.

The country's capital, Honiara, located on Guadalcanal is the only urban area of any size in the country. Its 35,000 residents represent 11.5 percent of the estimated 334,000 national population. Some 58 percent of market economy in formal wage jobs are on Guadalcanal including Honiara. The majority of the country's population live on the subsistence economy, mostly settled in small coastal villages. Reliable measurements are not yet available for the economic activities in the rural sector where cash and non-cash incomes overlap. However, it is estimated that 42% per capita output is derived from the non-monetary economy.

With an average annual rate of increase of 3.5 percent, the Solomon Islands has one of the fastest growing populations in the world. More than half of the nation's population is under the age of 18. Population growth is judged by the Central Bank of the Solomon Islands to be the most fundamental problem facing the Solomon Islands economy in the 1990s. The rate of population growth is out running the ability of the formal monetary economy to provide jobs and incomes and the capacity of the government to provide social and administrative services. This is showing up in a rapidly increasing number of openly unemployed people in Honiara and higher dependency ratios per wage earner. In the rural areas, productivity of the more accessible cultivated land is declining through repeated cultivation and land disputes are increasing.

The 1986 census estimated 39,000 persons in the monetary economy defined as 'having worked for money', even if only part time. Of these, 24,000 were in paid jobs. (see Table 15) National and provincial government provides 37% of all formal employment. Overall, the level of over five formal sector wage earners has changed by an average of 1.2% per year equivalent to less than 35% of population growth. With steady population growth, an increasing number of working-age people, and little out-migration, the figures suggest an increasing number of people must be supporting themselves in the informal sector.

Table 15

FORMAL WAGE AND SALARY EMPLOYMENT
(number of persons employed)

	1985	1986	1987*	1988	1989
Primary Industry	8116	8512	6695	7088	7608
Manufacturing & Construction	3204	3156	3254	3430	3564
Transport and Utilities	2464	1910	1273	1520	1650
Trading & Financial Services	3091	3095	3392	3095	3469
Social & Personal Services	7121	7353	9179	9712	9147
	23996	24026	23793	24845	25438
Annual % Change	5.8	0.1	-1.0	4.4	2.4

* The annual survey was revised between 1986 and 1987 and some discontinuity may have resulted.

SOURCE: Statistics Division, Ministry of Finance, Solomon Islands

Official statistics and recent analysis by the World Bank show a trend of falling output since 1985 reaching negative levels during 1986 and with the 4.3 percent growth of real GDP in 1988 only restoring the level of growth to that of 1983 (see Table 16)

Table 16
GDP BY INDUSTRIAL ORIGIN AT 1984 PRICES, 1983 -88
3(SI$ million)

	1983	1984	1985	1986	1987	1988
Monetized sector	149.2	162.3	167.7	166.5	168.3	175.9
Agriculture	41.1	48.2	48.7	37.1	35.3	40.0
Forestry & sawmilling	14.0	13.9	13.5	15.6	11.6	10.3
Fishing	12.7	13.0	11.0	15.4	12.1	14.3
Gold mining/a	0.3	0.5	0.5	0.7	0.5	0.3
Manufacturing	6.6	6.0	6.8	7.2	8.7	8.7
Electricity & Water	1.6	1.7	1.9	2.0	1.8	2.0
Construction	5.7	4.9	7.0	7.4	6.5	6.4
Retail & wholesale trade	17.6	22.1	22.1	21.5	22.4	20.2
Transport & communications	9.3	10.3	10.8	11.3	10.2	10.5
Finance & services	40.3	41.7	45.4	48.3	59.2	63.2
Non-monetized sector	35.4	35.7	36.5	37.0	38.7	39.9
Food	32.8	33.0	33.7	33.7	35.8	36.9
Construction	2.6	2.7	2.8	3.3	2.9	3.0
GDP	184.6	198.0	204.2	203.5	207.0	215.8
Growth rates (% pa)						
Monetized sector	4.3	8.8	3.3	-0.7	1.1	4.5
Non-monetized sector	3.8	0.8	2.2	1.4	4.6	3.1
GDP	4.2	7.3	3.1	-0.3	1.7	4.3

/a Excludes exploration

Source: Statistics Office & IMF staff estimates. Country Surveys World Bank p.119

The decline during 1985-87 was caused by a rapid fall in the value of primary production, resulting from significantly reduced market prices and a decline in production resulting from damages incurred from Cyclone Namu.

The Solomon Islands has a small open economy that remains a primary producer with few first-stage processing capabilities. The production base of the Solomon Islands economy is copra, cocoa, palm oil and kernels, fish, timber and livestock. Except for livestock, these are also the countries main exports.

Trends in the 1980's show fish exports taking over a significant market share with traditional commodities of copra and palm oil losing market share. (See Table 17a & 17b). Based on 1988 trade data fish products amplified by mostly non-fish marine exports in the 'other' category, now exceed copra, cocoa, oil palm products and timber collectively in value.

Table 17a

VALUE OF EXPORTS
(SI$million)

Product	1984	1985	1986	1987	1988
Copra	32.2	23.5	5.9	10.3	15.7
Palm Oil & Kernel	19.1	13.7	6.0	7.6	14.4
Cocoa	3.4	5.0	6.5	9.5	7.4
Fish	28.8	31.9	52.9	52.5	78.4
Logs & Timber	30.1	24.8	35.7	37.2	39.7
Other*	5.0	5.0	7.9	11.0	9.2
TOTAL EXPORTS	118.6	103.9	114.9	128.3	164.8

* Other category includes beche-de-mer, tobacco, marine shells, gold, handicrafts, turtle shells, crocodile skins, sharkfins.

SOURCE: Statistics Division, Ministry of Finance, Solomon Islands

Table 17b

PERCENTAGE SHARE OF MAIN EXPORTS BY VALUE

Product	1984	1985	1986	1987	1988
Copra	27.2	22.6	5.1	8.0	9.5
Palm Oil & Kernel	16.1	13.2	5.2	5.9	8.7
Cocoa	2.9	4.8	5.7	7.4	4.5
Fish	24.3	30.7	46.0	41.0	47.6
Logs & Timber	25.4	23.9	31.1	29.0	24.1
Other	4.2	4.8	6.9	8.6	5.6
TOTAL	100	100	100	100	100

SOURCE: Statistics Division, Ministry of Finance, Solomon Islands

a. Copra

The copra industry is valued at 10 percent of exports down from 28 percent in 1984. It consists of one large government plantation enterprise, LSL, and numerous smaller Solomon Islander-owned production units. Four-fifths of production is small-holder produced. The copra price and market are controlled by the government's Commodity Export Marketing Authority. It has historically played the traditional role of price support and stabilization. This practice is now being bought into question as one element holding the copra industry back from diversification into value-added processing of coconut products. In recent years, copra production by small-holders has fallen off some 30 percent. Inter-island shipping connections for collection of small-holder production has been a major problem. There has also been an increased use of coconut in the household and for sale to the urban markets.

b. Cocoa

Cocoa, representing 5 percent of the export market share, is a much healthier industry. Production is split between larger commercial plantations and small-holders and community groups. Despite the significant drop in the world price, production is still attractive and profitable especially for small-holder production. The key to the attractiveness of the industry is the success of private cocoa marketing with healthy competition among both large and small producers The exporting of cocoa has been an entré for Solomon Islander firms serving groups of small producers. Production is expected to expand from about 3000 to 5000 tons in the next several years.

c. Palm Oil and Kernels

The palm oil and kernels industry represents 9 percent of the Solomon Islands export market share. The industry was severely damaged by a 1986 cyclone but had fully recovered by 1988. The recovery was largely attributed to the successful management of a shareholder financed rehabilitation program by Solomon Islands Plantation Limited (SIPL), a private agriculture company that runs the industry. SIPL Limited was founded in 1970 as a joint-venture involving foreign investors (identified by the Commonwealth Development Corporation), landowners and government. It is the country's largest private sector employer with over 1,750 permanent employees. The stability and efficiency of its operations come in part from a commitment to a strong training and localization program and from early efforts to educate landowners to the benefits and responsibilities of the shareownership principle when they committed their land to the company. As with cocoa, despite a reduced CIF price, the company is still able to gain a reasonable margin above production costs. Early on, the company set up its mill to run all processing machinery on power generated from coconut fibre and shell.

d. Livestock

The livestock industry in the Solomon Islands has largely been a failure despite millions of dollars in Asia Development Bank loans and bilateral aid. The problems are largely attributable to the government-run Livestock Development Authority (LDA). Despite rising prices and domestic demand, domestic beef output has steadily fallen to be replaced by imports from Vanuatu. Over the last two years, the government has withdrawn recurrent financial support from LDA and directed it to restructure for improved performance.

e. Fishing and Marine Products

The fishing industry has gained a dominant role in the Solomon Island's economy in the last decade. Its share of the Solomon Islands' export market expanded from 24 percent in 1984 to 47 percent in 1988. Commercial fisheries in Solomon Islands are based on tuna resources estimated to have a sustainable yield of at least 75,000 mt per year. Annual catch over the last few years has been between 35,000 and 45,000 tons. In 1988 approximately 37,842mt of marine products were exported worth SI$78.4 million of that year's total foreign exchange earnings of SI$164.8 million. (this figure includes SI6.1 million in re exports). The potential to increase the catch in the commercial tuna fishing sector is considerable.

In 1973 a joint venture between Taiyo Fishery Company Limited of Japan and the Solomon Islands Government established Solomon Taiyo Limited (STL) which started the tuna fishing industry in the Solomon Islands. Solomon Taiyo has developed into one of the most advanced tuna fishing operations in the Pacific. It is still expanding and diversifying its products, which now includes whole fish, smoked tuna, fish meal and canned tuna.

The company has become the country's second largest private sector employer (next to SIPL) with 1300 workers including 900 fishermen. It contributes 10 percent of the Gross Domestic Product. The current joint venture agreement establishes 49 percent ownership by Taiyo Fishery Company of Japan and 51 percent by the Solomon Islands government.

The government started a second commercial tuna fishing company - National Fisheries Development Limited in 1977 which supplies STL shore bases. The NFD is currently being offered for sale by global tender as part of the government's privatization efforts.

Under the bilateral treaty with the U.S., only about 10 percent of Solomon Islands 200 mile zone has been opened up to U.S. vessels and only about 30 purse seiners licensed under the treaty have taken up the access.

The success of the tuna industry is spurring the development of other fisheries and non-fish marine product potential including reef fishing, artisanal commercial fisheries, commercial prawn and seaweed farming, giant clam aquaculture. The export of marine shells valued at $4.5 million for 514 tons in 1988 was three times the value of recorded gold exports. And the income generated was far better dispersed in rural areas than any other export.

f. Timber

Eighty percent of Solomon Islands land area is covered by forests which support a timber industry with an average of over 300,000 cubic meters of log exports annually for the last ten years. Over this same period, production of sawn timber for both export and local markets has averaged 25,000 cubic meters per year. The timber exported has contributed an average of between 20 and 30 percent of the country's foreign exchange earnings.

At present nearly all logging is taking place on customary land which covers about 87 percent of the country. Royalties are paid to landholding groups and represent a significant proportion of rural cash incomes. Reforestation is mostly confined to the 9 percent of the country's land which is government-owned. Paid employment in the forestry sector, both public and private, supports about 10 percent of the labor force.

There is growing concern by the Solomon Islands Government over rapid depletion of their forest resources and the low value received by the country per cubic meter harvested under current industry practices which are dominated private foreign-owned logging operations. Among local landowners, there is a steadily increasing interest in locally-owned small scale saw milling as an income substitute to royalties obtained from large scale logging on customary land.

With new government forestry policy and industry regulations going forward, aided by extensive donor funded conservation activities, the Solomon Islands may be on the verge of a wholesale reorganization of the industry.

The country is dependent on the foreign exchange generated by timber exports and the incomes and jobs created by the forestry sector. With increasing population pressures, the country needs an export strategy for forestry products that will generate considerably higher employment, income and services from the resources at hand. So far, sawmilling is the only form of primary wood processing in the country and the percentage recovery (37 percent in 1985) is low, as is the quality. Of the 280,000 cubic meters of timber harvested in 1988, only 5,000 cubic meters of sawn timber was exported at a value of SI$420/cm versus SI$1.25/cm for the rest in exported logs. The industry is not yet organized and

prepared to meet the wood quality, measurements, packaging and shipping standards demanded by sawn timber markets in Japan, Australia, New Zealand, Europe and North America.

2. Solomon Islands: Trade and Investment Constraints

The Solomon Islands Trade and Investment Country Study was prepared by former prime minister Ezekiel Alebua and Anthony Carmel, director of the Solomon Islands Foundation for the Peoples of the South Pacific. In both their written and oral presentations, they made it clear that the Solomon Islands has had an enormous development challenge since its independence from Great Britain just twelve years ago. The country has changed rapidly since independence from dependency on a single export crop, copra, to a much more diversified and complex economic system. But, over the same period a government-dominated business environment has been created which has not been healthy for either the emergence of competitive and efficient local business or international trade and investment promotion. Of even greater concern is one built-in problem which may bring its economy and social structure into crisis in the not-to far future - that problem is population growth.

a. Population and Growth

At an average annual rate of population growth of 3.5 percent, the needs of the population for education, health services, housing and jobs already far outstrips the ability of the economy to respond. The average household is 6.5 persons, more than half of whom are under the age of 19. Unemployment is generally acknowledged as the reason behind increases in violent crime and civil disturbances in Honiara, the capital.

Given this problem, the country has got to realize production and trade strategies which maximize employment and income opportunities for the local population. This means a greater commitment to in-country value-added processing of primary production.

b. Education and Culture

Up to 75 percent of children leave school at grade 6. Also, a poor education system has contributed to a low skills base, particularly in managerial and technical fields. Even where local talent has been trained for critical management positions, politics has often interfered with their being placed in the positions for which they were trained. Training resources have also been misdirected into non-productive fields such as dentists and lawyers rather than into productive business-related fields of agribusiness, finance and vocational skills such as mechanics. Of the 4,000 annual school leavers, only some 10 percent get jobs and only an additional 10 percent go on to further academic training.

The Melanesian culture, which covers 90% of the Solomon Islands population, instills modes of behavior that tend to run contrary to standard business and management practices and must be compensated for or overcome for success in business. Among problems identified are a weak distinction between personal and business financial accounts; an ethic of sharing of 'what's mine is yours' which puts business assets at risk to repossession by other family members; difficulty in making long term commitments; high absenteeism; lack of familiarity or ease with pyramid management structure or teamwork.

c. Government Interference

Government had gotten heavily involved in business activities through its ministries and through government-owned enterprises during the 1970s and 80s. While the current government believes in private enterprise, it has only recently begun to divest itself of commercial activities such as National Fisheries Development Limited and the Livestock Development Authority which would be better operated by the private sector.

The Government has generally been unable to articulate and perform a constructive role in the monetary economy which fosters a secure, fair and profitable environment for private business. The strengthening of government functions at the provincial and local levels in recent years has only increased the obstacles to doing business by creating two additional layers of bureaucracy and approvals. At all levels of government, there is a general lack of understanding of private business needs and these proper role for government. Politically-motivated decision-making by Government, such as a 17.5 percent salary raise for civil servants and the abolishment of school fees in 1989 has led to rapid escalation of government borrowing, leading to reduced confidence by commercial banking and other members of the private sector in the economic and political stability of the country.

d. Government - Business Dialogue

The private sector is underorganized in terms of business or industry groups to represent their interests, secure information vital to their operations and promote their development. The Chamber of Commerce, which is wholly expatriate is all but inactive. Only two other smaller local organizations have any visibility - the Federation of Solomon Islands Business and the Solomon Islands Farmers and Producers Association. Except for the largest businesses, there is little exchange or cooperation between Government and business on issues concerning the business environment, though the Ministry of Commerce has begun to work on this problem.

e. Transportation

Crops have to be aggregated from numerous production points in the islands and brought to Honiara for international transport. The lack of adequate inter-island shipping is limiting achievable export levels. Out of an estimated 240 private ships, only 4-5 are working successfully as commercial ventures. It is interesting to note that a British captain on a British cooperation contract to the Solomon Islands Government has, in the course of four years, organized a highly efficient inter-island passenger transport service using a grossly inadequate public fleet of ships. He has also organized a first rate U.S.-based training program for inter-island marine transport system managers. His success has been in spite of government which has taken the operations annual profits rather than allowing their investment to upgrade a decaying fleet.

While shipping services are available to the above countries, there is no shipping service to the United States, thereby making export to the US extremely difficult. To attract any direct shipping to US, there should be a minimum of 500 tones or cubic meter of cargo to be shipped to the US. It is apparently difficult to ship such a quantity by a single exporter or by single item. At this stage timber is the only one item which stands a good chance to be exported to the US. But again coming up with such minimum quantity will be a problem at this stage. The America Niugini Liner called in Honiara twice this year hoping that there would be timber to be carried to the US, but the timber exporters could not come up with the minimum requisite volume. As it is, direct service to the US is a difficult proposition.

f. Trade and Investment Institution

The government has not organized institutionally in any to consolidate trade and/or investment functions in any one institution or arm of government. And since there is little cooperation among ministries, access to information and processing of approvals takes a long time. For example, it takes a minimum of 8 months to get government approval even for short term foreign technical experts to visit businesses in the process of development.

g. Land Disputes

Until a bill was introduced in Parliament in 1989, there was no means by which a landowner's holding under the existing, traditional Melanesian land tenure system could be recognized and have full protection of ownership rights under the national legal system. With 87 percent of the land under customary or traditional clan ownership, this had led to an increasing number of land disputes involving proposed commercial ventures. The

actual realization of an administrative system for recording and registering customary land for the nation must still be accomplished.

a. Outdated Legislation

As in a number of other countries in the region, a fair amount of Solomon Islands legislation and legal acts are based on outdated British Colonial law inappropriate for modern operations.

3. SOLOMON ISLANDS: POTENTIAL MARC ACTIVITIES

a. Production Constraints	Potential MARC Activities
- limited range of products to export; little value-added processing; inadequate quarantine system; difficult access to land for commercial ventures	- short term TA to work on identification of and strategies for pursuing opportunities for first-stage processing of primary commodities - assistance to develop industry standards acceptable in international markets and system to maintain them

b. Investment Constraints	Potential MARC Activities
- inadequate domestic capital to finance new or expanded business/ industry ventures	- work with government to develop a more efficient system for foreign investment approval and in-country assistance
- difficulties accessing foreign technical or managerial expertise for co-ventures	- assist with development of investment promotion materials suitable for U.S. markets
- absence of in-country facility to assist foreign investment interests	

c. Business Environment	Potential MARC Activities
- lack of trained managerial and technical staff, insufficient number of skilled workers	- short term training in principles of business, trade and investment. Leverage resources for longer-term training through Pacific Partnership for Education fund if established.
- lack of exposure to and insufficient understanding of basic business principles	- exposure/study visits for promising entrepreneurs to strengthen business operations and market contacts

- beyond the largest businesses, limited access to current limited access by business to market information on product development, new technology and management systems. Lack of understanding of international markets and what it takes to be competitive.

- weak or absent network of representative business industry organizations

- inadequate government business dialog on issues of critical interest to efficient business operation

- introduction of business principles into daily education/info networks including use of media and news sheets

- government-business debates on business environment issues using USP. Solomons institutional resources

F. WESTERN SAMOA

1. Economic Summary

Western Samoa is part of the Samoan island group which lies 4180 kms southwest of Hawaii. It has two main islands, Savaii and Upolu and seven smaller islands, only two of which are inhabited. The total land area is 1100 square miles (2850 square km.). Upolu (688 sq.km) is the most developed of the two main islands and serves as the business and commerce center for the country. The seat of government is located in Apia on the north coast of Upolu.

Western Samoa has a population of 156,000 (1981 census) which includes the largest full-blooded Polynesian community in the world. More than 90 percent of the population are full Samoans. About 72 percent or 112,320 of the total resident population of Western Samoa live in Upolu and 3400 are resident in Apia. While the annual population growth rate is nearly 3 percent, the net increase is insignificant because of very high outward migration by Samoans. The dependency ratio is about 91 percent (1981) with approximately 10% of the population under the age of 10 years. With government spending of nearly 22 percent of budget on education, most Samoans entering the labor force have had at least a primary school education.

Western Samoa is well endowed with natural resources. It has 500,000 acres of potentially cultivable land of which only 160,000 is in use. The country has timber reserves of 235,000 acres and abundant fish and marine resources in its Exclusive Economic Zone. The Western Samoans have not made much use of these resources. About 90,000 acres are planted in coconut trees, supplying the country's principle export copra and coconut oil. Another 12,000 acres are planted in cocoa, the second largest export. Most of the plantings are done by small holders. There is much smaller production of taro, breadfruit, bananas, passion fruit, mangoes and coffee. Fish and other marine resources are only just beginning to be harvested.

The Western Samoan economy lost 26 percent of the value of its exports (excluding re-exports) in current prices during the 1980s. Traditional primary product exports slid from a value of US$14.4 million worth 86 percent of exports in 1980 to a value of 5 million worth only 41 percent in 1989 (see Table 18a & 18b) Reasons for this are the slump in world prices for traditional commodities and domestic production problems focussing on land tenure issues, matai-controlled communal agriculture and low labor productivity.

Table 18a: SUMMARY OF WESTERN SAMOA EXPORTS, 1980-1989

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Value (US$ '000)	16,656	9,937	11,961	7,111	17,812	14,447	10,029	10,916	14,300	12,297
Primary Products	14,380	7,744	6,209	6,062	3,426	4,130	4,115	3,868	4,589	5,025
Manufacturers	2,276	2,193	5,752	1,049	14,386	10,317	5,914	7,048	9,711	7,272
Re-exports	559	822	969	1,252	771	1,686	518	859	801	579
Total Value	17,215	10,759	12,930	8,363	18,583	16,133	10,547	11,775	15,101	12,876

Table 18b : PRIMARY PRODUCT EXPORTS 1980-89 WESTERN SAMOA

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Value (US$'000)	14,380	7,744	6,209	6,062	3,426	4,130	4,115	3,868	4,589	5,025
Copra	9,112	3,786	2,290	908	0	425	469	31	948	1,427
Cocoa	3,297	1,386	818	2,999	1,229	1,050	1,425	1,237	606	945
Taro	1,140	2,061	1,808	1,540	1,498	2,279	1,939	2,394	2,502	2,578
Bananas	479	232	238	264	15	12	17	19	12	15
Timber	352	279	1,055	351	684	364	265	187	521	60

Source: Central Bank of Samoa.

The value of Samoa's principle exports, cocoa and copra, had fallen from (US$'000) $12409 in 1980 to $2372 1989. This loss was only partially made up by 1988 through expansion of coconut processing into higher value exports of copra meal, coconut oil and coconut cream. But in 1989, technical problems at the mill and coconut collection problems cut the value of copra meal and coconut oil exports by 42 and 39 percent respectively.

In cocoa, Western Samoa produces a higher value 'full flavor' bean that is preferred by chocolatiers to the bulk cocoa of most countries and is not all that common. Samoa also produces a high grade arabica coffee that could find a successful

niche in specialty coffee markets. But the country has not taken advantage of these opportunities. Foreign investors have not been able to put together the land for plantation-scale production nor have modern agronomic techniques been introduced. Also, small holder producers have shown little interest in taking steps to improve yields. Many analysts have attributed this lack of ambition for economic success and progress to fa-Samoa or the Samoan way of life discussed below.

Western Samoa began to move into manufacturing in the late 1970's, exporting cigarettes, soap, veneer, fruit juice and pulp, beer, handicrafts and some processed foods such as tinned beef. During the 1980s, production and export of manufactures surpassed in value exports of primary products. Valued at (US$'000) 2,276 in 1980, manufactures exports more than tripled to 7,272 or 59 percent of exports value in 1989. (See Table 18a). But this growth has been very difficult for private businesses to achieve. An increasing number of foreign-owned companies are up for sale and little new private investment is planned. This has been attributed in part to high labor costs, low labor productivity, lack of dependable supply from small holders, heavy government red-tape and market interference, parsimonious fiscal incentives, and undependable public utilities (water and power).

While the recent history of agriculture and manufactures is discouraging in Western Samoa, its rich natural resources are still attracting new ventures - most recently, the cut flowers business and fresh chilled fish to be exported to the Hawaiian and other international markets. These ventures are being started by Samoans who are married to foreigners or vice versa. This allows them some protection from the matai-system of control. Also, the ability to source and manage business resources off-shore, thus avoiding heavy interference of government which most businesses feel is excessively controlling the international financial flows of business.

Using Central Bank estimates, the country has suffered a steady deterioration in its terms of trade in recent years with the gap widening to WS$142 million in 1989. The indicators of this are reduced volume of exports, lack of gain in export unit value, and sharp escalation of import prices.

The current account has sustained an average 18 percent deficit during the 1980s, financed mainly by remittances from overseas Samoans and foreign aid flows. In 1989 private recorded remittances were established at US$38.3 million (WS$87 million) with 30 percent originating from mainland USA where there are approximately 80,000 Samoans on the west coast alone and 43 percent from New Zealand. Unrecorded transfers through the postal system and foreign travellers could double this figure. Foreign aid on grant resources including project grants cash and commodity grants amounted to US$16.3 million (WS$37

million) in 1989. These indicators suggest a negative domestic savings with a national savings dependent on net transfers from overseas.

A new push for policy and institutional reform which will make a difference to business, particularly in agriculture and agro-industries is now underway. While the climate for change may have been triggered by the devastation and US$61.7 million (WS$140 million) in losses caused by Cyclone Ofa in February 1990, the process is largely financed and promoted by a loan from the Asian Development Bank. Under this influence, and also advice from the World Bank Group, the government has moved forward with tax reform and basic banking legislation. A number of government-owned institutions are being prepared for privatization (P) or have been eliminated (E): the Produce Marketing Board (E), the copra and cocoa board (E), the feed mill (sold), Samoan Forest Products (P) and W.E.S.T.E.C. (P).

The international accounting firms suggest these changes in the business climate are the first attempt at a comprehensive reform they've seen in more than 10 years. Businesses in Apia remain skeptical, however, since this is an election year and frequent changes in government in the past have caused many reform efforts such as the Industrial Free Zone Act of 1974 to be shelved. This government or its successor must prove it is willing to carry out these changes and more. And the Samoan society must show a willingness to embrace their implementation before new foreign investment will be willing to take the risks of doing business in Western Samoa.

In summary the economy of Western Samoa has lost ground during the 1980's. More importantly, it is steadily losing one of its most valuable assets, its young people, to the flows of overseas migration. While there are some economic reasons for this outflow, the Samoan village society, still governed by a strong system of titular chiefs or matai is widely claimed to be a social or cultural cause at the root of economic stagnation and social displacement. The government is taking some actions at the policy level to stimulate the economy but the degree of success will likely be largely determined by modification of the socio-cultural level of society in the social institutions which control the economy.

2. <u>Western Samoa: Trade and Investment Constraints</u>

Many of the constraints to increased trade and investment by Western Samoa in world markets are tied to its culture and the convenience of dependency on grant assistance and remittances.

a. Land Control and the Matai system

About 77 percent or 560,000 acres of the total land acreage of 726,000 of available land is customary land. The disposition and control of the uses of this land remain in the hands of the matais or titular chiefs. The government is currently working on privatization of the W.S.T.E.C. plantation property which ideally would add another 30,000 acres to the category of private freehold. It is likely, however, that these lands will also become matai-owned but individually controlled following tradition.

Table 19 : LAND HOLDINGS BY TYPE; WESTERN SAMOA*
(thousand of acres)

	Savai'i	Upolu	Total	%
Customary land	380.5	183.6	564.1	77.6
Private freehold	4.0	47.4	51.4	7.1
W.S.T.E.C.	2.0	29.8	31.8	4.4
Public (Govt. land)	37.1	42.1	79.2	10.9
Total	423.6	302.9	726.5	100.0

*Based on work by F.H. Sutler, 1971

Source: Asian Development Bank, Agriculture Sector Report, Appendix F. Table 1.4, 1989

Under the traditional matai system, villagers have functioned as matai-assigned labor to village plantations or as share croppers. All decisions about allocation and management of the land are taken by the matai who are the oldest members of the society, most with no more education than primary school. This system has begun to soften somewhat in recent years with a move away from communal plantations to individually-operated plots on matai-owned land. But the individual's performance and all benefits reaped from labor are still subject to the traditions of a commune-like society based on an ethic of sharing and communal living. The negative impacts of the matai management system on agriculture have been to retard the introduction of modern agronomic practices, disincentives for villagers to pursue agronomic technical training and education and an out-migration of young men with little opportunity at the village level for access to land, decision-making authority or self definition. These social conditions have also led to an excessively high rate of suicide among frustrated young men, statistics which are well known locally but not published.

b. Migration

Western Samoa has experienced important out-migration of young people, aged 20-35 years old over the past 30 years. As the country's best-educated (achieving some secondary schooling) are in this age category, it has meant a significant loss of development potential for the country. With most post-secondary technical training secured out of country, many of these students remain in their host country. Some have alluded to Samoa's most important export as its labor services.

International migration departures of the nation's young labor force, aged 20-35, have been gaining momentum:

Table 20

International Migration By Sex of 20-35 years Age Category

	Male	Female	Total
1982	8,906	7,201	16,107
1983	9,072	7,206	16,278
1984	11,017	8,328	19,345
1985*	6,440	4,758	11,198
1986	12,131	8,929	21,060

*Note: Figures for 1985 refer to last two quarters only

SOURCE: Western Samoa Annual Statistical Abstract 1988 Immigration Office and Department of Statistics.

This migration has had a serious impact over time, resulting in an overall technical manpower shortage in government and in the private sector with a growing shortage of labor for traditional cultivation as well.

The push factor in this migration of the young, particularly among young men, is the constraining Matai-run village society with little outlet for personal ambition. The pull factor has been the attraction of higher-paying overseas jobs and the freedom of self determination. American Samoa, New Zealand and mainland United States have absorbed the bulk of these immigrants. The ease of immigration is beginning to lessen. In 1988, after more than 4000 Samoans immigrated, New Zealand set an annual ceiling of 2000.

c. Dependency on Remittances and Foreign Aid

Remittances and foreign aid have created psychologically, a financial security or safety net for the government and resident population of Western Samoa. At the national level, until recent stringent conditions and controls began to be insisted upon by international donors, government expenditures continued to rise regardless of the economy's ability to support them. Aid programs were partially, at fault in promoting public investment without provision for operating and maintenance costs. Secondly, sustained by foreign public investment sources through aid programs, the government has not been forced to develop the kinds of investment incentives and business climate attractive to private foreign investment.

At the village or household level, years of dependency on overseas remittances from migrants has enabled family ties in Samoa to maintain a communal society that preserves social tradition and genealogical control of resources and decision-making at the expense of economic dynamism and full labor productivity.

d. Social Function of Local Investment

The traditional Samoan social structure may be very slow to change to the point of making Samoa attractive to foreign investment. In the meantime, much of the country's private resources are controlled and spent by Matai-directed village societies and the church, mostly on social functions and edifices. There may be some opportunity to influence the principals to direct some of these domestic resources into economic investments in agro industry, thus keeping more Samoans at home and generating greater opportunity for prosperity at home. On the other hand, this might reduce the economic lifeline provided by overseas remittances by reducing the flow of immigrants.

e. International Air Routes

Western Samoa would like to target North American markets including Hawaii for the marketing of products such as chilled fish, taro and cutflowers. They also want to attract more tourists to Western Samoa from the North American market. The only connection by air, at present, has been the poorly managed Air Hawaii. Standard delays and poor handling of cargo have resulted in lost business and loss of confidence. But, Air Hawaii is under new management, Air Polynesia may add a Honolulu route in another year and a private American cargo carrier is starting up experimentally in December 1990. These are hopeful signs of improvement for air transport connections with North American markets.

3. Western Samoa: Potential MARC Activities

a. Production Constraints

- poor national quarantine service
- lack of info on pest control
- advise on hybridization and planting procedures for higher volume/quality yields geared to market preferences.

Potential MARC Activities

- market related TA to specific industries on production problems, joint effort with USP Alafua (CAD)
- strengthening of quarantine system and private sector delivery of this service for South Pacific region (CAD)

b. Marketing Constraints

- new business ventures e.g. cutflowers targeting U.S. markets don't know right plants to grow for market demand; don't know proper packing
- lack of contacts and familiarity with market brokers and how system works
- lack access to information on U.S. import regs; USDA; FDA; can't get basic original forms for export to U.S.

Potential MARC Activities

- industry specific marketing TA and information provided through on-site assistance to business and through inspection tours of going concerns
- better business bureau-type information exchange on system of qualified brokers, fees, and their duties by market or product line.
- helping to establish/improve relationship with USDA; FDA authorities as required; facilitating better distribution to business community of information on U.S. import regulations and forms and a system to respond to questions arising.

- freight transport by air to/from U.S. markets not dependable

c. Business Environment

- government regulations too cumbersome, unresponsive and at certain junctures corrupt to maintain interest of foreign investors

- land tenure system makes it difficult to put together commercial parcels for business uses

- utilities; electrical, water insufficient for business even with recent upgrades

- private sector not consulted by government on key matters concerning business such as new tax bill

- shortage of labor and technical skills

- lack of dependability of labor

- private U.S. company already looking at the opportunity of serving eastern Pacific

Potential Marc Activites

- Co-operation with Ministries of Trade, Commerce and Industry and Finance in their pursuit and implementation of major reform package.

- work with Manufacturers Association and Chamber of Commerce to better articulate their positions of issues and to sponsor or provoke public-private dialog.

- organize selection on-the-job training for improvement of export industry

- work on youth-focussed programs to encourage and support entry into business perhaps linked with church for social acceptance and Nightened social awareness of the changes needed.

d. Cultural Constraints

- operation of matai-system has retarded introduction of modern agronomic techniques, incited high level of migration of young

- majority of locally-controlled private resources continue to be committed to non-productive social activites.

Potential Marc Activities

- short-term TA perhaps linked with Peace Corps to work on increasing awareness of social benefits from economic activities and to influence channeling of some resources into economic ally-sound activities.

