REGIONAL COOPERATION WITH EMPHASIS ON PRIVATE SECTOR DEVELOPMENT

Proceedings of the Third Pacific Islands Conference of Leaders
April 9-11, 1990 / Hawaii

edited by
Sitiveni Halapua
Barbara Naudain
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Pacific Islands Development Program
East-West Center
1777 East-West Road
Honolulu, Hawaii 96848
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FOREWORD

The Third Pacific Islands Conference of Leaders was held on the Big Island of Hawaii from April 9 to 11, 1990. Governor John Waihee of the State of Hawaii served as Conference Chairman.

Like the First Pacific Islands Conference (1980) and the Second Pacific Islands Conference (1985), the Third PIC provided a regional framework for island leaders (1) to discuss and exchange views regarding their development goals, ideas, problems, and experiences; (2) to identify priority research and training areas in relation to national and international goals; and (3) to expand their dialogue leading to a better understanding among island leaders and scholars, as well as between them and supporting governments, organizations, and agencies.

Each Pacific Islands Conference determines the relevant development issues around which PIDP organizes its research, dialogue, and training programs. The theme of the Third PIC—"regional cooperation with emphasis on private sector development"—reflected a widespread recognition of the critical role of the private sector in the development of Pacific island countries.

The material contained in this proceedings provides a valuable record of this historic Conference. In particular, this book reflects the general direction of the future economic development effort of the Pacific islands region and the part that PIDP will play therein.

Sitiveni Halapua
Director
Pacific Islands Development Program
OPENING SESSION

chaired by
The Honorable John Waihee
Governor of the State of Hawaii
ADDRESS

The Honorable Ieremia Tabai  
President of the Republic of Kiribati  
Chairman of the Standing Committee  

Governor, your excellencies, colleagues, friends, ladies, and gentlemen. I am pleased on behalf of the Standing Committee to welcome you today on the occasion of the opening of the Third Pacific Islands Conference. In doing so I want to express our sincere thanks for coming to attend this meeting. As in previous meetings it is always gratifying to see the participation of many people from various governments, from regional and international organizations, and from the private sector. Your presence today without doubt is a good beginning for the next five years when we expect PIDP to further build a bond made over the last ten years.

The first conference, it will be recalled, was held here in Hawaii ten years ago. We are particularly pleased to be back again for our Third Conference, which coincides, I understand, with the celebration of the “Year of the Pacific” by the people of Hawaii. This is most appropriate, and we cannot have chosen a better and a more suitable time and venue for our meeting.

Our meeting here at this time is made possible by the kind invitation of the Governor of Hawaii who over the years, like his predecessor, has been a strong supporter of PIDP. His office has also been closely involved in the planning of this meeting. I want to thank him on our behalf for his support that has enabled this meeting to be possible. And to the President of East-West Center and the Director of PIDP and their respective staff, I want to thank them also for their efforts in making the necessary preparation for this meeting. Looking at the program I know our stay in Hawaii not only will be a busy one, but it will be a pleasant experience as well.
Looking back to the First and Second Conference it was clear that the underlying theme was about development. It is about how to meet the basic needs and to improve the socioeconomic status of our people through cooperation. That theme has not changed, and it will continue to be the fundamental reason for our meetings. It will also continue to be the basis upon which projects are formulated by PIDP.

Since our last conference in the Cook Islands in 1985, much work has continued to be done. In addition to the work being done in the areas of education and training the policy-related research continues to be the main focus. Specifically, research projects covered such wide areas as tourism, energy, social issues, and private sector development, to mention only a few of them. The Standing Committee provides general guidance over these projects in line with the decisions taken in the First Conference held in 1980.

As one who has been involved with PIDP since it was first started, I can say that the work done here has made an important contribution to our development effort. As we all well appreciate, one of the key factors that determines development is the policy adopted. Without the proper and appropriate policy, the process of development will be very difficult indeed. This is the very area that PIDP is to assist in, by providing advice on the various possible policy options and for each government to make its own decision in line with its own national goals and aspirations.

One of the recurring issues in the past has been the role of the private sector in the Pacific islands development. In the last Conference in 1985 it was also one of the issues on the agenda. Since then it has become and continues to be a particularly important component of the program. Many related studies and presentations have been completed over the last few years. Some of these were done on a country basis, thus further enhancing developments and use by those countries concerned.

The interest in the issue, however, has not subsided. In fact, it seems to be increasing all the time. It is not only happening in our part of the world, it is even more dramatic in the Eastern Block countries where the rapid changes that are going on there are a direct recognition that governments alone cannot achieve development. They need private sector participation to assist in the process. This is particu-
larly true in the small island states of the Pacific where they face many economic problems arising out of their narrow resource base.

The focus of this Conference is on that same general issue—the role of private sector development in the Pacific island economies; that is not only in recognition of the continuing interest in the subject, it is also an expression of a strong conviction that the participation of the private sector is one of the strategies that will make a great impact on the development of our Pacific island countries. While it is accepted that some progress is being made in this area, we know it is only the beginning, and there is an obvious need for further involvement of the private sector in our development. Hence the need to talk further about this vital subject.

We cannot, however, talk about private sector development without talking with the people actually involved in business. I am pleased, therefore, to see many business representatives attending this Conference. In our view the process of consultation in this way is a positive development. It encourages understanding and cooperation between the two groups for their mutual benefit. And for some of us it is a good opportunity to advertise ourselves in terms of business potential to the business community. I want to encourage those of you who are here today and the rest of the international community to develop an interest in the island states. I hope that their presence in these meetings will lead to their involvement or further involvement in the development effort of our various countries.

I want at this point to acknowledge the presence of the representatives of governments and the international organizations. I want to thank them for their generous assistance to the program, which has been one of the major factors contributing to the achievement of the program so far. It is our sincere hope that they will continue to provide assistance to the program, which we believe to be of vital value to various island governments.

It goes without saying, however, that such assistance is not a substitute for our own national or regional effort. The ultimate responsibility for our development rests with us alone, and it is incumbent upon us that we not only use that assistance in an efficient and effective way but also explore other means and strategies that enhance our collective development.
The theme of this Conference is relevant in that regard. Intra-regional cooperation has been selected as a theme for our meeting. The choice in our view is appropriate.

The obvious and best way of achieving that is, of course, through cooperation among ourselves, and the focus on private sector development in this meeting is designed in that context. This serves to emphasize the importance that we attach to the principle of regional cooperation, and it is a recognition of the fact that there is more we can do together in many areas for the benefit of us all.

This is particularly true at this time, taking into account the dramatic changes all over the world that recognize international standing and cooperation as the key to resolving many of the problems that most of us now face.

In our region we have a number of regional organizations that attempt to address certain areas that we share a common interest in. While they have certainly done much in those specific areas, that is not to say that all is well or that we cannot do more among ourselves.

We know there is more we can do, and while it may not be always easy in view of the different national priorities and perspectives, there is always a need to look beyond the national confines and to explore all areas where we can best pursue our objectives together.

That is one obvious reason also for our gathering here today. It provides us with an opportunity to sit down and mix together to discuss and share our views and experiences on how we can all assist the process of development—an area I believe that must be regarded as a priority for all of us. This is a particularly good forum for this—as we are all here as equal participants—united by our common purpose and objective, underlined by the need to improve the economic status of our people.

In the course of the past years, that has certainly been at the forefront of the areas PIDP has given attention to. As I said earlier on, there is without a doubt a long way to go for many of us. This calls, among other things, for an examination of how we can further improve the institutional arrangement to facilitate the implementation of the pro-
gram. I am pleased to say in that connection that it has been agreed in the last meeting of the Standing Committee that the links between PIDP and the East-West Center be formalized and be put into writing.

In the past while existing arrangements had been working well, this link has been informal; but with a maturing of the program we believe the change is necessary to put it on a more solid basis so that it will continue to carry out its mandate effectively.

But the formal arrangements cannot by themselves achieve the results we are hoping for. They need people—people with commitment and people with hard work. We are fortunate in that regard because we have such people working for us in the program. I want, therefore, to take this opportunity once again to thank them all: the President of the East-West Center Dr. Li, the Interim Director Dr. Halapua, and all former directors, and all those connected with PIDP for their contribution during the past years. And I invite them all to join us again as we continue our journey seeking a better tomorrow for the people we stand for.

Colleagues, friends, in closing I want to thank you all for coming to this meeting, and I trust that you will find this a useful gathering.
ADDRESS

Dr. Victor Hao Li
President of the East-West Center

Governor Waihee, Chairman Tabai, your excellencies, ladies, and gentlemen. Let me first thank you, especially the leaders but also everyone in this room for taking the time from your very busy schedules to participate in this conference. I trust that you will find the results to be worth your efforts.

Ten years ago the First Pacific Islands Conference examined national and regional development, the Pacific Way. From these discussions a number of important issues became clearer. The era of the Pacific, which many saw was coming, would have major benefits for many countries around the Pacific rim but possibly far fewer benefits for the island countries in the middle of the Pacific. What can be done to assist the economic development of small resource limited and widely separated island countries? How can this development take place in a manner consistent with the cultural values of those countries?

And underlining these concerns was the issue of how scholarly and research organizations such as the East-West Center can be more responsive to the needs as defined by the leaders. To address these issues PIDP was created at the East-West Center. The goal was to combine the best possible available information and scholarship presented in a usable manner with the problem area priorities set by the island leaders. There was no blueprint or precedent on how this was to be done, and indeed ten years later the close working relationship between a scholarly institution, the East-West Center, and the governmental leaders of the region remains unique in this world. So we had to design and draw the blueprint as we went along.
On the whole I think we were eminently successful, thanks to the leadership and guidance of the island leaders, particularly the members of the Standing Committee. And when we encountered problems, as surely we had to, we redesigned the blueprint to overcome these problems.

At this meeting of the Pacific Islands Conference you will be reviewing some of the work done by PIDP over the past several years. I hope that the work we have been doing will meet with your approval. Any changes you would like to see we will do our best to implement. You also will be defining the program directions and priorities for the next five years.

In doing so I believe that the East-West Center and PIDP have built up some special areas of expertise and comparative advantage, several of which were mentioned by Chairman Tabai, that you would find very useful in the next five years. And you will be reviewing the blueprint for the organic relationship between the PIC and the Standing Committee, on the one hand, and the East-West Center and PIDP, on the other.

Over the years we have been learning much about what processes and structures seem to work better than others. As we proceed together I think our goal remains the same as in 1980: to provide the best possible scholarly and research support to deal with the problem areas that you feel require the highest priority.

From the East-West Center's side we promise to continue to exert our best efforts. We thank you for your support over the years, we value your friendship, and we look forward to doing even more and better work with you in the years ahead. Thank you very much.
OPENING PLENARY SESSION PRESENTATIONS

chaired by
The Honorable Ieremia Tabai
President of the Republic of Kiribati
Chairman of the Standing Committee
AN INTRODUCTION TO THE ROLE OF THE PRIVATE SECTOR IN DEVELOPMENT

Dr. Sitiveni Halapua
Interim Director
Pacific Islands Development Program

Mr. Chairman, excellencies, distinguished guests, ladies, and gentlemen.

As the Pacific Islands Development Program’s interim director, I wish to extend a warm welcome to you all.

This afternoon we will have two presentations from two of the key researchers from the Pacific Islands Development Program. Before we move on to that presentation, I hope you will allow me to give you a very brief introduction to the role of private sector in Pacific islands development, which is the main focus for this plenary session.

During and immediately after the independence era the Public sector was the dominant economic force in the islands' economies. However, as will be highlighted in Professor Thirlwall's presentation, the growth performance of the region during the 1970s and '80s has been moderate. It became increasingly evident that the public sector was unable to provide the increase in the standard of living expected and that the onus of development must originate from the private sector. It is the link between economic development and private sector development and the appropriate role of government policy that has been a major focus of PIDP's research program over the last few years. The Private Sector Project, funded by the Asian Development Bank and the East-West Center, provides much of the substantive resource material for this conference, and we are very grateful for their support.
But what is the private sector then? In our research project we see a small semisubsistent farmer wishing to increase his marketable surplus to be as much a part of the private sector as a large multinational mining company. Even though self-evident, such a definition comes as a surprise to many. What then of appropriate government policy for private sector development? This policy has often been perceived as a simple matter of privatization and deregulation. Yet the reality is far more complex, especially for decision makers in a small open economy with a narrow production base, a small fragmented domestic market, a low level of human resource development, and usually a high rate of population growth.

Therefore, PIDP's Private Sector Project has researched a variety of interrelated issues, ranging from the macroeconomic environment for private sector investment to support for small and indigenous business. To decision makers, in both the public and private sectors, the greatest value of our research perhaps lies in its regional and comparative nature. We have much to learn from each other's experiences—both our successes and failures. I wish to briefly share a few highlights of our research with you.

First, the macroeconomic environment in which private investment decisions are made. In almost all island nations, macroeconomic policies have generated a stable financial system. Through sound management these countries, for the most part, have been spared the foreign exchange shortages and the hyperinflation common to many third world countries in Africa and Latin America. Although the macroeconomic policies in the Pacific island nations have in general been successful, they have been less than satisfactory in providing a competitive cost and price environment for private sector investment and growth. Specifically, the greatest need has been in the policies that ensure the cost of labor reflects the market conditions.

In addition to a favorable macroeconomic environment for private investment, the governments have a key role to play in providing a decision-making environment conducive to the needs of entrepreneur investors. This role goes beyond providing investors with an attractive package of fiscal incentives.

Although variations exist, the effectiveness of the incentive measures, which have been adopted to attract new investment, has been
substantially reduced by the problem with the administrative measures associated with the application and approval systems.

Most Pacific island countries have, in varying degrees, a comparative advantage in marine products, in high value niche-market agriculture, and in certain lines of manufacturing such as quality garments and furniture. This advantage stems from a combination of location, trade agreements, and labor costs. The two main limiting factors have been the lack of suitable entrepreneurs who are willing to invest their own capital and skills and the absence of administrative systems that can expeditiously accommodate such investors. However, the recent experiences of Fiji and Tonga illustrate what can be achieved by encouraging entrepreneurial investors.

In the agricultural sector, government agencies have generally performed poorly in production and marketing activities and need to privatize some or part of the extension and research functions. However, our research has shown the crucial role of government in creating the environment for sustained commodity development. Some vital responsibilities include (1) certifying that quarantine and quality standards have been met and (2) providing the institutional and legal environment to facilitate industry self-regulation.

The financing of private sector development poses a genuine challenge to governments, financial institutions, and international agencies. Two major problems of financing in years to come are (1) how to control consumption and increase savings and (2) how to increase the share of financial savings devoted to investment without retarding financial development. In the Pacific island countries, domestic savings have been low and, in some cases, even negative. With the help of private remittances and official grants, some countries have been able to maintain a high level of consumption in excess of their income—clearly a situation that is not sustainable in the longer terms. A conference session will be devoted to discussing policies and measures to meet this challenge, which has non-economic ramifications.

The region's development banks have been assigned a leading role in bridging the gap between inadequate savings and investment requirements. Yet these institutions have generally not, for a variety of reasons, achieved the levels of success expected of them.
because these problems are not insurmountable, implementable recommendations for improvement will be presented at this conference.

In addition to the potential achievements of the development banks, a successful local venture capital industry can play a vital role in linking entrepreneurs, long-term finance, and management expertise. We will present proposals on how such an industry might be established, involving a partnership between government, development agencies, and the private sector.

The Pacific Islands Development Program's research in recent years has given priority to small business development and promotion, for it is in small business enterprises that indigenous participation in the private sector is the highest. As part of the Private Sector Project, a study of enterprise support organizations made detailed recommendations, which will be presented to you. These include the use of the University of the South Pacific's extension network to facilitate small business development in the region.

This afternoon's plenary session will deal with the broader issues of trade and investment in the region. In large measure the responsibility devolves on the Pacific nations themselves. A greater political commitment to develop export capabilities is required if overseas investment is to be attracted. A start in this direction can be made through aid resource allocations, government policies, and the region's institutional energies. We will make specific recommendations in this respect. The trading partners can also do more. For instance, the inflexibility of the rules-of-origin provisions of the regional preferential trade agreements, such as the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), continue to act as a brake on export development.

It is important for our research, and the conference deliberations, to identify constraints and make practical recommendations for their amelioration. However, it is equally important to identify and highlight the positive developments. Our research indicates that the private sector investment opportunities in the region are greater than often perceived. These opportunities go beyond the more obvious prospects for large-scale mineral development in Papua New Guinea or the major tourism plant development in Fiji. Although these
larger developments are crucial, we have focused our research on actions that smaller countries and smaller firms can take.

Therefore, our discussion session on investment opportunities will emphasize areas such as marine products, manufacturing, non-traditional agriculture, and the opportunities for microstates. In this context even our privatization research has emphasized the numerous opportunities for small business development.

Finally, what is the role of the international agencies and aid donors in assisting private sector development in the region? Our research findings indicate that these agencies could make a considerable contribution. Yet the provision of aid to the Pacific islands is a complex and vexatious issue. Despite the increasingly numerous policy pronouncements from bilateral and international agencies, aid appears to have accomplished little to accelerate private sector development in the region. In the final plenary session of the conference, specific recommendations will be made for substantially enhancing the contribution of these agencies to private sector development. The emphasis here will be on human resource development.

I wish you well with your conference deliberations.
PACIFIC ISLAND ECONOMIES IN THE GLOBAL CONTEXT

A. P. Thirlwall
Professor of Applied Economics
University of Kent at Canterbury

Your excellencies, political leaders, ladies, and gentlemen.

First, may I say what a pleasure and privilege I feel at being invited to address such an august audience. I don't think I've ever seen so many political leaders in one place at one time. Secondly, I would like to express a debt of gratitude to Dr. Andrew McGregor and to Dr. Steven Halapua who initially asked me to participate in the exciting and challenging work of the Pacific Islands Development Program, but I want to stress to you that I am not an expert on the Pacific island economies.

In fact when I was first asked to write a paper for this conference I felt rather like the United States economist, Robert Solo, who subsequently won the Nobel prize for economics, who when asked by President Kennedy in 1960 whether he would serve on the Council of Economic Advisers declared, "Mr. President, you must have got the wrong man. I'm an ivory tower economist." To which President Kennedy replied, "that's all right I'm an ivory tower president." Now I would not like to describe myself as a completely ivory tower economist. I am interested in the real world, but I must confess I came to the subject matter of the Pacific island economies from a position of complete ignorance rather like a new born baby as Lord Keynes, the famous English economist, might have said, and I realize that this could be courting disaster.

On the other hand, coming to something new does have the advantages of enabling one perhaps to see things in a new way with a fresh eye. I cannot actually promise that, but in the work that I have done I
think I have made one or two interesting findings and one or two provocative policy recommendations for comment and discussion at the end.

The paper that I have distributed, incidentally, is a shorter version of a longer paper submitted to the Pacific Islands Development Program. The main findings and conclusions of which are appended to the paper that you have in front of you.

Here I want to concentrate on four main issues. Firstly, on the performance of the Pacific island economies in the 1970s and 1980s in the context of the functioning of the world economy. Then secondly, on the structure and direction of Pacific island trade and policy issues that I think arise. Thirdly, on commodity price fluctuations and how they affect the Pacific island economies, and fourthly and lastly, on the prospects for the world economy in the 1990s and the Pacific island economies within the world economy in this coming decade.

Now by way of background in terms of the level of development at least as measured by per capita income, the average per capita income of the Pacific island economies at the moment, taking the seven that are in the table in the paper as a whole, is approximately US$800. Now this puts the Pacific island economies somewhere between the 42 low-income countries identified by the World Bank with an average annual per capita income of US$290 and the 34 low-middle-income countries with an average per capita income of US$1,200.

Compared with other small economies with populations of less than one million, the World Bank’s definition of a small economy, only eight actually have a per capita income that is lower than the Pacific island average. If you look to those countries that are richer, they are all basically tourist resorts in close proximity to the large markets of Europe and North America.

I would like to say at this point that small countries do face obstacles in the growth and development process that are not present in larger countries. First, there is a general tendency for small countries to be much more specialized and less diversified than larger countries, which makes them much more vulnerable to both internal and external shocks. That is one disadvantage of being a small country.
Secondly, small countries cannot reap economies of scale. Economies of scale in manufacturing particularly and in infrastructure, which therefore makes investment in manufacturing activities and infrastructure more costly and uneconomic, very often then is the case in large countries.

And thirdly, to the extent that small economies are island economies and geographically remote, transport and communication problems can, of course, undermine the competitiveness of these economies. So these are some problems that small economies face in the growth and development process which are not present in larger ones. That is just by way of aside.

Let us now turn to the performance of the Pacific island economies. If I can remind you the 1970s and the 1980s were very turbulent years in the world economy. The Bretton Woods system collapsed in 1971-72. The world went on to floating exchange rates. Inflation generally accelerated, and the collapse of Bretton Woods and the acceleration of inflation were not unconnected events. The price of oil rose five times in 1973-74, which plunged the oil consuming countries into recession. The price of oil doubled again in 1979, and in 1980-82 the world economies as a whole experienced a slump greater than the slump of the Great Depression of the 1930s. We witnessed the emergence of the debt crisis in those early years of the 1980s, which still lingers and hampers the growth in development performance in large parts of the developing world, particularly in Africa and Latin America.

Against this background the Pacific island economies both absolutely and relative to a lot of other developing countries did remarkably well in the 1970s. But in the 1980s their performance was uniformly bad. In the 1970s, for example, Fiji and Papua New Guinea both grew over 5 percent per annum, and the other islands also did well compared with 5.7 percent per annum for all developing countries and 3.2 percent for small low-income countries. In the 1980s, however, the average growth rate of the islands was below 2 percent per annum compared to 3.3 percent for all other developing countries and 3.5 percent for small low-income countries.
Now I will look at two purely economic explanations for this deterioration in performance. First, investment performance and, secondly, export performance.

Now as far as investment is concerned, I do find, as one might expect from economic theory, a significant relationship between growth and the proportion of GNP devoted to investment in both Fiji and Papua New Guinea. But there is no evidence of a deterioration of investment performance in the 1980s compared to the 1970s. The investment ratio stays up at about 25 percent of GDP which represents a deterioration of investment performance relative to other developing countries. In other words, the growth performance of the Pacific island economies deteriorated relative to their investment performance. The productivity of investment must be lower in the Pacific island economies relative to other developing countries and must have fallen in the 1980s relative to the 1970s.

Incidentally, the capital-output ratio estimated from those relationships between the growth rate and the investment ratio turns out to be about six, which is very high by international standards.

Now what I have been describing may reflect the different structure of investment or lower quality in the Pacific island economies relative to other developing countries or perhaps a greater degree of undercapacity utilization owing to constraints on output in the Pacific island economies. Now there is no evidence on the different structure of investment, that is, on whether the quality of investment is low, or whether this high capital-output ratio has anything to do with the greater degree of investment in mining. But there is evidence of a low quality of investment, that is, on constraints on output arising from the massive slowdown in export growth in the 1980s compared to the 1970s, falling by something like 75 percent or three-quarters.

On the other hand and this is the interesting thing, this percentage decline in export growth was also experienced by other developing countries. This was not unique to the Pacific island economies. Yet output growth did not decline so much in other developing countries. This suggests to me, therefore, other structural differences and weaknesses in the Pacific island economies reflecting perhaps the greater openness of the Pacific island economies and their greater
dependence on imports for the productivity of domestic resources. The ratio of exports to GDP, for example, in most of the islands, averages between 50 and 70 percent, and in one or two cases is over 70 percent.

A major cause of the slowdown in export earnings and of balance of payments deterioration at the same time in the 1980s was a deterioration in the terms of trade, that is, the ratio of export prices to import prices, and the effect of changes in export prices on export earnings will be outlined later.

Let us turn to the link between the Pacific island economies and the world economy now: The extent to which the economic performance or the economic fortunes of the Pacific island economies are related, if at all, to the pace and rhythm of world economic growth working through the medium of trade. Is there a link between the growth performance of the Pacific island economies and world trade growth or are the Pacific island economies, as one might say, a law into themselves?