ANNEX I

ECONOMIC GROWTH PROSPECTS IN THE SOUTH PACIFIC

with contributions from

Dr. Andrew McGregor, PIDP on Horticultural Prospects

Dr. Seamus McElroy, FFA, on Marine Products Markets

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I. REGIONAL ECONOMIC SETTING

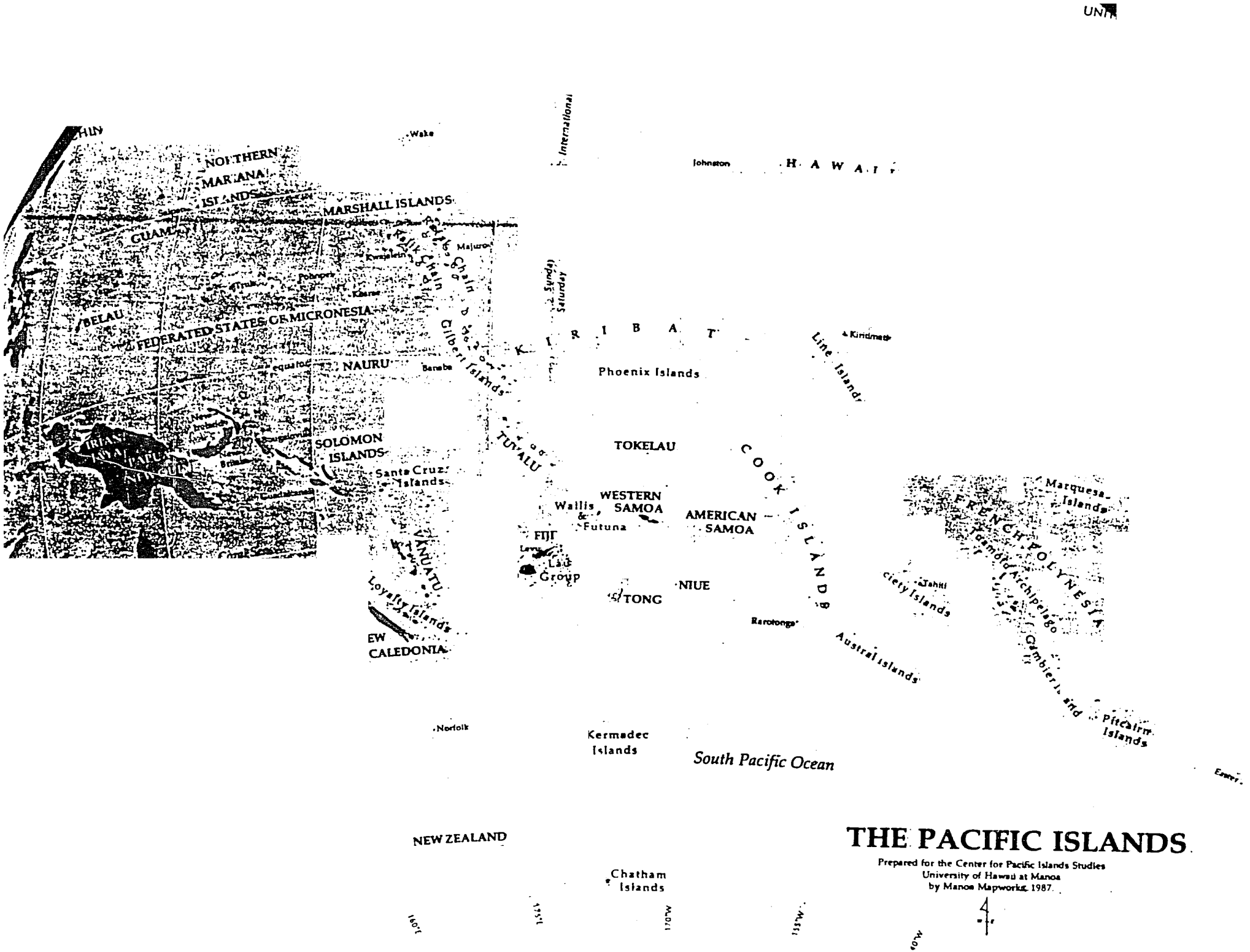
The region of the South Pacific contains a community of fourteen recently independent and self-governing states which share basic features that hamper their successful economic and political entry into the community of nations (Map 1). The program of A.I.D. Regional Development Office/South Pacific (RDO/SP) assists ten of these countries: Papua New Guinea, Fiji, the Solomon Islands, Vanuatu, Kiribati, Tuvalu, Tonga, Western Samoa, the Cook Islands, and Niue. The characteristics RDO/SP countries share are: (1) the physical smallness and dispersion of their land base within immense oceanic Exclusive Economic Zones (EEZs), (2) the geographic isolation of each, (3) the smallness of their economies with the partial exception of Fiji and Papua New Guinea and their narrow export bases, (4) the fragility of their ecosystems, (5) the cultural diversity and youth of their small populations, and (6) the newness and inexperience of their 'democratic', or at least representative structures of governance.

The RDO/SP countries comprises of 1,300 islands distributed over 5.6 million square miles, an area about 50 percent larger than the United States. Their land areas are only four percent of their sea areas or about 80 percent of the size of Texas. These island nations are all small by international standards of population and land area with Papua New Guinea (PNG), the largest, accounting for 3.8 million population and nearly 85 percent of the total land area for the region (Table 1).

There are two principle export money earners in the region: agro-marine products (43 percent of export earnings) and minerals (48 percent of export earnings). Mineral exports primarily derive from PNG (94 percent of regional mineral income); Fiji (five percent of regional mineral income); and Solomon Islands (one percent). The sector generates less than 5 percent of the region's employment. Agriculture and fishing are the primary sources of employment and income for most islanders. There is a pattern of mixed subsistence and commercial activity with export crops being generated by small holders.

As micro-economies, most of the nations are dependent upon a small number of economic activities with one or two dominating. While there is significant regional variation, all countries share a narrow export base of mainly traditional unprocessed commodity exports: sugar, copra, coffee, cocoa, timber, palm oil, that have declining terms of trade. The island economies are dependent on their exports for economic growth, but exports are extremely vulnerable to world market fluctuations; political and economic developments in Japan, Australia and New Zealand; and periodic natural disasters.

The rate of export earnings by country has significantly fallen during the 1980s as compared with the 1970s (see Table 2).



THE PACIFIC ISLANDS

Prepared for the Center for Pacific Islands Studies
University of Hawaii at Manoa
by Manoa Mapworks, 1987.

Table 1 Selective Economic Indicators For The South Pacific Region

Country	Land area sq miles	Sea area sq miles	Population	Population density	Pop growth rate	GDP	GDP per capita	Merchandise exports	Merchandise imports	Trade balance	Aid
Cook Is.	96	732000	17600	183	0.3	45843.98	2604.50	2793.20	43737.18	-40943.98	11035.67
						US$'000 f.c.	US$	US$'000 fob	US$'000 cif	US$'000	US$'000
			1989 CIQS			1987 CIQS		1989 CIQS	1989 CIQS	1989 CIQS	1987 spess
Fiji	7310	480000	722000	99	2.0	1097.01	1519.54	394410.48	643875.78	-249465.30	19496.29
						US$m f.c.	US$	US$'000 fob	US$'000 cif	US$'000	US$'000
			1989 RBF			1989 RBF		1989 RBF	1989 RBF	1989 RBF	1987 spess
Kiribati	276	1420000	68207	247	2.0	31940.47	325.44	5230.61	22102.68	-16872.06	18509.00
						US$'000 f.c.	US$	US$'000 fob	US$'000 fob	US$'000	US$'000
			1988 KSY			1988 KSY		1988 KSY	1988 KSY	1988 KSY	1988 KSY
Niue	104	156000	2900	28	2.6	3823.62	1366.02	88.56	1671.21	-1582.65	5085.03
						US$'000	US$	US$'000	US$'000	US$'000	US$'000
						1984spess		1986spess	1986spess	1986spess	1987spess
Papua New Guinea	184576	1240000	3804000	21	2.7	3902.32	1025.65	1304.05	1346.11	-42.07	351028.24
						US'mill proj	US$	US'mill fob	US'mill fob	US'mill	US$'000
			1988AIDAB			DP 1989		1989 Stat .Ab	1989 Stat .Ab	1989 Stat .Ab	1987 spess
Solomon Islands	11022	520000	285176	26	3.5	109272.27	383.17	71458.02	106441.07	-34983.05	24660.47
						US$'000	US$	US$'000 fob	US$'000 cif	US$'000	US$'000
			1986 NCDS			1988 CBSI		1989 CBSI	1989 CBSI	1989 CBSI	1987 spess
Tonga	280	280000	99000	354	0.3	66.11	236.11	9.56	54.47	-44.91	12891.65
						US$mill	US$	US$mill fob	US$mill cif	US$mill	US$'000
			1987 PEB			1986		1988/89	1988/89	1988/89	1987 spess
Tuvalu	10	351000	8600	860	2.8	3527.83	430.29	14.76	2721.17	-2706.41	5394.62
						US$'000	US$	US$'000	US$'000	US$'000	US$'000
						1985 spess		1986 spess	1986 spess	1986 spess	1987 spess
Vanuatu	4752	272000	154665	33	3.3	119.64	773.57	22.10	70.85	-48.75	25295.48
						US mill p.p.	US$	US mill fob	US mill cif	US mill	US$'000
			1989 S.Ind			1987 N/acc		1989 S.Ind	1989 S.Ind	1989 S.Ind	1987 spess
Western Samoa	11745	116000	162000	14	0.6	105204.37	649.41	12547.33	75026.20	-62478.88	18078.31
						US$'000 p.p.	US$	US'000 fob	US'000 cif	US'000	US$'000
			1987 spess			1986 N/acc		1989 CBSB	1989 CBSB	1989 CBSB	1987 spess

Sources: spess - South Pacific Economies Statistical Summaries; CIQS - Cook Islands Quarterly Statistics; RBF - Reserve Bank of Fiji Quarterly Review; KSY - Kiribati Statistical Yearbook; AIDAB - Australian International Development Assistance Bureau; DP 1989 - Development Plan 1989-93 Economic Policy and Fiscal Strategy; N/acc - National Accounts of Vanuatu/Western Samoa; S.Ind - Statistical Indicators of Vanuatu; CBSB - Central Bank of Western Samoa Statistical Bulletin; Stat. Ab - Statistical Abstract of Papua New Guinea; CBSI - Central Bank of Solomon Islands Annual Repor

Note: GDP per capita has been calculated using GDP and population figures as given although they may not be from the same year.

Table 2
Rate of Growth of Export Earnings (%)

Date	Fiji	Papua N.G.	Solomon Islands	Vanuatu	W. Samoa	Tonga	Kiribati	Cook Isl.	World Trade
1971	0	16.3	26.0	8.3	20.0	0			12.6
1972	8.3	83.5	10.0	15.4	-16.7	-33.3			19.2
1973	20.5	132.0	27.3	40.0	40.0	150.0			38.9
1974	63.8	27.0	85.7	42.9	85.7	40.0			49.1
1975	10.4	-32.5	-42.3	-63.3	-46.2	-14.3			3.0
1976	-20.6	24.9	60.0	54.5	0	-33.0			13.6
1977	33.3	24.0	37.5	117.6	114.3	75.0			13.4
1978	10.0	4.5	15.2	13.5	-26.7	-28.6			15.6
1979	30.0	23.7	78.9	11.9	63.6	40.0			27.6
1980	46.7	16.8	7.4	-23.4	-5.5	14.3	-88.1		20.4
1981	-17.5	-18.7	-9.6	-11.1	-35.3	-12.5	53.2		-1.6
1982	-8.7	-8.0	-12.1	-28.1	18.2	-42.9	-37.8		-7.1
1983	-15.5	5.4	6.9	30.4	38.5	25.0	55.7		-3.0
1984	6.7	9.7	50.0	46.7	11.1	80.0	217.4		6.1
1985	-7.4	2.2	-21.5	-31.8	50.0	-44.4	-60.7		1.4
1986	15.6	13.3	-5.7	-53.3	-63.3	20.0	-66.3		10.1
1987	9.1	12.4	-3.0	21.4	9.1	0			17.7
1970s	17.3	33.7	33.0	26.8	26.0	21.8			21.4
1980s	3.6	4.1	1.6	-6.2	6.0	4.9	10.5		5.5

Source: IMF Financial Statistics and C. Brown, Economic Development in Seven Pacific Island Countries, 1989

There has been little or no real sustained economic growth over the past five years in the South Pacific region. Even PNG's earlier growth appears to be negated by the Bougainville problems in 1989/1990. All countries show a negative trade balance in 1989 averaging 49 percent of GDP:

Table 3

Trade Balance as Percent of GDP, 1989
(US$ millions)

	GDP	Exports	Imports	Trade Bal.	% of GDP
Cook Is.	46	3	44	- 41	89
Fiji	1097	394	644	- 249	23
Kiribati	320	5	22	- 17	53
Niue	4	**	2	2	40
Papua New Guinea	3902	1304	1346	- 42	1
Solomon Is.	109	71	106	- 35	32
Tonga	66	10	54	- 45	68
Tuvalu	4	**	3	- 3	77
Vanuatu	120	22	71	- 49	41
Western Samoa	105	13	75	- 62	59

* All figures rounded to nearest number
** Less than 1 million

Source: Based on statistics provided by Australia National University Center for Pacific Island Studies, 1990

Official transfers (See Table 4) also represent a significant artificial economic support for most island economies. Statistics for 1989 show countries falling into three categories in terms of percent of aid transfers to GDP:

Table 4

South Pacific Region
Aid Dependency Ratio

	Country	GDP (US Millions)	Aid Transfers (US Millions)	Aid Dependency Ratio
Category 1	Tuvalu	3.5	5.8	166%
	Niue	3.8	5.1	134%
	Kiribati	31.9	18.5	58%
Category 2	Cook Is.	45.8	11.1	24%
	Solomon Is.	109.2	24.6	23%
	Vanuatu	119.6	25.2	21%
	Tonga	66.1	12.8	19%
	W. Samoa	105.2	18.1	17%
Category 3	PNG	3902.3	351.1	9%
	Fiji	1097.0	19.4	2%

Source: Based on Statistics from Australia National University Center for Pacific Islands Studies, 1990.

The average annual GDP per capita is approximately US$800, which falls between World Bank rankings in the region of low-income countries at $290 per annum and lower middle income countries of US $ 1,200 per annum. Living standards are relatively low compared with other small economies including the islands of the Caribbean.

It is interesting to note (Table 5) the distribution of GDP between primary production, manufactured goods and services and the percent of GDP exported. The services category is skewed up considerably because of the inclusion of government. Most island countries are still heavily dependent on primary production with manufacturing the least developed economic sector. A high proportion of the GDP is exported because of the small size of domestic markets and the need to generate foreign exchange to cover large import bills generated by consumption patterns.

Table 5

Gross Domestic Product by Economic Sector (Percent)

	Primary Production	Mining	Manufacturing	Transport, Utilities Construction	Services Wholesale & Retail Trade	Services Other Incl. Govt.	% GDP Exported
Fiji	23.0	2.0	11.0	32.5	16.1	15.4	40
Papua New Guinea	32.8	10.7	9.1	9.3	7.9	30.2	49
Solomon Islands	49.1	1.2	4.7	12.2	8.8	26.4	83
Vanuatu	23.0		4.7	14.1	34.2	24.0	66
Western Samoa	34.2		13.0	6.4	8.3	38.1	62
Kiribati	17.9		2.1	23.1	13.5	43.4	102
Tonga	22.3	0.6*	9.2	16.1	12.5	39.3	78
Cook Islands	12.7	0.1*	5.1	17.0	23.0	42.1	N.A.
Tuvalu	10.9		2.1	12.2	74.8	11.1	63.7

* less than 1 percent

Source: South Pacific Commission, South Pacific Economies: Statistical Summary No. 11 1987

Improved economic performance will be especially difficult due to the transportation and communication problems posed by the rugged terrain and dense jungle of the larger islands such as PNG and the Solomon Islands and by the dispersion of people on multiple island bases across thousands of miles in the case of the smaller nations such as Kiribati and the Cook Islands.

World Bank reports are cautiously optimistic about future growth prospects for many of the Pacific countries. This optimism is based, in part, on the fiscal restraint being practiced by these governments and the recent steps taken to establish more competitive exchange and wage rate conditions designed to attract new investment and develop labor intensive, export-oriented industry particularly in agribusiness. The World Bank notes that greater efficiencies can be promoted throughout the region by the further reduction in market distortions due to import restrictions, high tariffs, price controls and agricultural subsidies.

With the exception of Papua New Guinea and to a much lesser extent Fiji, all the island nations have very small domestic markets which make them dependent on external trade for major income generation. But failure to diversify has made the region's export sectors generally susceptible to adverse price changes for a few dominant commodities. Earnings from major crops have also been impacted heavily by recurring drought and cyclone damage. More recently, they have also been hurt by a dependency on Australian and New Zealand markets to absorb Pacific Island exports. Downturns in the economies of both these countries have hurt island country exports. None of the island countries, save Fiji, are well enough organized to shift export foci to Pacific rim markets, though most governments are now discussing the need to diversify markets.

The export growth performance of the Pacific islands agriculture over the last decade or so has been generally poor (Table 6 and Figures 1 and 2). Earnings from traditional commodities have tended to stagnate in the face of an exceptionally prolonged price trough, the inadequate levels of capital investment, and the generally low levels of management. Fortunately, the price of most commodities appears to have bottomed, and a price improvement may be expected over the next five years. Yet, under the existing management and investment regimes only a limited production response can be expected. In the longer term, the terms of trade can be expected to continue to move against traditional bulk commodities.

Table 6

Commodity export earnings for Pacific island countries

	1980	1984	1985	1986	1987	1988
Fiji						
Coconut Oil						
Volume index	100	135.3	92.9	107.7	46.2	44.1
Value (million US$ current prices)	8	17	7	4	2	4
Sugar						
Volume index	100	86	93.1	81.1	111.4	103.1
Value (million US$ current prices)	213	102	97	118	152	150
Cocoa						
Volume index	100	174	183	200	210	301
Value (million US$ current prices)	0.5	0.5	0.5	0.5	0.7	0.6
Total value (million US$ current prices)	221	120	105	123	155	155
Papua New Guinea						
Coffee						
Volume index	100	106.5	87.5	114.4	138.6	87.9
Value (million US$ current prices)	109	117	116	217	153	138
Cocoa						
Volume index	100	122.7	111.2	111.2	124.8	122.3
Value (million US$ current prices)	52	71	62	59	64	55
Copra and coconut oil						
Volume index (copra)	100	104	114	101	93	81
Value (million US$ current prices)	64	42	56	21	33	44
Oil Palm						
Volume index	100	389	371	366	292	316
Value (million US$ current prices)	19	80	61	29	27	44
Total value (million US$ current prices)	244	310	295	326	277	281

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(Cont'd)

	1980	1984	1985	1986	1987	1988
Tonga						
Coconut Products						
Volume index (copra purchases)	100	45	42	63	31	
Value (copra, desiccated coconut, coconut oil, million US$ current prices)	5	5	2	1.8	1.7	1.1
Bananas						
Volume index	100	166	117	155	146	
Value (million US$ current prices)	0.4	0.4	0.6	0.7	1.2	0.6
Total value (million US$ current prices)	5	5	3	3	3	2
Vanuatu						
Copra						
Volume index	100	143	118	125	98	98
Value (million US$ current prices)	6	28	13	4	7	9
Cocoa						
Volume index	100	90	113	147	153	100
Value (million US$ current prices)	0.9	1.4	1.3	1.8	2	1
Total value (million US$ current prices)	7	29	14	6	9	10
Western Samoa						
Coconut products						
Volume index (coconut oil)		100	115	114	104	91
Value (million US$ current prices)	8	11	9	5	6	9
Cocoa						
Volume index	100	47	38	58	54	31
Value (million US$ current prices)	3	1.1	1	1.4	1.3	0.6
TotaL Value (million US$ current prices)	11	12	10	6	7	10

Sources: IMF, International Financial Statistics (various issues)
Government of Fiji, Current Economic Statistics (various issues)
Fiji National Marketing Authority, Cocoa Export Statistics (unpublished)
Bank of Papua New Guinea, Quarterly Economic Bulletin (various issues)
Government of Kiribati, 1988 International Trade Import and Exports
Central Bank of Solomon Islands Annual Report (various issues)
Reserve Bank of Vanuatu, Quarterly Economic Review (various issues)
Central Bank of Samoa, Bulletin (various issues)

FIGURE 1

COMMODITY EXPORT EARNINGS

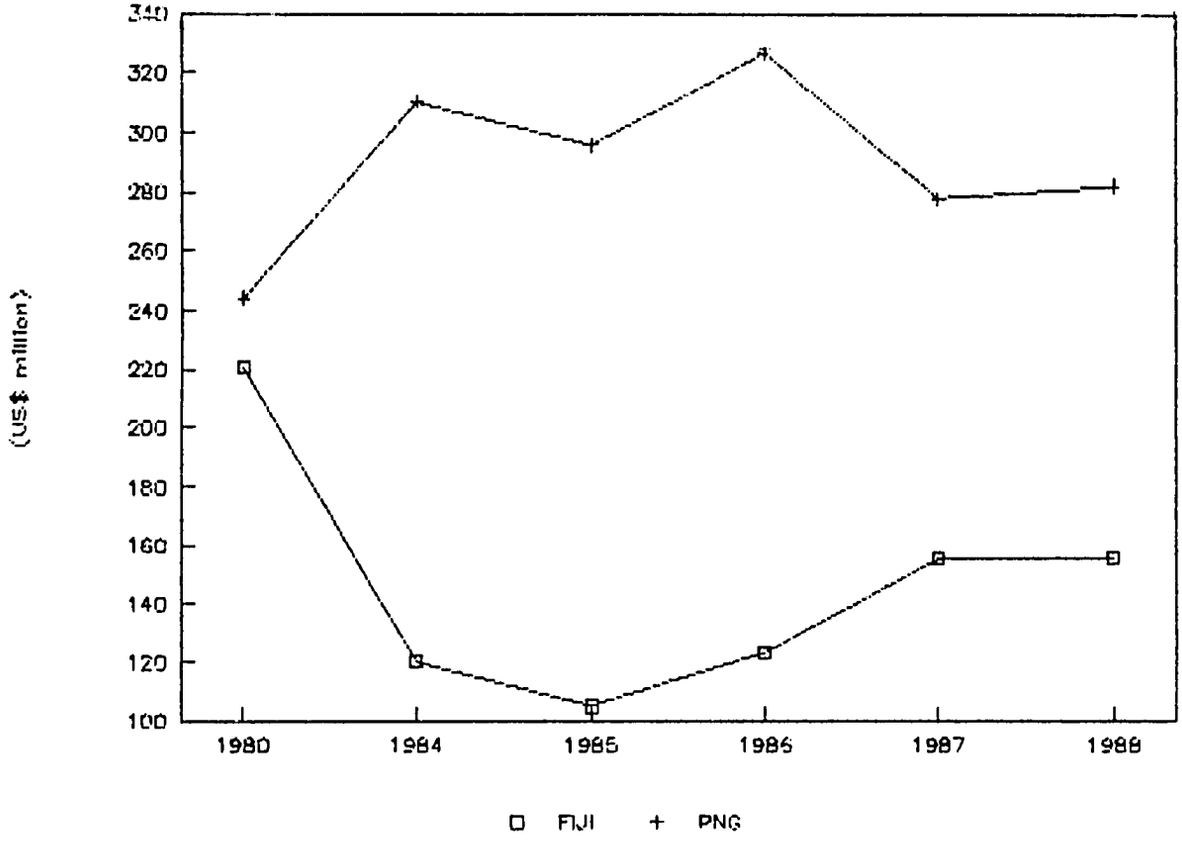
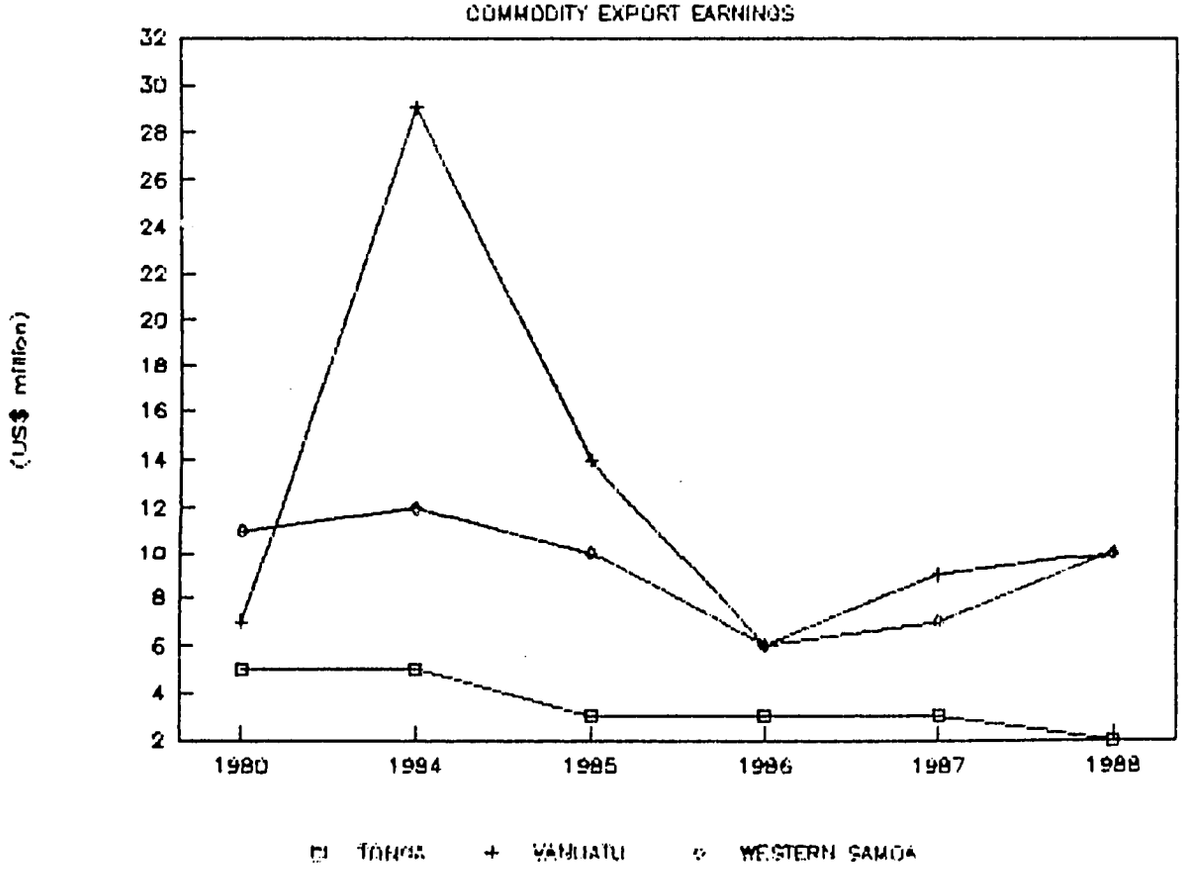


FIGURE 2

COMMODITY EXPORT EARNINGS



In summary, the Pacific Island countries recognize the need for export diversification into higher value niche market commodities. Development of alternative, higher value horticultural, marine products and light manufacturing such as garments and footwear are prominent in the current development plans of most countries. At the policy level, all island countries are pushing toward a major role for the private sector in economic development rather than government. Government officials at the highest levels are also encouraging expansion of trade relationships beyond the traditional alliances with New Zealand and Australia to secure a broader choice and larger scale of markets for South Pacific products as well as access to new investor interest in the South Pacific. While countries have been able to articulate these future challenges for their economic development, most are only just beginning the task of turning policy and development planning into a new economic reality.

II. GOVERNMENT'S ROLE IN ECONOMIC GROWTH THROUGH TRADE

A. MARKETING

Island governments in the South Pacific have traditionally been the private sector's only source of technical assistance, training and credit. The governments have also tightly retained control over the marketing processes within important economic sectors for purposes of security and revenue. This has worked against the development of strong private marketing skills and healthy competition within the private sector.

Government and statuatory involvement in export marketing has been lackluster and on balance has probably been a negative influence on long-term commodity development. A series of case studies undertaken by Pacific Islands Development Program (PIDP) have shown government agencies to be particularly inept in the handling of fresh commodity development. These studies looked at the Fiji National Marketing Authority, the Tongan Commodities Board, the Vanuatu Commodities Board, and the Produce Marketing Division of the Department of Economic Planning in Western Samoa.

Te'o Fairbairn in a Western Samoa study concludes "these agencies acted to eliminate competition with local private businesses and to stifle entrepreneurship". This is reflected in the development of the Western Samoa's taro exports which showed little growth while the Produce Marketing Division maintained its monopoly. Since the issuing of export licenses to private exporters in 1987 the industry expanded rapidly to become Western Samoa's second largest export industry.

For Fiji papaya exports, the National Marketing Authority (NMA) proved not to be the quality pace setter the government had expected - but rather a major obstacle to market development. New commercial entrants have not been able to capitalize on the market and product development that had been expected of the NMA. In fact they have faced the additional constraint of having to reverse the existing adverse market image of Fiji papaya.

Government marketing agencies established to protect the interests of growers, have had the opposite effect by undermining the business and investment environment in the agricultural sector. Fiji's NMA in its Corporate Plan (1985-1989) concluded "direct trading activities on domestic markets for commodities such as dalo tend to undermine the operations of established middlemen, without any sustained benefits to farmers." History is now perhaps repeating itself, to the detriment of growers, with the current ad hoc marketing efforts of the Fiji Military Forces Auxiliary Unit.

Some quantification of the adverse impact of a government marketing monopoly on grower returns and the investment environment can be seen in Table 11 by comparing Fiji and Papua New Guinea grower cocoa prices. In Fiji the NMA is the sole exporter, whereas PNG's cocoa marketing system is highly competitive - albeit regulated.

Table 7

Fiji and Papua New Guinea cocoa grower prices, 1982-86

	Fiji	Papua New Guinea
	($)	($)
1982	1,250	1,566
1983	1,250	1,660
1984	1,500	2,235
1985	1,500	2,233
1986	1,700	2,339

A similar situation is occurred with the Tongan Commodities Board when it relinquished its monopoly status on vanilla exports and granted to the Friendly Islands Marketing Cooperative Ltd and other private exporters the right of access to an open market environment. It took some convincing from the growers and businessmen before the Board of Directors agreed to issue export licenses for vanilla. As soon as private licenses were granted, competition for supplies between the Board and private exporters became quite fierce (which the Board had feared), and led to more efficient marketing and improvement in producer prices. It is estimated that up to 20 percent of the improvement in producer prices was due to this competition and the resulting greater efficiency and acquisition of more lucrative overseas markets.

The adverse impact of direct government involvement extends also to the operation of post harvest treatment facilities, which throughout the region are the responsibility of government departments. In Fiji, for example, the government-operated fumigation facility at Nadi Airport has been identified as the most glaring marketing inadequacy in the development of

horticultural export commodities. Unless quarantine facilities and their management can be placed on a proper footing, Pacific island exporters have no basis for establishing a horticultural industry, regardless of market opportunities and production potential.

B. TRADE-RELATED INVESTMENT ATTRACTION

The extent of trade-related investment has fluctuated markedly from year to year. (See Table 8) Papua New Guinea has had large foreign investments mainly associated with large-scale mining projects. Fiji has also had significant foreign investments with the exception of 1987 when political events culminating in two military coups caused a marked drop in investment (and a decline in real per capita income). At the other end of the scale, Kiribati has placed a modest amount of investment funds offshore (in government bonds) using receipts from its former phosphate exports, but has done little to attract foreign investors.

Table 8: Foreign Direct Investment in the Pacific Island Countries: 1978-1988

Country	Unit	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Fiji	Fiji dollar(m)	-	8.752	26.536	32.656	34.068	32.753	24.983	51.323	35.864	10.014	62.961
Kiribati	Australian dollar(m)	-	-	-	-	-	0.989	-	-	-	-	-
Maldives	Rufiyaa(m)	-	-	-	-	-	-	-	-	-	-	-
Papua New Guinea	Kina(m)	24.209	28.823	37.694	57.505	63.114	118.515	102.335	90.970	100.165	111.540	73.621
Solomon Islands	SI dollar(m)	-	3.030	1.882	0.197	1.072	0.422	2.423	1.523	4.277	22.491	3.520
Tonga	Australia dollar(m)	-	-	-	-	-	-	-	0.032	0.184	0.314	0.063
Vanuatu	Vatu(m)	-	-	-	-	669.060	584.100	744.440	495.000	241.400	1420.000	1136.000
Western Samoa	Tala(m)	-	-	-	-	-	-	-	-	-	-	-
Foreign Direct Investment Share of GDP												
Fiji	Percent	-	1.0	2.7	3.1	3.1	2.9	2.0-	3.9	2.5	0.7	4.2
Kiribati	Percent	-	-	-	-	-	-	-	-	-	-	-
Maldives	Percent	-	-	-	-	-	-	-	-	-	-	
Papua New Guinea	Percent	1.8	1.8	2.2	3.4	3.6	6.0	4.8	4.0	4.1	4.1	2.4
Solomon Island	Percent	-	3.4	2.0	0.2	0.9	0.3	1.2	0.7	1.5	6.6	0.8
Tonga	Percent	-	-	-	-	-	-	-	-	0.2	0.3	0.1
Vanuatu	Percent	-	-	-	-	7.1	5.8	6.0	3.9	2.0	10.8	8.0
Western Samoa	Percent	-	-	-	-	-	-	-	-	-	-	-

Source: Attracting Foreign Enterprise to the Small Island Economies of the South Pacific and Maldives Australia Nat'l University, Nat'l Center for Development Studies, July 1990, p 26.

The South Pacific region is not at present considered by foreign investors to be a particularly attractive area in which to invest. It is the lack of viable projects of a bankable size rather than funds that is the operative constraint. While export prospects in the region are strongly linked to increased production in agriculture and fishing, governments have not developed incentive programs that appear profitable enough to encourage investments in these sectors.

The presentation of frequently contradictory incentives and restrictions on foreign investment is common and leaves potential investors confused as to the policy signals and commitment of governments to attract foreign investment.

III. ECONOMIC GROWTH DEPENDENT ON NEW PRODUCT AND TRADE PROSPECTS

Higher value exports in horticultural light industry manufacturers and marine products represent the best potential fo future economic growth, employment and income in the Pacific Islands.