To examine this question, I have looked at what I call the elasticity or responsiveness of export growth of the Pacific island economies to world trade growth measured both in terms of value and in terms of volume. Four of the six Pacific island economies show a significant elasticity of export growth with respect to the value of world trade with an elasticity in excess of unity. This means that for every 1 percent growth of world trade the export growth of Pacific island exports in value terms grows by more than 1 percent, but conversely if world trade growth falls by 1 percent, the island export growth falls by more than 1 percent. That is what elasticity of greater than unity means.

It partly reflects the greater sensitivity of primary product prices to industrial goods prices. It is well established that the elasticity of primary product prices relative to manufactured goods prices, or the responsiveness of those two prices, exceeds unity. The correlation is not just the result of parallel price movements because there is also a significant elasticity with respect to the volume of world trade in four of the six countries as well. In what I conclude there from all of this is that at least four of the Pacific island economies are sufficiently integrated into the world economy through trade for fluctua-
tions in the world economy to have significant repercussions on the Pacific island economies in terms of export performance. In other words, export performance is not simply determined by the supply side or by erratic shocks. Demand in a Keynesian sense matters. Only Western Samoa, for reasons I do not understand, seems to be a law unto itself since elasticity of its export growth with respect to either the value of world export growth or the volume of world export growth is never significant.

I turn now to the direction of Pacific island trade and issues of trade strategy. Let us look at trends, focusing first of all on trade between the Pacific islands themselves. Two things stand out. Firstly, intra-Pacific island trade, that is, the trade between the Pacific islands themselves, is dominated by Fiji. Fiji's trade in 1988 constitutes 80 percent of total intra-Pacific island trade. Of the US$29.14 millions of intra-Pacific island trade, US$22.10 millions or 80 percent is accounted for by Fiji.

The second point is that the value of intra-Pacific island trade is absolutely minuscule relative to trade with other parts of the world. In 1988 that figure of US$29.14 million, which is the total value of intra-Pacific island trade, turns out to be only 1.5 percent of the total export value of all Pacific island exports. And if you compare that with the earlier 1980s that level of the value of intra-Pacific island trade has actually fallen compared at least with 1982. The proportion of the total trade has actually fallen.

Now as far as trade with the outside world is concerned, the importance of world markets outside the Pacific island economies varies from one Pacific island to another.

One interesting finding is that despite the SPARTECA agreement between the Pacific island economies and Australasia, there is very little evidence that trade with Australasia has grown more strongly than with other countries. There is no evidence that it has grown more strongly with other countries although one reason for this may be that Australasia actually in the 1970s and the 1980s was one of the slowest growing markets in terms of the rate of growth of import volume into Australia and New Zealand.
At this stage let us turn to trade strategy for the Pacific island economies. Purely as an academic economist concerned with development issues, there is a school of thought derived from classical liberalism, particularly the work of David Ricardo, the English classical economist, which argues that the more free trade the better. The freer trade is the better. Now I have to lay my cards on the table and tell you that I do not belong to that school for various reasons.

Firstly, the historical evidence does not support the view that free trade is the route to development. There is only one country in the world that reached a developed state by free trade, and that is the United Kingdom that had the advantage of being the first country to industrialize. All other countries in the now so-called developed world developed on the basis of various forms of overt or covert protection. And still some of the most successful economies today practice various forms of protection, overt or covert.

Secondly, the development does require structural change, which is very difficult to achieve without selective protection. When one argues that the development process is concerned with structural change, particularly changing the structure away from the production of primary commodities toward more manufactured goods, that requires selective protection.

Thirdly, there are many valid theoretical arguments for protection including the famous classic infant industry argument and the existence of unemployed resources, which from society's point of view cost less to use.

Fourthly, I think a very important consideration for Pacific island economies, free trade does not guarantee an equitable distribution of the gains and trade. And in practice it is the strong that tend to benefit at the expense of the weak.

As Prince Bismark once said, and he should know, free trade is a policy for the strong. Now all these considerations need bearing in mind in considering whether the Pacific island economies should form a customs union between themselves, and whether the Pacific island economies should be part of a wider free trade area with Australasia and parts of Asia, which I have also heard rumors about. I would say that purely from the outside, a customs union between
the Pacific island economies could easily become dominated by Fiji and Papua New Guinea to the detriment of other islands.

The record of customs unions in less developed countries is not good in terms of durability. In the Caribbean, in east Africa, the customs unions collapsed. In west Africa and southern Africa they are having great difficulty in getting them established, and one of the major problems is that when you have unequal partners the gains from trade are unequally distributed. If the Pacific island economies were to be part of a wider free trade area with Australasia and Asia, there would be in my view very little hope of any structural change, and substantial revenue would also be lost from import duties, which is not an insubstantial consideration. So at this stage in the development of the Pacific island economies I believe that the Pacific island economies should retain a protectionist stance that makes sure that the protectionist measures take the form prescribed by economic theory and are primarily orientated to export promotion rather than import substitution. I think that protection has got a bad name because it is associated in people's mind with substituting imports for relatively inefficient domestic production whereas in practice export promotion and import substitution by protection are not necessarily mutually exclusive. They can be in practice complementary.

I turn now to commodity price fluctuations. The Pacific island economies are plagued by commodity price fluctuations as everyone knows. One can show statistically that most of the variation in export value is to be explained by variations in the prices of the major exports. The influence there is accorded, of course, to the fluctuation and importance of that commodity in total trade.

At a world level commodity price fluctuations are a major source of instability in the world economy and a major cause of stagflation. This ugly word signifies something very real: this combination of rising prices and generally unemployed resources. In my own view there is a strong case for internationally supported buffer stock schemes, which are not producer organized for major commodities using international money to buy and sell to maintain an agreed normal price at least for those commodities that are storable. The idea is based very much on the lines of the commod control scheme that John Maynard Keynes during the Second World War in 1942 devised, and actually never got to the position of being presented to
the Bretton Woods meeting in 1944. It was blocked by the British
government. When Winston Churchill got wind of this Keynesian
buffer stock scheme, he said, what's this I hear about butterscotch?
Butterscotch is an English sweet. I think Keynes' idea was that if
there was an international clearing union, if we had truly a world
central bank with the power to issue international money, that inter­
national money would have been used for the maintenance of these
buffer stocks.

Today we have international money in the form of special drawing
rights. Special drawing rights in my view could be used for the sup­
port of these buffer stock schemes. If there ever was an instrument in
search of a policy to paraphrase Molière, it is the special drawing
rights. We have this international money in the form of special
drawing rights and we do not do anything internationally useful
with them.

The Pacific island economies get some compensation for falls in ex­
port earnings from the IMF's compensatory financing facility and
from the EEC Stabex Scheme. You may ask how much they have got.
The answer is not much relative to the actual shortfalls in export
earnings, and what is received in general has to be paid back.

Internal stabilization schemes I think could perhaps be developed
more within the islands. I understand that there are in some islands
these internal stabilization schemes. Perhaps some of these schemes
could be given more support from outside sources.

I turn finally to the prospects for the 1990s. As far as the world econ­
omy is concerned the prospects for the 1990s look relatively rosy at
least as compared with the first six or seven years of the 1980s, with
3 percent per annum growth expected in the developed countries
and 4 percent for the developing countries as a whole. I take these
figures from forecasting units such as UNCTAD, the World Bank,
the IMF, and the world model developed by the National Institute of
Economic and Social Research in London. All these forecasting units
seem to converge on this figure of roughly 3 percent growth for the
developed countries and 4 percent growth for the less developed
countries.
The value of world trade is expected to grow 10 percent per annum. If the past relationship that I tried to identify earlier between the export growth of the Pacific island economies and world trade's growth was to be maintained into the future into the 1990s, the average growth of the value exports of the Pacific island economies could be something in excess of 10 percent. The individual figures for individual countries range between about 10 and 20 percent.

It is also interesting to note that the prices of all major commodities exported by the Pacific island economies are forecast to rise between 1989 and the year 2000 except for copper. If you take 1990 as the base when the price of copper was forecast to be very low, there is even a forecast rise for copper between 1990 and 2000. And the prices of these commodities are actually forecast to rise faster than the price of industrial products so in that sense the terms of trade of the commodities that are being produced and exported by the Pacific island economies are forecast to improve in the 1990s.

So my judgment would be that the growth performance of the island economies in the 1990s will be superior to the dismal performance of the 1980s. The sustained development at an accelerated pace cannot be based, if you are taking a long-run perspective, on primary products or primary production alone. There has to be structural change which, in my view, should not be left to market forces. The art of economic policymaking like the practice of medicine is a difficult one but nonetheless in my view indispensable, and that is why I suppose why we train economists. Economists, in other words, have a very heavy responsibility to bear, as indeed Keynes himself suggested in 1945, one year before he died, when he proposed a toast to the Royal Economic Society and assigned to economists the role of the trustees of the possibility of civilization. Not the trustees of civilization but of the possibility of civilization.

DISCUSSION

VICE PRESIDENT ISMAEL: Have you looked into the economies of the western Pacific areas including my country?
PROFESSOR THIRLWALL: No, my brief was to look at seven economies.

DR. HALAPUA: The funding for the Private Sector Project came from the ADB for its members. We always emphasize the concept of regional cooperation and the fact that we learn from each other. Some of the successes or failures of some other Pacific island countries can be a lesson for other Pacific island countries.

PRIME MINISTER RATU MARA: Do you think a protected economy will attract overseas investors to our country?

PROFESSOR THIRLWALL: It depends I think on the deal, whether an activity, for example, had export potential. You could see a situation where perhaps overseas investors got favorable treatment with respect to tariffs on its imported inputs, whereas other activities did not get favorable treatment. I think it depends very much on the nature of the activity and how you view the activity: whether you see it as a purely domestic substitute or whether you see it as becoming potentially export oriented.

PRIME MINISTER RATU MARA: Are you quite firm in your recommendation that our strategies for the ’90s would be a protected economy?

PROFESSOR THIRLWALL: I think there is a very important distinction to be made between what I call God-given comparative advantage and acquired comparative advantage. God-given comparative advantage has to do with resources that you are blessed with, which are basically land-based activities connected with minerals, connected with the sea, connected with land, connected with climate. There is not much you can do about that. But God did not give Japan a comparative advantage in videos. Japan acquired comparative advantage in videos and I think the art of economic management. From this point of view, your country may be seeking out areas of comparative advantage and then doing everything that you can to develop them. If that requires protection it requires protection.
PRIME MINISTER RATU MARA: In noting the position of Fiji in international trade; however, I wish to stress the scope for reciprocity and the advantages for small countries that would arise from a movement toward regional free trade. There are prospects for Fiji to supply goods that are now imported from Australia and New Zealand.

PRIME MINISTER HENRY: Professor, when you were talking about the value of trade in the Pacific you made some reference to the means by which sustained long-term growth can be maintained. But that possibility could not be fully appreciated from the point of view of the island territories whose economies are based on primary production. Of course, it is a matter of real concern to the small island nations that are dependent on primary production. Can you expand your thoughts on this subject?

PROFESSOR THIRLWALL: Personally, I do not think that you can appreciate the growth and development process without making this fundamental distinction between land-based activities, on the one hand, and non-land based activities, on the other. One vital difference between the two, for example, is that land-based activities are generally subject to diminishing returns whereas non-land based activities usually are not. That puts countries that are specializing in land-based activities at a disadvantage in all sorts of ways. It means that, for example, unless technical progress is much more rapid, productivity growth is much slower. It also means that there is a limit to the amount of employment in these sorts of activities because there is a minimum below which the wage cannot fall, which is the subsistence wage. So when the marginal product in these diminishing returns activities falls to the subsistence wage, it sets the limit to employment.

There is no limit in that sense to the employment in, say, manufacturing activities subject to either constant returns or increasing returns. That is the basic reason why you get so much disguised unemployment in developing countries, which are based on land-based activities. Land-based activities tend to have much more unfavorable demand characteristics in world markets.
We know the Engle law, for example. We know that the incoming elasticity of demand from most primary products is lower than that from manufactured goods. As a general tendency, or as people's incomes grow, the proportion of their expenditure on land-based activities tends to fall, whereas for manufactured goods it rises in trade. Countries specializing in land-based activities' primary commodities are subject to a disadvantage.