A. TRADE PROSPECTS IN HORTICULTURAL PRODUCTS

Countries of the South Pacific region have certain important inherent advantages in the production of horticultural export commodities which are evidenced by some recent market successes. These advantages are quarantine status, geographical location, trade agreements, and the linkage of horticultural product development with tourism.

1. Marketing Advantages

a. Quarantine Status

The isolation of the islands has meant that they have been essentially free from major pests and diseases. The enviable quarantine status has, until recently, given Pacific island producers access to markets from which competitors are excluded. For example, Australia and Hawaii are excluded on quarantine grounds from the major Japanese market for mangoes. Unfortunately, the valuable, yet fragile, resource of quarantine status is now threatened because of the antiquated treatment facilities operated by government departments and because of the inadequate institutions and resources to enforce quarantine and quality control standards. The immense economic cost, of not maintaining and enhancing an island country's quarantine in terms of potential income foregone, is only now starting to be recognized by the region's policymakers.

b. Geographical Location

Located in the Southern Hemisphere, the Pacific islands have the potential to be off-season suppliers for a range of horticultural commodities. For example, because ginger can be harvested only in the first half of the year in the Northern Hemisphere, a market niche has been left in North America that Fiji has been able to successfully exploit. Similarly for the Japanese squash market, the period from November to early January is one of short supply and relatively high prices. This happens to coincide with the production period for the Pacific islands. In the highlands of Papua New Guinea are found a rare combination of altitude latitude, and fertile soil, that provide a unique set of conditions for a range of floriculture and other horticultural products. Similarly the climatic conditions found in some of the islands appear to provide ideal growing conditions for certain nuts, such as macadamia and cashew, which are under supplied on the world markets.

c. Trade Agreements

Horticultural commodities have duty free access to Australia, New Zealand, and North America. Producers with air links have the opportunity to competitively sell fresh tropical produce to the urban markets of Sydney, Melbourne, Auckland, and Honolulu which have combined populations in excess of fifteen million and are within six hours' flying time. Furthermore these cities with substantial Pacific island and Asian populations provide substantial markets for products such as root crops. For example, a recent study of the Australian market for fruit and vegetables from Pacific island countries pointed to the fact that 500,000 million residents of Sydney or Melbourne were born in Asia or the Pacific islands.

d. The Linkage with Tourism

For a small island economy a substantial tourism sector can provide the basis for a significant horticultural sector. It is tourism that will generate the essential air cargo space at competitive cost. The experience of Hawaii's papaya and floriculture industries vividly illustrates the case. These industries, with a farm value exceeding $60 million, only exist in their present form because exporters have access to frequent and low-cost wide-body air-freight from Honolulu to North America (around 250 per week) and Japan (around 110 per week). Thus the freight service available to Hawaii's high value horticultural industries is a direct by-product of a booming tourist sector and is in a sense subsidized by that industry. On a much smaller scale tourism in the Cook Islands and Fiji, and more recently Vanuatu, has created similar opportunities. The development of the Cook Islands papaya industry followed the expansion in tourism which created back loading capacity into the Auckland market. The expected growth in South Pacific tourism will bring with it substantial opportunities for horticultural development. For some commodities tourism can provide an important domestic base around which a significant horticultural export industry can be based. This is illustrated by Hawaii's macadamia nut industry. Hawaii is the world's most important macadamia nut producer and it is the states most important agricultural diversification crop, with a wholesale value well in excess of $100 million. This industry has been developed around supplying the tourist-driven domestic market, where some 60% of production is sold within the state. Fiji, with FAO technical assistance, is now considering the feasibility of establishing a macadamia industry. Necessary conditions for success are offered by apparently good agronomic conditions and the prospect of an expanding tourism sector. However capitalizing on these conditions will depend on attracting private investment and experienced management.

The achievements of Hawaii's diversified agriculture provides a measure of what can be achieved by an island economy. The farm value of Hawaii's horticultural exports is around $140 million, with macadamia nuts, flowers and nursery products, papaya, and ginger root dominating. Granted Hawaii is an integral of the United States and thus the mainland has had an overwhelming influence on the state's agricultural development by providing markets and investors. Yet the economic structure, production possibilities, market opportunities, and constraints in Hawaii and the Pacific islands are more similar than they might seem. With the exception of the macadamia nut industry, diversified agriculture is characterized by small-holdings. Two notable successes of Hawaii's diversification efforts - papaya and ginger root ginger - have required relatively small land areas. Furthermore, the state's diversification has focussed on the relatively isolated island of Hawaii (the Big Island) with the attendant transportation problems similar to those in the Pacific islands. Additionally the fortunes of Hawaii's horticultural development efforts have been closely linked to that of tourism as is expected to be the case in the Pacific islands.

e. Recent Marketing Successes

In contrast to the traditional low value per unit commodities such as copra and palm oil, higher-value horticultural, floricultural and wood products show considerable promise. From a resource perspective, eight countries have the arable land to support increased domestic and export agricultural production. The South Pacific has already been able to exploit market niches with growing seasons corresponding with off-seasons in New Zealand (vegetables, fruit and root crops), U.S. (Fiji ginger and Tongan vanilla), and Japan (tropical fruits and vegetables such as Tongan squash). There are significant and growing overseas markets for high value, tropical crops such as spices, fruits and vegetables that can be produced on a much larger scale in the region. Organically-grown production of fruits and vegetables also has good potential in the Pacific islands because of the relatively low contamination of soils with chemicals. The high value of these crops and the introduction of new shipping and air cargo space in the region enable economic marketing and shipping over longer distances. Tourism for some countries has generated the essential air cargo space at competitive costs.

The high unit value of these commodities means that significant industries can be built on relatively small land areas -- a prime consideration in the Pacific islands where the availability of suitable land is often a major constraint to development. This also means that these commodities can sustain relatively high labor intensities and yet remain viable. For example Fiji's ginger industry that generates over $3 million annually in foreign exchange, providing the equivalent of an estimated 1,500 full time jobs in 1988, is based on around 250 acres. Similarly Tonga's almost 1,500 vanilla farmers earn over $2 million in net foreign exchange from an estimated bearing area of 1,250 acres according to the Friendly Islands Marketing Cooperative Ltd, (FIMCO), a major Tongan-based marketing agent for the crop.

South Pacific exporters have had considerable success opening up new markets for high-value horticultural products at a time when markets for the region's traditional exports have been stagnating. While high value horticultural crops make up a small part of international agricultural trade, they can have a great impact on small island economies. Fiji and other nations with direct air access to markets are just beginning to exploit papaya which UN/FAO describes as the tropical fruit with the greatest potential for world market growth. Papaya is now Cook Islands' major non-tourism export, representing 25 percent of all such exports by value with a steady upward trend in volume of exports. (Table 9)

Table 9

Cook Islands Papaya Exports, 1974-88

Year	Exports (tones)	Value (C$000 FOB)
1980	202	111
1981	291	189
1982	410	377
1983	430	490
1984	748	471
1985	645	482
1986	829	555
1987	385	472
1988	994	417

Source: Department of Statistics, Government of the Cook Islands.

Fresh ginger, a relatively new crop in Fiji, has captured 15 to 25 percent of the U.S. market in recent years, and Fiji is now reaching out to the large Japanese and East Asian markets. (Table 10). And these production levels are based on small holder production and an absence of modern agronomic techniques. Horticultural exports in general are expected to expand in 1990 with new air cargo capacity and the efforts of private producers and exporters associations.

Table 10

Fiji Ginger Exports, 1984 - 89

Year	Export (tones)	Value (F$000 FOB)
1984	2,488	2,004
1985	2,055	2,230
1986	2,896	3,001
1987	2,828	2,789
1988	2,419	3,274
1989	2,674	3,598

Source: Central Bank Current Economic Statistics, Government of Fiji. (Multiple years).

In 1989, 35 percent of Tonga's export earnings were from horticultural crops of which 23 percent were from vanilla. This percentage may drop slightly in 1990 because high levels of production outstripped the space in the curing sheds to handle it properly, resulting in losses and reduction of quality.

Table 11

Value of Tongan Bananas, Root Crop, Vanilla Exports
($T000)

	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89
Bananas	217.0	488.0	768.7	1041.6	1859.0	797.6	517.4
Root Crops	0.0	0.0	367.4	233 2	320.7	514.6	788.0
Vanilla	592.0	564.0	1126.5	1182.1	1418.0	1191.2	2504.2
Total agricultural exports	809.0	1052.0	3931.1	4267.2	5778.2	4570.3	6632.8
Total exports	3478.0	7783.0	10247.6	7524.0	9372.0	8060.6	10922.5

Source: Department of Statistics, Govt of Tonga, 1990

Tonga has also had a very rapid growth of its squash industry, marketing its production to Japan. Export tonnage has gone from 490 tons in 1987 to 3031 tons in 1989. The 1990 estimated export volume is 6000 tons. The 1989 squash crop earned US$1.5 million in foreign exchange equivalent to 15.5 percent of Tonga's US$9.6 million total export earnings. Tonga's squash production only provides the equivalent of one day's consumption in Japan and in a period corresponding with Japan's off-season, so there is extensive room for growth.

While the value of traditional exports in copra, palm oil and coconut oil have plummeted for Western Samoa, it has covered some of this loss with a move into horticultural crops, particularly taro (see Table 12). In 1989 20 percent of Western Samoa export earnings were from taro exports to markets in New Zealand, Australia and the U.S. (Hawaii and West Coast). Valued at U.S.$2.5 million, this crop was second only to coconut oil in export value to the country.

Table 12

Western Samoa Taro Exports 1983-89

Year	Export (000 Cases)	Value (WS$000 FOB)
1983	110	2,371
1984	137	2,753
1985	220	5,113
1986	188	4,335
1987	224	5,077
1988	191	5,201
1989	264	5,848

Source: Bulletin, Central Bank of Samoa, March, 1989.

Western Samoa has been slow to develop other new exports and with the fear that the taro markets may be becoming saturated, the country may have a slump while it encourages the development of new high value export alternatives. Cut flowers production by private entrepreneurs for international markets is one prospect but it has faced more constraints than support from the Western Samoan government.

Despite these successes, the overall horticultural export performance of the Pacific Island countries has been well below the expectations of planners. The performance of the Australian market has been particularly disappointing; the total imports (1988-89) of fruit and vegetables from the Pacific islands were only a mere A$2 million. The reasons for the gap between performance and perceived potential lie largely on the supply side and not with demand. Marketing, which includes quality and

continuity of supply, and not markets per se, has proved the paramount constraint for horticultural export development in the Pacific islands. Contributing factors have been poor management inadequate capital, the adverse impact of direct government involvement, and inadequate institutional and infrastructure support.

The status and prospects for more horticultural and other high-value niche commodity exports from the Pacific islands is detailed in Appendix 1 at the end of this annex.

2. Marketing Constraints

a. Special Marketing Problems of Niche Commodities

A niche market can be so sufficiently small in absolute terms that a Pacific island exporting country could, and sometimes does, influence prices. For example, the price of fresh ginger in Los Angeles in August is directly determined by the quantity supplied by Fiji. Similarly the price of papaya on the Auckland market is correlated to Cook Islands exports. The unusual position of being a price maker creates a set of problems relating to orderly marketing previously not experienced by Pacific island commodity exporters. Even the largest bulk commodity exporters (Fiji sugar and Papua New Guinea coffee) have no influence on the world prices for those commodities.

Under these circumstances disorderly marketing can, and has, adversely effected the business environment and undermined investor and buyer confidence. Fiji's ginger exports to North America vividly illustrates the point. It was only through the formation and actions of the Fiji Fresh Ginger Exporters Association (FFGEA), a private industry group, that a manageable degree of order and buyer confidence has been restored. To quote the 1988 report of the FFGEA North American Liaison Officer:

> The Fiji ginger market in Vancouver, which had the reputation for years of being the most disorderly market in North America, has enjoyed price stability throughout this season for the first time in history, much to the satisfaction of distributors, wholesalers, and retailers -- thus proving the creation of a marketing environment is in the best interest of all parties involved in the industry.

Thus for this type of niche commodity, commercial industry associations can play a crucial role in creating a marketing environment that facilitates investor and buyer confidence. Government also has a vital function in creating an environment that allows industries to effectively regulate themselves.

To some extent there is also the risk that individual Pacific island countries could also be competing among themselves on narrow niche markets. However, to date, this has not tended to be a problem, with supply being more of a constraint. Furthermore, individual island countries tend to have a comparative advantage in certain commodities compared with other island producers. For example, rainfall and temperature would give Fiji an advantage over Tonga in the production of ginger. Whereas Tonga would have a comparative advantage in the production of off-season vegetables for the New Zealand market. Samoa is the most efficient taro producer, while Vanuatu is best placed to develop a significant kava export industry, and so forth. For most spice commodities (such as vanilla) or nut commodities (such as macadamia nuts), no one Pacific island producer is likely to be big enough in the foreseeable future to influence price. In designing and coordinating aid programs, nevertheless, there is a need to be mindful of the propensity of individual countries to undercut each other in narrow markets.

b. Haphazard Production and Marketing Systems

A small-holder production system, if well managed and directed, can offer major advantages in horticultural production as the Hawaii experience has shown. The rural economy in most Pacific islands is centered on the small-holder. The availability and distribution of land means that horticultural development is likely to be small-holder based. However, the region's semisubsistence farmers are ill-equipped to make the transition to modern export-oriented horticulture alone.

Attempts to utilize existing unorganized small-holder groups as a basis for developing a horticultural industry have been failures or near failures as was the experience of the Fiji ginger and papaya industries. In these cases, small time exporters securing supplies from farmers in an informal or ad hoc manner led to Fiji exporters having a reputation in the market as "fly-by-night opportunists" who dump inferior fruit and spices on wholesale markets. The ginger industry, which was in private sector hands was able to organize itself, set industry standards and seek government regulation of export licensing in a manner which strengthened the industry and its reputation. But, the papaya industry, which was controlled by the Fiji National Marketing Authority, a government body, failed. Now, several years later the National Marketing Authority has withdrawn and a commercial company with long experience in small-holder management has entered the papaya export industry. It provides focussed management, extension, and material supply support to the selected contracted small-holder. A similar type of company with long experience in ginger exporting is also operating in that industry.

This same scenario has been repeated elsewhere in the region such as in Tonga with vanilla and squash and in Western Samoa with passion fruit. The lesson learned for the development of market-competitive horticultural export industries is that the structure of Pacific islands agriculture is best served by small farmers formally organized under experienced commercial exporters and processors. To ensure the necessary quality standards, as well as continuity of supply, these exporters may need to provide extension, materials supply and other services to their contracted farmers. Furthermore, to reiterate, if Pacific island countries want to become horticultural exporters of any significance, industries need to be completely privatized, including the operation of post-harvest treatment facilities.

c. Inadequate Institutional Support

A major weakness that needs to be addressed is in the setting and enforcing of quality control standards. The region generally has a poor quality image to overcome in the market place. It should be noted that these are markets where the hallmark for success is quality, even more so than price competitiveness. C. S. Eaton, in a 1989 paper on "Fresh Papaya: The Do's and Don'ts of New Export Development." describes the reputation of Fiji papaya in the Australian market:

> "The absence of appropriate and enforced grading standards severely undermines the business environment for horticultural development reducing the industry to the lowest common denominator. If one exporter sends consignments of questionable quality the entire market is jeopardized and could be permanently forfeited. There is often an inadequate institutional structure and legal basis to enforce quality standards once they have been established."

There is a need to develop the capability to be able to establish and enforce quality standards much the same way New Zealand and Hawaii's horticultural industries do. The emphasis should be on encouraging industry self-regulation, with government providing the legal and institutional environment to allow this to effectively happen and to certify that the quarantine and quality standards of importing countries have been met. The establishment and strengthening of commercial industry associations can play an important role in facilitating this process. Island governments' quarantine and produce inspection departments will also require infrastructure and technical support to assist them in their vital inspection and certification role. This may include assistance in the drafting of legislation to improve the legal base for enforcing export quality and quarantine standards.

Throughout the region post-harvest treatment is undertaken in obsolete fumigation facilities operated by government departments. Investment is now required in facilities for the post-ethylene dibromide (EDB) era. EDB has been banned as treatment for exports to the United States since 1984, and this will soon be the case world wide.

At present, post-harvest treatment technology is in a state of flux with various forms of treatment under consideration. These include various forms of heat treatments, together with the controversial irradiation with gamma rays and the use of semipermeable shrinkwrap. Most interest is now being focused on dry heat treatment (DHT) that involves forced air heating. The main technical difficulty has been to construct a large commercial unit that allows rapid and even heat distribution. This seems to have been resolved and a number of Hawaii's papaya exporters have obtained USDA certification for commercial DHT treated units. Fruit is now being shipped to the U.S. mainland with very encouraging results in terms of quality.

A small-scale prototype, suitable for the Pacific islands, has been developed by the USDA Tropical Fruit and Vegetable Research Laboratory at Hilo, Hawaii together with the College of Tropical Agriculture and Human Resources, University of Hawaii (CTAHR). The New Zealand Ministry of Agriculture and Fisheries, in collaboration with the USDA, is investigating the adoption of dry heat treatment in the Pacific islands and has a pilot project underway in the Cook Islands. The Queensland Department of Primary Industries in Australia is undertaking similar research specific to its own fruit fly regime. Over the next few years, these facilities should become proven and approved by the importing countries. The challenge facing the Pacific islands will be to get these facilities and the ancillary technical assistance into the hands of the private sector with the government's role confined to supervision and certification.

3. Potential MARC Support for Horticultural Export Industries

The MARC project needs to focus on a few specific development needs where the United States would be in a position to make a significant contribution. These would include:

* Project and investor identification.

* Technical support for establishing and operating commercial industry associations, including assistance to industry based extension and research.

* Assistance in establishing of quality and grading standards.

* The provision of post-harvest treatment facilities and technical support.

* Private sector training.

* Market research and development and market intelligence.

a. Project and Investor Identification

Using Hawaii's agricultural diversification as a possible paradigm for agribusiness development in the Pacific islands, agribusiness investment could be pursued in the following sequential stages (Note: This is illustrative only and MARC will not include all these stages, especially no loan funds.)

1. Identify profitable export oriented diversified agriculture projects that could be supported by small- to medium-sized joint venture businesses. Some possible projects would include the development of an integrated macadamia industry, and the establishment of papaya and guava puree processing facilities.

2. Evaluate all such projects in terms of comprehensive feasibility studies and business plans, including emphasis on risk factors, market development, requirements for management expertise, extension and research support, and infrastructure development, i.e., essentially a turnkey approach. These evaluations should be performed to the most exacting requirements of international accounting firms and financiers.

3. Obtain an unequivocal commitment from the host government to afford guarantees that protect the interests of overseas investors within predetermined agreed guidelines.

4. Identify potential joint-venture partners, local and overseas, who would be attracted to and capable of managing the project. This phase is not easy, and a high level of expertise is required in "tendering" the project to international and local entrepreneurs.

5. Provide ongoing support for each project through training and by provision of specialized experts.

6. Provide loans to local shareholders to acquire the overseas equity once the project has been successfully stabilized.

A systematic program as outlined would go a long way to maximizing the participation of foreign joint-venture partners in the development of the region's horticulture industry. In the initial stages, it must be recognized that attracting suitable new foreign companies for the development of smallholder-based diversification crops will be difficult, although not insurmountable, provided appropriate incentives and guarantees can be provided. The fact that these investors need not necessarily directly acquire land simplifies things. Some of the more successful companies in Hawaii's diversified agriculture could be a potential source of investment.

b. Technical Support to Private Sector Industry Associations

Selected industry associations can provide a focus for developing an in-country capability. A strong commercially oriented association would be well placed to provide marketing, extension and other services to its members and other suppliers. Fiji Fresh Ginger Exporters Association (FFGEA), in addition to providing marketing support to its members, is now developing its own extension service. The Association has employed a field officer, undertakes soil testing, and has prepared farmer training material. The main focus of these activities is to improve ginger quality. The industry would thus be well placed to absorb technical assistance from the Hawaiian industry in areas such as agronomic practices and post-harvest operations. FFGEA also could benefit from assistance in activities such as product development and promotion. Similarly, Fiji's fresh fruit exporters are in the process of forming an association with the view of operating their own post-harvest treatment facilities. In other countries, similar organizations could be examined for their commercial potential.

Strategically placed technical assistance can be crucial to the success of such organizations, as illustrated by Tonga's Friendly Islands Marketing Cooperative (FIMCO), which is now the kingdom's largest exporter of vanilla beans. A similar story is told by New Guinea Islands Produce (NGIP) in Papua New Guinea's cocoa industry.

A thorough evaluation of the prospects and specific technical assistance needs of producer-based and exporters organizations in the participating countries would be appropriate. Opportunities to facilitate intra regional technical assistance should also be examined. For example, FIMCO might be well placed to assist producer-based marketing organizations in other countries.

Grading manuals are required for use throughout the region. The effectiveness of any policy dialogue directed at the enforcement of quality standards would be greatly enhanced by the existence of an authoritative published manual based on the requirements of the market.

c. Post-Harvest Treatment Facilities and Technical Support

The USDA is in the forefront of developing appropriate post-harvest treatment technology. Particularly encouraging is the development of a small scale dry heat treatment unit that would be suitable for small Pacific island exporters. The effective transfer of this technology to Pacific island exporters should be in two stages to which AID could make a contribution.

The immediate priority is for a concerted research program to test and certify DHT units under the fruit fly regimes prevailing in the different Pacific islands. New Zealand has already commenced this work in the Cook Islands. The South Pacific Commission Plant Protection Office, based in Fiji has the lead coordinating role to play in this urgent research; however, AID is well placed to provide technical and other support.

With importer certification obtained, the next step is to transfer the technology to the fresh produce exporting industries in the region. The previous generation of vapor heat facilities, built of stainless steel and based on Japanese technology stainless steel, had a capital cost running into several million dollars. Thus Japan mounted major infrastructure aid projects to supply these units to Thailand and the Philippines. Fortunately this will not be necessary in the Pacific islands as the capital cost of the dry heat units currently being commercially used in the Hawaii papaya industry is quite modest. However it will be essential to provide the technical support for export industries to operate these facilities. Support to government quarantine departments in undertaking their crucial certification role will also be necessary.

Some initial expatriate management input is likely to be necessary. This would be part of an overall post-harvest treatment training program conducted in-country and in Hawaii. Such training should involve the private sector "doers" together with the government "inspectors and certifiers".

d. Private Sector Training

Technology transfers via government ministries, a course often followed due to the strictures of aid, have proved highly ineffectual in the Pacific islands and should be avoided. The transfer of technology is best achieved via agribusiness investors or commercial industry associations, by using expert staff and on-the-job training of local personnel.

A program of focussed field visits or short term attachments could prove very beneficial, particularly to those already involved in the industry. The experience of the Fiji ginger

industry is a case in point. Following the marketing and export quality crisis of 1986, AID agreed to fund a fact-finding trip to Hawaii. The Fiji team was made up of representatives of exporters, farmers, and the Ministry of Primary Industries. The team was able to observe the operations of the Hawaii industry first hand. This proved invaluable to the Fiji industry which, with the support of government, was able to put into place major reforms and improvements the following year. The time is now right for the ginger industry to undertake another similar tour that could be extended to the market place. Likewise, Fiji and Cook Islands papaya industries could benefit from a similarly structured visit to the Hawaiian papaya industry. Hawaii's ginger industry has been open and cooperative with Fiji. It is hoped that other industries would adopt the same approach to the Pacific islands for they are not in direct competition with Hawaii due to seasonal and locational differences.

Also, there is much to be gained from the promotion of private sector training and fact-finding within the region. Countries wishing to establish a vanilla industry could benefit from attaching potential private sector participants to FIMCO. It is understood that Tonga has already agreed to provide some assistance to Tuvalu with respect to establishing a vanilla industry.

e. Market Research and Intelligence

A trade office in the United States could play a very useful function in coordinating market research and market intelligence for U.S. markets. For selected products in which the Pacific islands have particular production advantage, it could assist in market development and marketing. This would be preferably confined to situations where a product was already being produced that could be tested in the market. Detailed market and marketing assessments could be linked to the project identification and formulation proposals prepared for investment.

B. TRADE PROSPECTS FOR MANUFACTURERS

Most countries in the South Pacific would be suitable locations for small scale manufacturing operations. Almost all offer generous incentive packages, low wage structures and semi-skilled or a readily trainable labor force. Manufactures, unlike primary sector land-based production, particularly in traditional products, offer the prospects increasing demand and rates of return in world markets. The manufacturing sector requires a greater skilled labor component but also offers a higher scale remuneration than the agricultural sector which, apart from government, is the traditional employer. In Tonga, an average worker in garments manufacturing earns about US$35/week compared with $2.40 to $5.00 for non agricultural unskilled labor and $6.00

to $8.00 for casual agricultural labor. The drawbacks manufacturing have been loss of trained workers and costs and dependability of transportation to foreign markets.

Garments have been the principal focus of manufacturing in the South Pacific. Three countries which have overcome limitations sufficiently to launch important industries are Tonga, Western Samoa and Fiji though Tonga and Fiji have taken the lead. Modest successes in the world markets have been very important to these small island economies.

1. Manufacturing in Tonga

Because of the really small size of the Kingdom of Tonga (population 99,000 with an economically active labor force at 30,979) the success of its garments industry is an interesting case. Over the last fifteen years, Tonga has successfully developed manufactures, [mainly of knitted clothing, leathergoods (jackets, handbags) footwear, sporting equipment and handicrafts] into a major export industry. Manufactures as a percent of export earnings has grown from 1.0 percent in 1975 to 3.4 percent in 1980 to 13.7 percent in 1987.

Tonga has a responsive and efficiently run government operation for foreign investment approvals, business licensing and accommodation of the logistical needs of new small, light manufacturing. An initial small industries center in Nuku'alofa offering "for lease" plots, each with a basic factory shell and utilities, has been a success and prompted the building of another site in Vava'u and a second planned for Nuku'alofa.

South Pacific Manufacturing Limited, a manufacturer of knitwear (mainly in sweaters), is one part of this success. The garments are knitted on hand loom machines in pieces which are hand sewn. The hand sewing is largely done by older women in the villages surrounding Nuku'alofa. The older women are more stable workers than the younger women working in the factory and are very dexterous at weaving and sewing from years of fine mat weaving (a Tonga tradition).

The company began operations in late 1979 as a wholly owned venture of a New Zealand entrepreneur. Now at its own initiative, it is preparing to take on local equity partners for up to 30 percent of its shares of which 15% will be available to employees. In its first few years, the company operated with 30 employees producing 100 units/week. Two major expansions in 1983 and 1986 have brought it up to 320 employees (mostly women) and 1100 units/week. This makes it Tonga's largest private sector employer.

In sum, this one enterprise, South Pacific Manufacturing Ltd., makes a significant contribution to the small open Tongan economy. The annual wage bill is valued at US$0.5 million in an economy with a GDP of US$68.2 million. It grosses

annually foreign exchange earnings of US$1.3 million. This represented almost 20 percent of Tonga's total FOB export earnings of $7.0 million for 1986. This contribution is particularly important in an island economy where imports typically exceed exports by a ratio of 6:1.

The enterprise markets only to the Southwest Pacific and North America so far.

Table 13

Market Distribution of Tongan Knitwear

Market	Units/Annum[1]	%
New Zealand	22,000	47
Australia	13,000	28
Canada	7,000	15
United States	5,000	10
Total	47,000	100

[1]For year ending May 1988.

Source: The Tongan Knitwear Industry: McGregor 1989
A Case Study in Export Manufacturing
Development in the Pacific Islands.

The North American market is just starting to expand for this Tongan product after a very gradual building process and in spite of a 17 percent duty on such exports to the United States. There is an interesting trade note to this duty. The U.S. definition of handcrafted garments is vague. Under the "harmonized classification system", garments can qualify for a 9.5 percent duty if they are classified as "hand loomed and folklore". To achieve this status the garments must be "certified, in accordance with procedures established by the United States Trade Representative pursuant to international understandings by an official of a government agency of that country where the products were produced." Tonga's requests to secure this status have not as yet been successful. The duty adds one-third of cost on top of FOB price and airfreight which makes it hard for the product to compete. An attractive feature of the North American market is that it is off-season to the chilly months in Australia and New Zealand. Securing such a market would enable the business to run at full production year round. The duty-free and license-free attractiveness of the European market is offset by the higher transportation costs.

The owners of South Pacific Manufacturing Ltd. would like to expand but have no easy access to financing locally even though the company's debt equity ratio is normal and interest payments are covered by profits three to four times over. The search for a foreign equity partner willing to finance the

expansion is made difficult by the small amount needed for expansion, only US$400,000. A request for assistance from the Centre for Industrial Development in Brussels to find an equity partner was unsuccessful because they could not find an investor interested in so small an investment. Unfortunately, the needs of the South Pacific Manufacturing Ltd. are about average for the start up or major expansion of business in the South Pacific.

A very high quality leather jacket is the principle export of South Pacific Leather Co. Ltd. in Tonga. Lining (fur) and accessories come from Hong Kong, leather from New Zealand and the jacket is assembled and exported from Nuku'alofa, Tonga. This company was started by an Australian in 1988 who had his own importing company in Australia for leather goods from Hong Kong but had decided he wanted to move into production. Looking for a relatively skilled labor force, low labor rates and a favorable business environment, he settled on Tonga. All key approvals for his investment in Tonga were secured from the Tongan government in just three weeks. Within six months, he had set up factory operations within leased space in the Nuku'alofa Small Industries Centre and had employed 60 workers.

The company is turning out 7,000 leather jackets a year but could expand to 11,000 a year without increased investment in equipment. Securing new off-season (to Australia) markets for the product in North America is a keen interest of this business. Its problem has been a lack of understanding of the markets in the U.S., of regional preferences and of how to find the right niche to target for the quality of product they produce. The company's first exploration into the U.S. markets was a failure. They involved themselves in the largest annual leatherwear trade show in the U.S., the Magic Show in Las Vegas, which turned out to be a show for the lower quality, mass producers of leather jackets, mainly from Asia. Unable to compete price-wise, their higher quality products failed to attract buyers. This was a case of approaching the wrong market for the product. Deficiency in market intelligence for markets beyond the Southwest Pacific is a common problem among export businesses in the South Pacific.

2. <u>Manufacturing in Fiji</u>

Fiji's manufacturing sector has experienced an explosive growth since the introduction of the tax-free factory (TFF) scheme post-coup(s) 1987. As of 1989, it employed approximately 15,550 people of which 6,220 worked in the tax-free sector. In 1985 manufacturing industry is 79 percent locally-owned in the tax-free sector with these businesses generating 65 percent of gross output and 64 percent of value added. A trend toward foreign ownership had established itself by 1989 with 16 percent of new projects wholly foreign-owned

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(See Table 14a and b). This shift is attributed in part to the reduction of tariff protection for Australian and New Zealand manufacturing and the rise of labor costs in Asia.

Table 14a

Ownership of TFFs in Fiji September 1989

Type of Ownership	Projects		Employment		Investment		Output	
	No.	Percent	No.	Percent	Amount	Percent	Amount	Percent
Local	40	56	4,065	65	16,669,960	53	62,595,000	62
Joint Venture	20	28	1,662	27	8,598,000	27	23,727,958	23
Foreign	11	16	493	8	6,070,000	19	15,075,000	15
Total	71	100	6,220p	100	31,367,608	99	101,397,958	100

*p provisional
Source: Unpublished data from Fiji Trade and Investment Board, November 1989.

Table 14b

Ownership of Tax Free Enterprise, September 1989

	Foreign	Joint	Local	Total
Existing	1	8	21	30
New	10	12	19	41
Total	11	20	40	71

Source: Unpublished data from the Fiji Trade and Investment Board, November 1989.

a. Fiji Garment Industry

Based on recent 1990 statistics garment enterprises make up 61? percent or 65 firms of the tax-free factories and 71? percent of the employment or approximately 6,881 jobs in the tax-free sector as of March 1990. More than half or 35 of these firms are registered as 100 percent locally-owned. Only 16 firms are 100 percent foreign-owned by entrepreneurs from

New Zealand (predominates), Australia, Taiwan, Singapore and Malaysia. (See Table 15)

Garment exports have had an outstanding growth in the last decade - the 1989 value of F$52,123,192 is about 435 times larger than the 1979 exports (see Table 16). The biggest expansion was stimulated by a 33 percent Fiji dollar currency devaluation in post-coup 1987 and substantial ongoing economic restructuring to deregulate, encourage competition and attract foreign investment. The garment exports in 1989 represented 27 percent of the country's F$193.8 million in exports.

Table 15

Fiji's Garment Exports, 1982-89

Year	Value of Exports (F$)	Percentage Change
1975	58,464	-
1976	62,296	7
1977	70,889	14
1978	87,297	23
1979	119,557	37
1980	115,043	- 4
1981	108,751	- 5
1982	170,793	57
1983	516,675	203
1984	848,513	64
1985	2,058,809	143
1986	4,862,771	136
1987[a]	8,803,744	81
1988	18,222,129	107
1989	52,123,192	186

Source: Fiji Bureau of Statistics 1986: 191, and including unpublished trade data.
[a]The Fiji dollar was devalued by 33 percent in 1987.

The Government of Fiji on behalf of its profitable garment industry had its first experience in serious product-specific trade negotiation with the U.S. this past year. At issue was the increased volume of exports in cotton and man-made fiber pyjamas from Fiji to the U.S. This resulted in a new Fiji/U.S. bilateral trade agreement on textiles with an increased annual quota from 75,000 dozen to 135,000 dozen for the first year of the agreement.