In these countries when you have fluctuations of the order between 75 percent and 100 percent in the prices of some of these commodities, I do not know how you manage these commodities. We cannot manage the United Kingdom economy with no fluctuations in export prices, let alone fluctuations in export prices of that order of magnitude. There are all sorts of disadvantages associated with it. And I think if you take a historical perspective, if you plot for the 170 countries in the world the level of per capita income against the proportion of resources devoted to manufacturing, you will have a very very high correlation indeed. There are really only three countries that are outside and those are the countries that Rostow once described in his booklet on stages of economic growth, as born free. That is, those countries that got rich based on agriculture, that is, Australia, New Zealand, and Canada. I mean the whole weight of historical evidence is in favor of structural change being required to sustain long-run growth and development over time.

PRIME MINISTER HENRY: That certainly does not impose much promise for the small island territories in the Pacific. The future by your prediction would look pretty grim.

PROFESSOR THIRLWALL: Yes, but the development debate is about time scales.

PRIME MINISTER HENRY: Do you see a role for the advanced countries in this trade management exercise in commodity price valuation or dropping changing from time to time because all the island economies are extremely sensitive to commodity price variations? Now if you cannot manage it in the
United Kingdom how the blazes can us small economies do it? Do you see a role here for the advanced nations?

PROFESSOR THIRLWALL: As I said, I think there is a case for global schemes. So I do not see why there should not be a global internationally managed buffer stock scheme, for example, for copper. If copper is a storable commodity why can't the world get its act together and use international money to support buffer stock schemes of this nature. I understand why producer organized schemes invariably break down. They are badly managed. You might get some producers not wanting to join. All of the problems we know have been associated in the past with producer organized schemes. But why not have international schemes? With some imagination and the willingness to use international money for collectively agreed purposes. That is not the only purpose that I myself would use internationally produced money for. I would use it for debt relief, for example. I would use it as an instrument for aid and all these sorts of things. It would be quite feasible to do without the inflation consequences, but particularly the Americans are always concerned when it comes to the question of the use of special drawing rights, issuing more, and distributing them for these internationally collectively agreed purposes.

PRIME MINISTER RATU MARA: What would be the main incentive for structural change in a protected economy, besides the IMF approach? Are you advocating protected economy and structural change?

PROFESSOR THIRLWALL: Yes, structural change through selective protection. The major incentive would be the one that takes the economy away gradually from the dependence on primary commodities.

PRIME MINISTER RATU MARA: What would be the main incentive for structural change, besides the IMF imposing it on your economy?

PROFESSOR THIRLWALL: The IMF would be the last organization that would want to impose structural change. They want to keep
commodity dependent economies. They are the arch enemy in the world.

PRIME MINISTER RATU MARA: They do advocate structural change.

PROFESSOR THIRLWALL: The International Monetary Fund is a laissez-faire, neo-classical body staffed by neo-classical economists trained in American universities. They believe in Ricardo and the assumptions on which the free trade doctrine is based, which are violated all over the world. It is based on two fundamental assumptions: the doctrine of free trade and mutual profitability. The first is the existence of the full employment of resources, which does not generally exist, and the second is all activities are subject to constant returns to scale, which is manifestly false.

PRIME MINISTER RATU MARA: I would like to know as a policymaker, what would be the incentive required to encourage structural changes if a protected economy is to be maintained?

PROFESSOR THIRLWALL: It would be a combination of a judicious mix of tariffs and subsidies.

PRIME MINISTER PAENIU: Can you expand on the tariffs and subsidies: in what terms, as well as the practicality of applying those principles?

PROFESSOR THIRLWALL: The argument can become quite theoretical because it depends on the distortion that exists within the economy. For example, if you were to argue that there is a divergence between economies that have a lot of unemployed labor so that the cost of using labor from a social point of view is very low or zero. There is cost for entrepreneurs clearly because they have to pay wages. But from a social point of view, it costs less to use labor; thus the optimal means of protection would be through a subsidy rather than a tariff to eliminate that distortion.

PRIME MINISTER PAENIU: Would there be an opportunity for the representatives from international agencies to respond to the assertion made by the Professor about the protected economy
as an alternative policy for private sector development or the development of our nations, as well as the involvement or the role of the international community in creating buffer stocks?

PROFESSOR THIRLWALL: I would be interested to hear what the representatives from the international organizations have to say. I regard many of these organizations as inimical to the sensible management of the world economy.
EXPANDING TRADE AND INVESTMENT IN THE PACIFIC ISLANDS

Peter Thomson
Managing Director
EIE Holdings and Thomson Pacific-New Zealand Limited

Mr. Chairman, honorable leaders, your excellencies, ladies, and gentlemen.

As I begin to speak this afternoon I am profoundly conscious of the great weight of knowledge on Pacific island affairs that is assembled here in this conference hall. In particular, in the presence of leaders who have guided their people to nationhood and led them along the arduous paths of development, it is indeed difficult to speak with any sense of authority on the subject at hand. Therefore, I thought in preparing this address as a report from the field and the fulfillment of an assignment handed down from these leaders through an earlier Pacific Islands Conference. And, if this report should serve to stimulate fresh and purposeful thought for those in the islands whose role it is to develop exports, formulate trade and investment policies, and promote investment opportunities, then it will have served its purpose.

By way of introduction, may I be permitted to explain the “report from the field” analogy. Firstly, the content of this address is drawn in part from my own experience of one decade of promoting Pacific island trade and tourism investment, firstly, as an officer of the Fiji Embassy in Tokyo, then as Fiji Consul General in Sydney, and then in a private enterprise capacity as Managing Director of Thomson Pacific Resources Limited.

Secondly, the address is based largely on the recommendations of the Thomson Pacific report, which was commissioned and published by PIDP as part of its project on the Role of the Private Sector in the
Pacific Islands. In preparing this report, we were involved in extensive dialogue with agencies involved with trade and tourism investment throughout the islands and drew heavily on the fieldwork of the Forum Secretariat's Trade and Investment Division in its study of Pacific islands' investment policies.

Let me start by settling one issue. It is quite common to hear that there is not much point in promoting exports from the islands when there is so little to export and that investment promotion is misguided because investment opportunities are at best minimal. We are all conversant with the litany of woes arising from the islands' distance from markets, lack of resources, and uncompetitive economies of scale. Some say that the islands will always be dependent on foreign aid and that their economies will forever be in the depressing grip of commodity prices of a few traditional exports. A strong current of past experience and attention to some prevailing conditions have given credence to these views.

It is pleasing to see that this negative approach to the economic future of the Pacific islands region is not shared by the governments of the islands, nor, it may be said, by the findings of our survey work in this field. The island governments have identified overseas investment as an important element in their plans to achieve economic growth, self-reliance, and improved standards of living. In addition, the expansion and diversification of exports have been given a key place in their development strategies. There are good examples of new directions of investment and export production in the islands, which will be examined during the course of this conference, and accumulated experience in the field says that, given innovative thinking and sustained commitment, these new directions will overcome the negative view on the economic future of the Pacific islands.

The islands are predominantly made up of sovereign nations or self-governing states capable of developing their own unique approaches to participation in the fruits of the Pacific Age. Some are already well along the path as tax-free export-processing zones or offshore finance centers, some have developed specialist agricultural export products aimed at very specific market points, and nascent tourist industries are taking their place in this most international of trades. Who twenty years ago would have predicted the great jump that the tourist industries of parts of Micronesia have taken. Or the success of
the Cook Islands' offshore finance industry? Or that squash exports to Japan would play such a big role in Tonga's economy? Or that Fiji-made garments would be pouring into the markets of New Zealand and Australia? Great technological advances in communications have thrown open new paths for the islands. In a matter of seconds the Port Vila finance center is in touch with counterparts in New York or Hamburg. Civil aviation improvements have produced the potential for export air-freight capacities and tourist haulage factors previously undreamed of. We are fast approaching the point where the chief determinants of economic development path selection for each island group will be what style and quality of life they aspire to, and what degree of innovative thought and commitment to goals is then applied.

In this address we have taken on board that the majority of the islands will be seeking overseas investment, will be endeavoring to enhance their export performance, and will, in various sizes and forms, be developing their tourist industries. As already stated, it is quite evident that there will be a varied product in the islands for trade, tourism, and investment attention. Now where will this investment come from, where will these exports go to, and whence will come the tourists? As the once-monolithic Eastern Bloc is now dramatically indicating, the answer is from the powerhouses of the free market economies located in North-East Asia, North America, and Western Europe. This then leads us to a consideration that is at the heart of this address: how with their limited resources will the Pacific islands make the required inroads into these powerhouses and how will they maintain these inroads once established?

There are many facets to the answer to that question, but I wish to concentrate on one facet in particular. The ability of the islands to make the initial contacts, promote their trade, tourism, and investment opportunities, support the efforts of their exporters and entrepreneurs overseas, and, in short, fulfill all the functions that bigger countries delegate to their worldwide trade commission offices. Our answer is categorical: the Pacific islands need, and should create, a regional trade commission service of their own. The idea for this service has been dubbed SPRETCO, the South Pacific Regional Trade Commission service. There is a communal groan of reluctance at the thought of any further bureaucratization in the Pacific islands, in particular in the proliferation of regional organizations. The
SPRETCO concept shares that sentiment. So we start from the position, firstly, of making more effective use of existing national and regional institutions and, secondly, of avoiding the creation of any new drain on regional budgetary resources.

The logic in SPRETCO's establishment accepts that the majority of the Pacific island countries cannot afford their own network of overseas trade commissions and that without such a service it will be virtually impossible for them to maintain sustained marketing support for island exporters and a promotional presence for island investment and tourism in the overseas marketplaces of overriding importance. The logic recognizes the success of the South Pacific Trade Commission in Sydney and the South Pacific Trade Office in Auckland as models and a starting point for a regional trade commission service. And in the revamped Trade and Investment Division of the Forum Secretariat we see an underutilized fulcrum for regional economic development coordination, which could serve as SPRETCO's headquarters.

The expansion of the SPRETCO network beyond the Forum Secretariat, the South Pacific Trade Commission, and the South Pacific Trade Office would involve the establishment of new trade commission offices in such locations as Tokyo, Los Angeles, and Brussels. In establishing these offices, the model of the South Pacific Trade Commission would be followed, in particular incorporating these three principles:

1. Funding the establishment and running costs of the trade commission is the responsibility of the host government and is treated as a Pacific islands regional aid project;
2. Trade commissions would be staffed by a mixture of expertise from the host country and the Pacific islands;
3. A minimum of bureaucratic red tape and a maximum of accessibility and service for the private sector should be the hallmark of these offices.

As the host governments are expected to finance these offices, we should consider what their likely reaction will be. Japan, the United States, and the EEC would probably be the first parties addressed, with South Korea, Canada, and a Chinese location as other logical
contenders. On the positive side, they will be able to examine in detail the South Pacific Trade Commission and the South Pacific Trade Office as effective trade/aid agencies already in place. A further positive influence will be the expressed will of most of these nations to raise the level of their assistance to the Pacific islands. Also on the positive side of the ledger is that in spite of these offices being located within their own national boundaries, they would be recognized by the OECD Development Assistance Committee as Official Development Assistance, thereby assisting them to achieve their ODA/GNP ratio targets. The offices would be in harmony with the trend toward support of regional programs rather than bilateral ones and would assist aid donors that wish to raise the South Pacific percentage of their global aid programs but have trouble identifying suitable projects to do so. It should be pointed out that in Japan's case it has already established the ASEAN Promotion Center on Trade, Investment and Tourism at Ikebukuro in Tokyo as a regional aid project for the ASEAN countries. Thus the extension of this precedent to the opening of a SPRETCO trade commission in Tokyo should not be difficult.

Apart from the obvious attractions of economies of scale and outside funding inherent in SPRETCO, the fact is that without it most of the Pacific islands will never have overseas trade commission offices outside the narrow confines of the SPARTECA countries.