This new agreement allows room for growth of the garments industry as a vital component of Fiji's export base. While the ultimate outcome was a success, the process that Fiji went through to negotiate this agreement was difficult and confusing to the government negotiating team inexperienced with this level of negotiation and with the rules of the game in the United States. In the field of trade negotiation and regulation affecting flows of trade between Fiji and other countries in the South Pacific and the U.S., there is scope for improved dialogue and mutual understanding of bilateral trade interests. The MARC project should incorporate this development issue into its range of assistance activities, possibly working in cooperation with the Joint U.S.-South Pacific Trade Commission proposed during President Bush's Honolulu Summit with South Pacific leaders.

b. Fiji Timber and Wood Products Industry

Fiji has a modest forest resource but one which could be more valuable and whose resource value could be prolonged if the country were to move into value-added processing to produce marketable wood products for domestic and international markets. This fact is recognized by the Government which has moved to ban export of logs. But there is still no export levy or other restraint on sawn timber or wood chips leaving the country to be processed in Singapore, Taiwan, Korea or Japan and little in the way of real value-added wood products being produced so far. The potential, however, is beginning to be realized by a few new enterprises producing wooden toys, wood picture frames and furniture.

The most lucrative export sector for wood products appears to be in furniture. The case of Clayton-Howard Enterprises International Ltd. gives a good picture of the potential and the needs of this aspect of the industry in Fiji. The development of Clayton Howard Enterprises Ltd (CHE), a furnituremaker and exporter using local Fiji pine timber resources, is an example of the value- added export product potential that Fiji would like to promote in its wood products industry. It also portrays development needs typical of a growth industry trying to move into higher value, more competitive markets.

CHE Ltd was established in 1988 under the incentives of the Tax Free Factory Act as a joint venture by Elizabeth Clayton, an Australian entrepreneur, and Peter Howard, a local Fijian. Clayton brought the marketing, design, raw materials and management expertise and Howard, a lawyer, the local knowledge contacts. Direct and dependable access to timber at fair and reasonable prices was essential to the proposition as was the functionalism of the business environment in terms of communications and transportation links and a political commitment by Government to facilitate private sector development. Clayton

started with a factory space of 15,000 sq. ft. and 50 skilled and semi-skilled workers. The company is planning to build another larger factory within the year. Most worker training occurs on the factory floor. The work force has been loyal and mostly permanent, a bonus in an environment where worker turnover is typically high.

Clayton's strategy from the beginning was to align herself with an internationally known company who would give her credibility and access to markets. She talked her company into this position with the U.S.-based Swedish furniture designer and manufacturer, IKEA, who offered her a token test order worth only US$3000. Now, just two years later, CHE is supplying the Australia market for IKEA knockdown furniture with a confirmed order of US$2 million, and has recently been approached by Sears and Roebuck and Company to supply selective pieces for the U.S. markets. Total CHE export sales for 1990 were US$750,000 and projected for 1991 are US$2.5 million.

While CHE has started out on a bread and butter product of knockdown furniture with IKEA to establish credibility in the marketplace, the company would now like to expand into the higher value, more sophisticated production of hardwood furniture and upholstered furniture pieces and produce for other companies and new markets including those in the U.S.. Trade assistance needed to accomplish this next step in enterprise development would include assistance in gaining exposure to the sofa manufacturing industry of the U.S., identifying sources for fabrics who will sell to overseas clients (Fiji) in smaller quantity, accessing a source of training for Fijian upholstering skills to enable the industry to expand into soft furnishings, and searching for potential U.S. partners interested in a joint-venture or cooperative arrangement with CHE to produce for new markets in Australasia.

CHE knows it can benefit from a healthy, competitive local industry both in influencing the government to make necessary policy reforms supportive of the industry and to build the country's reputation as a reliable source for cost competitive and quality production. CHE has been a prime mover in establishing the Fiji Furniture Manufacturers Guild to try to foster growth of the local industry. The purpose of the guild is to allow manufacturers to share common problems (e.g. achieving quality export products, shipping of product, wood technology, management and marketing training) and to lobby the Fiji Government in such matters as high duties (over 50 %) on raw materials used by the furniture industry (glue, hardware), difficult processing of imports and exports through Customs and the export of unprocessed timber.

c. Trade Prospects for Fish and Marine Products

The South Pacific has one of the world's most ecologically diverse marine environments. All ten RDO/SP countries have vast ocean resources that are largely underdeveloped. A recent East-West Center paper projects that within ten years, marine products will add 60 percent to export earnings in Cook Islands from 1986 levels. The same report estimates marine products will quintuple Kiribati's export earnings, add 40 percent to Tonga's 90 percent to Solomon Islands', 4 percent to Vanuatu's, 16 percent to Fiji's, and 10 percent to PNG's non-mining export earnings. About 80 percent of these regional earnings would be from canned or processed tuna. These estimates assume a worldwide shortfall of seafood in 2000 as forecasted by UN/FAO.

There are basically three categories of harvesting occurring in the South Pacific: **offshore fishery, inshore fishery, and miscellaneous marine products.** Exclusive economic zones (EEZ's) were established in the late 1970s to protect national interests over ocean resources and to enable governments to control and benefit from the harvesting of off-shore fishery. Because of the high cost of off-shore fisheries development, the harvesting has been left largely to foreign nations who pay annual access fees for licenses to fish within EEZ's. The only fish entering international trade in significant quantities from this fishery are offshore pelagics: shipjack tuna, yellow fin, albacore.

Recent (1990 prepared) FAO statistics for the South Pacific region show only Fiji and the Solomon Islands with substantial fisheries exports from the South Pacific. (See Table 17).

Table 16

South Pacific Fisheries exports by value 1986-1988

Country	1986	1987	1988
		(US$ 000)	
Cook Islands	-	-	-
Fiji	16,235	23,185	35,231
Kiribati	1,190	588	1,490
Papua New Guinea	11,207	12,138	10,069
Samoa	-	5	-
Solomon Islands	30,977	26,733	38,444
Tonga	512	565	570
Tuvalu	...	...	...
Vanuatu	3,553	2	-
Total	63,674	63,216	85,804

Source: FAO 1990. Fisheries Statistics Commodities

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In 1989, Solomon Islands' exports in fish and marine products earned US$28.4 million valued at 38 percent of total export earnings. For the larger economy of Fiji, US$30.5 million in fisheries exports were recorded in 1989 representing 8 percent of the country's US$383 million in export earnings. The industry is expanding in both countries with a medium scale private sector industry becoming established and successful (particularly in Fiji) in wholly government-run sector. In both countries, major government-owned fishing corporations (IKA Corporation in Fiji and NFD in Solomon Islands) are proposed for privatization.

A particularly promising development in domestically-based offshore fishery is growth of trade in high value air-freighted fresh chilled fish. Fifteen percent of Hawaii's bottom-fish market (1987) were imported from Pacific island countries. (Table 17)

Table 17

Source and Composition of Representative Pacific Island Fish Airfreighted to Hawaii 1986 (tons)

	Snapper	Wahoo	Jacks	Tuna	Mahi Mahi	Kingfish
Fiji	37		1	1		
Kiribati	10		10	6		11
Tonga	2					
FSM	2	3		1	22	
A. Samoa		11				

Source: The Marketing of Marine Produces From the South Pacific Philipson, 1989 p. 30.

In-shore fishery is mainly a subsistence fishery with the surplus going into the commercial sector. This surplus is absorbed domestically and does not figure in export markets. Subsistence fishermen generally live outside the cash economy and fish commercially only to obtain cash for a specific purpose such as school fees. Therefore the supply is not dependable.

Miscellaneous marine products such as trocchus, mother of pearl shells, beche-de-mer, pearls, sea weed, sharks fin, green snail, turtle shell, crocodile skins, coral pieces, aquarium fish, giant clam, and sponges represent an export market of increasing importance to Pacific Island countries (see Tables 19a and 19b). As the collection and, to an increasing degree, the culturing of marine products involve villagers or village farms, these products represent a much broader spread of income benefits in a country than do the large commercial fishing industry operations.

Table 18a

Miscellaneous Marine Products Exports 1987
Value ($US000)

Country	Trocchus	MOP	Bech de-mer	Shark fin	Turtle Shell	Other	Total
Papua New Guinea	1,020	47	35	-	-	438	1,540
Solomon Islands	1,020	122	469	67	84	87	1,849
Vanuatu	120	-	2	-	-	132	254
Fiji	807	120	1,826	36	92	543	3,424
Total	2,967	289	2,332	103	176	1,200	7,067

Notes: "Other" exports for Fiji are made up as follows: dried seaweed ($112,000), aquarium fish ($118,000), coral pieces ($111,000) and worked shells (button blanks) ($203,000). For the Solomon Islands: other shell ($71,000) and crocodile skins ($16,000). PNG: green snail ($68,000) and giant clam meat ($370,000). Vanuatu: green snail ($85,000) and trochus banks ($47,000).

Source: The Marketing of Marine Products From the South Pacific. Philipson, ed. 1989. p.27.

Table 18b

Miscellaneous Marine Products Exports 1987
Quantity (tons)

Country	Trochus	MOP	Beche-de-mer	Shark fin	Turtle shell
Papua New Guinea	442	16	121	-	-
Solomon Islands	445	43	146	4	2
Vanuatu	26	-	1	-	-
Fiji	250	23	640	6	2
TOTAL	1,163	82	908	10	4

Source: The Marketing of Marine Products From the South Pacific. Philipson ed. p.28.

According to analysis done by the Forum Fisheries Agency (FFA), a regional technical fisheries organization based in Honiara, Solomon Islands, seaweed cultivation (carrageen) in the South Pacific is an industry with good potential for the 1990s. The first farms were established in Fiji, Tonga and Kiribati in the mid 1980s and more recently in the Solomon Islands. (All farms use Eucheuma spp.) The 1989 production of dried seaweed in the South Pacific was reportedly: Kiribati 150 tons, Fiji 80 tons, Solomon Islands 3 tons, Tonga negligible. Achievable targets in 1990 are considered by one Pacific industry watcher to be Kiribati 200 tons, Fiji 400 tons, Solomon Islands 20 tons. Tonga has stopped production as a result of cyclone Peni, and the belief that the market price is low.

Processing factories are located regionally in New Zealand, Indonesia and the Philippines, as well as in Japan; but most intermediary and final processing is carried out in Denmark, where the world's two major seaweed companies have their main processing factories.

Fiji's Seaweed (South Pacific) Company has taken over where Coast Biological left off when it withdrew from Fiji in August 1988. The new company is using its own production to increase the number of plants it has under culture in order to reach a commercially viable size (estimated at 400 t/year) as quickly as possible. Like Coast Biological, it aims to build a semi-refined carrageenan processing plant to process not only its own output but also that of other Pacific Island countries. For this to be economic, it requires a throughput of at least 900 mt/year. Such volumes could be produced within the region by 1991.

In terms of income, an average-sized one person farm in Fiji provides a net income to the farmer of F$200/month (US$135/month). This is considered an acceptable level of reward in Fiji for a village-based self-employed worker at the present time, as evidenced by the rapid increase in production in recent months. The most successful farmers to date have all been women. The return to farmers generally in the South Pacific, as elsewhere, has improved significantly over the last 2.5 years. This is largely a result of the increased use of carrageenan for pet food 'in jelly' (as opposed to 'in gravy'). Also, this has in part been a result offshifts in the buyers exchange rates relative to the US$, which fell over this period (see Table 20).

Table 19
Carrageen

Approximate FOB prices at port of origin (US$/mt).

	Mid-1987	Mid-1988	Q4-1989
Philippines-W Europe (Cebu-Copenhage)	285		565-765
Indonesia-W Europe (Surabaya-Copenhgn)	265		550-750
C Pacific-W Europe (Fiji-Copenhagen)	150-200		180-200
C Pacific-N Zealand (Fiji-Auckland)	75		75

The present market situation of rising demand of high prices represents a window of opportunity for expanding seaweed culture in the South Pacific.

The experimental cultivation phase of the 1980s in giant clams is expected to move toward the establishment of a significant regional export industry for village farms by the middle of the 1990s, provided the current research-based activities can be fully transferred into commercial hands. Markets could be developed in the affluent Pacific-rim countries. There is a good market for giant clam meat in the sushi bars and restaurants in parts of Japan and the U.S. Just one international commercial operators, the Sushi Bar chain, a rapidly expanding 'McDonald' style fast-food restaurants with many outlets throughout Japan and California, currently estimate their initial requirement at 300,000-600,000 units per year. Little attention has so far been focussed on the main product of the giant clam - the shell.

The major research facilities in the Pacific region for the giant clam are the Micronesia Mariculture Demostration Centre in Palau and ICLARM's Coastal Aquaculture Centre in the Solomon

Islands. Some of the present clam research has been 'sold' on the back of the conservation need to reintroduce giant clams to areas or regions where they have become extinct - or virtually so - from overexploitation. Reintroduction of the giant clam is seen to be justified per se, whereas if the main thrust were to establish village farms on nearby reefs, the restocking of an area would then be more or less assured of occurring naturally simply as a side-benefit of the village farm. The main problem perceived at FFA with giant clam culture is the issue of village farms. Until it is possible to produce a monthly income or equivalent of a reasonably attractive amount, giant clam culture will remain the preserve of the scientist and the large scale commercial farmer. This issue is of paramount importance. The same reef space can be used for the cultivation of a number of different marine organisms. Given that it's an either or decision, the reef farmer wants to know what will be the net income he can reasonably expect on a regular monthly basis from any range of alternative reef grow-out options. This issue falls into the category of 'profitable environmental protection' through commercial enterprise which is the type of activity which may be pursued under the A.I.D. Profitable Environmental Protection project now under design.

The main producers in the world of black pearls are in the Pacific; namely French Polynesia and Cook Islands. However, while no distinction is generally made between pearls produced from the blacklip and the goldlip oyster in export statistics, virtually all of the output from these two countries is from the blacklip pearl. As almost all the pearl production of the two countries is exported, it is estimated that total world production of black pearls (from the blacklip pearl oyster) amounted to just 320 kgs in 1988, rising by 60% to 510 kgs in 1989 (i.e. about 0.5 - 0.8% of annual world supply of jewellery-quality pearls).

Techniques for the culture of blacklip pearls were pioneered in French Polynesia in the 1970s. Since then, a number of suitable atolls in that territory have introduced 'pearl societies', of which there are more than 40 today, in the Tuamoto and Gambier archpelagos. Private firms account for most of the output from French Polynesia.

The first exports of black pearls of six kg worth US$ 80,000 (US$13,333/kg) took place in 1976. By 1983, export value had shot up to US$ 4,182,000 for just 139 kgs of pearls (US$ 30,085/kg). Since 1983, black pearls have been the top export earner of this French territory. Total pearl exports to Japan in 1989 were valued at US$ 41.1 million CIF, of which raw pearls accounted for 500 kg (US$ 80,814/kg). Clearly, as the small annual supply of black pearls has grown over the past 14 years, a market for this particular pearl has developed and black pearls have become increasingly sought after.

The Cook Islands adopted the technology and techniques pioneered in French Polynesia and have been culturing blacklip pearls using these methods since 1987. By 1989, the Cook Islands (specifically Manahiki) exported 26 kg of blacklip pearls valued at US$ 350,000 FOB, worth 12.5 percent of annual Cook Island exports and growing. The A.I.D. Pacific Islands Marine Resources project is working with the Cook Islands to further develop the commercial black pearl export industry at the production level. Because of the value of the production world markets, exports are expected to expand dramatically in the 1990s.

Appendix 1

STATUS AND PROSPECTS FOR HORTICULTURAL AND OTHER HIGH-VALUE NICHE COMMODITY EXPORTS FROM THE PACIFIC ISLANDS

Commodity	Current Status	Growth Prospects	Growth Constraints and Requirements	Opportunities for MARC Assistance
FIJI				
Ginger				
- Fresh	Mature industry based on North American Market (FOB value approx $F2 million)	Modest in medium term with improvements in quality and marketing arrangements. Real value could double over next decade.	Quality needs to be improved. Institutional reform in industry is required.	Assistance to the Fiji Fresh Ginger Exporters Association's extension service. Facilitating technical cooperation between Hawaii and industries.
- Processed Immature	A long standing industry that has experienced recent expansion in exports to Japan (FOB value around $F1.5 million).	Substantial if Japanese market can be stabilized. A sizable market available in EC . Market opportunities likely to exist in U.S.	Consistent high quality required. Capital investment in processing. Privatizing of processing and marketing. Management upgrading.	Identifying possible joint venture partners. Market identification and market assistance for U.S. market.
- Puree	Some off grade mature ginger sold to Hawaii based buyer for processing in California	Fresh convenience products a rapidly expanding market in U.S. With Fiji's large percentage off-grade mature ginger prospect of producing ginger puree in Fiji.	Technology and capital investment Foreign investor or joint venture partner probably required. Large spice companies such as McCormick should be approached.	Assistance in project preparation. Evaluation of market prospects and requirements. Identification of potential investors.

Commodity	Current Status	Growth Prospects	Growth Constraints and Requirements	Opportunities for MARC Assistance
Papaya	Industry been in place for a number of years and is given high priority in Govt development plans. However achievement to date disappointing (FOB value around $150,000)	Market prospects outstanding, initially in Australia and eventually Japan.	Antiquated post-harvest facilities operated by government a major weakness. Export quality standards need to be established and enforced. Improvement industry organization required to ensure orderly marketing.	Assistance in: - the introduction and operation of modern treatment technology. This would be to the private sector but would involve strengthening govt enforcement capability - the establishment and operation of a commercial fruit exporter.
"Off-season" export and hotel vegetables	Small but encouraging private sector involvement in the Nadi area.	Excellent if the quality standards can be maintained and the projected growth in tourism materializes.	As with papaya.	As with papaya.
"Organic" Cocoa	The recent development of cocoa processing (powder and butter) in Vanuatu for "organic" (no fertilizer and chemicals) chocolate presents a promising prospect for Fiji's low productivity cocoa industry. Fiji's own developed confectionery industry provides some interesting possibilities for chocolate products, which could also involve ginger and macadamia nuts.	If the Vanuatu venture proves successful Fiji could follow suit - either selling "organic" beans to Vanuatu or establishing its own downstream processing venture.	The viability of the organic cocoa market still to be proven. Any development in fiji cocoa industry will be constrained by inefficient government marketing monopoly and poor standard of dry bean processing. Industry privatization with appropriate regulation required.	As a regional project provide a market assessment of the extent and requirements of the "organic" beverage (cocoa and coffee) market. If Vanuatu venture proves successful facilitate intra region technology transfer.

Commodity	Current Status	Growth Prospects	Growth Constraints and Requirements	Opportunities for MARC Assistance
Macadamia Nuts	Fiji currently has no macadamia nut industry but indications are that Fiji has suitable conditions to successfully grow macadamia.	From Hawaii's experience it seems that Fiji has the prospect of establishing a significant macadamia nut industry based on an expanded tourist sector. FAO is currently funding a major macadamia potential study.	If the agronomic suitability is proven the major will be to find suitably qualified investors to establish and develop the industry.	Project preparation and identifying suitable private investors to establish and operate the industry.
VANUATU				
Root Crops	Well developed traditional industry. Export backloading opportunities now exist with Air Vanuatu flights to Brisbane, Auckland and Melbourne.	Particularly good for yams due to superior quality and storability. Taro would face stiff competition from W. Samoa and Tonga. $2m in root crop exports might be expected over the next decade, particularly if expected growth in tourism realized to provide backloading capability.	Significant airfreighting will depend on anticipated introduction of 767 by Air Vanuatu. Improved south bound shipping necessary but not anticipated in the near future.	Assistance to commercial groups and management companies in export marketing. Assistance in establishing export quality standards and packaging requirements.
Kava	Well established traditional crop. In recent years substantial domestic commercial industry based on urban "makanal" (kava salons). Vanuatu looking to establish a major export industry based on herbal and pharmaceutical markets.	Vanuatu has the wider range of commercial cultivators than any Pacific Is. country. A technology now exists to produce soluble kava for "ginseng" type product. If the herbal and pharmaceutical markets can be realized potential exists for establishing multi-million dollar industry.	A considerable and skilled effort will be required to develop a significant herbal beverage market (promotion and packaging will be critical). Supply expansion will need to be carefully managed due to cultural sensitivities to the traditional crop.	Provide guidance in development marketing of new herbal and organic products. Facilitate marketing contracts and possible identification of joint venture partners.

Commodity	Current Status	Growth Prospects	Growth Constraints and Requirements	Opportunities for MARC Assistance
Black Pepper	Govt has sponsored a series of pepper development projects. Farm production has been disappointing. However superior quality pepper has been grown in a number of more remote areas. The crop is suitable for small-holder village.	The experience of the Pohnpei pepper industry has shown that the world market for gourmet pepper is under-supplied. Vanuatu has the additional advantage of being able to build industry development around supplying a growing tourist market. Vanuatu's labor supply situation is far better than that of Pohnpei. A $2m industry over the next decade seen as realistic objective.	Industry organization lacking. An intensive extension effort required. Private sector involvement in processing and marketing required.	Assistance (packaging, promotion etc) in developing tourist based marketing. Providing an in depth assessment for the region of the U.S. gourment pepper market. Assistance in preparation of materials to enhance quality standards (grower extension processing, storage, grading). Assistance to commercial industry groups and management companies, particularly in extension. Facilitating the establishment of links between industry and U.S. spice companies. This would involve marketing and possible joint venture investment.

Commodity	Current Status	Growth Prospects	Growth Constraints and Requirements	Opportunities for MARC Assistance
Vanilla	Govt expectation was that Vanuatu would develop a Tongan scale vanilla industry. The French horticulturist from the Tongan industry was brought to Vanuatu. Performance to date has been disappointing disease has effected plantings on major islands of Etate and Espirito Santo.	The crop thrives in certain micro climates - particularly on the island of Malakula. Thus, if well managed a significant industry could be developed although probably not of a Tongan scale. A $1m export industry over the next decade would seem a reasonable target.	Careful sight selection necessary. Industry organization focussed on extension and marketing.	Assistance in establishing commercial industry groups with particular emphasis on extension and marketing. Possibility for USAID to draw on the experience of FIMCO in Tonga. Support for the preparation of a quality standards manual for vanilla.
"Organic" bulk commodities - Cocoa	A Vanuatu based entrepreneur with a proven export marketing record has installed cocoa processing machinery directed at the "organic" chocolate (no fertilizer and chemicals).	Cocoa is suited to Vanuatu farming systems. The small-holder based industry produces around 2,500 tons and continues to grow despite low world prices. The quality is good. A production base for this venture thus exists. If successful it could be expected to double the value of cocoa exports which currently stand at around $US2 million.	A processed organic product still needs to be produced and market tested. The extent and requirements of the organic market need to be determined.	

Commodity	Current Status	Growth Prospects	Growth Constraints and Requirements	Opportunities for MARC Assistance
- Coffee	A coffee processing project is being proposed by the Tanna Coffee Dev. Co. directed at "organic" exports and high value packaged cocoa for the tourist market.	The expectation is that high value processing will offer longer term viability to Vanuatu's small, but troubled, coffee industry. With expanding tourism Hawaii's Kona Coffee has become the model for Vanuatu. Coffee generates farm value sales of around $7 million in Hawaii.	As with cocoa. Vertically integrated private investment needs to be attracted to the venture.	As with cocoa. Assistance in applying Kona experience to the South Pacific (tourist based industries would not be direct competition with Hawaii) - particularly attention needs to be given to marketing and promotion. Assistance in identifying suitable joint venture partners.
TONGA				
Vanilla	Vanilla is Tonga's most important agricultural export industry, having surpassed both coconuts and bananas. The value of vanilla exports is currently around $T2.5m annually.	With the production base of the industry firmly established and marketing largely in private sector hands, the value of exports could expect to double over the next decade (assuming vanilla prices remain reasonably firm).	The establishment and enforcement of standards. The consolidation of exporting in the hands of one or two industry based exporters.	The vanilla industry has been a major beneficiary of assistance to USAID and FIMCO (FIMCO experience provides a basis marketing technical assistance to other countries).

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Commodity	Current Status	Growth Prospects	Growth Constraints and Requirements	Opportunities for MARC Assistance
Squash	The last three years have seen the development of a substantial export industry supplying the season niche in the Japanese market. The value of exports for 1990/91 season was $T1.9m.	The mature $T3m export industry would be a reasonable expectation if the industry can be consolidated.	Current rapid expansion needs to be foregone for consolidation. This requires: - Increasing the yields and profitability of existing farmers - Improving quality, with particular emphasis on post-harvest handling - Improved coordination of marketing arrangements.	Provide assistance to a commercial Tongan Pumpkin Association in marketing and extension efforts. Assistance in the preparation of material promoting quality improvement and grading.
Root Crops	The last few years have seen a steady growth in root crop (taro and yam) exports, principally to NZ. The official value of these exports stands at $T.8m (likely to be significantly under-estimated).	The industry has a sound production and market base and thus sustained growth can be expected. Thus, the real value of exports could be expected to double over the next decade.	Transportation is a constraint to expanding North American market.	No direct assistance expected, could benefit from the preparation of regional quality standards material.

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Commodity	Current Status	Growth Prospects	Growth Constraints and Requirements	Opportunities for MARC Assistance
WESTERN SAMOA				
Taro	Western Samoa's major export earner and the region's largest exporter. Prior to hurricane Ofa the value of exports officially stood at $WS6 million (likely to be under-estimated).	Since export marketing was privatized in 1987 exports have grown rapidly. The market is under supplied and Western Samoa is a low cost producer that is well located relative to major markets. A $WS 15m is a reasonable expectation over the next decade.	Transportation is a constraint to expanding North American market.	No direct assistance could benefit from the preparation of regional quality standards material.
COOK ISLANDS				
Papaya	Papaya is the Cook Is. major agricultural export industry with an FOB value of around $NZ.5.	The Auckland papaya market is saturated and cannot be profitably expanded. Australia offers a large market if tourist driven air links are created.	Auckland papaya market saturated. Air cargo links to other markets. The introduction and operation of new generation post-harvest treatment facilities.	
"Organic" Coffee	Cook Islands is developing a small coffee industry.	A market basis exists for the development in the Cook Islands significant tourism sector and in high value gourmet coffee markets in the U.S. and elsewhere.	Substantial investment in marketing (particularly packaging and promotion) required.	Same as Vanuatu.

Commodity	Current Status	Growth Prospects	Growth Constraints and Requirements	Opportunities for MARC Assistance
PAPUA NEW GUINEA				
Floriculture	Has no floriculture industry.	The highland of Papua New Guinea provide a unique combination of altitude and latitude for floriculture and horticulture development. This would not be a niche development and would require major investment in support infrastructure.	Transportation - the development would have to be large and profitable enough to justify dedicated air freighting. Development would require substantial agribusiness investment and expertise.	Project preparation for potential agribusiness investors. Identification of agribusiness investors.

ANNEX J

RELEVANT PROGRAMS OF OTHER DONORS REGIONAL ORGANIZATIONS AND U.S. GOVERNMENT AGENCIES

SUMMARY

There is a collection of resources, existing or proposed, provided by different institutional players that could contribute to the expansion of trade and investment in the South Pacific, linkages with world markets and an improved business environment in individual South Pacific nations. These implementing institutions fall into five groups which include:

A. Bilateral Donors
B. Multilateral Donors
C. South Pacific Regional Organizations
D. Other Pacific Basin Organizations
E. Other U.S.G. Agencies

The recent history of business development and trade and investment assistance in the Pacific has been dedicated to traditional business support programs, primarily credit schemes, joint ventures programs and business training. There has been limited assistance provided for government trade missions with some resources going into market research and identification, mostly for products entering Australian, New Zealand or Japanese markets. Most resources have been channeled through government ministries, national development banks, government-funded training institutes or NGOs. Assistance directly to the business community, specifically to industry associations or to individual entrepreneurs has been rare and ad hoc with the exception of the activities of the South Pacific trade offices operating in New Zealand and Australia and financed by those respective governments.

Activities which may have some relevance to the scope of the Market Access and Regional Competitiveness (MARC) Project and are being pursued by individual institutional players within the five groups.

A. BILATERAL DONORS

Bilateral donors providing business development assistance to the region are: Canadian International Development Aid (CIDA), British Development Division in The Pacific (BDDP), Australian International Development Assistance Bureau (AIDAB), New Zealand Aid (NZAID) and Japanese International Cooperation Agency (JICA). Summaries of bilateral assistance activities possibly relevant to MARC are presented below showing principle activities, amounts of aid committed or planned for each activity, and areas of emphasis.

1. CANADIAN INTERNATIONAL DEVELOPMENT AGENCY (CIDA)

CIDA has a presence in the Pacific primarily to implement their marine resources program. CIDA's Business Cooperation Branch located in Vancouver has not had much contact with Pacific Islands businesses and CIDA involvement in business development or trade and investment activities is relatively small.

a. Management For Change Workshops

Business development activities in the Pacific funded by CIDA have been ad hoc training activities implemented by Management for Change, a locally-based PVO. In 1990, $90,000 in funding was channeled through the Forum Secretariat for Management for Change workshops.

b. IFC South Pacific Project Facility Support

Canada has committed $US 800,000 the International Finance Corporation South Pacific Project Facility recently established in Sydney, Australia (See IFC below) to support identification of investment partners and sources for premium medium to large scale private business development projects in the South Pacific.

2. NEW ZEALAND AID (NZAID)

New Zealand has a program in the South Pacific relatively broad in scope. A 1990 World Bank Report on Pacific Island Economies stated that while the majority of New Zealand development resources was allocated in the agriculture, fisheries and forestry sectors, nearly 40% was allocated to sectors where private sector response might be stimulated directly.

a. Pacific Islands Industrial Development Scheme

The principal means of New Zealand government sponsorship of private sector development in Pacific Islands countries has been the Pacific Islands Industrial Development Scheme (PIIDS). An annual level of $NZ 350,000 was available to the region. The PIIDS project has been on hold for the last six months while the project and the entire private sector policy undergo a major review. A new policy statement and likely redesign of the PIIDS project is due in early 1991. The project suffered a great loss when the small business agency who had evaluated project proposals was no longer available to provide outside business counsel.

b. New Zealand Trade Office for the South Pacific

The New Zealand Government through its NZAid budget established in December 1988 a South Pacific Trade Office in Auckland to promote Pacific Islands business in New Zealand. The office is staffed by two professionals and an administration/information assistant. Its principle activities include facilitation of export development and promotion activities by South Pacific businesses in New Zealand and promotion of New Zealand investment in Pacific Island countries.
The facility functions on a year-to-year contract budget with a first year of operation cost of $350,000. Recognizing that larger economies such as Fiji and PNG are more likely to benefit from the trade office, the New Zealand Trade office makes a special effort to identify and respond to the needs of the smaller countries of the region.

c. Institutional Development of Development Banks

Development Banks in the region have continued to receive support from the New Zealand Aid Program in the following amounts: Fiji (US$600,000), Tonga (US$780,000) and Solomon Islands (US$100,000).

d. IFC South Pacific Project Facility Support

New Zealand has agreed to commit US$500,000 to the IFC South Pacific Project Facility in Sydney ($100,000 per year over the 5 year life of project). Countries benefitting will be the seven World Bank members.

3. AUSTRALIA INTERNATIONAL DEVELOPMENT ASSISTANCE BUREAU (AIDAB)

AIDAB is the largest bilateral donor in the region and its activities cover 11 countries including Fiji, Tuvalu, Papua New Guinea, Solomon Islands, Vanuatu, Kiribati, Tonga, Western Samoa, Federated States of Micronesia and the Marshall Islands. AIDAB has funded traditional business development activities in the region; but they have also explored beyond these by sponsoring activities such as Australia Executive Service Corps projects.

a. Australian Joint Venture Scheme

The Australian Joint Venture Scheme, while officially operational, has basically been in abeyance for the last few years. Disappointed by their limited successes, AIDAB has not been promoting the scheme. As a case in point, the only project to be funded in Fiji during the last two years was a $AUS 1.8 million trust equity on behalf of the native land owners of the Fiji Forest Institute.(FFI). The FFI, however, appears headed for bankruptcy.

Inadequate proposal screening and follow-up with overinvolvement by host government bureaucracies were identified as key problem areas.

b. Australian Trade Office For The South Pacific

The Australian Government was the first to set up a trade office for the South Pacific nations in its own marketplace. The South Pacific Trade Commission, established in 1979, is located in Sydney and staffed by an ex-trade commissioner to the Fiji Islands. The annual operating and program costs of the SPTC for 1990 was $A510,000. The success of the operation has been largely attributed to the business acumen and South Pacific awareness of its director, Bill McCabe. To many in the Pacific, Bill McCabe is the SPTC. The SPTC seeks to identify Australian/South Pacific trade and investment opportunities, arranges industry specific attachments directly between Australian and South Pacific businesses and responds to ad hoc business needs of South Pacific nations. While the SPTC assists the entire region, experience has shown that Fiji, Tonga and Western Samoa have derived the greatest benefit from the Office.

c. Australian Executive Service Overseas Program

The Australian Executive Service Overseas Program (AESOP) is organized and operates similarly to the U.S. International Executive Service Corps. They have successfully linked senior policymakers of government and business by means of valuable exposure training which has resulted in mutual understanding of industry-specific concerns and general business issues. Although Aesop is a worldwide program, the majority of the 75 active projects in mid-1990 were located in the Pacific.

d. IFC South Pacific Project Facility Support

The Australians have also joined the donor group supporting the IFC SPPF in Sydney, authorizing $600,000 for the first five years of operation for the benefit of the seven Pacific World Bank members.

4. BRITISH DEVELOPMENT DIVISION IN THE PACIFIC (BDDP)

British Development assistance for business support in the Pacific is fairly modest and channeled through governments in the region. Their office covers a ten country South Pacific region.

a. Cooperatives/Privatization Efforts

Bilaterally, there is a project supporting the development of cooperatives in Vanuatu (about $1,000,000 over 5 years) and an effort to restructure the National Fishing Company in Kiribati to attract private sector investment. Funds have also

been provided for the development of an industrial estate on Tarawa.

b. Commonwealth Development Corporation

In addition to bilateral aid, the British operate the South Pacific regional office for the Commonwealth Development Corporation in Suva, Fiji. CDC is mandated to assist overseas countries in their economic development. In the South Pacific, CDC is empowered to operate in Fiji, Papua New Guinea, Vanuatu and Solomon Islands. CDC provides support to business by extending access to equity partnerships, loans on commercial terms, manages business projects and resources and assists with ancillary services such as marketing, purchasing and personnel.

CDC funding in the South Pacific for loans and projects is $US 250 million. CDC has offered in-kind assistance to the IFC South Pacific Trade Facility in Sydney.