SPRETCO's concept for regional coordination in trade and investment development is also very attractive. Such coordination has been discussed over the last two decades, but the track record for implementation has been uninspiring. SPRETCO would be an important step forward in this regard. The opportunity for consolidation of fresh produce as a central point, or negotiating contracts in the form of a South Pacific program, has been overlooked despite the fact that many Pacific islands have the ability to produce the same sorts of fresh produce, have a problem individually with assembling sufficient quantities to fulfill export orders, and have much to learn from each other's successes and failures in overseas markets. Many other regional examples could be raised, such as investment promotion, which would have more impact if conducted regionally and regularly through SPRETCO offices.
It is apparent that the Trade and Investment Division of the Forum Secretariat has an increasingly important role to play in the promotion and policy of Pacific island trade and investment, whether or not SPRETCO is brought into existence. There is a need for a strong central point of reference for the variety of trade promotional programs and agencies available for the economic development of the Pacific islands, and the Trade and Investment Division has been shown to be best qualified to be that point. It has the advantage of being part of the Forum Secretariat, thereby having direct access to the heads of government of the independent and self-governing countries of the Pacific islands, and it is staffed by personnel from within the Pacific region.

The Trade and Investment Division was the subject of a revamping review in 1988, and it has shown in two subsequent Regional Committees on Trade meetings that it now has a set of objectives and a work program, which mark it as the center of regional trade promotion activities. It is recommended that the Pacific island countries now need to turn their attention to further strengthening of the Trade and Investment Division as SPRETCO's headquarters. In the latter role the division would not be expected to lay on the heavy hand of regional bureaucracy; instead through a defined set of motivational objectives, it would facilitate contact between the islands' private sector and the SPRETCO offices, ensure that follow-on activities are available to the islands' private sector, and play the coordinating and pacesetting role that the scope of this regional exercise demands.

In order to fully equip a program for the regional enhancement of marketing facilities for the Pacific island trade and investment, the establishment of a computerized regional trade data bank and information service is vital. The small beginnings of this service are already in existence in the Pacific Islands Trade Information Service (called PITIS) that the Pacific Islands Association of Chambers of Commerce has been developing. An effective regional trade information data bank is needed to serve as the prime focus of private enterprise and public sector inquiries to provide the details of Pacific islands export capability, company information, and investment opportunities. It is an essential part of any trade development and promotion agency that it has an up-to-date and comprehensive trade information service to provide the resource intelligence required for
an effective marketing program. PITIS has made a start, but it will need substantial reorganization and upgrading for it to fulfill the requirements of this recommendation.

An upgraded PITIS would need a central coordination agency, and here again the Trade and Investment Division of the Forum Secretariat stands out as the most appropriate office (particularly if this service is developed closely in tandem with SPRETCO). The Pacific islands private sector would have access to PITIS either through terminals in their national trade promotion offices and Chambers of Commerce or by buying into the PITIS service themselves. Banks and trading companies would be obvious clients in the latter case and could help with further self-funding for the PITIS system. Most importantly, existing trade promotion offices such as the South Pacific Trade Commission, South Pacific Trade Office, Pacific island embassies and consulates, and the multinational trade offices would have PITIS terminals. PITIS would be the basic intelligence resource base of all SPRETCO offices.

The usefulness of this information service will depend not just on the placing of access terminals in offices that are motivated toward Pacific island trade and investment promotion but also on the maintenance of up-to-date quality data. It is for this reason that we recommend that the Trade and Investment Division of the Forum Secretariat, with its high caliber of staff and accountability to the Pacific Forum, undertake the role of PITIS coordinator.

There is a broader area to which Pacific island thought on expanding trade and investment should be directed. That is the international trade regime and the place that the Pacific islands have in it. The islands have for a while now hung their hats on the SPARTECA Agreement and Lomé Convention with generally disappointing results for their exports. A gradual realization is apparent in the islands that SPARTECA is devaluing in the face of the removal of protectionist policies in Australia and New Zealand and that the European market is a less practical target for them than the burgeoning markets of the Pacific Rim.

In this regard, there are some positive measures that can be taken up immediately by the islands. Firstly, to keep SPARTECA as a force, Australia and New Zealand should accept that any products emanat-
ing from bona fide manufacturing operations in the islands should fall within the duty-free provisions of SPARTECA, whether or not they strictly fit the rules-of-origin provisions. Secondly, CANZ (the Canada-Australia-New Zealand) economic relationship, which has been under consideration, should if it goes ahead include within it a broadened SPARTECA, under which Canada would assume the same obligations as Australia and New Zealand. Thirdly, the SPARTECA countries should work purposefully toward inclusion of all SPARTECA signatories in an expanded Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) with a step-by-step program to chip away at the two major impediments of market access, reciprocity and a free flow of labor within an expanded ANZCERTA. Fourthly, the proposed South Pacific Free Trade Area should be adopted in principle by the Forum Secretariat and should be entered into by individual Pacific island countries as and when each has carried out the necessary internal reorganizations and feels inclined to joining it.

In addressing this issue we have ourselves in a different camp from my distinguished colleague, Professor Thirlwall. While it is true that Papua New Guinea and Fiji could through the size of their economies be expected to show up at the top of the trade statistics tables, we must not forget that the potential for trade in the other direction also exists. The Fiji tourist industry, for example, with an expected level of half a million visitors by the end of this decade would present an affluent market for neighboring islands to enter with agro-marine produce and handicrafts.

Lastly, the Pacific Rim markets can be addressed, we suggest, through SPRETCO and the sustained program of trade, tourism, and investment promotion in North-East Asia and North America. With the dawning of the Pacific Age there is a strong challenge before the islands of how to participate meaningfully in the new Pacific Rim groupings and be a contributing part of the Pacific Age. If the Pacific islands are to be real players in the Pacific Age, it is important for them to take a more self-promotional attitude. It must be said forthrightly on the stage of Pacific affairs that the islands are ready to contribute to the Pacific Age and that they have much to offer as indigenous dwellers in the ocean, keepers of the great majority of ocean-floor resources, guardians against pollution of the Pacific Ocean, providers of mini-state advantages such as offshore banking
and neutral sitings for institutions, conferences, and mediations. The benefits will flow on at a later date; the strategy for the present must be to stand up and be counted as legitimate participants and active contributors toward the Pacific Age.

In conclusion, may I reflect on the letter from the chairman of the 1989 Regional Committee on Trade, which forwarded the committee's report to the South Pacific Forum. The main message of the letter was that in order to facilitate growth in the islands, the committee agreed that there was a need for national governments to adjust their macroeconomic policies to attract and promote investment, industry development, and exports, and in this context, the need for greater political commitment. We now see that the Pacific islands have different development paths to follow. Each of the island nations has its own special characteristics and attributes; it is the discovery and development of these that present the way ahead. There are, however, many areas where complementary regional economic links can assist development, and in this address regional trade and investment links have been presented, which it is believed will enhance the economic development of the islands as a whole.

I am grateful to the Pacific Islands Development Program for giving me the opportunity to present these ideas to you and look forward to expanding on them during the course of the Pacific Islands Conference over the next two days. Thank you for the attention that you have given this report from the field.

DISCUSSION

PRIME MINISTER MARA: First of all I would like to congratulate the speaker particularly in correcting the previous speaker on the role that Papua New Guinea and Fiji has in the region. The picture was given by the Professor that we would be dominating the region if we carry on the way we develop our economy. He has not touched upon the reciprocal advantage the region will have in having a market right in the region.

I would like to correct one statement that Mr. Thomson has made. When you say that the Fiji-made garments would be
pouring into the markets of New Zealand and Australia I would change the word pouring to entering. We only constitute 1 and 1/2 percent of the market as far as the garment area is concerned. It is already an unwarranted complaint that we will be inundating that market.

The third comment that I would like to make is that we tread very carefully in your recommendations that SPARTECA countries should work purposely toward inclusion in the expanded Australia New Zealand Closer Economic Relations Trade Agreement. We would like to look at our sovereignty very carefully when we consider that close association with Australia and New Zealand.

MR. THOMSON: That recommendation is based on purely economic considerations, particularly the expansion of a market for the islands. I would like to add one further point to that comment of mine. The question of reciprocity is an interesting one in that, for example, in the garment trade, there is a lot of comment that is unfairly loaded in the islands' favor at the moment because Australian and New Zealand garment manufacturers cannot export duty free to the islands. I think this is an excellent example where reciprocity, for example, between Fiji, Australia, and New Zealand in the garment area could be introduced now because I think the Fiji garment trade would be able to compete on fair terms. This was the approach that I was recommending of chipping away at areas where reciprocity can be introduced.

PRIME MINISTER HENRY: I would like to ask Mr. Thomson whether the real difficulty with the comment made by Professor Thirlwall is that in fact the expansion of trade within the Pacific islands will result in intra-regional trade being dominated by Fiji and Papua New Guinea?

MR. THOMSON: I think, Prime Minister, it is quite obvious because of the sizes of the countries involved and the production bases of Papua New Guinea and Fiji can be expected to show up in the trade statistics. It would be incredible if, for example, one of the very small countries was to dominate the trade statistics, and that is just a pure fact of life. But I think that rather
than being overcome with that aspect we have to think about the opportunities for smaller islands in having free access to the markets of Papua New Guinea and Fiji.

PRIME MINISTER MARA: May I add that Fiji or Papua New Guinea will not be buying copper, nodules, and vegetables from the rest of the region. But we could provide substitutes at cheaper prices for imports from New Zealand, Australia, and other countries.

DR. HALAPUA: Excellencies, the word dominant sometimes has a negative connotation. In this case I think it is more correct to say that Fiji and Papua New Guinea will play a more leading role in trade. In any reciprocal relationship in trade there is always somebody who leads it. Reciprocity does not necessarily mean equal benefits from trade. It means that some countries will play a more leading role than others. So the word dominant in trade can cause misunderstanding.

PRIME MINISTER PAENIU: I like to think of that concept of reciprocity based on the economic arguments posed by Mr. Thomson. Is it a political commitment or more a commitment on the part of the leading countries? Would you see that as a prerequisite in a working strategy? What is the political implication of such a move or recommendation?

MR. THOMSON: My feeling on this, Prime Minister, is that it is for each country to join as they wish. The EEC did not happen in a day, everybody did not join in one day. All it would take to get the South Pacific free trade area going is for two countries to agree to enter into it, and the free trade area would be rolling. Other countries having done their assessments could join at a later stage if they so wished. Obviously, a lot of countries have problems with the fact that a great deal of their government revenue comes from customs duties. To answer your question, Prime Minister, there is a political implication. Are you prepared to do away with customs revenue and perhaps replace it with a goods and services tax? That obviously takes a bit of time, and those countries that want to follow that path would have to go through the exercise presumably before joining the free trade area.
DISCUSSION SESSIONS
REQUIREMENTS AND OPPORTUNITIES FOR TOURISM DEVELOPMENT

chaired by
The Honorable Lorenzo DeLeon Guerrero
Governor of the Commonwealth of the Northern Mariana Islands

RESEARCH ON TOURISM

The purposes of the Tourism Project are to (1) assess tourism data, resources, infrastructure, and markets; (2) address current and future tourism development issues; and (3) provide policy options and strategies on tourism and national economic development in the Pacific islands region.

According to the research undertaken for PIDP by the School of Travel Industry Management, University of Hawaii, the future growth of tourism in the Pacific will be affected by the following factors:

- limited tourist attractions
- air transportation access
- level of accommodations/services
- quality of infrastructure
- marketing and promotion effectiveness
- cost of the destination
- government policy including planning, investment, human resource development, and political stability

Factors affecting air service include long distances, air fares/costs, tourism demand, competing destinations, technological developments in aircraft, and aviation bilateral agreements.

Tourism planning involves the general goals, objectives, and directions that serve as the long-range blueprint for development, as well as the strategies and procedures necessary to realize the objectives.
Tourism planning provides government with a basis for decision making, enables policymakers to identify priorities, clarifies functions and responsibilities of government agencies, and integrates tourism with other economic activities and government plans. Consequently, the overall needs are for the formulation of a tourism policy, the development of a comprehensive tourism master plan, the centralization and coordination of tourism administrative functions, the encouragement of private sector participation, and a commitment to regional cooperation.

Local sources of capital are significant in the tourism industries of some countries. In general, however, there is a dearth of local savings on which to draw, and governments must provide the bulk of domestic investment primarily in infrastructure and to some degree in accommodations. Domestic investment is also stronger in some countries in transportation, restaurants, tour companies, and other enterprises related to tourism. In terms of foreign investment the Pacific islands take a variety of regulatory approaches, but the registration and approval process often serves to discourage investors. The impact of foreign investment also varies, particularly in the accommodations sector. In addition, the customary or traditional system of land tenure continues to complicate the investment and development process, and there still exists a fundamental conflict between western and traditional concepts of land ownership and land use. Joint ventures with local participants are also difficult to implement due to several factors including limited local entrepreneurial expertise.

Investment initiatives are needed that

- define tourism objectives with respect to foreign investment
- establish programs to channel donor funding into financial assistance to tourism
- bolster domestic production of tourism goods and services
- revise land use laws, foreign investment regulations, and fiscal incentives
- implement zoning laws applicable to tourism
- encourage tourism joint ventures
- explore government investment in equity shares in private enterprises
In the major area of tourism and human resource policy, governments are aware of the positive impacts of tourism development such as expanded employment opportunities, increased social mobility, improved standards of living, and improved facilities and public services. However, these social benefits are often offset by social costs or negative impacts such as the dissolution of traditional social systems and culture, overcrowding and overbuilding of infrastructure, restriction of access to recreational facilities, and increased crime rates. While these social changes cannot be solely attributed to tourism, where it is an important private sector activity, it strongly influences the pace, direction, and size of social change.

Governments then face the basic problems of providing adequate education and training of the labor force in entry-level training, mid-management training, advanced management training, staff training for government officials, and language training. The attendant problems include limited resources for training, shortage of tourism educators and trainers, lack of interest in tourism jobs, and low general educational level.

Given the relatively recent emergence of tourism in the Pacific island countries and the lack of a private sector base upon which to build the industry, governments will continue to play a vital role in shaping tourism and its place in their overall economic development. Government policies will greatly impact the industry and in many cases provide the leadership for tourism development. Although this situation poses many challenges for governments, it also provides an opportunity to shape the industry in a way no longer available to most advanced countries.

DISCUSSION

PRIME MINISTER RATU MARA: Why was Fiji not included in the study?

DR. IKEDA: The case studies covered the Commonwealth of the Northern Mariana Islands, the Cook Islands, the Federated States of Micronesia, French Polynesia, Kiribati, the Marshall Islands, Papua New Guinea, Solomon Islands, Tonga, and Western Samoa. These were the countries that PIDP had
identified. The four countries with the largest number of tourists are Guam, the Northern Marianas, Fiji, and French Polynesia, in that order.

LIEUTENANT GOVERNOR BLAS: Regarding the social costs of tourism, the increased cost of living as a result of tourism was not included. Is that not a finding?

DR. IKEDA: In many cases because of the high import content of goods that are brought in to support the tourism industry there are then adverse effects in terms of cost of living for the residents of that area. However, with the Northern Marianas there may be a situation where the importation of goods and services have actually brought a greater variety of goods into the Northern Marianas, which ordinarily would not have resulted had there not been any tourism. Certainly, in terms of transportation if there had not been tourism there would not be transportation into the Northern Marianas. Also, in the case of the Northern Marianas the importation of non-resident laborers does keep the wage level down. In other words, there are other forces that would offset the natural economic forces.

LIEUTENANT GOVERNOR BLAS: We do find that an increase in the cost of living is associated with tourism, and thus the government has to address this question in terms of the wages and other social costs.

DR. IKEDA: Tourism does alter the economic structure that existed previously.

PRIME MINISTER HENRY: On the subject of tourism and investment, have any studies been conducted on issues that protect local interests yet at the same time encourage investment?

DR. IKEDA: All countries have specific rules on investment policies, but their application differs widely. Additional research is needed that focuses on investment.
PRIME MINISTER HENRY: It is evident that the Pacific islands will become even more important as a major tourist attraction. The island nations should be prepared for this invasion.

DR. IKEDA: Not enough research has been done in the Pacific, and the Pacific ought to look at the Caribbean for guidelines on laws and regulations regarding foreign investment.

MR. THOMSON: From the perspective of an overseas investor in the tourism industries of the Pacific islands, the approach in selecting an investment location is as follows: first, whether we are welcome; this is a political, economic, and cultural question. The second is whether the location is accessible for the level of visitors projected; the availability of airline seats and the ability to expand on these are crucial. The third is the existence of support infrastructure; both time and cost factors militate against investment in areas with poor infrastructure. The fourth is what viable projects are available, and these fall into four basic categories, all with their own positives and negatives: old properties needing refurbishment, newly completed properties, projects under construction or with development approval, and projects at the concept stage.

I am conscious of the impact of tourism on the local environment; unlike many other industry developments, tourism is environment friendly if approached the right way. The main attraction of the South Pacific location is the beauty of the natural environment. Our projects must be in harmony with that environment and enhance the opportunities to appreciate it. To do otherwise would be to destroy the very product we are promoting.

In addition, travel should be a rewarding human experience and should include opportunities to meet on informal business and personal levels. Cuisine is also an important part of travel, and the Pacific island tourism industries can do much more to establish a commercial Pacific island cuisine, which will have important links to local agriculture development.
The overseas promotion of the investment opportunities in the Pacific island tourist industries and the promotion and marketing of the tourist facilities and attractions need greater resources and attention. SPRETCO (South Pacific Regional Trade Commission) can play a crucial role in this respect together with the work of the TCSP (Tourism Council of the South Pacific) and the national tourist offices.

DISCUSSION

PRIME MINISTER RATU MARA: When you speak of Pacific cuisine, you are not referring to the traditional cuisine?

MR. THOMSON: We need to look at creating an international cuisine such as Italian pizza.

PRIME MINISTER HENRY: There is a tendency for development to take place in areas where the government has already laid the foundation. Investors seem to expect that government will supply these infrastructure facilities. I envisage a situation where the investor forms a joint venture designed for the economic benefit of not just the project itself but the entire country. Ideally, an investor should enter into a joint venture with government to develop infrastructural requirements.

MR. THOMSON: Some developers are philanthropic, but most will be interested in hedging their investment in other developments including infrastructure if there is a financial return.

PRIME MINISTER HENRY: The Hawaiian luau is a recognized Pacific cuisine that is famous throughout the world.

MS. WILDE: It is necessary to have both a tourism development plan, which determines the target market, and human resource development, which is compatible with the traditional cultural ideas of hospitality. Human resource development has two levels: attitudes of the community and training for those working in tourism. Bilateral aid partners could assist in training; this area should be placed on the agenda for discussions in the future.
DR. IKEDA: The special interest group market is probably the most promising market for most Pacific island countries. For example, the dive market in FSM would be an appropriate segment of tourism to focus on, and it could tie in with training. A tourism development plan can help to focus on the real objectives of tourism within the entire scope of economic development.

PRIME MINISTER RATU MARA: A clear distinction should be drawn between international tourism interests and internal island tourism. Alternative small-scale tourism (like B&B) should be developed.

DR. IKEDA: The development of small-scale accommodations is very definitely an alternative to mass tourism.

MR. CASTON: The TCSP is providing USP with one staff member to test the market for tourism studies and human resource development. Are the University of Hawaii graduates going directly into the industry?

DR. IKEDA: We are training 100 students a year in management, including transportation and tourism administration as well as hotel management.

GOVERNOR WAIHEE: In addition to the main program at Manoa, you also have the work of the community colleges, which conduct much of the training for the actual workers, semi-skilled workers, and non-professional workers. This ingredient is very important to the entire mixture of training programs.

MR. NAGAI: In the absence of adequate impact data, tourism has not received sufficient investment; an impact/output analysis of this industry should be conducted.

DR. IKEDA: The absence of data is probably the biggest problem faced in looking at economic impacts in the Pacific island countries. Although only one input/output study, the CNMI, has been done, the input/output table is the best way of measuring economic impact.
INCENTIVES FOR PRIVATE SECTOR DEVELOPMENT

chaired by
The Honorable Baron Vaea
Deputy Prime Minister of Tonga

RESEARCH ON INCENTIVES

A general overall finding of the research on incentives, regulatory mechanisms, and the risk climate was that the incentives have not been particularly effective in attracting a high level of foreign investment to the Pacific as witnessed by the relatively low growth rates of the private sector.

Incentives are basically short term in nature; in contrast, foreign investors seek long-term profitability, a natural comparative advantage, a well-trained labor force, and a stable environment with sensible macroeconomic policies.

Another research finding was that most of the existing incentives are based on investment in plant, equipment, and buildings, but there are few incentives to encourage firms to conduct training and human resource development. The emphasis needs to shift to the latter.

Effectiveness of Incentives

Conventional input and output subsidies have not been effective. Specific incentives for agriculture could have been more effectively allocated to the support of private sector management services for agriculture. Management has been identified as a major constraint in the agricultural sector.

In export development and marketing incentives, several South Pacific countries are now moving their economies away from import
replacement toward developing small-scale manufacturing, that is, niche market manufacturing development. More resources are needed to support this trend.

In general, incentives for research and development (R&D) are lacking in the private sector in the Pacific. R&D, however, is particularly important for firms to successfully move into niche export marketing of their products.

Regarding import replacement and tariff protection, tariffs have been the major form of incentives for local businesspeople. However, scope exists for gradually phasing out quotas and lowering the level of protection to permit the local market to adopt new technology to increase productivity and efficiency, which leads to lower consumer prices.

In the area of incentives directed toward foreign investors versus those directed toward local entrepreneurs, most incentive packages are actually directed toward foreigners. Little attention is given to directing incentives to stimulate local businesspeople to start up new ventures. A basic reorientation should occur, particularly in the microstates, toward assisting local entrepreneurs to establish businesses in both import replacement and niche export market development.

**Key Policy Issues**

Key policy issues have been reviewed in relation to the effectiveness of incentives, the appropriateness of regulatory mechanism, and the influence of government policies and programs on the risk climate for private sector development in the South Pacific Developing Member Countries (SPDMCs). Key issues include:

- *Incentives for foreign versus local investors:* The main focus of current incentive policies in most SPDMCs is on investment promotion, and the main emphasis of investment promotion generally is perceived to concentrate on attracting foreign investment. However, most local small business persons are unaware of the incentive measures that are available to them and do not understand the complex processes involved in applying for assistance.
• **Role of export processing zones:** The remarkable success of Fiji's Tax Free Factory incentive package has stimulated considerable interest in this form of manufacturing development. Considerable potential exists in the region for the future growth of export manufacturing industries in garments, furniture, and other labor-intensive products.

• **Role of joint venture schemes:** The Australian Joint Venture Scheme and the New Zealand Pacific Islands Industrial Development Scheme provide a sound approach to stimulating private sector development; however, they have been relatively underutilized and have not achieved their full potential as instruments for stimulating new joint venture businesses. These schemes have not been widely advertised to the business community, and an effective promotional campaign is needed to raise the level of awareness of the considerable benefits offered by both these schemes.

• **Role of development corporations:** The Kingdom of Tonga has initiated a development corporation strategy for the development of one of its islands. The European Economic Community (EEC) is providing assistance to the Vavau Development Corporation, which is then using that pool of money to develop local entrepreneurs as well as the local private sector.

• **Case for regional harmonization of incentives:** Although the concept sounds attractive, it is basically impractical because there needs to be some differential in incentives to compensate for the fact that the microstates have to offer a higher level of incentives to bring them up to the level of the larger economies such as Papua New Guinea and Fiji.

**Administration of Incentives**

Although the administration of incentives is rapidly improving, four concepts can improve their efficiency: (1) the one-stop shop approach, which permits the investor to deal with only one agency; (2) application and screening, which should assign to one agency all aspects of investment promotion including the coordination of all applications to establish new businesses and the granting of incentives; (3) promotional activities, which can effectively communicate to local small businesspeople the range of incentives and subsidized support services available; and (4) monitoring and evaluation, which can evaluate the effectiveness of incentives and monitor their impact.
Findings and Recommendations

There needs to be a major re-orientation of incentives toward human resource development, which includes:

- incentives for local entrepreneurs
- export incentives
- technology and R&D incentives
- incentives for the development of small industry centers
- private agricultural management companies

DISCUSSION

GOVERNOR COLEMAN: We constantly face the problem of the less desirable businessmen who seek to establish themselves in the region. Is there a way to check the reputation of these people?