Fiji Development Company Ltd. (FDC) is a subsidiary of CDC which aims to promote development in Fiji. by providing venture capital finance to fund start-up and expansion of companies with growth potential. FDC can invest in equity, provide shareholder loans, provide finance between $F 200,000 and $F 1,000,000 and tailor an investment or financing package to specific company needs.

5. JAPANESE INTERNATIONAL COOPERATION AGENCY (JICA)

The Japanese International Cooperation Agency (JICA) has provided training, technical assistance and Japan Overseas Cooperation Volunteers to the South Pacific. Japan's Overseas Economic Cooperation Fund's (OECF) main activity is in development financing through direct loans to foreign governments of developing countries and loans to foreign governments of developing countries and loans to and investments in Japanese corporations engaged in development projects.

a) The Japan International Development Organization, Ltd (JAIDO) has been set up as a joint stock company with capital provided by about 100 private corporations and OECF. JAIDO will make pump-priming investments in joint venture projects up to 10% of the total equity by the Japanese side. It is expected to have an average per project cost of about 200 million yen ($US 1,500,000).

B. MULTILATERAL DONORS

Multilateral donors active in the South Pacific include the European Development Fund (EDF) of the European Economic Community, the Asia Development Bank (ADB), the United Nations Development Program (UNDP), the United Nations Industrial Development Organization (UNIDO), the International Labor

Organization (ILO) and the World Bank Group including the International Monetary Fund (IMF), the World Bank (WB) and the International Finance Corporation (IFC). Description of these multilateral donor business development activities possibly relevant to MARC are listed below by agency.

1. EUROPEAN DEVELOPMENT FUND (EDF)

Early assistance for business development activities in trade and investment from the European Communities was provided exclusively on a government to government basis. An evolving business development strategy in the EC may have scope for direct assistance through Lome IV funds to non-governmental organizations and the private sector. Programs in Kiribati, Western Samoa, Tuvalu, Fiji, Vanuatu and Tonga are manages by the EDF/Suva office with additional offices in PNG and Solomon Islands.

EDF funds both bilateral and regional programs. Lome IV was authorized in December, 1990 with $US 42,000,000 allocated for the South Pacific Regional Programs. Fiji will receive $US 26,000,000 in bilateral funds.

a. Fiji Tax Free Zone

The EC has recently announced a major business development infrastructure effort in Fiji. A $US 7,000,000 grant and $US 2,700,000 loan will be used to develop a tax free zone near Suva and strengthen the manufacturing sector. This substantial project will acquire and develop over 30 hectares of land, construct 10,000 sq. meters of industrial buildings, provide management training and explore appropriate investment and export promotion activities. An additional $3,000,000 will support rural development, education and transport infrastructure projects.

2. THE INTERNATIONAL FINANCE CORPORATION (IFC)

The International Finance Corporation (IFC) is an affiliate of the World Bank which promotes economic development by encouraging productive private enterprise. IFC has worked to assist profitable investment in the developing world by providing financial resources, technical expertise and international experience. IFC has had thirty years experience with 2000 companies and financial institutions supporting over 1,000 business ventures in 90 countries.

a. The IFC South Pacific Project Facility

To support private enterprise development in the South Pacific, IFC has established a South Pacific Project Facility (SPPF) in Sydney and is soliciting funds from donors in the region to support the $7,000,000 five year effort. The SPPF will assist businesses in the $250,000 to $4,000,000 range through technical

assistance in the areas of export marketing, entrepreneur training and industry specific connections. IFC will draw upon proven concepts and techniques from their current facilities in Africa and the Caribbean.

As World Bank members, seven South Pacific countries are eligible for inclusion in this project. They are Fiji, Kiribati, Papua New Guinea, Solomon Islands, Tonga, Vanuatu and Western Samoa. Numerous studies from these countries highlight business development concerns. Of particular interest to the development of the SPPF was the IFC assessment of a "general lack of well-conceived and well-prepared business proposals, and absence of appropriate implementation and operational arrangements which suggests the need for technical assistance support in these areas."

The SPPF will assist targeted medium-sized to large businesses with proposal preparation, feasibility studies, assistance with funding options, aid in identification of technical and managerial personnel needs, investigate appropriate business training and industry specific connections and provide necessary market information.

Several donors have committed funds to the project and the first 2 staff members are now in place at the Sydney office. Commitments ($US) thus far are: UNDP, $700,000; New Zealand, $500,000; Japan, $700,000; Australia,$1,500,000; Canada $800,000 and $1,000,000 from IFC.

b. Foreign Investment Advisory Service

The Foreign Investment Advisory Service is a joint venture of the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) It was established to assist governments that belong to IFC and MIGA to review and adjust policies, institutions and programs that affect foreign direct investment. The ultimate purpose of FIAS is to assist member governments in attracting beneficial foreign capital, technology and managerial expertise.

3. UNITED NATIONS DEVELOPMENT PROGRAM (UNDP)

The UNDP Regional office in Suva oversees regionwide sector specific programs such as the United Nations Industrial Development Organization (UNIDO) as well as country programs. The UN has funded business development activities in the South Pacific through UNIDO and the International Labor Organization (ILO).

a. UNIDO Industrial Incubator

UNIDO has implemented traditional business development activities comprised primarily of business skills training, business workshops and some small business funding

assistance. Following recent evaluations and impact analyses, UNIDO will redirect their business development activities into a smaller scale SPPF and industrial incubators proposed for Fiji and Papua New Guinea.

Industrial incubators have been successful in stimulating and nurturing small enterprises. UNIDO proposes the Industrial incubator facility concept for businesses of a smaller scale than those targeted by the SPPF. Business incubators provide reasonably priced rental space, shared facilities, technical, managerial and marketing services and access to seed capital. Incubators can be a mixture of new and growing businesses and span the business sectors.

The underlying issue is that irrespective of size, orientation or type of business, most businesses fail within the first five years primarily because they are under-capitalized and are poorly managed. The success rate for businesses in industrial incubators has been outstanding with 80% success rates for companies nurtured in the incubator environment as compared to nearly 80% failure rate under normal circumstances. An initial $675,000 will be allocated to this program.

b. ILO Business Support Program

ILO has conducted successful seminars and workshops on "Starting Your Own Business" and "Improving Your Business." Materials from the seminars are now available in written form and an excellent video has just been completed. These course materials are being updated and marketed by the private sector. A Training of Trainers Program to continue the workshops after ILO funding is completed will also be done through the private sector.

4. THE ASIA DEVELOPMENT BANK

The Asia Development Bank (ADB) has extended assistance to eight South Pacific Developing Member Countries (Fiji, Tonga, Solomon Islands (Papua New Guinea, Vanuatu, Cook Islands Kiribati and Western Samoa) through eight loans totalling $US 64 million and $US 7.78 million to technical assistance, human resource development, institution buiding and regional studies.

Relevant South Pacific Private Sector activities include a Regional Study on the role of private sector ($US 339,000) and ADB-TDB Program on Project Supervision for Developemnt Finance Institutions ($US 150,000). Funding has also been provided for tourism studies (Tonga, Cook Islands), development banks (Western Samoa, Kiribati) and substantial infrastructure projects to upgrade power sources, construct housing, hospitals, water treatment plants and ports (PNG, Solomon Islands, Tonga, Western Samoa)

a. ADB Loan Packages

ADB uses conditionality in its loan approvals to stimulate policy reform. A $15,000,000 ADB loan to Western Samoa negotiated two phases of privatization in the agricultural sector. During the first phase, the government will privatize the huge government owned Western Samoa Trust Estates Corporation (WSTEC) which encompasses cattle ranches, 20% of Samoa's land mass, a coconut refinery, plantations, a butchery, and extensive infrastructure. A second phase will privatize government owned businesses in manufacturing and retail.

b. Promotional Trips

In an effort to accelerate ADB's assistance to the private sector, promotional trips will be taken to six Asian countries and Fiji in the South Pacific during 1990 - 91. These promotional trips or seminars will target the financial sector institutions and private sector organizations and business associations. The seminars will cover the function, organization and operations of the bank, the bank's role and direction in development of the private sector, overview of ADB private sector activities, the bank's guidelines, procedures, priorities and future thrusts.

C. SOUTH PACIFIC REGIONAL ORGANIZATIONS

1. FORUM SECRETARIAT

The Forum Secretariat, a regional organization with 15 member South Pacific countries operates to benefit the members and other Pacific territories to promote the interests of the entire region. The objective of the Forum Secretariat is to encourage the economic and social development through regional cooperation.

The Trade Division is active in business development activities with an overall goal to enhance the capabilities of the Forum Island countries to develop their export potential and to assist with the establishment of effective trade, investment and industry development policies. Their division is composed of three programs: marketing, industry and investment and policy development.

a. Marketing Activities

Proposed marketing activities for 1990 - 91 are a marketing support fund, a fresh produce marketing seminar, a Japan marketing seminar for selected exporters, handicraft market development, apparel industry survey project and attendance at the Garden Exposition in Japan. Total budget for above activities is $US 190,000.

b. Industry and Investment

The industry and investment program includes an industries training project aimed at providing technical and training assistance to the manufacturing and processing industries and a project to investigate export potential for Forum Island Countries' industries. Estimated cost for these two 1990-91 activities is $US 250,000.

c. Policy

The policy development program anticipates implementation of a trade and investment policy seminar project, an import procurement seminar, seminar on trade negotiations and short term consultancies in trade, marketing or industry areas of member countries. Total budget for policy development programs is $US 95,000.

d. Training and Technical Advisory Services

In addition to the activities of Forum Secretariat Trade Division, funds are available for programs in market support, short term practical training fellowships, and short term technical advisory services.

2. FORUM FISHERIES AGENCY

The Forum Fisheries Agency (FFA) provides technical support to Forum Isalnd government countries on the development of marine resources. The Forum Fisheries Agency responds to regional trade and investment issues in fisheries through its economic section. FFA's econ section staffed with two economists and a market advisor provide economic services to member countries upon request. Examples of country requests would be to formulate or review business marine proposals, assistance with project development and sector reviews for on-going marine businesses.

a. Marine Marketing Newsletter

FFA responds to specific market requests and publishes a quarterly marine marketing newsletter. Issues such as specific product pricing and export levels are discussed.

b. Marine Studies

On a proactive level, FFA has initiated trade and investment studies on regional marine products, fuel issues, and transhipment concerns. FFA can provide country specific follow on studies upon request. Given the nature of the studies and FFA's clients, much of the material generated is confidential. Those that are available for public distribution may soon be more easily

accessible through a PIMRIS project,(Pacific Islands Marine Resources Information System) though coordination and organization efforts are slow.

3. SOUTH PACIFIC COMMISSION (SPC)

The South Pacific Commission is an international agency with 22 member countries in the Pacific. The work program and priorities of SPC are determined by the member countries. There is an emphasis on technical assistance and training in the sectors of health, agro-marine resources, environmental protection and population.

a. Statistical Section

SPC's statistical section has been collecting and publishing South Pacific statistics for nearly 20 years. SPC has sponsored the development of PC-TRADE, a micro-computer processing system for trade data now in use in SPC countries. The variances in quality, timeliness and quantity of South Pacific trade data remains a serious constraint to an accurate dynamic trade data base.

b. Plant Protection and Quarantine

4. AUSTRALIAN NATIONAL UNIVERSITY, INSTITUTE FOR PACIFIC ISLANDS STUDIES

The National Center for Development Studies at the Research School of Pacific Studies is located at the Australian National University in Canberra. The National Center for Development Studies publishes books, journals and working papers on South Pacific issues and research. The Center has developed and is keeping current an extensive statistical database of social and economic indicators of the countries in the South Pacific. The Center also proposes to prepare an automated bibliography of books, articles, studies and other research on political, social, and economic issues of the South Pacific.

The work will culminate in the Center developing three fully operational databases for the South Pacific: South Pacific Economic and Social Database; Annotated South Pacific Bibliography and Aid flows and donor policy in the South Pacific. Interested parties will be able to buy the database and an updating service from the Center.

The South Pacific is given the highest priority in the Center's research because of Australia's national and international responsibilities in this area. Fiji and Papua New Guinea have been the principal foci of analysis.

D. OTHER PACIFIC BASIN ORGANIZATIONS

1. PACIFIC ECONOMIC COOPERATION CONFERENCE PECC

The Pacific Economic Cooperation Conference (PECC) was organized in 1980 to bring senior government, business and private institutional leaders together to examine crucial problems and issues influencing regional economic growth. There are now fifteen member committees (Pacific Islands is one of the member committees) who meet every eighteen months. With the establishment of a central fund, PECC looks to a possible permanent secretariat and a greater role in Pacific economic issues, particularly trade issues.

In August, 1990, the Pacific Island Nations (PIN) task force proposed the creation of a pilot program to establish a clearinghouse on Pacific Islands business opportunities. As outlined, the two year pilot project's informational tasks would include: programs fostering private sector development in the Pacific Island Islands,trade and investment opportunities in PIN economies, niche market opportunities, procurement, investment and joint venture partnerships and business training programs. Annual cost of the program was projected at $US 300,000.

The PECC standing committee rejected the proposal in September,1990 for reasons that remain somewhat unclear, though it appears that communication and coordination efforts were lacking. There may be support from the Japanese for such a proposal.

2. ASIA PACIFIC ECONOMIC COOPERATION APEC

Asia/Pacific Government and business leaders are striving to reach common policies for trade and business through close association in the Asia Pacific Economic Cooperation (APEC) forum.

a. Educational Program

The APEC Partnership for Education Program is an ambitious program, recently announced which will enhance educational opportunities for tomorrows Pacific leaders through a partnership of governments, educational institutions and private enterprises. The program will establish partnerships with 10 - 15 leading APEC educational institutions and their APEC counterparts to involve students in region specific seminars, private sector internships and regular communication on partnership activities and events. APEC intends to work closely with USAID and USIS programs.

E. OTHER U.S. GOVERNMENT AGENCIES

1. OVERSEAS PRIVATE INVESTMENT CORPORATION

OPIC is a self-sustaining U.S. Government agency which has been mandated to promote economic and social growth of developing countries by facilitating private US investment in new or expanding businesses in these countries. OPIC has two main programs: financing investment projects through loans and loan guarantees and insuring US investment against loss due to a broad range of political risks.

a. Equity Investment Funds

Recently, OPIC has supplemented its finance programs with privately owned and managed equity investment funds. To date, OPIC has approved funds targeted at Sub-Sahara Africa, the environment and Central and Eastern Europe. An OPIC preliminary summary has proposed a $200 million Asia-Pacific Growth Fund to be privately owned and managed. Of this amount $100 million is promised for the Pacific Islands. The fund would make long term investments in privately owned Asis-Pacific businesses in various sectors with which OPIC has a bilateral operating agreement. The fund would support economic connections with the United States such as joint ventures, equipment supply or technical assistance.

b. Investment Mission

In 1991, OPIC is planning to organize and lead a group of US investors to 8 Pacific countries.

2. U.S. DEPT. OF COMMERCE

In an effort to encourage increased business activity in and from the Pacific Islands, establishment of a joint U.S. - Pacific islands commercial commision is proposed to promote the development of mutually beneficial commercial relations.

This proposed joint commercial commission would consist of Pacific Island government representatives and U.S. representatives from the Department of Commerce, Department of State and other appropriate federal agencies. There will also be commission members from the South Pacific private sector.

Joint commercial commissions have developed closer economic and commercial relations between the U.S. and countries such as South Korea, Thailand, China and the Soviet Union. In the case of the South Pacific, the Commission would hold annual meetings possibly to coincide with the South Pacific Forum meetings and thereby strengthen the regional aspect of the joint commission.

ANNEX K

SOUTH PACIFIC INVESTMENT AND TRADE SERVICE

With major contributions
from
Nancy K. Ellis, Former Director, AID Office of
International Trade and Business Promotion

Robert E. Driscoll, President, US Asean Council

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ANNEX K - PART I

SOUTH PACIFIC INVESTMENT AND TRADE SERVICE

Proposed Scope of Service

US LEVEL: SOUTH PACIFIC INVESTMENT AND TRADE SERVICE

The MARC project will establish in the United States a South Pacific Investment and Trade Service (SPITS) to serve as a resource to business and industry and to the trade and investment arms of governments of the South Pacific. Secondarily, it will also provide a resource for U.S. business and U.S.G. trade and investment development initiatives in the South Pacific.

The mode of operation for the SPITS will be to establish, operate and maintain networks for contacts, information, technical assistance and other resources. This operating style should lead to the leveraging of other resources from within the networks it creates or aligns with. As conceived, the SPITS will have **four main functions** which are expected to evolve in response to demand and need once the service is operational.

a. <u>Contacts Network</u> - The SPITS will establish and operate a network of contacts with key U.S. businesses and industries that are willing and interested to work with representatives of South Pacific business and industry on trade and investment matters which may, but not necessarily, also represent new opportunities for U.S. business in the South Pacific. In operation, this network will work with South Pacific interests to secure in the United States:

i. niche markets for relatively low production South Pacific products which can meet market standards and preferences;

ii. marketing information, technology transfer, advice on industry-specific standards for market penetration and other information and technical assistance to aid business and industry development in the South Pacific in fields or products where there is likelihood of comparative advantage or some competitive edge in world markets;

iii. investment capital or equity partnership arrangements for the development or expansion of business or industry ventures in the South Pacific (Note: coordination with Overseas Private Investment Corporation OPIC and the International Finance Corporation's South Pacific Project Facility IFC/SPPF is expected. See Annex J)

iv. companies willing to work directly with business and industry in the south Pacific nations to fill small purchase orders for U.S.-produced supplies and equipment (e.g. paper products for tourist hotels; machines and spare parts) rather than operating through Australasian distributors or middlemen.

b. **Coordination With Other USG Agencies** - the SPITS will establish a working knowledge of and relationship with the key resource people and programs within A.I.D and other USG agencies whose operations could enhance (or obstruct) private sector trade and investment between South Pacific nations and the U.S. This would include services to:

i. provide to business and industry and T/I arms of government in the South Pacific information on or clarification about trade regulatory policy and practices of the U.S. in relation to countries and their exports in the South Pacific or be able to refer them to the appropriate sources;

ii. develop opportunities for improved cooperation between AID-supported T/I and commercial development activities in/for the South Pacific and compatible program activities of other USG agencies. (Note: This is particularly relevant with respect to the Department of Commerce Joint Trade Commission proposal and OPIC missions to the South Pacific initiatives proposed during the Honolulu Summit in October 1990.);

iii. improve the communication and, where possible, resolution of bottlenecks within U.S. official channels to South Pacific products entering U.S. markets;

iv. communicate and 'broker' opportunities for enhanced U.S. investments and export markets in South Pacific countries.

c. **Management of U.S. Technical and Training Resources** - The SPITS will identify appropriate sources in the United States for technical assistance, training and information relevant to the varied needs of business and industry in the South Pacific where they are gearing up to penetrate U.S. markets or attract U.S. investment. And, it will be responsible for organizing and managing the U.S. end of access to and delivery of such resources to beneficiaries in the South Pacific countries. This would include access to:

i. opportunities within U.S. business and industry to provide information and advice, to accept/sponsor U.S. field visits and short term secondments, to provide short term TA in the South Pacific to enterprises and business/industry associations;

ii. opportunities within the U.S. university/technical institute community to provide short-term industry and T/I policy-specific programs that communicate the principles and operating realities of competitive trade and investment as well as T/I and business development formulae.

iii. opportunities to use select private contractors, PVOs and central AID program resources with relevant expertise and experience to contribute to the T/I development objectives of the South Pacific (e.g. Price Waterhouse, IESC and VITA, MTAP)

iv. opportunities for TA, training and information through programs and facilities offered by other international bodies which might be more easily accessed through cooperative inter-institutional aid arrangements such as AID cooperation with the International Finance Corporation/ Foreign Investment Advisory Service

d. Information and Data Service - The SPITS will establish and maintain an on-line information and data service and disseminate such information on a fee-for-service basis to South Pacific clients and to U.S. clients interested in doing business in the South Pacific. The service should include:

i. information on market structure and prices and importers and dealers for products in which the South Pacific has trading potential with the U.S.;

ii. information on U.S. trade policy and regulations, U.S. Customs requirements and USDA and FDA inspection/approval procedures as they affect individual products and individual countries in the South Pacific;

iii. contacts network by U.S. business and industry for sectors and products of key interest to South Pacific clients in both trade and investment fields; and, for U.S. clients, a contacts database of business and industry contacts and official contacts established by country and by sector and product in the South Pacific;

iv. vital data and information on doing business in individual countries in the South Pacific including social and economic characteristics, infrastructure and transport services, labor, tax structure, foreign investor incentives and restrictions etc.

The SPITS will be structured to operate under a formula of membership fees and fees-for-service from both South Pacific and U.S. clients. These will be modest during its start-up phase, as the utility of the service is confirmed and the scope of its services refined. In the later years of the project, the fee structure will be modified to cover its operating costs and work plan, thus phasing out development assistance requirements.

The location of the SPITS will be on the Mainland U.S. to be easily accessible to and by U.S. industry and business markets. The

projected location is the U.S. West Coast because of the existing familiarity of shippers, importers, U.S. Customs and the markets with the South Pacific. Also, the largest South Pacific populations in the United States and Canada reside along the West Coast and serve as a ready market for South Pacific products. Finally, business and industry representatives from the South Pacific as well as T/I arms of governments have indicated a desire to use the SPITS as a logistical point of departure for information, guidance and assistance with organization of their U.S. business missions and most have indicated a preference for the West Coast.

To successfully operate the SPITS, it needs to have a strong identification with the private sector and real lines of cooperation and interest established within the U.S. business/industry and finance communities. Part of the strategy for setting up the SPITS will be to promote and organize a U.S. - South Pacific Business Council in the United States to help guide and support the activities of the SPITS, to facilitate the cooperation and participation of U.S. business and to serve as a counterpart to bilateral business councils focused on U.S. market interests formed by business interests in individual countries of the South Pacific that ready for this type of private sector lobby group. Fiji is expected to be the first to form a bilateral Fiji-U.S. Business Council.

ANNEX K - PART II

SUGGESTED GUIDELINES FOR ESTABLISHING AND OPERATING A U.S.-SOUTH PACIFIC TRADE AND INVESTMENT PROMOTIONAL FACILITY

Prepared by

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for the Agency for International Development
South Pacific Regional Program

August 16, 1990

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BACKGROUND

Recent experience indicates that once developing country governments begin implementing outward-oriented and market-based policies, foreign firms begin playing a vital role in catalyzing rapid and sustained economic growth by supplying the needed technologies, capital and access to foreign markets. The establishment of a U.S.-South Pacific (SoPac) trade and investment (T/I) promotional facility, such as is proposed under the MARC Project, will enable U.S. firms to play this role in the economic growth of the five SoPac countries. The proposed facility will also address increasing interest on the part of the U.S. Government, including Congress, and the U.S. business community that A.I.D. provide assistance to the U.S. private sector in accessing developing country markets.

The proposed facility will serve as the focal point in the U.S. facility will serve as the focal point in the U.S. for information on business opportunities in targeted SoPac countries, and will be responsible for developing and disseminating accurate and timely information on business conditions, conducting marketing campaigns and identifying and assisting prospective traders and investors. This will be accomplished through promotional activities, an inquiries and referral network, and by establishing a U.S.-SoPac Advisory Council comprised of prominent U.S. and U.S. resident Pacific Island business executives committed to increasing U.S. trade and investment in the SoPac region.

While the groundwork is being laid for the development of country-based facilities in the SoPac region itself, the U.S.-based operation will begin by assessing U.S. business interest in the South Pacific and the market for South Pacific products in the U.S. Starting small, program activities are expected to grow incrementally, and will be closely monitored to determine their effectiveness.

A. START-UP OPERATIONS

Gathering material on SoPac countries

The staff of the U.S. facility, which initially will probably consist of one person, the director, should begin operations by building a library of available trade data, regional and sectoral studies, global databases, and promotional material on business opportunities and conditions in the SoPac countries. This information should be analyzed and guidance provided to the SoPac countries on additional educational and promotional material needed.

Educational material should either contain general information that will assist a potential investor in the decision making process of investing in the SoPac region or specific information to facilitate a transaction. Promotional material should be persuasive in improving the image of the target countries, directed primarily at generating U.S. private sector interest in the SoPac countries, and contain brief but accurate summary descriptions of the business climate and opportunities, including the benefits of locating in the Sopac region. The material should help direct U.S. traders and investors to appropriate contacts in each of the target SoPac countries.

The SoPac contacts should be legitimate intermediaries who are qualified and prepared to assist U.S. businesses with the process of doing business in the host countries, i.e., identifying sites, introducing potential partners, including partners for marketing and sales, qualifying distributor channels, providing access to appropriate government officials, and guidance on moving through government regulations.

Analyzing the business climate and business opportunities

Utilizing the facility's new library of information and promotional materials, and information from U.S. and SoPac industry associations, trading companies, and businesses, the director, working with the Project Management Unit (PMU) in Fiji, should identify an initial set of business opportunities, trade leads and/or niche markets. The focus should be on the region's comparative advantages such as land and sea resources and fuller use of these resources, including increased production of potential value added through processing and manufacturing.

Additionally, obstacles faced by U.S. and SoPac country businesses (such as scarce managerial and capital resources, reluctance to get involved internationally and inability to access and use information effectively) should be identified, as well as constraints (such as inadequate infrastructure, political instability and restrictive policies and regulations). In collaboration with the PMU, the U.S. facility director should help design a technical assistance program to address these concerns.

Identifying appropriate types of business transactions

Given the unique economic, political and social challenges facing private sector development in the SoPac countries, the focus should be on new and less equity-intensive forms of investments. SoPac countries are too small for the most part

to attract larger investors, and these are the forms of investments normally favored by smaller firms.

Also, collaborative ventures--joint ventures where the foreign partner holds a minority interest, possibly through contributing technology and know-how; licensing agreements; franchising; management contracts; and international sub-contracting--often lead to upgraded skills and introduction of technology.

Constructing a contacts database

At this point, there is sufficient information for the staff of the proposed U.S. facility to construct a targeted contacts database which includes: 1) businesses and individuals involved in the sectors identified as opportunities in the SoPac countries; 2) businesses that have expressed an interest in or are involved in commercial ventures in the SoPac countries, including subsidiaries of U.S. companies in other Pacific Rim countries; and (3) businesses having the needed technology and capacity to engage in identified opportunities.

Sources for leads and lists include 1) government agencies such as OPIC, the Department of Commerce, and UNIDO; 2) multiplier groups such as industry associations (mining, transportation, tourism), international business organizations (World Trade Center, U.S. Chamber of Commerce), private voluntary organizations (the Foundation for the Peoples of the South Pacific); and 3) other sources such as trading companies and port authorities. Individuals from the South Pacific who are resident in the U.S. should also be contacted for leads.

When fully operational, the contacts database should quickly identify by country, sector, or intermediary functions appropriate U.S. participants for any proposed promotional event or targeted direct mail campaign.

Assessing U.S. interest in SoPac trade and investment opportunities

An important next step should to determine the level of U.S. awareness and interest in the South Pacific region, actual business activity between the region and the U.S., and the type of support needed by U.S. businesses to pursue opportunities in the targeted countries. This can be accomplished by a casual but systematic survey of the individuals and businesses listed in the contacts database, through phone calls, meetings or direct mail. This outreach also provides an opportunity to discuss plans for establishing the U.S.-South Pacific Trade and Investment Promotional Facility and to solicit comments and ideas.

An indication of the level of interest can also be determined by monitoring U.S. business responses to trade and investment promotional initiatives as they arise, such as Fiji and Papua New Guinea's plans to send export missions to the U.S. and the plans for introducing Fiji coffee in the U.S. Whatever the stage of establishment of the U.S. facility, the director should take advantage of every opportunity to become involved in the scheduling of speaking engagements, meetings, exhibits, media opportunities, etc.

Determining the range and scope of facility operations

Initially, the primary function of the facility will be to serve as a one-stop inquiry and referral service for U.S. businesses interested in SoPac countries, and as a U.S. support service for Pacific Island businesses. Other services such as staging promotional events, working with intermediaries to provide technical assistance, and linking U.S. businesses to the proposed business/trade/investment (BTI) database, will be added as the facility becomes fully operational. The range and scope of services should expand with the success of the promotional activities, and as additional services are identified which will increase trade and investment in the South Pacific region.

One of the keys to a successful operation will be flexibility. U.S. businesses will expect a quick response to opportunities or barriers as they are identified or an adjustment in support services as the environment or need changes. Facility staff should be able to adapt to changes and to balance this with planned promotional efforts.

Identifying a suitable location

Because businesses operating on the West Coast of the U.S. generally have a stronger interest in doing business in the South Pacific than those on the East Coast, and in order to allow maximum involvement from members of the Pacific Island business communities resident on the West Coast, there is a strong case for a West Coast location. However, other sites such as Hawaii and Washington, D.C. should also be considered.

B. ESTABLISHING A U.S.-SOPAC TRADE AND INVESTMENT PROMOTIONAL FACILITY

Selecting an Advisory Council

An Advisory Council of U.S. businesses and South Pacific businesses is an essential element of the U.S. facility operations. Throughout the process of building a contacts database and assessing U.S. interest in SoPac trade and investment, the facility director should also have identified

prominent U.S. and U.S. resident Pacific Island business executives who may be interested in serving on an Advisory Council. These individual should be approached by the director and possibly by the A.I.D. Administrator or the U.S.-SoPac country Ambassadors to serve on the Council.

The Council responsibilities should include providing advice (such as guidance on investment financing and international marketing); support (such as providing contacts and making introductions); and assistance with promotional activities (such as hosting seminars).

While it is expected that MARC will bear the larger part of the costs of establishing the proposed U.S.-based SoPac promotional facility, Advisory Council members should also be charged with developing plans aimed at sharing some of the costs of the facility through fundraising efforts and income-generating fees for service activities.

Initiating operations

Developing a register of potential clients

The most critical function of the facility director is to identify, cultivate and keep track of potential clients in a variety of industries and organizations. A thorough analysis of the most likely businesses to pursue should be completed and initial outreach should be focused on these companies. Building credibility and trust is critical. Further, the director should demonstrate awareness of and support for the clients' interests, knowledge of the market and resources available, ability to analyze problems and opportunities and implement practical solutions.

Linking U.S. businesses through the proposed business/trade/investment (BTI) information system

The facility should be linked to the proposed common information network in the SoPac countries which will greatly accelerate the exchange of information on trade and investment opportunities, contacts databases, marketing information, regulations, etc. The director should explore establishing a direct link to clients through the proposed BTI information system, on a fee-for-service basis.

Circulating market information

Trade opportunities and other relevant information on the targeted SoPac countries should regularly be disseminated to the U.S. businesses identified as involved in, actively

interested in the region or targeted for outreach. General information pieces should be forwarded to business organizations, trade associations and voluntary organizations involved in trade and investment, for publication in their newsletters. Press releases should be drafted and submitted on items of interest such as improvements in the business environments, firms which have located in SoPac countries, export figures, new products, etc. The director should also identify cost-effective, widely circulated magazines and newspapers in which to place ads.

A targeted direct mail campaign for special events should be designed in preparation for promotional activities. Market information should be disseminated at investment conferences and seminars, and trade and industry shows. Consideration should also be given to publishing a quarterly newsletter on SoPac countries. All of these efforts are more likely to produce results if the audience is carefully selected and the message is reinforced through repetition.

Establishing liaison with U.S. Government agencies

It is important that facility staff establish liaison with A.I.D./Washington and other U.S. Government agencies with programs facilitating U.S. commercial activities in the developing world -- programs that provide export and investment partner location services, export and investment partner location services, export and investment insurance, and pre-project feasibility services. Following is a brief description of U.S. Government agencies that the U.S. SoPac facility should target.

Foreign Agriculture Service, USDA - provides a number of informational services, trade mission opportunities, and credit guarantees to the U.S. agricultural sector.

U.S. & Foreign Commercial Service, USDOC - provides export information, agent/distributor locator service, and promotional assistance.

Overseas Private Investment Corporation (OPIC) - provides qualified U.S. businesses participating in investment projects with political risk insurance, loans and loan guarantees, pre-investment assistance, investment opportunity matchmaking, and special insurance programs.

Trade and Development Program (TDP) - funds feasibility studies and other project planning activities for U.S. investors interested in investing in developing countries.

An A.I.D./Washington point-of-contact(s), with the assistance of the facility director, should promote the establishment of an interagency working group. Department of State, OPIC, TDP, Department of Commerce, EXIM Bank, and relevant desk officers should be asked to collaborate and support any promotional events, including providing lists of potential conference/mission participants, identifying speakers, and gathering information on their respective agencies' role in assisting U.S. businesses. Representatives from the SoPac embassies should also be a part of the working group for any promotional event involving their country.

Establishing a network of intermediaries

To facilitate trade and investment in the targeted SoPac countries, the U.S. facility should maintain a current listing of dependable business support intermediaries (lawyers, bankers, accountants, consultants and voluntary organizations). These intermediaries could play a crucial role by providing detailed, specialized services such as training; standards development; logistical support; marketing; and legal, accounting, management, and financial services for potential U.S. and SoPac business partners. Services could be provided for a fee; however, the facility director should consider a cost-sharing plan when specialized services are to be funded by A.I.D. or the facility, rather than using contracts or consulting arrangements.

Working with the Project Management Unit

From the onset, the staff on the U.S. facility must collaborate with the PMU in developing a strategy to improve the capability and capacity of SoPac businesses, as well as improving the business climate in the targeted SoPac countries, for increasing U.S. trade and investment.

Providing technical assistance

A full range of services to assist firms at every stage should be offered that provide technical assistance in capacity and product development, marketing and management, and promotion. Given the limited amount of experience in doing business with the U.S., programs for SoPac businesses should include basic information such as U.S. government trade rules and regulations, and U.S. commercial practices such as pricing, quality standards, quality assurance, packaging, product design and labeling.

Technical assistance should also include improving marketing capability (such as market identification, research, feasibility assessment), promotion (product advertising, trade event/exhibition support), and market related training.

Contributing to policy reform efforts

Often the effects of government policies only become clear when firms attempt to take advantage of opportunities. In this respect, the U.S. facility can contribute to PMU policy reform efforts through its promotional initiatives. As enthusiasm and support for specific promotional initiatives grow, governments often review policies and regulations and may makeneeded reforms prior to an event. Focusing on more than one country for a major event can create healthy competition which can lead, for example, to a participating country rewriting its investment code prior to the event, the hiring of a public relations form to design brochures and displays and resulting in a higher level of government officials committing to participate in the event.