DR. MCGREGOR: This is a real problem for the small investors because the profitability of an entire project can depend on a quick decision. Tonga seems to have achieved a happy medium in that it is able to obtain a quick decision on investment, yet keep out unscrupulous operators. Its success has a lot to do with the one-stop shop.

DEPUTY PRIME MINISTER VAEA: Tonga checks bank references and overseas sources.

MR. McMASTER: Other sources are Dun and Bradstreet and the UN Centre on Transnational Corporations (TNC). The TNC's role is to assist governments in their negotiations with foreign investors. As part of its activities it keeps a data bank on major transnational corporations that operate worldwide and tracks exactly this kind of information, e.g., their track record, their incentives, and their operation. This information is particularly useful to the tuna industry, and the TNC in the past has provided some assistance to Pacific island countries in helping them understand the vertical integration of operators in the tuna industry.
MR. VAKATORA: The Tax Free Factories scheme enables people to access factory space immediately instead of waiting for new buildings. A wages council system is being introduced for the garment industry, which will represent the workers, the employers, and the government and which has a legal wage fixing machinery.

MR. McMASTER: The international agencies could continue to play a very valuable role in this area. Traditionally, the island economies have received a great deal of assistance from aid donors in developing their universities, their training colleges, and their short course training programs. In addition, a development assistance scheme could encourage firms to recruit private sector training companies to conduct training and could also provide some financial assistance to make that training more attractive to firms.

DR. CHANDRA: SPARTECA has provided the window of opportunity for the tremendous growth that has taken place, but now the rules should be modified so that any bona fide manufacturing operation in the Pacific islands could be considered under the purposes of the SPARTECA rule.

MS. PIIANAIA: Please clarify the issue of foreign versus local investment in terms of capital attraction for the private sector.

MR. McMASTER: There is already quite an effective package of incentives for the foreign investors in most of the South Pacific. No recommendations are being made for any great acceleration or changes to the current form of incentives for the foreign investors. What we are concerned about is often those incentives are not available to local entrepreneurs who want to enter into some form of new business venture, and there are not sufficient resources in the entire area of entrepreneurial development such as incubator schemes, subsidies for these schemes, etc. The suggestion is that the focus not always be on attracting the foreign investor but rather that sufficient attention be given to the needs of the local entrepreneurs.
AMBASSADOR SMART: The British and other foreign missions in these countries can offer advice about prospective investors.

MS. MEYERS: The embassies and the U.S. Department of Commerce could also help.

PRESIDENT TABAI: Do PIDP's research findings on incentives apply equally to the small Pacific island countries? They may not be appropriate for Kiribati because many of the incentives proposed are in place, but as yet no investors have emerged. It is important to ensure the proposals are applicable to the smaller states.

DR. MCGREGOR: Most of the general conclusions are relevant to the microstates. For example, the experience of Tonga in the Small Industries Centre would be applicable to Kiribati. The lessons here are that land must be available to investors and that investors are encouraged by a tangible show of government commitment. There is no one solution; it is a combination of approaches including the regional concept such as the South Pacific Regional Trade Commission.

MR. MCMASTER: The foreign investors can go to the larger countries that offer more advanced infrastructure support and cheaper transportation; thus the smaller countries do have a disadvantage to some extent. Consequently, the alternative is to develop the local entrepreneurs rather than seek foreign entrepreneurs. The local labor force could be combined with training programs and technical assistance from abroad, and the government could play a key role in providing some equity capital and in establishing a manufacturing operation to develop the local entrepreneurs. If Kiribati finds it difficult to attract foreign investment, the country's incentives should be directed toward development of local entrepreneurs.

The participants agreed that the South Pacific should be promoted on a regional basis as a place for the foreign investor to establish business. However, in the case of isolated, resource-poor countries such as Kiribati, the skills of the people should be stressed. Where possible, local residents should join in partnership with foreign investors to acquire skills.
PRIME MINISTER PAENIU: A report should be made on any legal implications of the adoption of a "one stop shop" approach to encourage foreign investors. The rules of origin for the purpose of goods entering the European Community are much less stringent than those under SPARTECA.

Recommendations
The meeting endorsed the research findings on incentives (listed above) and added the following recommendations relevant to the microstates:

1. There should be greater emphasis on the training of private sector staff and entrepreneurs.

2. Export incentives should be designed to meet the specific needs of foreign and domestic investors in the private sector.

3. Special incentives should be designed to encourage local entrepreneurs.

4. Research and development of new technologies to support the private sector should be encouraged.

5. The needs of the smaller states in terms of incentives to support private sector development should be the subject of a special study.

6. The facilities available to governments to help them screen potentially undesirable applicants for concessions and for permission to establish enterprises should be identified and brought to the attention of responsible departments.

7. The promotion of foreign investment should be considered on a regional basis.
FINANCING PRIVATE SECTOR DEVELOPMENT

chaired by
The Honorable Geoffrey Henry
Prime Minister of the Cook Islands

THE ROLE OF FINANCIAL INSTITUTIONS

The process of economic development in the Pacific island countries is marked by a wide disparity between necessary investments and domestic savings. Moreover, the external finance—especially bank advances, bonds, and equity shares required for private sector development—can be raised on domestic financial markets to only a small extent because of the low level of savings.

The role of financial institutions in private sector development relates to the process of financial intermediation. Financial intermediation arises as purchasing power in the form of credit that is channeled, by a financial institution, from the economy's savers to its investors. In other words, the financial institutions provide a link—hence the term “financial intermediary”—between the surplus units (savers) and the deficit units (investors). In this connection, the role of financial institutions is essential for the speed, direction, and stability of private sector development.

Contribution to Development

The process of financial intermediation contributes to the development of the private sector in four ways:

1. It helps to augment domestic savings (in the form of the financial assets from any given level) and the distribution of domestic income and serves to increase the total amount of the investable resources available to the private sector.
2. It helps to increase the productivity of investment by enhancing the efficient allocation of investable funds.
3. It helps to reduce the cost of providing the investors with financial resources.
4. It provides a set of policy instruments for the stabilization and promotion of economic growth.

Financing Investment

In the experience of most Pacific island countries, the increasing effect of the financial institutions' activities on the direction of economic development reflects the change in the way that investment is financed. The role of financial institutions in economic development relates to the organic relationship between financing or saving and investment. In general, there are three ways of financing investment in the island economies: self-finance, direct finance, and indirect finance.

1. **Self-finance** involves financing investment out of accumulated own savings. The three main sources of self-financed accumulation are households, business firms, and government. The saving of a Pacific island household is shaped and conditioned by several factors of which the important determinants include the level and distribution of income, the cultural attitude toward accumulation of wealth, and the availability of safe, liquid, convenient, and rewarding ways of accumulating financial savings. Today most Pacific island countries usually face inadequacy in each.

2. **Direct finance** exists in most Pacific island countries in two forms: equity shares and bonds. In this case, there is a separation between the saving units and the investing units, with the latter borrowing directly from the former. Compared with self-finance in which the saver and the investor are the same economic unit, direct finance severs the relationship between the ownership of saving and the control of its use. This also means that the ownership of a public or private investment project can be more widely spread, and more reliance can be placed on some form of external finance. The government and public and private firms are able to obtain part of the funds required to invest in the production of goods and services by issuing marketable interest-bearing debt instruments, such as bonds and bills, and marketable dividend-earning shares. However, the use
of these financial instruments proves to be rather limited in the context of Pacific island countries. With the financial system still in an early stage of development, entrepreneurs who want to borrow risk capital have encountered difficulties, particularly because a well-functioning securities market does not really exist in any of these countries.

3. **Indirect finance** in the private sector requires a financial intermediary that accepts saving deposits and provides loans to deficit spenders. Thus the act of saving is separated from the act of investment, which is at the heart of the problem of adjustment between saving and investment decisions. The act of saving is therefore freed from the problem of lack of investment opportunity in a Pacific island country. In addition, indirect finance as an integral part of financial intermediation breaks down the limitations of self-finance. Without financial intermediation, producers can finance only their investment requirements from their own accumulated savings or from direct borrowing in the form of equity shares.

**Methods to Increase Savings**

The crux of the problem of private sector development is how to increase the quantity and quality of the resources available for capital formation, or how to control consumption and increase saving and investment. An expansion of the financial system could possibly stimulate domestic savings in the Pacific island countries. The basic function of financial institutions is to offer claims to savers (capital suppliers) that are more attractive than the claims that they themselves obtain from investors (capital users). In this way, an extension of the banking system provides a stimulus to domestic saving that might not otherwise exist as the total abstention from consumption is increased.

Two main types of saving instruments constitute by far the greatest share of financial assets outstanding in the Pacific island countries, namely: (1) non-income-earning assets, basically currency and demand deposits, and (2) income-earning assets, the main form of which is time and savings deposits with commercial banks.

One principal effect of the shift of resources to the financial institutions is the increased efficiency in the allocation of investable re-
sources. A considerable proportion of their funds come from household units that otherwise would have used these resources for unproductive investment if not consumption purposes. In addition, small savers in the rural areas and elsewhere do not always have direct access to sound investment opportunities in other sectors of the economy. Moreover, the intermediaries, which can afford to employ a variety of experts, are in a position to give important management advice and technical guidance to domestic producers who seek financial assistance from them. In this connection, the financial institutions can help to direct savings from diverse sources to productive investment projects.

As long as commercial banks remain the principal source of external finance for the credit requirements of the Pacific island economies, the government has to direct bank lending toward private sector development by applying appropriate methods of credit controls. In most Pacific island countries, selective credit allocation policies consist of:

- qualitative control of credit
- selective control of credit
- selective control of the interest rate

Selective credit controls are used by the financial institutions to influence the pattern of investment expenditure and the allocation of real resources. It is hoped that the selective credit policy will force the domestic producers to adjust their patterns of investment in a way that satisfies the government's development policy.

The shift of resources to financial institutions has implied an increased efficiency in the allocation of investment resources. Some of these financial resources came from surplus units that otherwise would have used these funds for unproductive self-financed investment.

In general, it is the inadequacy of financial savings, as well as the lack of tradition in seeking investment opportunities, that limits the pace of financial development in the Pacific island countries. Higher domestic financial saving will increase the capabilities of domestic financial institutions that engage in giving direct advice as well as direct lending to the private sector.
Policy Implications

1. The financial institutions should actively help to stimulate the effective demand of local producers for credit finance. The act of savings itself does little to produce a range of viable investment projects in the private sector. To encourage private investment, the specialized financial institutions that engage in long-term financing and equity participation such as the development bank and the Investment Finance Corporation should organize themselves so that they can provide a wide range of technical and management advisory services and also help identify viable investment opportunities and effective organization of production and marketing. It is suggested that the government examine the possibility of using public funds for the cost involved in developing these particular activities.

2. As long as the commercial banks remain the principal vehicle for saving mobilization in the Pacific island countries, they will channel part of their funds to specialized financial institutions that engage in direct long-term lending to the private sector.

3. The specialized financial intermediaries should be more active in mobilizing savings. To assist in this process, it is suggested that the government consider the possibility of allowing the development bank to provide deposit facilities for its clients.

4. A flexible interest rate policy is necessary to influence the change in the composition of bank deposits in favor of savings and time deposits, which in turn enhance the banks' ability to make new longer-term loans available to the private sector.

5. More research is needed on the socioeconomic costs as well as the effectiveness of selective credit controls in the Pacific island countries.

DISCUSSION

The question was raised about the problems of identifying and providing financial support to successful entrepreneurs in the economy.
DR. HALAPUA: The identification of successful entrepreneurs is not a problem. The real problem is the question of whether we should concentrate our financial resources on the successful few because that concentration has implications for the distribution of income.

PROFESSOR THIRLWALL: At the end of the day real investment must be matched by real saving. The important point is that investment can never be constrained by saving as such. It is constrained by the availability of credit. But investment actually generates its own saving through increases in output or profits. Ultimately, this is how investors actually pay off their loans. The real policy issue is how far you can press investment without generating inflation in our system, which depends on a variety of factors: the extent to which profits are actually saved as opposed to being consumed, what the balance of payments position is, the degree of underemployment, etc. These are the issues that really need to be addressed in the individual countries.