In brief, the promotional efforts of the U.S. facility staff can provide leverage to change constraining government policies and regulations and can mobilize local businesses to act as a pressure group for policy and regulatory reform.

Initiating and coordinating Advisory Council activities

The Council members should be involved in establishing the goals of the facility, providing guidance on its operations, and assist in the establishment of networks. A plan of action should be developed which includes commitments to assist in promoting the targeted SoPac countries through publicity efforts (articles, paid supplements, speaking engagements, fundraisers), providing technical assistance and making introductions to potential investors.

Council members currently doing business in the region should also be asked to serve as corporate sponsors of promotional events, particularly pre-mission conferences. Enlisting the "high-profile" services of a U.S. business executive whose company has had a successful venture in the target country(ies), and who would candidly discuss his/her experiences working with the host government and SoPac business community, provides credibility to presenting the targeted country as a good opportunity for U.S. business. This activity will also increase the level of comfort for potential investors.

C. IMPLEMENTING TRADE AND INVESTMENT PROMOTIONAL ACTIVITIES

As the groundwork being laid by the U.S. and SoPac facilities for trade and investment promotion progresses, and with a positive response by the U.S. business community to preliminary outreach efforts, the director should begin preparations for a major trade and investment promotional initiative. This initiative should represent a joint effort by U.S. and SoPac Government and business, and should consist of a pre-mission conference in Washington, D.C. on trade and investment opportunities in the targeted countries, followed by a mission to the SoPac region.

Initiating promotional activities

Organizing pre-mission conference

Pre-mission conferences are effective generators of interest in the targeted country(ies) and an excellent way of bringing U.S. and host country interests together. Experience has demonstrated that an event hosted by U.S. business leaders successfully doing business in the region, with careful matching of proposed U.S. participants to identified opportunities, U.S. businesses will attend. Further, these businesses are willing to pay a reasonable fee, which, in addition to corporate sponsorships, should contribute significantly to the cost of the conference.

The director, with the support of the A.I.D./Washington point-of-contact, the interagency working group and the Advisory Council, should organize the conference so that it provides U.S. businesses with: (1) specific, current information on business opportunities and the business climate; (2) an opportunity to meet carefully targeted U.S. and SoPac decision makers from government and the private sector; and (3) a forum for candid discussions and networking.

This two-day conference should ensure that there is significant preparation by the U.S. business participants prior to the mission, including preliminary contacts with potential business partners. Therefore, there is a readiness to do business, not just explore opportunities, while visiting the SoPac countries.

Additionally, with high level speakers and respected corporate sponsors participating in the conference, significant visibility for the SoPac countries is likely and should generate U.S. business interest in other promotional activities by the facility.

Organizing mission to SoPac countries

Country visits are the next step in generating new investment by private U.S. firms. Mission plans should include providing participants with: (1) insights into the investment, economic and political outlook from the highest levels of government and industry in the targeted countries; (2) information on specific opportunities identified by the U.S. and SoPac Government or proposed by local companies and entrepreneurs seeking U.S. partners, joint ventures and other opportunities; (3) advice from successful business executives with experience in doing business in the SoPac region; and (4) access to government, commercial and industrial development officials and decision makers. Mission participants should pay their own travel and accommodation expenses, and a fee should be considered to cover administrative costs.

Preparing SoPac for trade and investment promotional activities

A design team should be sent to the targeted country(ies) early on in the planning process of the conference and mission to brief embassy, host country and private sector officials on the design and objectives of the proposed program, and to set realistic expectations.

As the conference agenda should include country presentations, the team should identify host government and private sector leaders who can discuss the business climate and opportunities in their country. Potential SoPac business partners interested in attending the conference or providing company information for distribution to U.S. businesses should be approached. The team should also discuss visits to multiple cities in the U.S. to take advantage of the presence of Sopac Government and business leaders, and to further stimulate interest in the SoPac region.

Working with the PMU, an agenda should be developed for the mission. Plans should include briefings and presentations by key government officials and business leaders, followed by individual business appointments arranged in advance to correspond with the particular needs and interests of each mission participant.

Relevant logistical information concerning local resources available to support the mission, such as the availability of hotel facilities, computers, facsimile machines, and automobiles, should also be collected by the team. SoPac country facilitators should be briefed

on their responsibilities in coordinating the proposed U.S. mission to their countries. The role of the host government, U.S.A.I.D. and the embassy should be discussed. Commitments from public and private sponsors and hosts of official functions should be secured. Finally, information should be prepared for distribution at the conference on potential SoPac business partners and their interests, appropriate site visits identified and follow-up plans prepared.

Producing a comprehensive publication on SoPac country(ies)

To enhance the credibility of the proposed conference and mission, consideration should be given to developing a special publication using a respected company such as Business International, Inc., a subsidiary of The Economist. This publication should address critical issues of interest to U.S. investors, i.e. assessment of the investment climate in a country, including the most up-to-date information on the economic, cultural and political situation, and the identification and thorough analysis of the most promising business opportunities.

Coordinating trade and investment promotional support in the U.S.

Along with responsibility for coordinating the conference and mission with the PMU, the director should activate the interagency working group and the Advisory Council to assist with the logistics such as securing a site for the conference and receptions, drafting invitation letters, designing information packages and press kits; and approaching U.S. business and Government leaders to serve as corporate sponsors and conference speakers.

Other requirements for successful implementation of the conference are addressed by the systems established by the U.S. facility director such as the contacts database, networks of U.S. businesses and intermediaries, dissemination of promotional materials, etc. These systems and contacts for promoting South Pacific trade and investment can also be used for other promotional events such as those listed below.

Arranging export missions to the U.S. and scheduling SoPac country visitors.

In preparation for scheduled mission or visit to the U.S., the facility director should provide marketing assistance to SoPac exporters such as assistance with the development of sales materials, arranging for

participation in trade shows, facilitating visits to appropriate companies, and sending targeted mailings to U.S. business groups. The facility director should also provide ready to export SoPac firms with information and brokering services, either directly or through intermediaries.

Setting up exhibits at trade shows/conferences

An important promotion activity for the director is representing SoPac countries at trade and investment conferences and exhibits. The director should be responsible for designing easily transportable exhibits on opportunities in the targeted SoPac countries, along with handouts and displays of selected products from the target countries.

Follow-up actions

Follow-up actions are extremely important to successfully expanding trade and investment in SoPac countries. After initial contact with a U.S. business, the U.S. facility should establish a communication link to either refer or answer additional questions, provide more details, clarify technical, financial and market information, and any other points to assist in bringing a transaction to a close. There should be a tracking system in place to monitor inquiries, services provided and progress of business transactions.

A plan should be developed and implemented to publicize successful transactions. Success encourages further participation and support from both U.S. and SoPac government and private sectors and provides further credibility to the program.

At this point, the director should be able to determine if more direct involvement in actual dealmaking is needed, a service especially necessary for small firms unfamiliar with doing business in developing countries. Discussions should also focus on lessons learned and how to use the experience of promoting A U.S.-SoPac trade and investment to assist the SoPac countries in the development of stronger linkages with other Asia/Pacific countries.

D. DESIRED OUTCOMES AND EVALUATION

It will be difficult to measure the cost effectiveness of the U.S.-based facility, as it is estimated that new business ventures often take from 3 to 10 years to get off the ground. It is particularly difficult to measure the extent to which the facility programs contribute to secondary benefits such as increased employment, foreign exchange earnings, technology and management skills transfer.

Desired outcomes should include: (1) the establishment of a solid, institutionalized network between the U.S. and SoPac private sectors supporting trade and investment activities; (2) a significant number of requests for information on trade and investment opportunities from the U.S. business community; (3) increased trade flows between the U.S. and SoPac; (4) expansion and diversification of SoPac exports to U.S.; (5) rises in local value added exports; (6) increased flow of direct investment from U.S. to SoPac; (7) increased foreign exchange earnings by SoPac countries, through exports of goods, expansions of tourism receipts, and sales of other services; and (8) increases in employment and job opportunities in the private enterprises in both the formal and informal sectors.

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ANNEX K - PART III

REVIEW OF INSTITUTIONAL AND LOCATION ALTERNATIVES FOR THE SOUTH PACIFIC INVESTMENTS AND TRADE SERVICE

MARKET ACCESS AND COMPETITIVENESS PROJECT

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December 27, 1990

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I. Summary and Recommendations

Essentially, the proposed SPITS is being established to serve as a resource to business and industry and the trade and investment arms of governments, and to support U.S. trade and investment initiatives in the South Pacific. The four major functions of the SPITS in the United States are:

1. To establish and operate a network of contacts with key U.S. businesses and industries that are willing and interested in working with representatives of South Pacific businesses and industries on trade and investment matters. This network would work with South Pacific interests to secure niche markets and export opportunities in the United States.

2. To establish working relationships with the key resource people and programs within AID and other USG agencies (e.g., TDP, OPIC, and Commerce) whose operations could enhance private sector trade and investment between South Pacific nations and the United States.

3. To identify sources in the United States for technical assistance, training and information relevant to the needs of business and industry in the South Pacific.

4. To establish and maintain an on-line information and data service on a fee-for-service basis to interested clients. Initially, the SPITS would consist of an executive director and one information and administrative assistant and would be located in the United States.

The approach taken to decide on the recommended structure of the SPITS and where it should be located involved evaluating each suggested institutional arrangement and location on the basis of sets of criteria that took into account the proposed functions of SPITS and other AID trade and investment project experience.

Recommendation Regarding Institutional Structure

The review indicated that the most appropriate institutional option would be a prime contractor/subcontractor arrangement. The main reasons are the ability to offer the project a consistent management organization and implementation role, provide a variety of resources on an as-needed basis, and have in place or be able to rapidly develop the necessary network (including contacts in New York, Los Angeles and Honolulu).

The main entities involved in the prime contractor/subcontractor arrangement should be a professional consulting firm or sole proprietorship (either of which could be a small business) as the prime contractor. This is important in as much as SPITS success will depend on the individuals selected for the Executive Director and Information/Administrative Assistant positions. A professional consulting firm has a host of in-firm, intermittent and rostered professionals from which to choose. A sole proprietorship may have the experience, capabilities and network already established. Also, cost with these two options would be the most reasonable.

These firms also have a variety of working relationships (or potential to develop relationships) with other potential subcontractors and facilitative entitles. Subcontractors could include other consulting groups (for specific technical assistance support), associations, PVOs, educational institutions and finance-related institutions. Facilitative arrangements can be established with trading companies, banks, shippers, freight forwarders, investment houses and other trade and investment support services.

There are a variety of professional consulting firms and sole proprietorships that could bid on undertaking the SPITS functions. The audience able to submit qualified proposals will be broadened by using this option, and with the number of arrangements and entities that can be involved using this option, a variety of proposals with different approaches and degrees of uniqueness would be submitted. This prime contractor/subcontractor option also provides a centralized and efficiently manageable contractual arrangement.

Recommendations Regarding Location

The most practical location for SPITS was determined to be Washington D.C. This location would permit direct access to U.S government trade and investment agencies, associations, international institutions, and South Pacific country representatives. It would also be the best location in regard to information availability, and is close enough to New York and within reasonable communication distance to the West Coast and Hawaii. Also, many of the firms bidding for the contract (prime contractor and subcontractors) are based in Washington D.C.

For a fully functional SPITS, an active network is extremely important. Liaisons should be established in New York City (finance and investment contacts), Los Angeles (trade and investment participant contacts, trade and investment support services) and Honolulu (research, trade and investment support services, trade and investment participant contacts). Project subcontractors or association arrangements can be made with entitles in these cities in order to assist the Washington D.C. efforts.

The AID/RDO-SP has the opportunity to provide a facilitative and support network in the areas of trade and investment policy development, information gathering and dissemination, and transactions via the use of the flexible but resource rich option recommended. Actual trade and investment opportunities, policy needs, transactions and technical assistance needs can be addressed through this arrangement either by being initiated by the Suva Project Office or by the SPITS office. The flexibility of this arrangement is most beneficial in regard to the variety of resources offered and the ability to adjust the resources as needed by the overall MARC project.

Locating the SPITS in Washington would cause some difficulties in daily communication because of the time differences. This could be dealt with through the use of fax machine.

II. Criteria consideration Applicable to a Successful Trade and Investment Promotion Effort

The factors considered necessary for accomplishing the goals of SPITS, based on the SPITS functions and other trade and investment project experience, are discussed below. Reference is made throughout to the criteria the contractor needs to meet; however, the subcontractural support group will at times be the entity meeting these requirements.

1. Specific Trade and Investment Business Experience
2. Network Development Capability/Experience
3. Private Sector Image and Access
4. Specific Public Sector Experience
5. Information Development Experience
6. Marketing and Promotion Capability
7. Technical Assistance Identification and Follow-through
8. Familiarity with the South Pacific Business Environment
9. Communication Capabilities
10. Cost Sharing/Profit Orientation
11. Affordability

<u>1. Specific Trade and Investment Business Experience</u>

The contractor selected must have specific trade and investment facilitative experience, including network development, information production and dissemination, and identifying and responding to specific client (or user) needs. The contractor should have successfully participated in trade and investment transactions, preferably in the Pacific region. It would be desirable for the contractor to have specific dealmaking experience and be familiar with export/import processes, financing options, co-venture development and technology transfer. The organization should have a successful trade and investment track record.

2. Network Development Capability/Experience

The contractor should have an established trade and investment network within the United States readily available or have the ability to rapidly develop a network. These contacts should be in the areas of: manufacturing, banking, freight forwarding, associations, import/export trading companies and other trade and investment service-related firms. Network should also include liaisons in the major relevant cities (New York, Los Angeles and Honolulu). Additionally, the contractor must have the experience and capability to bring these resources together.

3. Private Sector Image and Access

The organization must have credibility with the U.S. private sector to work. In addition to the requirement discussed above, it should have the capability of promoting the office, opportunities and network by developing a promotional campaign, participating in or facilitating trade and investment missions/shows/business groups, and developing a transaction track record. U.S. business should view the organization as an entity upon which the business could rely for facilitative assistance.

4. Specific Public Sector Experience

Since the SPITS will act as a liaison with foreign and U.S. government agencies, the contractor should have experience with government liaison activities including specific knowledge of, and contacts in the USG trade and investment policy process. Knowledge of and working relationships with bilateral and multilateral development/commercial institutions is also essential.

5. Information Development Experience

Experience in and the ability to access and prepare macro and micro trade and investment information, database development, and the ability to disseminate this information is required. This would include information from a global trade trends perspective to specific transaction-related information.

6. Marketing and Promotion Capability

Specific experience in marketing of products and investment opportunities should be required. The contractor should also have experience in undertaking and participating in promotional events such as trade missions, investment seminars, etc. The capability to work with island and U.S. network to develop marketing and promotion information is also necessary.

7. Technical Assistance Identification and Follow-through

The contractor should have experience in participating in and managing technical assistance projects. This includes having the ability to identify technical assistance needs, having the resources/contacts to fulfill these needs, and the ability to review the SPITS progress. In addition, the contractor must have the ability to identify education and training needs to facilitate the project, and have contacts to fulfill these needs.

8. Familiarity with the South Pacific Business Environment

Knowledge of the region, business practices and needs/opportunities is essential. In addition to an understanding of the South Pacific business environment, the contractor should have knowledge of obstacles to trade and investment, and have the capability to assist in overcoming the obstacles. An understanding of how the region relates to other markets which might be competitors for U.S. trade and investments is necessary.

9. Communication Capabilities

Since the SPITS will be working with the Suva Project Office and the Pacific Island Liaisons, regular, efficient and effective communication is critical. As facilitator between U.S. businesses and South Pacific contacts, the contractor must have knowledge of regional communication requirements and restrictions.

10. Cost Sharing/Profit Orientation

The contractor must understand that the intent of this effort is to make the SPITS operate on a cost sharing basis. The ability to set-up and administer a fee structure to cover partial service costs is important. Experience in this area is beneficial.

11. Affordability

The organization must have a cost-efficient structure, which allows flexibility in responding to the diverse responsibilities of SPITS. The organization must be affordable to and be accessible via AID's contractual mechanism. The organization must also have the ability to funnel technical assistance for specific needs.

III. Evaluation of Institutional Structure Alternatives

In order to properly recommend the most desirable option for the institutional structure of the SPITS, its area's of concentration must be thoroughly defined. It has been proven in other bilateral and multilateral trade and investment facilitative efforts that the institution or program must have a specific focus from the onset to identify and service its constituency. The focus

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of the SPITS activities are understood to be information and policy and are transaction-oriented.

It has been determined that the arrangement must 1) become institutionalized (including being utilized by constituency groups); 2) develop promotion, transaction, information and policy capabilities; and 3) develop actual transactions (trade, investment, technology transfer and technical assistance activities such as training and capacity building) which take specific time periods to occur. Therefore, the resulting organizational arrangement must have a defined life span of 3-5 years.

The end result of the SPITS's activities should be aimed at making use of the network established in the United States and extending this network to the pacific islands via the MARC project and South Pacific companies. Activities resulting from the SPITS efforts should include:

- Establishing an information flow between the United States and South Pacific commercial sectors.
- Facilitating, collecting and disseminating orders to/from buyers and sellers, investment opportunities, co-venture opportunities and technical assistance.
- Providing input to establishing a facilitative trade and investment policy environment to include import/export, investment, tax, customs, finance, policies and laws.
- Assisting South Pacific company capacity building efforts via the above steps, including providing technical assistance.

While the role of the SPITS would be as a facilitator in actual trade and investment transactions, it should also facilitate the creation or development of trade and investment service providers in the United States (wanting to establish or expand business in the South Pacific) and the South Pacific (developing local capabilities). Past World Bank trade and investment studies (Keening et.al.) have concluded that trade and investment facilitative institutions should assist in creating a plurality of competing service providers in the private sector. The SPITS should therefore assist branches of U.S. domestic companies (with the ability to expand into the South Pacific), South Pacific companies (with the ability to expand into the United States), finance companies, freight forwarders, trading companies, and other trade and investment facilitative firms.

Each Proposed institutional arrangement was evaluated in terms of the criteria set forth in Section II. B. The institutional alternatives evaluated are as follows:

- PASA or RASA With Another USG Agency
- University/Business School/Technical Institute
- Private Voluntary Organization
- U.S. Business/Big 6 Accounting Firms
- Business and Professional Associations
- Professional Consulting Firms
- Sole Proprietorships
- Formulation of an Incorporated Entity
- Small Business Set-Aside
- Minority Entity Set-Aside (Gray Amendment)
- Buy-In to AID Central Contract/Cooperative Agreement
- Consortium
- Prime Contractor/Subcontractor

A. PASA or RASA With Another USG Agency

In order for AID to transfer funds to undertake the establishment and functions of SPITS to another U.S. Government agency such as the International Trade Administration, Department of Commerce, one of the requirements would be to show that agency has a predominant or unique capability to assume responsibility for the project. Not only would this be difficult, a USG agency would not meet several of the established criteria, most importantly, credibility with the U.S. private sector. However, it is important to the success of the MARC project that all of the appropriate USG agencies are a part of the SPITS network.

B. University/Business School/Technical Institute

The SPITS placed within or in conjunction with a university/business school/technical institute falls short of meeting the four major objectives of the services to be provided. While specific educational institutions, such as the East-West Center, may have regional economic and research experience, resources fall short in the areas of network development, information and database development, relations with U.S. and South Pacific private sectors, relations with country and multilateral public sector institutions/agencies, and transaction development.

An educational institution would have partial capability in the area of technical assistance identification and implementation. The capability is limited, based on the type of educational institution selected. For instance, a university and business school would be able to provide macro type economic and marketing analysis, mainly from an academic viewpoint. A technical institute would be able to supply specific industry analysis, production analysis assistance and technology transfer assistance.

To take advantage of the resources and capabilities of educational institutions, the SPITS should maintain close relationships with specific universities, business schools and technical institutes. These institutions should be an integral part of the SPITS network and should be used on as-needed technical assistance basis.

There has been no AID, regional or international aid institution, or country government trade and investment development based in an educational institution. Educational institutions and education-oriented consulting groups have assisted as components of trade and investment development efforts in the areas of research. For instance, the U.S. Trade and Development Program has contracted out to a university and to education-oriented consulting groups to research training needs and facilitate training of developing country private sector employees. The Asian Development Bank also had a South Pacific regional research program with the Pacific Island Development Program to undertake several private sector development research studies and surveys.

C. Private Voluntary Organization (PVO)

A PVO, such as a voluntary broad business group or industry group, may fulfill some of the requirement of a SPITS, such as having specific trade and investment experience (from members of the PVO) and having certain networking abilities. Also, PVOs usually maintain low overheads and therefore would have a cost advantage. However, a PVO's function would be limited to the experience and abilities of the individual(s) involved. New PVO functions would have to be implemented or abilities strengthened in networking, information gathering and dissemination, communications and transactions. Also, since trade and investment facilitative efforts sometime take three to five years to complete, the PVO must be viewed by the clientele as a long-term reliable resource.

A PVO may be appropriate as an associate or consortium member for the SPTIBs since, depending on the PVO, it may have certain technical assistance resources that would be available, on a as-needed basis, to the project. PVOs have been used in past trade and investment efforts. La Foundacion Salvadorena Dora El Desarrallo Economico y Social was set-up as a non-profit private sector organization to facilitate exports and find joint venture partners in the United States and Europe, and provide training services. The Artisan Product Marketing Project, in Honduras, was undertaken by the U.S.-based Aid to Artisans who managed to program to assist small artisans in product development, marketing, and fiscal and commercial services to penetrate export markets. The project was considered successful.

The Joint Venture Feasibility Fund for the Caribbean was an AID project that provided small grants to U.S. and Caribbean firms to reimburse travel, local consulting costs and other costs associated with venture exploration overseas. A PVO set up and

operated the fund. The fund lacked an aggressive marketing program and follow-up technical assistance was needed to facilitate ventures. The International Executive Service Corps (a mix between a consulting firm and a PVO) has also been involved in a number of AID trade and investment projects.

D. U.S. Business/Big 6 Accounting Firms

This category focuses on U.S. businesses such as trading companies, finance companies and accounting firms. Most of the past trade and investment projects experience in this category has been with the main six accounting firms. These firms offer, or have access to, a private and public sector network and usually (especially the accounting firms) have trade and investment consulting experience in one form or another. A finance company, such as one other money center banks, have limited across-the board resources but excel in trade and investment financing. The same is true with trading companies. Information gathering and dissemination experience is also outside their areas of expertise.

The major accounting firms have undertaken past trade and investment projects by bringing on individuals experienced in trade and investment, subcontracting to smaller consulting firms with specific specialties, or having a roster of trade and investment-related consultants. The accounting firms are usually a costly option, as indicated in past projects experience. Past projects have usually started with a major accounting firm and changed during or at the end of the project.

The Sri Lanka Business Development Center (SLBDC) was an AID project to provide 1) investor services and promote investment; 2) input to economic and business policy formulation; and 3) entrepreneurial and management development. Coopers and Lybrand was contracted to develop a U.S. network and assist the SLBDC in developing its overall structure and operations. The project was not considered successful because of a lack of utilization of technical assistance and the pursuit of too many diverse roles for a new institution. The SLBDC now concentrates on small and medium size enterprise development.

E. Business and Professional Associations

A business or professional association maintains the positive components of a pvo and a U.S. business: they have a network of companies and individuals in the private sector and maintain contacts in the public sector, usually have information gathering and dissemination experience, usually have business promotion experience, and members have transaction experience. In addition, cost is much more affordable.

The capabilities of a business and professional association for the SPITS project depends on the specific organization. There are several regional Asia-Pacific associations which satisfy several or all of the evaluation criteria. There are also industry and other professional associations which can provide specific technical assistance or networking capabilities. An association's potential to fulfill the criteria depends on its resources.

Project experience with business and professional associations as a prime or subcontractor is limited. The U.S. Investment Promotion Office, Egypt, Egypt's General Authority for Investment and the Free Zone and the Egypt-U.S. Business Council were sponsored by AID. The office provides general information and search services to attract U.S. business to Egypt.

F. Professional Consulting Firms

Consulting firms maintain networks of contacts, via its on-staff and intermittent consultants, in a variety of trade and investment areas. A consulting firm's abilities are usually dependent on the individuals in its network at a given point of time. Individuals on a consulting firm's roster come from past positions in business or government, and almost always have international experience. Consulting firms also have experience in information gathering, research, technical assistance provision, and business promotion. These firms also maintain track records in a variety of development-oriented technical assistance areas with several having a specialization in trade and investment consulting. Firms are especially resourceful in providing qualified individuals on an as-needed basis for specific technical assistance needs. They also have the experience of working with other consortium members as a prime or subcontractor.

These consulting firms do lack actual experience in transaction-oriented assistance as an institution. However, if the proper experienced individual is placed on the project this should not hinder the project's success. A firm's network also depends on the resourcefulness of individuals selected for the project. While a firm's experience is important from an institutional support standpoint, the actual functioning of the SPITS would depend mainly on the individuals selected to undertake the project.

One example of a professional consulting firm's involvement in trade and investment promotion is the Investment promotion Council, Dominican Republic. This project was developed as part of the CBI set-up to attract exports and investment. Instead of establishing foreign offices, small consulting firms and PVOs were used for outreach. The Business Cooperation Program, Germany, promotes joint ventures between German and developing country firms, and complements German government credit aid. The program makes equity investments in ventures and promotes training.

The government-managed program provides advisors in developing countries (usually housed in an official investment/export promotion center or local development bank). Advisors in developing countries and in Germany are private consultants. The Private Sector Development Project, Indonesia, was an AID effort which included investment attraction. The project provided twenty-five (25) hours of free consulting assistance from international and domestic firms to help local businesses develop and implement ventures between U.S. and Indonesian firms and prepare industrial profiles for the Indonesian Investment Coordination Board. Transaction-oriented assistance was viewed as beneficial.

G. Sole Proprietorships

This option depends on the experience of the individual proposed to operate the SPITS and the network the individual/business has established. The benefit of this option is that it is flexible in using a host of resources including finance institutions, trading companies, shippers, educational institutions, associations, and other consulting firms. Also, actual information, policy and transaction experience can be obtained. The individual should have an established network with U.S. industry. There are also a host of individuals/businesses available with Austral-Asia-Pacific experience. The individual should have a company with an established U.S.-overseas network. Most activities should be undertaken in-house, but the individual/business must have the ability and network to obtain specific assistance. Costs are usually more beneficial than other options since overhead costs are reduced.

Sole proprietorships have been involved in trade and investment facilitative projects in a subcontracting role, as a member of a consortium, or used for specific technical assistance. This can be attributed to past efforts focusing on larger types of consulting firms, especially big six accounting firms who subcontract for specific expertise.

The weak point of the sole proprietorship option is that it is individual-oriented with limited offices support.

H. Formulation of an Incorporated Entity

An incorporated entity would be beneficial if time, money and resources were in ample supply. It takes time to put together resources, whether individual or company-oriented, for a new entity. Given the fixed time period for a project such as SPITS, a major amount of time would be spent on entity and office establishment and image building prior to a network and transaction development.

The entity would also be most reliant on AID funding source since no other streams of revenue would exist.

Research into trade and investment efforts provide only one example of the creation of a new entity. The government of Chile and ITT formed a joint venture to attract investment and technology to Chile. The venture provides highly specific assistance, including playing a venture capital role and taking minority positions in ventures. No international offices are maintained.

Other new government entities have been started, but these are usually government or old-institution funded, using consultants/PVOs/associations as assistance providers.

I. Small Business Set-Aside

A small business set-aside can be most applicable in conjunction with the Professional Consulting Firm option or the Sole Proprietorship option. The Important consideration for this mix is that the firm or consortium have the appropriate resources to manage such a project (administratively and operationally), and the capabilities and experience to undertake the project. Since the perception of the SPITS among the U.S. business community will be crucial to its success, it is also important that the small business have network contacts and experience in dealing with U.S. business interests and concerns.

Past trade and investment project reviews have indicated the involvement of small U.S. and local in-country firms in a support or technical assistance manner. Reviews have not indicated if projects have been small business set-asides.

J. Minority Entity Set-Aside (Gray Amendment)

Minority entities can apply to any of the above options. Trade and investment project reviews have not indicated if projects were contracted by minority firms, PVOs, associations or universities.

K. Buy-In to AID Central Contract/Cooperative Agreement

The buy-in option is only applicable if the contractual mechanism allows for the SPITS to be included in the contract. Also, it must be considered if the firm/consortium undertaking the contract has the qualifications and capabilities to undertake SPITS functions and if the terms of the contract can sustain long-term work effort required by SPITS.

Two AID buy-in contracts which are also IQCs that may be appropriate are the ANE Private Enterprise Development Project and the ANE/PSD Regional Private Enterprise Project. Assistance has

been provided to trade and investment projects via buy-ins. However, this has been on a specific project-by-project basis, usually to meet a specific technical assistance need of a AID project or by an in-country trade and investment institution.

L. Consortium

Since most of the above options have strengths and weaknesses, a consortium of the most favorable options--association, professional consulting firm, sole proprietorship--would offer the most appropriate scope of resources. Also, a relationship with a firm specializing in specific technical areas such as university/business school/technical institute, finance company, trading company, etc. can be formed to provide specific support and technical assistance.

Given the diversity of functions of the SPITS, a variety of resources must be made available. The most attractive feature of a consortium is the flexibility it would offer to address this diversity.

M. Prime Contractor/Subcontractors

A prime contractor/subcontractor arrangement, like the consortium option, offers a variety of resources to undertake the many functions of the SPITS. While in the consortium option, a variety of different management arrangements can be proposed, for the prime contractor.subcontractor option one entity assumes responsibility for all subcontractors.

IV. Evaluation of Location Alternatives

The location of the SPITS is important factor for the fullest utilization of the services by the client community. Sites considered for the SPITS include the following:

Honolulu
San Francisco
Los Angeles
Washington D.C.
New York

In order to clearly see the different advantages and disadvantages for each of the sites, a set of criteria was established for comparison purposes. These include the following:

1. Ability to maintain a close relationship with the RDO/SP Business Development Office (MARC Project Management), Suva.

2. Ability to maintain a close working relationship with the MARC network of training and trade/investment advisors in South Pacific countries.

3. Best meet the needs of the business community and trade and investment arms of the South Pacific governments seeking to penetrate U.S. markets, including facilitating U.S. promotion/reconnaissance visits.

4. Ability to best develop and maintain a facilitative image to the U.S. business community and provide easy access for the industrial and investment community that could be interested in doing business in the South Pacific.

5. Ability to facilitate U.S. business outreach and network development. This would involve developing and maintaining contacts in manufacturing, transportation, finance and other trade and investment services.

6. Ability to maintain a close working relationship with AID/W and other USG agencies (such as OPIC, Commerce, USDA, FDA, Customs, EXIM, TDP, etc.).

7. Ability to maintain a working relationship and cooperate with bilateral/multilateral agencies (World Bank, UNDP, UNIDO, IFC, MIGA, etc.) that are complimentary in resources and programs to MARC that could promote South Pacific trade and investment interests.

8. Ability to maintain a cooperative relationship with, official representatives of South Pacific countries in the United States.

9. Physical location within reasonable travel and communication distances to deal effectively with various constituencies (South Pacific governments and businesses, U.S. businesses, USG).

<u>Honolulu</u>

The main advantage of Honolulu is its location relative to the South Pacific. While this allows more timely links with the Suva Project Office and Island Liaisons, it would be more difficult to develop and maintain contacts with the U.S. business community.

Even though several of the U.S. government agencies have state or regional coverage out of Honolulu, the main decision and policy-making bodies, and trade and investment support services are in Washington D.C. Also, while several regional development organizations are in Honolulu, the main institutions are located in New York and Washington D.C. The SPITS staff resources would be stretched to communicate to its main constituencies-- on one side the South Pacific and ont eh other side the U.S. mainland. Most of the limited staff would be on facilitating communications and still not appropriately using all sources of contacts.

Since the main function of the SPITS is to develop the U.S. side of the MARC project, a mainland site would be more beneficial for: information development and dissemination, policy input and government/aid institution support, network development, promotional efforts and transactions. However, SPITS should have links with Honolulu-based facilitative institutions, such as the East-West Center, Pacific Island Development Program, freight forwarders, shippers, and finance institutions (Bank of Hawaii). Also, since Honolulu is a transit point to-from the U.S.-South Pacific, business people and MARC staff can take advantage of these institutions during transit.

The selected SPITS contractor should be familiar with the institutions and services available in Honolulu.

San Francisco

San Francisco offers a U.S. West Coast site between the project office and Liaisons, and the U.S. network. The main advantage of a SPITS office in San Francisco is its physical location, which unlike the proposed East Coast locations, has more compatible operating hours and therefore, the ability to more easily communicate with the South Pacific contacts. An office location on the West Coast improves the capabilities to network with businesses that have Asia-pacific market development interests, readily available financial institutions, and a major shipping port. Also, former residents of the Pacific Islands have established communities in the area.

The main disadvantages of San Francisco would be its lack of proximity to U.S. government trade and investment related agencies and programs, international development institutions, and official South Pacific country representatives. Also,there are a limited number of business sectors located in the area. This would result in placing additional effort in network development and promotions.

Los Angeles

Los Angeles offers a more diverse business community than San Francisco and an accessible West Coast site for supplying facilitative services. Business in the area would be more prone to doing business in the Asia-Pacific, and trade and investment support services exist. Los Angeles has financial services, freight forwarding and shipping abilities. The location is well situated for promotional activities. Communities of former South Pacific islanders also exist in the area.

The disadvantages are similar to San Francisco's. Access to U.S. government and international institutions is limited. Access to associations and a wider variety of businesses, other than regional businesses, is also limited.

The state of California and a number of its cities have active export and investment offices. The SPITS office should have an association or other type of relationship with these offices to assist in providing outreach to the California business community and other SPITS efforts.

Washington D.C.

The main advantages for locating in Washington D.C. are 1) the ability to deal directly with U.S. government trade and investment institutions and programs, 2) access to international institutions such as the World Bank, MIGA, UNIDO UNDP, 3) access and network with South Pacific country representatives, 4) access to a variety of trade, investment and industry information, and 5) access to regional and U.S. industry associations. Washington is also within a short distance of New York City for access to the major banks, investment houses, investors and other finance-related services. Technical assistance resources in a wide variety of areas are also readily obtainable in Washington D.C. Of all the location options, Washington is the lowest cost (in regard to office space and cost-of-living).

Most consulting firms that would undertake this type of contract would be based out of Washington D.C., and would be able to quickly supply the SPITS with support services and monitoring activities.

The main disadvantage is physical location. An East Coast SPITS office, with the additional time difference, would mean timely communication with the South Pacific Project Office and Island Liaisons would be more difficult. Also links would have to be established in Los Angeles and Honolulu in regard to promotion and transaction activities.

New York City

The main advantage to New York City is its importance as a business and meeting center. Most major U.S. companies either have a base or representative office in the city. Also, New York is the primary U.S. financial center with major banking institutions, investment houses and investors.

In addition to the physical location disadvantage of Washington D.C., New York City also lacks the U.S. government liaison abilities and most of the international institution liaison abilities, and does not have access to the sources of information as does Washington D.C. New York is a short distance from Washington but it is considered that keeping liaison with the Washington-based contacts together with keeping in contact with the U.S. network and South Pacific network may strain a two person office. Also, New York is a base for large U.S. firms, it is not the base for small and medium-sized firms. Opportunities for South Pacific ventures would most likely be more appropriate for small and medium-sized U.S. firms. Access to larger companies can be obtained from the other location options. In addition, trade and investment groups and networks in New York City are mainly aimed at Atlantic commercial venture development.

Development-type consulting firms are generally not based in New York City. Also, costs in New York, including office, operational and personnel costs, would be higher in New York City than in other locations.

ANNEX K - PART IV

REQUIREMENTS FOR U.S. - BASED T & I PROMOTION SERVICES

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July 17, 1990

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CONSIDERATIONS FOR THE SOUTH PACIFIC MARKET ACCESS AND REGIONAL COOPERATION PROJECT

SECTION ONE

CHARACTERISTICS OF A SOUTH PACIFIC TRADE AND INVESTMENT PROMOTION ORGANIZATION

ORGANIZATIONAL STRUCTURE

This paper will outline several factors that will affect the design, type of organization, and functions of a South Pacific Trade and Investment Promotion (TIP) organization. Characteristics identified in this paper are drawn from the experience of the author in Southeast Asia and Latin Americ, and from papers reviewing the experiences of various approaches to trade and investment promotion.

Institution Framework:

The South Pacific TIP must be managed by the private sector with a minimum of government involvement.

The private sector is the immediate beneficiary of the MARC project, through wider market access, access to private sector partners, training and technology from the United States and other more industralized regions. Thus, the project needs to look to the private sector to define and manage those interventions that will affect private company operations most effectively and efficiently.

The public sector, being the ultimate beneficiary through job creation and new tax revenue, will, of course, need to be involved. However, this involvement should be more formal, for example, through a steering committee or board of directors of the MARC project, and through strong working relations with the TIP.

Functions mandate private involvement:

One of the principal functions of the TIP is marketing, both within the South Pacific and in countries that are potential markets and sources of investment and technology. Marketing is typically not a function of governments, nor is it one at which they have traditionally been particularly adapt.

The normal role of governments is that of regulating, controlling, creating and administering laws. These are not functions that are usually compatible with the promotional and marketing activities that are at the core of a trade and investment promotion facility. Further, the potential investor or trader is confused by the various roles - promotion and regulation - given to the government investment facility.

Services better performed by private sector:

A recent World Bank study, in reviewing the experiences of ten promotion agencies, noted that facilities managed by the private sector, or by quasi-government entities, performed better than purely government entities.[1]

Not only are these entities better equipped to undertake the marketing function, but they are better able to develop and implement strategies over the long term. It is important to note that the function of trade and investment promotion is not simply conducting a seminar or mission, nor is it simply producing and distributing pamphlets and information. Successful trade and investment promotion depends on a continuous involvement with the private investor or trader. Such involvement includes facilitating contacts with government officials, providing information, referrals to sources of additional assistance, and serving as a ready contact for questions and problems that arise in the business development process. These are functions that governments are not generally organized to handle effectively.

Familiarity with private sector essential:

Familiarity with business approaches and concerns is an essential element in trade and investment promotion. A successful entity will be able to anticipate the problems a private company is likely to face, and be ready to assist when they arise. This is particularly important in the context of the South Pacific. Few investors or traders from the United States, for example, will have thought about the South Pacific as a particularly attractive place to do business. Understanding of the needs and interests of private business is essential if this lack of knowledge and inherent bias is to be overcome.

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[1] Wells, Louis T. Jr., and Wint, Alvin G., The Public-Private Choice: The Case of Marketing A Country to Investors, Unpublished paper. Research completed with funding from the World Bank and Harvard University.

Likewise, many South Pacific companies have limited dealings with firms in the United States or elsewhere. The expansion of opportunities to trade is a central goal of the MARC project. However, these firms will face the need to change, adjust, and will take on new risks as they seek to produce for and sell into the international market place. Knowledge of trading, and of dealing with larger and stronger foreign partners will be essential to successfully bringing South Pacific companies into project activities.

The rationale for a private managed TIP is even more compelling within a regional context. Marketing of the South Pacific region, and responding to the interests and needs of foreign private traders and investors, will require great flexibility. The TIP will need to respond quickly and efficiently with up-to-date information on all countries of the region. It will also need to react to the directions and preferences of the foreign trader or investor.

Government to government cooperation, even (or perhaps especially) in the area of trade promotion, takes on official and bureaucratic overtones that will, perforce, cause delays and inefficiencies in project implementation. Even quasi-government organizations, at the regional level, become overly bureaucratic.

Within the Association of South East Asian Nations (ASEAN), for example, trade and investment promotion is undertaken by the individual governments themselves. While there are any number of intra-ASEAN committees and entities to promote regional cooperation, none of these have taken on the role of joint trade and investment promotion. The ASEAN Committee on Trade and Tourism (COTT) has recently achieved a level of cooperation such that the ASEAN group could launch 1991 as the Year of ASEAN, with joint tourism promotion activities. Yet, even here, the individual governments are making decisions in their own interest.

Given limitations on resources, individual country promotion in the South Pacific appears quite difficult. Thus, a regional approach is needed. Unless the MARC project wishes to allocate resources to each of the individual South Pacific countries, <u>government-directed</u> regional cooperation in trade and investment promotion is simply too difficult.

<u>Coordination with governments essential</u>:

Even though the TIP needs to be privately managed, close coordination with the governments of the South Pacific is essential. The success of the TIP will be measured in the number of transactions - a new investments, expanded trade, new markets, etc. - that are achieved. Governments play a central role in approving new investment applications in regulating and permitting expansions, in providing incentives for both investment and

exports, and in approving imports. Easing the process of obtaining these approvals will be a critical role of the TIP. This will require that the governments of the region and the TIP leadership work in concert, agree on the objectives of TIP, and collaborate in sharing information.

Government economic development priorities need to be taken into consideration by TIP. Considerable research has generally gone into the identification of comparative advantages, and this research, including the information utilized in making these choices, can set the stage for initial investment promotion activities of TIP.

Government support is a pre-requisite:

The functions of trade and investment promotion rarely generate "profits" in the form that can be captured successfully in a commercial private enterprise. The up-front costs of market development and promotion are activities that promote social welfare (job creation, tax increases, etc.), but are rarely seen as activities that can be operated on a profitable basis. Yet, these are the activities that are essential if TIP is to be successful - casting the net to new markets and new enterprises which may become sufficiently interested to consider a business enterprise in the South Pacific.

Only after the enterprise is interested in the region can specific services be outlined for which charges might be made. Information services, for example, if properly structured and well maintained, can be placed on a more commercial basis. Some other services, including arranging meeting, partner identification, etc., can be charged on a per hour or per service basis. However, it is unlikely that these charges will be sufficient to off-set the high up-front costs of marketing the South Pacific to new foreign firms.

Clearly, therefore, the MARC project cannot expect that a private TIP can operate successfully without some form of government subsidy. This may be structured in the form of a "fee for service" payment for specific promotional activities. Thus, governments are not simply providing a subsidy to a private organization with no accountability for its results. Some private firms, and particularly private producer organizations can also be expected to pay fees for specific programs and for information services. However, self-sufficiency through fees to private companies or subsidies from private firms should not be expected. Some support from private firms and organizations can and must be anticipated. However, this would not substitute for government support.

Coordination with U.S. based group needed:

A critical problem of past trade and investment promotion functions has been a failure to link the organization in the host country with an entity in the United States and other target markets. Effective marketing demands presence in the markets being served.

A major audience of the TIP is international business - for export of South Pacific countries that are relatively well known in the United States (Ireland, Hong Kong, Singapore) a strong and effective organization in the U.S. has been a prerequisite for success. Reasons include knowledge of the needs and interests of U.S. and other highly liquid markets, ease of access by interested U.S. firms to information on opportunities in the South Pacific. Very few U.S. firms will contact an organization half-way around the world when competitor countries make information on opportunities in their countries readily available and easily accessible. This caveat holds true in any market being targeted by MARC, including ASEAN or other Pacific Rim countries.

It is argued that the linkage with the United States is essential at the outset to establish standards and performance measures, and linkages with ready sources of information and contacts. The U.S. entity can also be a means of outreach to other markets, including other countries in the Asia/Pacific region.

Further, understanding of the motivations of private international firms, and of market opportunities, is an essential ingredient to success. It does little good to promote South Pacific products that do not have a market in the United States or elsewhere. This may sound like a simple truism. However, there are untold examples, even from relatively sophisticated countries, of marketing efforts aimed at selling what a country produces, not what the market is seeking. (This is not to say that markets cannot be developed. The New Zealand Kiwi fruit is an outstanding example of a successful market development effort. However, this effort took advantage of an underlying trend toward fresh and exotic fruits in the U.S. diet - thus the Kiwi could be targeted toward a clientele that was already amenable to the promotional efforts. Further, considerable time and expense was incurred in developing the market. It is argued that the resources available through MARC are too limited for such an effort.)

Strong support in the South Pacific important:

In addition, a dynamic entity with close ties to the private sectors and governments of the South Pacific is a clear pre-requisite for success. The TIP needs to serve as a link between South Pacific businesses and those in target markets. Foreign companies will depend on TIP to provide direct and easy access to potential partners, information on the region and

individual countries, and access to the appropriate government agencies.

TIP must early on gain strong support from its client base in the South Pacific, including producer organizations, private firms and governments. Only with this base will it be able to serve its clients in the United States and other markets.

EXPERIENCES FROM OTHER PROGRAMS

The AID/ASEAN Private Investment and Trade Opportunities project is directed principally by the private sector. It also recognizes the inherent competition among the six ASEAN countries by focusing its trade and investment programs at the comparative advantages and market opportunities in each of the ASEAN nations. Indeed, from a practical level, there are six national offices in ASEAN involved in the project, and one in the U.S. Overall coordination is achieved through a Steering Committee, comprised principally of private sector representatives. For the trade and investment promotion activities specifically, the ASEAN-U.S. Business Council has established a joint wholly private, Project Committee that will provide sector direction to this element of the PITO project.

The trade and investment promotion activities of the PITO project concentrate on several areas: Information services, promotional seminars and missions, and follow-up. The project is client driven - it is aimed at meeting the requirements of firms in the United States and in the Asean region.

The information services provide basic information on how to do business in ASEAN industry information, government rules and regulations, commercial practices, and so forth (see paper on information services for more extensive discussion). A central activity, however, is gathering of information on sectors that are targeted by the Project Committee. At the outset three areas have been chosen, using criteria of market opportunity in ASEAN and competitive advantages of U.S. industry. These are electric power, environmental protection and agribusiness. Greater attention will be aimed at the development of broad information on these three areas.

The promotional activities, seminars in ASEAN and the U.S. and trade and investment missions, are all industry specific. General promotional seminars are now viewed as cost effective in terms of providing sufficient information to the potential trader or investor nor in aiming the promotional effort sufficiently toward firms with a higher likelihood of success. It should be noted that the most successful investment promotion entities target specific companies (e.g. Ireland and Singapore). However, this is viewed as too costly given the resources available under the PITO project.

Emphasizing specific industries is seen as an effective way of narrowing the promotional strategy within the resources available.

Also in keeping with reviews of other trade and investment projects, considerable responsibility for the overall project is housed with the U.S. organization. One single grant for Business and Technology, Inc (USAC). USAC will enter into agreements with private sector institutions in each ASEAN country to provide in-country services for local companies and for American firms seeking business opportunities there. In addition to this strong role for the U.S. institution, the PITO project proposal of the Council calls for establishment of national steering committees which bring together the national chamber and the American Chamber of Commerce in oversight of the project implementation. In this manner, the project provides a strong U.S. business orientation in design, management and evaluation.

The Project Development Assistance Program was implemented by the AID Bureau for Latin America and the Caribbean to assist in investment promotion in the Eastern Caribbean. The countries of the Eastern Caribbean exhibit many of the characteristics of the South Pacific - small, island nations with limited populations, relatively recent experience with indigenous private enterprise, and a general orientation toward one principal trading partner.

Working through a large international accounting firm, AID provided technical assistance to government investment promotion offices throughout the Eastern Caribbean. In virtually every case, the entity being assisted was a government agency. There was limited private enterprise involvement in the project. This was perhaps the single most important draw-back of the PDAP project - an over-dependence on government institutions, and limited direct involvement of the private sector (local private sector or U.S. business).

Two conclusions of the final report of the PDAP project are important for the planning of the South Pacific MARC project. First, the investment and trade promotion agency must have a continuing presence in the marketplace. This means a strong presence in the United States initially, and perhaps in ASEAN or other Asian markets over time. The second is that the staffing must be chosen with a clear understanding of the marketing and promotional responsibilities of the agency.[2] As was pointed out in the World Bank report, these are skills that are generally present in public sector organizations. Therefore, a strong private sector orientation is needed for a successful investment and trade promotion facility.

[2] See Project Development Assistance Program, FINAL REPORT - PDAP III submitted by Coopers & Lybrand to the Agency for International Development, December 5, 1987, pages 103-112, Conclusions and Findings.

CONCLUSIONS REGARDING ORGANIZATIONAL STRUCTURE

The above analysis points to several conclusions regarding the organizational structure of the South Pacific TIP:

1. It must be directed by the private sector.

2. It must recognize that its principal clients are private companies - from the target markets (U.S., Southeast Asia)and from the host countries.

3. A strong U.S. organization is needed to support the South Pacific TIP. Indeed, a directive role is needed at the outset, particularly given the lack of experience in investment and trade promotion throughout the region. It should also develop strong linkages and presence in Southeast Asia and other Asia/Pacific countries, including Australia and New Zealand.

4. A Board of Directors drawn form the private sector is essential. It is also essential that this Board of Directors involve <u>both</u> South Pacific and American members. This will ensure strong commitment of the private sector to the TIP.

5. The TIP must take on the principal task of marketing and promotion.

6. Close coordination with governments is essential to ease the process of approvals for investment and trade transactions.

7. Familiarity with the target markets and with their business practices is imperative. This can be gained, in part, through a PSC provided to the project while experience is established. It can also be gained through close linkage with a strong U.S. organization.

SERVICES TO BE PROVIDED

A successful trade and investment promotion strategy begins with a clear understanding of the country context within which it is being implemented. A review the Project Identification Document

(PID) for MARC points to several requirements for a successful trade and investment promotion strategy in the South Pacific. Of particular note are:

1. Enterprises in the South Pacific are generally unfamiliar with international markets and requirements regarding price, quantity, quality and packaging. In part, this is a result of a dependence on large trading companies; in part it is due to a tendency to export commodities rather than finished or semi-processed goods.

2. There are policy and cultural constraints to a traditional private enterprise approach; individual capitalism may not be consistent with traditional island values.

3. A scarcity of equity capital limits the growth and diversification of South Pacific companies.

4. New technologies are needed if South Pacific firms are to enter the international market competitively.

5. There is an historic dependence on internal donor assistance which has inhibited the development of an entrepreneurial spirit.

The overall MARC project will have to deal with these and other constraints. In particular, the questions of policy limits on private enterprise will need to be addressed if the TIP is to be successful in attracting new investment and expanding trade. It will be assumed that the MARC will engage the Board of Directors of the TIP, and other private entities in the South Pacific in analysis of these policy issues.

Of special note for the design of TIP is the first constraint - lack of market familiarity and technical capacity to meet market standards. Export promotion demands that the promotional agency market products that can meet international price and quality standards. If the underlying product is not acceptable, then even the most carefully planned promotional strategy will be unsuccessful.

Technical Assistance:

The South Pacific TIP must devise and implement a program of technical assistance to enterprises in the region.

A typically trade and investment promotion organization is not involved in providing technical assistance to its local clients. It begins with a base of good quality production, providing information on market opportunities and introducing new buyers to its selling clients. In the South Pacific, according to the PID,

such a base of production cannot be readily assumed. Therefore, the initial concentration of the TIP should be on the provision of technical assistance.

A program of technical assistance should include: seminars and training programs on international market requirements, on doing business with the United States, on pricing, on quality standards and quality assurance, and on packaging. These programs should also serve to provide contacts between buyers and sellers and potential joint venture partners. Thus, the source of the expertise for these seminars should be the private sector of the target market countries.

These programs are not substitute for a strong technical training program. However, it is assumed that such a program is outside of the scope of MARC. The program of technical assistance envisaged here would provide:

1. Basic knowledge of the requirements of the international marketplace and information on how to obtain the information and assistance to meet those standards;

2. Introductions to sources of technology and technical assistance needed to expand local production and improve quality, from the United States and from other target market countries. The overall endeavor will help nurture these introductions into new ventures by foreign and South Pacific firms.

3. An understanding on how to evaluate alternative technologies and approaches.

The programs of the U.S. ASEAN Center for Technology and Exchange, among others, are indicative of the kinds of programs that can assist in meeting this requirement. Note that simply providing training and technical consultants does not meet all of the objectives of the technical assistance efforts of the TIP. These technical assistance programs are aimed at expanding contacts between South Pacific and U.S. firms, with the intention of helping TIP meet its broader promotional and transactional objectives.

The International Executive Service Corps has also recognized the linkage between technical assistance and investment and trade promotion. IESC's initial programs concentrated on supplying volunteer executives to assist firms in developing countries in problem solving. However, it has evolved toward using its network in the United States and elsewhere to provide linkages for joining and co-ventures and for trade.

The technical assistance programs of TIP will form the backbone of a trade and investment promotion strategy. It is impossible to promote expanded market access unless the TIP is to

instill in entrepreneurs in the South Pacific knowledge about the standards they will have to meet in order to expand their markets in the United States and other parts of the Asia/Pacific region.

Information:

Information is the core of the services that TIP will provide to both South Pacific and foreign enterprises.

Among the areas of interest are:

Markets:

Given that the program is likely to be focused on one or two industries, a carefully targeted information program can be outlined. Detailed information on markets on seafood, for example, can be obtained through various U.S. and international data sources that are utilized daily by traders in these products. TIP should purchase access to this type of information source.

Rules and Regulations:

Government rules and regulations that will affect South Pacific exports to the United States and other countries, as well as regulations of the South Pacific governments that will affect imports and investments by U.S. or other foreign companies should be collected and made available.

Information should also be available on business customs and procedures. Distribution in the United States, for example, is quite complex, and South Pacific firms will need to understand the various types of markets and the mechanisms of entering them in order to establish their market strategy. Similar information is needed by foreign firms on the conditions in the South Pacific.

Companies:

Information on potential partners, agents, distributors, sources of technical assistance, etc. is critical to a successful trade and investment promotion program. The importance of the Board of Directors and the private sector network in establishing this information base cannot be over emphasized. Linkages to producer groups and industry association will be essential elements in obtaining up-to-date information on qualified firms int eh South Pacific and target market countries.

For a more extensive discussion of the information needs of companies, and approaches to managing the information service, please see the paper on this topic.

Promotional Plans:

Careful preparations and planning of the promotional strategy is a requirement for success.

This paper has stressed the marketing and promotional orientation of the TIP. Three appears to be limited knowledge in the South Pacific about new international markets. Similarly, there is little information in target market countries (outside of Australia and New Zealand) about the opportunities in the South Pacific.

Before devising a promotional strategy for the United States or other markets, a number of steps are needed:

1. Define comparative advantages

2. Identify market niches

3. Catalog multiplier groups

4. Set clear objectives

Define Comparative Advantages

To develop an effective program of marketing investment and trade opportunities in the South Pacific, TIP must start by defining the comparative advantages of South Pacific nations in terms of each of the markets it intends to approach. This is an essential first step in carefully targeting the effort in order to maximize resource utilization.

The present production of goods and services in South Pacific nations is scaled to the market needs of each country. Exports have primarily consisted of unprocessed commodities. Approaching sophisticated markets, such as the United States, may be beyond the scale and capabilities initially of South Pacific companies. U.S. importers demand large scale production, high quality packaging and reliable delivery schedules. Therefore, placing major emphasis at the outset on the U.S. as a market for TIP efforts could be misplaced.

At the same time, there may be segments of the U.S. market that could be readily exploited by South Pacific companies. Here again, understanding the comparative advantages of the region in view of the target markets is essential.

Determining target markets for the trade and investment promotion effort will also help define resource allocations. If, for example, Southeast Asia is an appropriate source of technology, investment and markets, TIP might either place a person in the

region, or identify an agent with whom it would work in conducting its marketing and promotional efforts.

Identify Market Niches:

As noted in the prior section, approaching the United States as a whole may be beyond the scope of TIP and the client companies it seeks to serve. Therefore, TIP should seek out market segments that it are best suited to the scale of production and types of products of South Pacific companies.

Two types of market segments should be considered regional (i.e. Hawaii and West Coast U.S.) and specialty (i.e. ethnic, unusual gifts, etc.) when looking at the U.S. Similar considerations need to be made in looking at the markets of East Asia (Hong Kong and Singapore versus Malaysia and Thailand, for example). The marketing effort needs to first understand these segments and niches thoroughly so as to approach the companies with a program that is aimed at their specific interests.

Catalog Multiplier Groups:

TIP can take advantage of a number of multiplier groups in its efforts. Import and export groups, port authorities, industry associations are key groups that will extend the outreach of TIP. World Trade Associations and other trade oriented groups are also important in getting information out on the opportunities for business in the South Pacific. The use of multiplier groups is important in U.S. and in other target markets.

Companies can also be important multipliers. For examples, Continental Airlines, because of its link-up with Air Micronesia, might be interested in promoting the South Pacific as a means of expanding passenger miles on its own routes. Mining or other resource companies with interests in the South Pacific could also be encouraged to inform other companies about the possibilities of trade and investment with the region.

Set Clear Objectives:

TIP goals and objectives have to be clearly identified. It cannot undertake a promotional campaign to every area of the world, nor in every industrial sector. It cannot provide technical assistance to all comers, since this would dissipate resources and impact.

AID and TIP Board must set modest goals. As indicated in the PID, the resources available in the South Pacific, the level of experience of South Pacific private companies, and the relative smallness of each of the countries will be natural constraints on TIP activities and resources. Setting modest goals will enable TIP

to put forward clear, and widely accepted objectives. It will also allow TIP to allocate resources for greatest results.

Promotional Strategy:

The array of trade and investment promotional programs have been well documented in other papers. The keys to success of any of these measures - trade shows, in-store exhibits, seminars, missions, and so forth are three:

1. Adequate advance preparation of the participants in each event;

2. Coordination of the promotional message and the audience; and

3 Follow-up.

Advance Preparation:

South Pacific companies participating in any investment or trade promotion event must be adequately prepared to answer questions of potential customers and joint venture partners. They must understand the orientation of companies in the target markets (i.e. how Americans do business), as well as how the market operations (i.e. marketing in the U.S. - types of markets, distribution systems, and so forth). They must also have set clear business objectives for their participation in the event, including an understanding of what it will take to achieve success. This will include a definition of what each firm is seeking (sales, technical assistance, joint venture, technology) and preparation of answers to questions that are likely to come from the potential business partner.

TIP itself must prepare for the missions adequately. It must define the market, identifying advantages of the South Pacific in terms of the needs and interests of that market. It must carefully chose the medium - trade show, seminar, etc., in light of the interests and needs of the audience it has identified, and the comparative advantages of the South Pacific.

Careful Targeting:

TIP must tailor its messages, and the messages of participants in its promotional events to its audience. Countless national promotional events fail because the country determined what its message would be without consideration of the interests of the audience. Thus, countries have extolled the benefits of investment in their land to an audience of importers and exporters. They have talked generally about the beauties of their nations, but failed to answer the important questions about trade policies and practices, shipping, etc. to an audience of traders.

TIP must determine the objective of each promotional event clearly define that objective in its promotional literature for the program, and stick with it. It must also be prepared to answer the kinds of questions that are typically asked by an investor audience or a trader audience.

Carefully targeting programs to the audience will optimize TIP resources in the long run. Preparations will be longer, but the ultimate pay-off will be greater.

Follow-up:

Perhaps the greatest failure of trade and investment promotion programs is the lack of follow-up to promotional events. The real marketing only starts with the event. It is aimed at drawing in an audience of potential investors and traders, out of which maybe one in ten will be interested enough to pursue a business opportunity. Yet, many countries fail to find even the one in ten because they do not continue the promotional effort through to closure.

Understanding that companies will need assistance beyond the initial introduction is essential to a successful trade and investment promotion program. It may be as simple as needing to know that the country is interested enough to make a contact after the promotional program. It may be that finding sufficient information is difficult to the point that the company fails to act. It may be that initial business contacts have not been positive, and additional company introductions are required.

Providing this assistance sets high quality investment and trade promotion programs apart from the standard effort. Among the leaders in this are Singapore, Ireland and Hong Kong, which aggressively work with individual companies to accomplish their objectives - transactions.

To reiterate a point made above, effective trade and investment promotion demands a presence in the target markets. None of the promotional activities by TIP can be carried out from the South Pacific. A strong and dedicated presence in the marketplace is a fundamental of a good marketing strategy.

CHARACTERISTICS OF A SUCCESSFUL PROGRAM

National, not Regional:

Promotion of trade and investment must be at the national level. Regional programs can be successful only from the perspective of coordination and reduction of costs.

Companies considering investment will do so on a national basis - they will invest in Fiji or Tonga, not in the South Pacific. Therefore, TIP must be well connected in each of the

countries in which it operates, and be able to provide detailed information and services to potential investors and traders about each of the countries which it serves.

A regional endeavor can produce economies of scale, which are important in any trade and investment promotional program. Being able to present information on several countries, and organizing trade and investment missions and seminars on several nations, reduces the time commitments of the target audience, and maximizes their and MARC resources.

A South Pacific TIP should be seen therefore, not as a regional entity, but as a service organization for several countries of the region.

The ASEAN Private Investment and Trade Opportunities of the AID ASEAN Regional Program has a similar focus. The program takes advantage of the cost efficiencies of organizing programs for six countries, but the focus is to provide information and contacts in each of the countries. For all intents and purposes, the ASEAN structure is not relevant nor actively involved in the ASEAN PITA project. A similar approach should be considered for the South Pacific MARC.

Market Driven:

The success of TIP will depend on its ability to serve the needs of its clients. TIP will have three client groups all of which will focus on TIP objectives and purposes differently. The three groups are: foreign investors and traders, firms from South Pacific nations, and the governments of the South Pacific region. Hence, it is essential that TIP set forth clear, precise objectives that are accepted by all parties.

Foreign Companies will seek certain services TIP. Among these are information (on markets and on government regulations), access to appropriate government officials for approvals, etc., and information and contacts with potential suppliers and partners. TIP must demonstrate that its business is to serve these firms, or it will fail in an evaluation of the transactional results of the project.

South Pacific Firms will be seeking assistance in identification of markets in marketing of their products, in finding technologies and technical partners and in locating equity or joint venture partners. They will need information on markets and on how markets operate. This is in large measure a mirror image of the services provide to the foreign companies.

Together, foreign and South Pacific firms comprise the most important client groups for TIP. TIP must establish, from the outset, that its business is to serve these clients, and develop

and understanding of their needs and requirements - in essence it must develop a marketing strategy for its services.

To accomplish this, TIP should have direct linkage with producer or industry groups in the South Pacific and in its target markets. This linkage should not be through a government agency, as this will confuse the client relationship between TIP and firms in the South Pacific and its target markets.

Governments, nevertheless, are also clients of TIP. They must view TIP as a resource not a competitor, in expanding the international linkages and trade and investment opportunities of South Pacific companies. As noted earlier, many of the activities of TIP can not be financed through user fees and private sector support. Therefore, governments will be a primary source of financing of the marketing and promotional efforts of TIP.

A fine balance must be maintained. Too much government involvement in the direction of TIP could result in a shift in its orientation away from private sector clients. The government could easily become the principal client, and services to private sector firms decline in importance.

An understanding by governments of the role of TIP, concurrence with its clearly stated objectives and with private sector direction are important. One objectives outlined in the PID document for MARC is that it must become self-sustaining. Much of the work of TIP cannot be supported through private sector fees. Further, it is unrealistic for South Pacific or American companies to contribute substantial amounts of funding on a philanthropic basis. But it is critical that sources of funding be identified other that AID and other donor assistance.

TIP must therefore be encouraged to charge reasonable fees for selected services. This will enable it to assess the effectiveness of its primary clients. If firms are wiling to pay then the service has a value in the marketplace. If firms are unwilling to pay, then perhaps the service should either be dropped or substantially restructured.

The promotional and marketing efforts of TIP are, for most part considered by private companies to be normal functions of governments. Entitlement of TIP to funding from AID or other donor sources will stifle innovative and aggressive programs. Therefore, some formula should be devised to require TIP to market its services on an annual basis to the individual South Pacific governments. Perhaps AID might reserve some portion of the funding for TIP (after the first two years of start-up operation) which would be released only after the individual governments have approved an annual marketing strategy. Ultimately, the usefulness of TIP needs to be measured in the willingness of individual governments to expend their own fund in purchasing TIP services.

Network:

One of the critical services that TIP can provide for foreign investors and traders is access to the appropriate officials in South Pacific governments. Governments retain the right of review and approval of many international business transactions. Foreign executives will look to TIP for assistance in knowing who is important, and what procedure need to be followed to obtain necessary approvals.

A private sector network in the nations of the South Pacific is also a central element of the success of TIP. Foreign companies will look to TIP for assistance in identifying qualified suppliers and partners. While TIP cannot and should not become involved in the process of negotiation or selection of the partner or supplier, it must be in a position to present an array of qualified alterative suppliers and partners. "Qualified" here is meant as providing sufficient information in such areas as years in business, financial statements, bank references, and so forth. TIP cannot become a "Dun and Bradstreet" for the South Pacific, providing independent credit references.

Equally important to success of TIP is a network in the target markets. It appears from the PID that the emphasis is likely to be on agricultural and seafood products and handicrafts. Thus, the network should emphasize companies in the U.S. and in Southeast and East Asia involved in these industries. The value of a network cannot be overemphasized. A measure of the usefulness of TIP will be in its ability to answer specific business questions, for which the engagement of a wide network is essential.

Strong Government Support:

This topic has been reviewed extensively above. However, the importance of a strong working relationship with the individual governments of the South Pacific cannot be over-stressed. Without this support, and the support of the U.S. government, industry will not consider TIP to be a legitimate organization of their time and support.

Closely Linked with U.S. Organization:

U.S. companies are often criticized in Southeast Asia and elsewhere for their failure to set-up a marketing organization in the region. They, therefore, cannot be responsive to customer interests, changing buying patterns, nor respond quickly to problems the customer may encounter in the use of the product. Exporting no longer can be successfully handled from the home country.

Similarly, TIP cannot handle trade and investment promotion from the South Pacific. Without a presence in the United States (or other target markets), TIP cannot hope to adequately serve one of its principal client groups.

Likewise, the appropriate U.S. organization will supply expertise in how to structure an investment promotion entity, how to market in the U.S. and elsewhere, how to target the efforts effectively, and how to organize the TIP in the South Pacific.

The linkage with a U.S. organization will therefore have two purposes: (1) marketing and follow-up; and (2) technical support in the establishment and management of TIP itself.

Management by Private Sector:

To recap, a successful trade and investment promotion organization must be responsive to its primary clients - foreign and South Pacific companies. As pointed out in the study by Wells and Wint[3], governments are ill-equipped to handle many of the functions of a trade and investment promotion facility.

From AID's perspective, it is also important that it be able to providing funding directly to the private entity, not through a government intermediary. The example of the ASEAN PITO project is again useful AID signed an overall project agreement with the ASEAN governments. Under the terms of the project agreement, AID then contracts with individual grantees - East West Center for policy work; Technonet Asia for technology commercialization; and the U.S. - ASEAN Council for trade and investment promotion.

Of further importance is the ability of TIP to work directly with private sector organizations on a country by country basis. Two factors are important. One, TIP cannot be caught up in dealing with a regional organization (either private or inter-governmental). The ability of TIP to serve both South Pacific and foreign companies will depend on its links with private companies and private sector organizations on a country-by-country basis. Two, TIP cannot work through a government institution or ministry to link with industry and producer organizations in the individual countries.

The work of the U.S. ASEAN Council, both under the ASEAN PITO project and through its private funding is important. USAC works directly with the national chambers of commerce and industry in each ASEAN country. Strong relations are maintained with each relevant government agency, but these agencies do not directly

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[3] OpCit. See particularly pages 2-5.

control the activities of USAC. In effect, it is an independent vehicle to promote trade and investment between the United States and in the individual ASEAN nations.

Private sector management should be accomplished through a Board of Directors and through national councils. Recalling that the organization has a regional focus primarily for economies of scale, but that its efforts are directed at individual nations, this structure is important. The Board should consist of leading business people from each of the target South Pacific countries. There should be several Americans on the Board as well. Each country should then have a national council which oversees the work of TIP in their nation. This group should be chaired by the member of the Board, with several leading business people, likely representing the appropriate industry associations. If any U.S. companies operate in the country, a senior person from that company (s) should also be invited to participate on the Advisory Council.

CONCLUSIONS:

This paper has reviewed some of the characteristics of a successful trade and investment facility. The suggestions included in the document are drawn from several sources, including experience in Southeast Asia and Latin America and the Caribbean. In addition, several sources have been consulted.

Several concepts are basic to the success of TIP. These include:

1. **National** focus, not simply a regional program. A single entity for the South Pacific is only to provide an umbrella and economies of scale.

2. **Private sector leadership** is critical to the success of TIP. It must respond to the needs and requirements of its clients.

3. **Focus on comparative advantages** is essential to position the South Pacific nations in the right markets and market niches. TIP must be realistic in its efforts and in its promises of what can be done in the South Pacific.

4. **Marketing** and a marketing orientation are fundamental to TIP. This is its purpose.

5. **Technical assistance** to the South Pacific companies should be slated as a first effort of TIP, so that its marketing efforts can result in business transactions, yielding employment and foreign exchange earnings.

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CONSIDERATIONS FOR THE SOUTH PACIFIC MARKET ACCESS AND REGIONAL COOPERATION PROJECT

SECTION TWO

TRADE AND INVESTMENT SERVICES FOR FOREIGN INVESTORS AND TRADERS

American and other foreign companies have an abundance of alternatives for placing capital and technology or sourcing of product. Particularly for American companies, the tendency is to invest in the United States. If a foreign market is considered, it is generally either in the developed world, or in selected developed countries that are well known to corporate executives and Boards of Directors, or which have exhibited sustained levels of economic growth.

The primary concerns of foreign investors are two: security, meaning a level of assurance that the investment is secure for a long period of time; and profitability. The security issue generally means that firms will invest in markets that they know well, either because of an export or trading experience, or because of other contacts. Profitability realties to the whole range of government requirements as well as the commercial rate of return that a project can be expected to generate.

The South Pacific nations are in a competitive struggle with other developing countries to attract capital from U.S. corporations. A South Pacific trade and investment promotion facility must recognize the level of competition, and develop a marketing program that relates specifically to the needs and interests of individual foreign companies and industries.

Unless the South Pacific trade and investment promotion facility begins with this as its primary operating conclusion, it will not be in a position to be responsive to its private sector clients in the United States or other target markets.

Companies that are seeking sources of supply for imports, or are interested in exporting to the region exhibit characteristics similar to investors. Their orientation is to obtain secure contracts, with acceptable quality, defined quantity, agreed delivery dates, and enforcement terms for the contract.

These concerns apply to both the South Pacific exporter and the U.S. or other national importer. Again, the South Pacific nations must recognize that they are in competition with other

nations that offer similar comparative advantages, but have been able to integrate their economies more fully into the international marketplace. For example, other nations, including nations of Southeast Asia, have abundant fisheries as well as processing facilities that meet international standards and prices. To be competitive in fishery products, therefore, the nations of the South Pacific and their private sectors will have to identify those specific areas in which they can meet international competition in order to attract foreign buyers.

A key consideration is that you must sell what the market wishes to buy, not ask the market to buy what you produce. This maxim is true in attracting both new international investors and traders. While it may seem trite, may firms have spent fortunes discovering that the United States market does not absorb anything that is produced, and that adjustments must be made to meet U.S. standards of design, quality and price.

U.S. Corporate Knowledge About the South Pacific:

Trade and investment promotion for the nations of the South Pacific must begin with the assumption that American companies know little, if anything, about the South Pacific. There will be limited to no information about what products are produced, or about technology licensing and investment opportunities. American companies will likely have a generally favorable image of the South Pacific, although more from a tourist perspective than as a location for manufacturing investments.

In spite of a basically positive attitude, American industry will be skeptical that firms based in the South Pacific will be able to produce products that meet U.S. standards in sufficient quantities.

Therefore, one of the first tasks for the marketing program of the South Pacific trade and investment facility is to identify the assumptions and biases about the South Pacific held by U.S. companies and to target its marketing efforts to counteract those underlying perceptions and misperceptions.

A South Pacific trade and investment facility that exhibits a strong marketing orientations, including follow-up with interested companies can be a powerful force in overcoming misconceptions. This further underlines the need for a dynamic and well-connected U.S. institution to back up the efforts in the countries of the South Pacific

CONSIDERATIONS FOR THE SOUTH PACIFIC

MARKET ACCESS AND REGIONAL COOPERATION PROJECT

SECTION THREE

SELECTION OF A U.S. BASED

TRADE AND INVESTMENT PROMOTION FACILITY

It has been argued that the success of the South Pacific trade and investment promotion facility will depend on its link with the U.S. and other target markets. Since the MARC is a U.S. sponsored program, at the outset the facility should be linked with a U.S. organization. Ultimately, links with cooperating organizations in Southeast Asia and other East Asia markets should be considered.

ALTERNATIVE ORGANIZATIONAL STRUCTURES

Two alternative organizational structures for the U.S. entity should be considered in establishing the MARC trade and investment facility. The first is to link with an existing organization with experience in handling trade and investment promotion. The second is to hire an individual (s) with experience in developing countries and in business to be the U.S. linkage.

There are strengths and weaknesses with both approaches, which are examined below.

EXISTING ORGANIZATION:

Relying on an existing organization will give immediate credibility and outreach to the South Pacific trade and investment activity. MARC will be able to buy-in to an existing know-how and linkages with American businesses (companies and organizations). This expertise can be translated into a technical assistance program for the South Pacific entity (s) which should enable them to start-up activities on a "fast tract."

Experience with trade and investment promotion in other areas of the world will also enable MARC to avoid some of the early pit-falls associated with start-up of a trade and investment facilitation program.

A successful U.S. organization will have already established links with government agencies, industry groups and companies. It will be familiar with the types of programs that have been

successful in the U.S. in promoting trade and investment. It will have credibility among the audiences in the U.S. that will be essential for successful trade and investment programs.

A key drawback is that few, if any, U.S. entities involved in trade and investment promotion are knowledgeable about the South Pacific. Further, they are likely to want to utilize their existing expertise and approaches, and may be unwilling or unable to adapt them to the conditions and needs of the South Pacific nations.

INDIVIDUALS

Relying on one or more individuals to set-up the U.S. facility can be both cost effective and productive. The South Pacific countries have specific needs and interests, and that the program should be focused on a few pre-selected industries. An individual with some knowledge of the region and of the industries could establish a highly responsive program from the outset.

For example, the individual may bring not merely an extensive network in the U.S., but a network whose nucleus lies in the industries of interest to the South Pacific nations.

In addition, an individual may be more flexible in the approaches taken, establishing a more creative marketing program that is not based on a set model, but responds to the particular situation at hand.

The drawbacks of relying on an individual are several. Institutional credibility has to be developed. The individual may be well known in a particular industry segment, but unknown in other areas of interest to the South Pacific nations. The individual will not have ready access to an array of services that can be provided through an establishing organization. Further, the institutionalization of the activities in the U.S. will be inhibited.

ALTERNATIVES

A few alternatives can be presented for consideration by the MARC project design team.

International Executive Service Corps

The International Executive Service Corps (IESC) has developed extensive experience in working with AID and developing countries in trade and investment promotion. It has established the American Business Linkage (ABLE) program to provide information to developing country firms about markets and technologies in the United States. It has worked particularly with smaller countries,

including El Salvador, in promoting joint ventures and marketing arrangements.

The IESC network is quite extensive. Through its several thousand volunteer executives, it has access to firms in virtually every industry sector. It also has access to industry expertise through these volunteers and can readily support the technical assistance requirements of the MARC.

IESC probably brings the widest expertise in trade and investment promotion to the MARC project.

American Society of Agricultural Consultants International:

ASAC has worked closely with AID and the U.S. Trade and Development Program. Its expertise lies in all aspects of agribusiness, and works closely with several thousand pre-qualified agricultural consultants. It has recently negotiated a cooperative agreement with AID to support agribusiness trade and investment programs in several AID assisted countries.

The approach of ASAC is to identify specific opportunities through a definitional mission to the country. It then prepares project descriptions which are used in promoting the opportunities to American companies.

The specific nature of the ASAC approach is considered to be quite useful in that U.S. companies gain a good deal of preparation and information on the opportunities on which to base an initial decision to investigate the opportunity further. The developing country firms also gain insights into the markets, and access to expertise in meeting technical and marketing needs.

The principal drawback of relying on ASAC is that their focus is exclusively agriculture and agribusiness. Therefore, a broader investment and trade program would need to draw upon other organizations or individuals. However, given that the comparative advantages of the South Pacific tend to lie in agriculture and fisheries, ASAC could provide significant start-up capabilities.

Consulting Firms:

Several AID trade and investment projects have been carried out with the assistance of various consulting firms, including several of the **Big Eight** accounting firms. Experiences with trade and investment programs based on the services of these organizations have been mixed, with many observers noting that the costs are high and the results no better, and in some cases, less than through other intermediary organizations.

Individuals:

MARC, through the trade and investment facility, could hire one or more individuals to support the trade and investment facility. MARC already plans to hire one or two PSCs to work in the South Pacific to support the trade and investment functions of the project. A similar approach could be used in the United States. A job description and qualifications are reviewed in Attachment A. These same qualifications should be used in reviewing the selection of the individual to be assigned to this project should an organization be chosen as the appropriate vehicle for project implementation.

Unless there is a specific individual who has expressed a strong interests in this project, MARC would likely be better served by linking with an existing institution.

SOUTH PACIFIC BASED PSCs

The promotion of trade and investment, and the development of the marketing strategy is an integrated effort. Close coordination of inputs from the South Pacific nations and from the target markets is critical to a successful promotional program.

The integrated nature of this activity argues that the PSCs located in the South Pacific region be selected by the U.S. based cooperating organization. AID should require that the U.S. grantee select and hire appropriate personnel for the region, and supply technical assistance and other services through them and through headquarters to the trade and investment organization in the region.

SOUTH PACIFIC EXECUTIVE DIRECTOR:

The ultimate aim of MARC should be to establish a trade and investment promotional capacity within the South Pacific region, managed and directed by the private sector of the South Pacific. The selection of an executive director to oversee the national programs for trade and investment promotion is therefore critical, perhaps more so that the selection of the U.S. based entity.

The executive director becomes the vehicle through which the organization is linked to the national governments, and through which credibility and outreach is accomplished. This person will also be the means of institutionalizing the promotional functions in the region.

The major criteria for selection of this individual is dedication. Many of the specific skills of trade and investment promotion can be learned. However, dedication and commitment to the purposes and programs of trade and investment promotion cannot be learned.

A second criteria is acceptance by the private sector and governments of the region. A highly qualified and dedicated individual will fail unless given the strong support of clients in the region. The individual should therefore be selected by the Board of Directors of the facility, in consultation with AID.

Among the qualifications necessary are: familiarity with international business, knowledge of the United States and of U.S. business practices and government institutions, ability to work well in each of the South Pacific nations, knowledge of and ability to work with South Pacific private sector organizations.

U.S. MEMBERSHIP ON MARC BOARD OF DIRECTORS:

The overview paper argued that the Board of Directors for the trade and investment facility needed the participation of several U.S. executives. If the orientation is to attract U.S. buyers and investors (in manufacturing, services and tourism), then a strong presence of American executives will facilitate the building of networks, and help target the trade and investment programs more effectively.

In identifying potential U.S. members for the Board of Directors, MARC should identify existing friends of the South Pacific region. Some potential candidates might include:

Frank Lorenzo (or the Asia Vice President) of Continental Airlines. Given the tie-up between Continental and Air Micronesia, there is a strong business interest in the region.

Malcolm Forbes, Jr., (or other senior executive), Forbes Magazine. The Forbes family has strong connections with the South Pacific.

A Director of the U.S. National Committee of PECC. PECC has a South Pacific Committee, and a strong interest in the region. Again, a natural connection.

Fred Zeiter, President of OPIC. Ambassador Zeiter has been involved in the South Pacific on behalf of the U.S. Government, and could be an excellent resource for identifying candidates for the Board of Directors.

ITT/Sheraton Hotels. The hotel chain has properties in the region. It will therefore have a natural interest in the work of the MARC.

This list is not intended to be exhaustive in any way. It is rather intended to stimulate thinking concerning the selection of U.S. participants on the Board of MARC.

CONSIDERATIONS FOR THE SOUTH PACIFIC MARKET ACCESS AND REGIONAL COOPERATION PROJECT

SECTION FOUR

INFORMATION SERVICES FOR TRADE AND INVESTMENT PROMOTION

The purposes of the trade and investment information services are three fold:

(1) to provide a quick response to inquiries from South Pacific, U.S. and other firms concerning investment, technology transfer and trade opportunities;

(2) to develop and keep up to-date a referral network of South Pacific, U.S. and other companies as well as of service firms that can assist in bring projects to fruition; and

(3) a tracking system to monitor services provided and the progress of companies in their business transactions.

Types of Information Sought by companies

In general, information inquiries from South Pacific and U.S. companies range from questions concerning the general economic conditions, commercial rules, market information and government assistance programs, to questions about specific potential partners.

An important element of the trade and investment network will be its ability to refer interested U.S. and South Pacific firms to commercial sources of assistance for their projects and products. The data bank will therefore include information on individuals and firms that have experience in doing business in the South Pacific region. As a result, companies can identify assistance for their business activity which might range from consulting, to feasibility studies, financial packaging, legal services, and negotiations.

For South Pacific companies particularly, access to information on international markets will be critical to establishing their business strategies. Given that the MARC project will likely focus on a limited number of sectors, MARC should consider purchasing on-line access to international market information services on seafood and fish products, for example, as well as have its U.S. facility gather information on other markets (for example, handicrafts) on at least a quarterly basis. These information resources are publicly available, and are essential for a new-to-market concern.

Economic and Commercial Information

The core of the information service should be information on trade and investment opportunities in the South Pacific region. The service should include general information needed by firms in making investment and trade decisions, as well as more detailed industry and sectoral information.

The information service should provide economic and commercial data essential to corporate decision making. This data should include macro-economic information about each ASEAN country and more detailed information about selected sectors. The data can be compiled from existing sources; the information service should simply allow companies to contact one source for up-to-date and reasonably complete information about business opportunities in each South Pacific country. It should also advise the inquiring entity on sources from which it can access more specific or in-depth information than what may be available in the data base.

A. General Information

1) Economic Data: GNP data, trade data, leading sectors, population, GNP per capita, etc.

2) Government Data: National economic development plans, government expenditures, projections on infrastructure projects, etc.

3) Commercial Data: investment incentives, components of trade, trading partners, equity rules, technology transfer rules, trade regulations, customs rules, etc.

B. Sectoral Data

1) Market Data: Historic and projected growth, by principal products or segments; characteristics of market, present and projected exports and imports; present and projected domestic production, etc.

2) Industry Structure: competition from domestics companies, from foreign investors; sources of imports, etc.

3) Government Rules: specific regulations governing sector (e.g. joint ventures required for consulting companies) etc.

Referral Services

In addition to the general data, the information service should provide a ready source of contacts about potential partners and about government programs available to traders and investors. In effect, this element should be an electronic "yellow pages" for the U.S. and each South Pacific country, but with more detailed information on individual companies. Therefore, the data available through the information service should include:

A. Corporate Information

1) Company lists: general and sectoral lists of companies (country by country) as potential business partners. Much of this will be sourced from existing directories, industry associations, investment banks and state international trade offices.

2) Technologies and Products: Requests will frequently state interest in a particular technology or product. Therefore, the information service will include as much specific information about company products and technologies as feasible.

B. Government Assistance Sources

1) U.S. Government: Background on programs available from USAID, TDP, OPIC, EXIM, Commerce, FCS, etc.

2) South Pacific Governments: Assistance and information available from South Pacific government entities the Ministries of Trade and Industry, Boards of Investment, etc.

C. Private Assistance Sources

1) Legal, consulting and other firms that can assist in structuring and assessing the feasibility of a proposed venture.

2) Financial services firms, including insurance firms, merchant and investment banks, commercial banks, and investment advisory services.

3) Export management companies and other firms involved in assisting companies in import and export transactions.

Corporate data would be used to answer inquiries concerning potential business partners. In responding to an inquiry, each company name provided should be "pre-qualified" meaning that the company has expressed interest in doing business in the region or with the U.S., and a willingness to enter into discussions about

specific business prospects. An individual contact name should be provided, as well as general information about the company. To accomplish this, each company will be contacted by a staff person before the name is released to the inquiring firm.

Data would most efficiently be maintained on computer, with a link-up between the U.S. and all South Pacific offices. Information will be available in hard copy for company users. Although consideration should be given at some point in the future to providing information electronically through data links. among the hard copy information to be available will include:

1. Country profiles, detailing economic and commercial information on each South Pacific country.

2. Sector profiles, detailing markets, trends, structure of selected industry sectors. Special emphasis should be placed on having U.S. Department of Commerce and national government industry studies in the information service library.

Tracking of Inquiries

In order to efficiently serve companies, and to facilitate follow-up assistance, the MARC information service should include a tracking service of inquiries and of companies that participate in various promotional programs.

Data on specific company inquiries should be systematically collected and maintained. The purpose of this exercise will be to provide management with a means of tracking results and record keeping.

Therefore, all inquiries should be logged into a tracking system. Actions taken by staff in response to calls should also be noted. A regular updating system should be implemented, so that companies are contacted on a regular basis to determine their progress and any additional assistance that they might require to achieve their business objectives. For instance, a serious inquiring firm might be contacted every month or so for three to six months after a call, then every three months after that, depending on the assistance required and the status of the project (under study, in negotiation, completed, terminated, etc.). A status report should be maintained on actions taken as well as on the company's progress. This should also allow for a detailed record to be kept on projects initiated, projects completed, and projects not completed. where possible, companies should be asked to provide information on why projects did not go forward.

Given the generally sensitive and confidential nature of corporate investment plans, individual company data should be kept in strict confidence. Any public reports should be generic in nature, nature indicating the results of the information service

(e.g. number of inquiries by country, responses provided, number of projects in negotiation, number of projects completed, number of projects terminated). Individual company names and information should only be released with the permission of participating companies.

The tracking system should also identify barriers to trade and investment, as reported by inquiring companies. This element will be important to the policy dialogue element of MARC, and to establishing a better environment in the South Pacific region for international trade and investment.

An important element of the tracking system should be a regular survey of corporate users to determine the useful of the services to firms in the U.S. and South Pacific. This evaluation, which should be conducted yearly, should be used to make improvements in the service so that it is more responsive to companies' needs.

Inquiring companies should also be entered into the referral data base. These companies should receive regular announcements of new opportunities and promotion programs being sponsored under the MARC project.

Linkage with the AID Trade and Investment Monitoring Service

AID, through the Office of International Trade and Investment Promotion (ITIP -- now a part of the Bureau for Private Enterprise), has initiated the development of the Trade and Investment Monitoring Service (TIMS). Much of the basic information needed for the South Pacific information service is being collected under TIMS for several AID assisted countries. Further, a user-friendly software program has been developed to manage the information and make it really available to users.

The South Pacific MARC should consider linking its information service with the Trade and Investment Management System (TIMS) of AID.

CONSIDERATIONS FOR THE SOUTH PACIFIC

MARKET ACCESS AND REGIONAL COOPERATIONS PROJECT

SECTION FIVE

ORGANIZATION AND EXPERIENCES OF

U.S. -ASEAN CENTER FOR TECHNOLOGY EXCHANGE

BACKGROUND

In 1983, private sector members of both the U.S. and ASEAN sections of the ASEAN-U.S. Business Council called for the establishment of a separate entity to promote commercial technology transfer and contacts between ASEAN firms and particularly small and medium U.S. companies. In 1984, on the basis of a formal decision of the Joint Executive Committee of the ASEAN-U.S. Business Council, the U.S.-ASEAN Center for Technology Exchange was formally established.[1]

Several general characteristics of the U.S.-ASEAN Center as important:

1. **Bi-national, private sector board of directors** led the Center. The Center was established with the strong support of the private sector in the U.S. and the ASEAN nations. It was also led by the private sector, through a Board of Directors that included representatives from each ASEAN nation.

2. **National Advisory Councils** were established in each ASEAN country. These Councils included representatives of the national chamber of commerce, the American chamber of commerce, and industry associations. Their function was to set priorities for Center programs in each ASEAN country. A similar group was established in the United States.

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[1] In 1989, the U.S.-ASEAN Center and the U.S. Section of the ASEAN-U.S. Business Council were merged to create the U.S.-ASEAN Council for Business and Technology, Inc. While most of the programs of both organizations are carried out by the new Council, this document will refer principally to the past activities of the U.S.-ASEAN Center.

3. **Programs were nationally focused.** The Center had a regional purview, but its programs were targeted at each of the ASEAN nations. For efficiency reasons, a program might be held consecutively in several ASEAN countries. A similar group was established in the United States.

4. **Programs used business executives, not consultants.** The initial focus of the Center was on technical seminars. The speakers and sources of technical expertise for these programs were from private companies with an interest in Southeast Asia (either in expanding existing business or identifying new opportunities). The Center only brought in consultants if no company executives were available, or if it needed additional expertise in developing an effective program.

5. **Seminars were industry and country specific.** General technical programs were considered unhelpful by private companies in Southeast Asia. Therefore, the focus of the programs was on technical developments in a specific industry (e.g. packaging for the food industry; food processing technologies; plastics technologies; process controls applications, etc.). Programs were also slated for individual countries, and altered to meet national requirements.

PROGRAM PURPOSES

The purposes of the U.S.-ASEAN Center programs were two-fold:

1. To expose ASEAN business executives to U.S. technologies and to U.S. companies so that American technology could be evaluated against that of our competitors; and

2. To facilitate contact between ASEAN and U.S. company executives for the purposes of promoting long-term business tie-ups.

To meet these two purposes, the Center's programs focused on specific industries, and utilized U.S. company officials as the speakers and resource persons for Center seminars and other programs.

PROGRAM DEVELOPMENT

The Center's program development process consisted of several elements. These included: (1) identification of areas of interest by country; (2) determination of level of interest and capability in U.S. industry; (3) agreement on simar agenda and topics; (4) promotion.

Interest Identification. Through the national councils, the Center identified industries of high priority in the country and in which there were immediate opportunities for growth of American investment and trade. As part of these deliberations, the specific technical needs of the industry were reviewed. Industry executives, through the national industry association, were actively involved in this process in order to target the program better to the needs of companies in the country.

For example, Center personnel would meet with executives from companies in the food processing industry to determine the areas of interest and need. This resulted in a selection of topics -- from packaging to processing technologies -- upon which specific programs would be built. This also determined the selection of expertise from the United States.

U.S. interest and capability. In additional to knowing the needs of a particular industry in a specific ASEAN country, the Center sought to identify the comparative advantages of the U.S. and the level of interest of U.S. corporations in supporting the project.

Networks of individuals in companies and in industry associations were used to confirm U.S. interest in the areas identified in ASEAN. These same networks were used to identify companies and speakers within the companies to handle the various topics for the seminars.

Any program of the Center could have been done by drawing upon the consultant community in the United States. However, it was felt that this would not promote long-term linkages between ASEAN-based and U.S. firms, a clear priority of the Center. Therefore, only programs in which company officials could be relied upon for participation were included in the programs of the Center.

Agreement on agenda and topics. The Center acted as a go-between to develop an agenda that would meet the requirements and interests of the U.S. and the ASEAN countries. The compromise agenda would assure that the most important topics of interest to firms in each participating Southeast Asian country were covered, while emphasizing the areas in which the U.S. industry has comparative advantages.

Promotion. The Center in each country, working through its national office for consultants, would assume the responsibility for promotion of the program. This would be done in close coordination with the relevant industry association and the national chamber. However, the logistics and administration were handled by a Center person.

This route was taken in recognition of the limited staffing of most industry associations and national chambers. Relying on an

already over-committed staff proved unreliable in early program. Therefore the Center established a working relationship with the chambers such that these responsibilities were assumed by the Center.

NATIONAL VERSUS REGIONAL

Initially, the Center established a regional office in Kuala Lumpur, Malaysia. This regional office was recognized from the outset as a transitional stage. The aim was to have individuals hired to conduct programs in each ASEAN nation, thus assuring that the programs of the Center could be tailored to the needs and interests of the private sector in each ASEAN country.

The office in Kuala Lumpur acted principally as a coordination point for national programs. Given limited resources, the Center was not able to establish national offices in all ASEAN countries. Even in countries where a coordination point was situated, for the most part these were part-time consultants. (It should be noted that AID has only now established a priority for such offices, and is funding national trade and investment offices in ASEAN under the ASEAN PITO project.)

For the MARC project, ideally, an office, staffed with a professional, would be responsible for the trade and investment activities between an individual country and the U.S. However, one office should e given some coordination responsibilities, particularly for programs that are held in several ASEAN nations, in order to assure efficient use of resources.

PROGRAM CHANGES

Over the years, the Center's program has adjusted in keeping with changes in the ASEAN region, and in keeping with a maturing of the organization. Today, the successor organization, the U.S.-ASEAN Council, is much more actively involved in trade and investment promotion. Many basic elements of the Center's program continue, however:

1. The programs are **country and industry specific.**

2. Promotional programs, including missions and seminars, include a **technical seminar** to introduce ASEAN executives to new developments in the industry in the U.S. and worldwide.

3. Industry selection and focus of the programs is accomplished through **national steering committees** comprised of business executives from the national chamber and the American chamber of commerce.

4. The emphasis in the U.S. is out-reach through **networks of industry associations, companies and government agencies, including state international trade offices.**

Over the years, greater emphasis has been placed on **follow-up** with the individual companies in the U.S. and in ASEAN. This has proven to be a critical element in the success of programs, particularly if success is measured in individual business transactions.

CONSIDERATIONS FOR THE SOUTH PACIFIC

MARKET ACCESS AND REGIONAL COOPERATION PROJECT

SECTION SIX

BUDGET ISSUES FOR MARC

TRADE AND INVESTMENT FACILITY

Creating an effective trade and investment promotion facility is not inexpensive. AID and the governments of the South Pacific must determine that they are willing to commit the resources so that the organization can establish itself effectively, and can develop the range of services needed to attract new investment and expand export and trade opportunities.

Given the lack of knowledge about the South Pacific in the United States, it should be anticipated that the trade and investment facility will need at least three years to launch an effective program. during those initial years, AID and the governments of the South Pacific should not expect that the facility can manage to raise significant private sector support through user fees.

Further, AID and the governments of the South Pacific should anticipate that the trade and investment facility, because it is conducting programs with social or public benefit, will not become fully self-supporting. If the entity could be commercially viable in all of its activities, then it could be financed through commercial terms -- i.e. it could attract equity and loan capital to be paid back through profits. However, the promotional and marketing aspects of the facility are not likely to attract significant private sector support (either through donations or fees). In addition, the facility is unlikely to be able to charge sufficiently high fees for services that private firms will purchase to cover its more developmental activities. Were it to charge such fees, it would likely be supplanted by a commercial entity that did not have to fund these unprofitable activities.

BUDGET PARAMETERS

This section will put forward some of the alternatives that the MARC project planners should consider in developing the project. The first section will discuss personnel needed, and the second will outline sample program costs associated with various types of projects that the trade and investment facility is likely to conduct.

Personnel

In the South Pacific. MARC will need to hire at least one U.S. citizen on a personal services contract (or under contract with the U.S. based implementing organization) to work in the South Pacific. This person should have at least five to eight years of experience in trade and investment promotion, including relevant background working in the private sector, and knowledge of conditions in developing countries. Salary level will likely be at FS-1, plus related benefits. Sufficient budget should be allocated so that this person can travel throughout the region, providing support to national offices, as well as accompany groups on missions to target markets.

An Executive Director for the South Pacific trade and investment facility should be hired. This person, a national from one of the countries of the region, should have knowledge of the United States and of U.S. business practices, have experience in working with and in the private sector, and knowledge of government institutions in the region. The Executive Director will have the responsibilities of overseeing and coordinating activities, including the development of the information service, as well as coordinating promotional and marketing the program in the country in which he is resident.

One information specialist should be hired to organize the information service and to provide support to each country office.

Staffing should include an officer in each target South Pacific country. This person should be a host country national, again with experience in international business and with the U.S. Salary will be commensurate with prevailing wages in the country. In the ASEAN PITO project, U.S. $35,000 has been allocated for each national office for salary and direct office expenses.

In the United States. MARC should allocate sufficient resources to contract with a competent organization, and to ensure that an aggressive marketing, outreach and follow-up program can be implemented. At a minimum, MARC should allocate funds for hiring of a trade and investment specialist to provide U.S. support and technical assistance for the South Pacific facility. This specialist should be assisted by a part-time person with knowledge in organizing an information service, and administrative support staff.

Excluding program and travel costs, it is estimated that MARC should allocate at least $150,000 per year for staffing (or more, if overhead is to be reimbursed to the U.S. organization).

In Southeast Asia. MARC will look to ASEAN and other East Asian countries as potential markets and sources of collaboration in the development of the private sector in the South Pacific

region. Three options can be considered to accomplish this function:

1. Network with National Chambers. MARC might be able to make arrangements with the national offices responsible for the trade and investment programs under the ASEAN PITO project. These services might include information and referrals, sponsorship of seminars and other promotional programs in the region, hosting of missions from the South Pacific nations, and so forth.

This method is likely to be low cost, but may not be very effective. These individuals are charged with the primary task of ASEAN-U.S. trade and investment promotion. The time available to devote to programs with the South Pacific will be limited. Reliance on the national chambers directly will probably not yield better results, as these organizations tend to be thinly staffed, and do not have personnel available for these kinds of programs. This was one of the early lessons learned by the U.S.-ASEAN Center.

2. A regional representative. MARC might consider hiring of a regional representative to coordinate outreach and follow-up, as well as to oversee promotional activities for the South Pacific in the region.

MARC would gain the dedication of a person to the promotional activities and information development. However, this route is likely to be expensive, particularly in the early years when there will be limited activities in the ASEAN region. Further, travel funds will have to be allocated in order to conduct and coordinate programs throughout the region.

3. Part-time personnel in each target country. MARC should identify the most likely target countries for its trade and investment promotion programs, and hire a consultant in each country to look after these programs and act as a source information and follow-up. This person could either be a local or an American. There are several options in each ASEAN country to obtain this type of service, and it is relatively cost-effective. The contract could be written such that the time of the consultant would be set according to the programs planned and the abilities of the entities in the South Pacific to serve client interests from the ASEAN region.

This method provides maximum flexibility. While not necessarily as inexpensive on a daily basis as a full-time person, the overall costs will be lower in terms of the countries covered and the services provided. Further, MARC will be able to contact with a more senior person that if it sought to hire a person full-time.

Program Costs

The programs of the MARC project related to trade and investment promotion should include: an information service; seminars in the target markets; technical assistance; and missions to and from the U.S. and other targets markets.

All of these are labor intensive programs. The personnel identified above should be able to handle a reasonably ambitious promotional program. The information service will have at least one person dedicated to its management. Other personnel will be charged with outreach and dissemination. Funds will be needed to purchase access to relevant industry data bases and other information needed by investors and traders. MARC should investigate the possibilities of linking with AID's TIMS as this could lessen the costs of entry into information services. However, a budget allocation will still be needed to access industry specific market information services. These are generally costly, and so a budget of at least $15,000 should be set aside annually for subscription and user for access to international data banks. In addition, communications and other costs should not exceed $5,000.

The main thrust of the program should be on promotional seminars and missions. The U.S. organization should be in a position to sponsor short programs aimed at U.S. companies. These can be conducted throughout the U.S., and done relatively inexpensively with U.S. business expertise and reliance on the embassies of the South Pacific nations and visiting government officials. Including promotional efforts, communications, meeting costs and some travel, these programs can be run for about $7,000 per seminar.

Missions are more expensive. Promotional efforts are more costly, and lead times are longer. Overall, MARC should anticipate the costs of organizing a mission from the U.S. to the South Pacific, or vice-versa, will be between $50,000 and $75,000 per mission, excluding personnel.

It is impossible to provide an overall budget for MARC's trade and investment facility, as so much of the budget is program dependent. The more programs, the higher the costs. Fewer programs, however, only lower the variable costs. Fixed personnel costs are unlikely to change within a reasonable range of program activities. There is simply a minimum number of staff required to operate the facility.

Still, it is impossible to conceive of a reasonable effort costing less than $500,000 to $600,000 per year. For an ambitious program, consisting of offices throughout the South Pacific, representation in selected ASEAN markets, and a U.S. organizational structure, plus an aggressive technical assistance and promotional

effort, MARC should consider an allocation of $800,000 to $1.0 million per year.

Obviously, these costs will vary according to the program emphasis and according to costs of operations in the South Pacific. The above is intended to provide some parameters for consideration during the project planning deliberations in late July.

ANNEX L

ENVIRONMENTAL THRESHOLD
DECISION

ENVIRONMENTAL THRESHOLD DECISION

Project Location	:	South Pacific Regional
Project Number and Title	:	879-0018 Market Access and Regional Competitiveness
Life of Project	:	Five Years
Funding	:	$7.5 million
IEE Prepared By	:	Amy Nolan Osborn Regional Program Officer
Environmental Action Recommended	:	Negative Determination
Regional Director's Concurrence	:	Signature: John Burwell Date: 3/7/91
Decision of Environmental Officer, Bureau for Asia and Private Enterprise	:	Approve: M. Kirk Disapprove: Date: 3-8-91

A. Description

The proposed project is composed of three components as follows: (a) the U.S.-based South Pacific Investment and Trade Service to provide a network of business contacts and short term technical assistance, training and information to assist expansion of trade and investment flows between the South Pacific and the U.S.; (b) the country level programs in trade and investment development and business environment improvement in Fiji, Papua New Guinea, Tonga and Western Samoa; and (c) regional level initiatives to coordinate and enhance U.S. and country level project activities.

B. Discussion

The activities to be funded under the proposed project are long and short term technical assistance, short term training, market research and promotions, limited commodity assistance (e.g. office furniture, computers etc.) These actions will not have a direct effect on the natural or physical environment and are thus considered to be environmentally neutral. Upon comparison of these activities with the criteria in Section 216.2 (c) (1) (i) and (2) (i), (ii), (v), and (vi), the proposed project is determined to qualify for a Categorical Exclusion and is an action for which an Initial Environmental Examination is generally not required.

This Environmental Determination is submitted to the APRB Bureau for review in accordance with Section 216.2 (3) of 22 CFR Part 216, Environmental Procedures.