ENHANCING THE ROLE OF DEVELOPMENT BANKS

Over the last decade the Pacific island economies, as measured by gross domestic product per capita, either have remained static or have declined. In general, insufficient work has been done to boost domestic saving and investment in productive enterprises. In particular, the South Pacific Development Banks (SPDBs) are not presently well placed to take the lead, which should be expected of them, in bridging the resource gap between inadequate savings and investment requirements.

Without exception, the SPDBs have been established as government instrumentalities to perform the following functions:

- promote economic growth and development in line with national policies,
- provide finance for primary production and for the establishment of commercial and industrial undertakings,
- provide assistance to new and ongoing business ventures.
To ensure that they can carry out these tasks, the SPDBs have access to grant funds and soft-term loans. Low interest rates are usually charged, minimal security is taken over the activities for which they lend, and profits are not expected. The SPDBs are subject to considerable pressures from political leaders who see them as active supporters of government policies and objectives (particularly in rural constituencies). The SPDB have substantial numbers of accounts in arrears and devote more time attempting to collect debts than to initiating new and imaginative projects that could create employment and develop national resources.

Targeting the rural sector creates real problems of risk for the SPDBs because most customers have little education. In addition, access to markets is difficult, commodity prices fluctuate without explanation to producers, and natural disasters can result in heavy crop losses. Social obligations can seriously affect loan repayments, labor in some areas is in short supply, and support from government extension services is erratic. Yet it is crucial that this sector of the community be supported by governments, which all too often seem to favor urban constituents.

Despite the critical role identified for the SPDBs and the pressure on them to promote development, they have not, except in some limited areas, achieved the levels of success expected of them. The reasons vary, but certain common areas need to be addressed, namely:

- lack of adequate staff training resulting in poor loan appraisal and monitoring with consequent arrears problems;
- inexperienced senior management (in some cases);
- inadequate research and development activities to identify new and appropriate lending opportunities;
- problems in ensuring a smooth flow of funds, either equity or loan, from governments or donor agencies to ensure uninterrupted operations;
- a poor understanding by customers of obligations implicit in borrowing money;
- unreasonable expectations by governments and the public of their potential to assist development;
lack of adequate external support either locally or from a regional body, e.g., the Asian Development Bank;

poor extension services by government technical departments.

None of these issues is insurmountable. The further development of SPDBs is dependent on improvements in the following areas:

Training is perhaps the need most crucial to the effective operation of SPDBs. It should be conducted at three equally important levels: senior management, technical bank officers, and administrative echelons.

Extension services are necessary as part of educating borrowers and introducing new husbandry practices, but they can be minimized if the benefits of effective management are clearly demonstrated through training programs.

The role of SPDBs must be established at a realistic level by governments. The SPDBs can expect to play a crucial role in the development process but not to act as tools in meeting unrealistic political objectives.

Research and development must be an important function of the SPDBs in identifying new lending opportunities that support national economic objectives. Accordingly, adequate resources should be allocated to this function.

Smallholders are perhaps the most important SPDB clients. Their needs, ambitions, and problems should be identified and addressed.

Commitment on the part of borrowers is a prerequisite to success. Thus equity and realistic security should be an important component of all loans. Borrower education is important to an understanding of the responsibilities and obligations resulting from the granting of credit.

Regional cooperation should be fostered between SPDBs and multilateral institutions, particularly the ADB's South Pacific Regional Office (SPRO).

Private sector growth is crucial to the future development of the island nations. Policies that encourage an extension of this component of national economies by both domestic and foreign direct investment must be identified and adopted. The role of SPDBs in this process is important and should be encouraged.
Over the last two decades the need for some form of regional financial institution has been debated and rejected. The debate has canvassed the idea of a regional bank and regional funds of one form or another. While on each occasion the idea has been rejected by Pacific island governments, the prospect of such a body has sufficed to direct the attention of the ADB to developing policies and practices appropriate to the needs of the region. The establishment of a SPRO by the ADB seems to be the result of one such move.

Although the idea of a regional financial institution acting either as a bank or a source of equity finance for private sector projects is no longer tenable, there is a pressing need for a regional facility, perhaps along the lines of the Caribbean Development Finance Facility, that could:

- provide a bridge between the SPDBs and the international development finance agencies,
- assist in the formulation of major projects and the identification of funding for their implementation,
- develop training programs and materials for courses designed for SPDB staff and clients,
- identify professional staff for technically complex appraisal and implementation projects,
- support research and development units in the identification and evaluation of new lending and development opportunities.

Such a facility might evolve through the strengthening of the existing Association of Development Finance Institutions of the Pacific (ADFIP).

DISCUSSION

The suggestion was made that when people or businesses request loans the banks' emphasis should be on the potential success of the business venture rather than on credit ratings and collateral.

GOVERNOR COLEMAN: Is there a role for a regional bank for the north Pacific territories?
MR. COLE: My study covered only the South Pacific, the members of the ADB and the World Bank, and there may well be a role for a regional bank in that area.

OPPORTUNITIES FOR VENTURE CAPITAL

Blueprint for Growth

In the development of regional economies there lies a great challenge in finding ways to effectively facilitate a high level of indigenous participation in the small business sector. The constraint to small business development and new venture creation can be most clearly identified by analyzing the entrepreneurial process in its totality. Long-term programs can then be developed to deal with these constraints in an integrated manner.

A vigorous local venture capital industry can play a vital role in linking entrepreneurs, long-term financing, and management expertise in ways not presently available in the region. The involvement of overseas venture capitalists in partnership with local capital can provide new linkages in key export markers. In tandem with efforts to create a local venture capital market, manpower training programs aimed at upgrading the skills necessary for small business success, the development of both national small business and new venture investment strategies, and the establishment of business incubators would together provide a powerful engine for economic growth.

This blueprint calls for a partnership between government, development agencies, regional universities, and the private sector. It shows how the strengths of government in aggregating capital for investment can be combined with the strengths of the private sector in the efficient and effective investment of capital. The primary mechanism for this partnership would be the adoption of the Small Business Investment Company (SBIC) program from the United States to the regional environment. Development agencies and regional universities can play important roles in the development of the infrastructure necessary for small business development and new venture creation.
Small business offers the countries of the region the greatest potential for economic growth, employment generation, and expansion of the tax base. In the United States over 60 percent of the new jobs created over the last two decades have been in firms employing fewer than 20 people. A tremendous return can accrue to a nation that invests in a program to stimulate small business development and new venture creation if the approach is systematic and has a long-term perspective. However, the catalytic role must be played by government.

**Venture Capital**

Venture capital is long-term equity investment by experienced professionals in small-medium private companies with significant growth potential. Venture capital firms are private companies that source large amounts of capital from governments and financial institutions (typically over US$25 million) and that invest in a wide range of small-medium businesses (typically 35-50 companies).

Governments are interested in venture capital because it provides:

- economic growth
- employment
- exports
- diversified economic base

Three critical aspects of venture capital are (1) its long-term nature, (2) the management skills that it brings to the company, and (3) the proper operation of development banking.

**South Pacific Regional Capital Investment Vehicle**

The South Pacific Regional Capital Investment Vehicle would employ a strategy based on the principles of successful venture capital investment and the opportunities in the region's economies. The key elements of such a strategy are as follows:

1. Its investment strategy must focus on those industries where a sustainable position can be developed. The risks of new venture investment will be diversified across industries and stages of company development.
2. It must work closely with local development banks and entrepreneurs in the assessment and development of new products and industries.

3. It must use the international networks of the ADB and other international development agencies and international venture capital firms to source, evaluate, and develop high growth investment opportunities.

The benefits of such a vehicle are (1) its impetus for economic growth, (2) its international approach to investment, (3) its active management assistance to new high growth industries, and (4) its ability to act as a well structured, disciplined vehicle to deploy capital. However, this vehicle must be part of a wider private sector strategy incorporating training and development banking. The major risks involve the large capital commitments and the shortage of skilled managers. Nevertheless, venture capital could play a major role in the development of the Pacific islands region.

DISCUSSION

PRIME MINISTER Ratu Mara: Could you elaborate on the collapse of the Bank of New Zealand?

MR. CROCOMBE: The bank is now privately owned. It is 51 percent owned by the New Zealand government because it has to meet certain obligations in national capital raising, and the government has taken the view that to jeopardize the status of the Bank of New Zealand would compromise the entire financial system. Thus the government still supports it, but essentially it is private sector operated. The Bank of New Zealand became involved in some very imprudent investments, which came unstuck in the stock market crash in 1987; as a result it is trying to liquidate as many things as possible to shore up the base business. The bank has now exited the Pacific islands' banking business with some reluctance.

An observer asked whether this type of financing had been successful in other developing countries.

MR. CROCOMBE: It has been very successful in the ASEAN countries, particularly Singapore and Thailand.
CREATING BUSINESS OPPORTUNITIES THROUGH PRIVATIZATION STRATEGIES

chaired by
The Honorable Peter Coleman
Governor of American Samoa

PRIVATE SECTOR GROWTH THROUGH PRIVATIZATION

In most countries the focus of privatization policy has been to reduce government expenditure rather than to create private sector growth although most economists would argue that a reduction in government spending leads to a reallocation of resources to the private sector.

Objectives of Privatization

The most commonly stated objectives of privatization policies are to:

- Reduce the size of government activity and relieve the financial and administrative burden.

- Form new businesses and accelerate economic growth to stimulate private sector growth by deregulating the economy and encouraging entrepreneurship. The transfer of selected public services to the private sector can create new business opportunities for local entrepreneurs and can be directed toward stimulating a faster rate of economic growth. The resulting entrepreneurial activity usually has some multiplier effects as new entrepreneurs use profits to finance further growth and diversify into new areas of business.

- Reduce the cost of public services to the consumers. Research studies on the economic impact of privatizing government activities have found that in many cases substantial cost savings have resulted after privatization. Governments may be motivated to privatize services to achieve these cost savings either
by passing them on to consumers in the form of lower prices or user charges or by reducing taxes. Many government functions are performed in a noncompetitive environment, which can result in slackness and general inefficiency, misuse of government resources, or lack of responsiveness to consumer needs. In comparison, private sector firms are constantly exposed to the competitive environment where cost-efficient performance is rewarded by profits while inefficient performance can lead to either takeover or bankruptcy.

- Develop wider business ownership. In some island countries where only a small group of entrepreneurs exists, government may aim to expand business ownership areas by selling shares in government businesses through employee buyout schemes whereby the employees of a government business take over the ownership and control of the enterprise.

- Generate revenue from the sale of unused or underutilized public assets, buildings, and equipment. Governments may wish to mobilize revenues through the sale of assets such as underutilized buildings and plants. Sometimes governments have surplus government vessels, vehicles, plants, and unused land. There are many examples in the Pacific islands of foreign aid providing equipment, such as fishing gear in Tonga and a cool storage building in Western Samoa, that could be more efficiently used by the private sector.

- Overcome constraints to private sector activity by the withdrawing of inefficient government services that impede private sector development or by deregulating a government monopoly involved in providing services. Situations exist where government has a monopoly in the provision of an essential private sector service but performs the service poorly—the provision of inefficient postal services, the failure to provide adequate communication (telex and fax) services, and irregular and unreliable shipping and electricity services. The private sector should be able to compete with the government in the provision of these services or the government should withdraw entirely from the activity.

- Satisfy unmet needs for public service. The mobilization of community groups, NGOs, and private firms provides services that traditionally have been the responsibility of government. In
situations where local governments are unable to provide some services, these unmet needs often could be met by community groups.

- Dispose of government businesses that produce private goods at a loss. Most Pacific island countries have established government-owned businesses to produce goods and services that traditionally are the domain of the private sector, including a wide range of agricultural, fishing, and agroprocessing industrial enterprises, as well as transportation companies. Many of these enterprises have operated at substantial losses. In some cases they are in direct competition with private sector firms that are operating profitably and have the capacity to increase their market share. These government business enterprises often require an annual budget subsidy to keep them afloat. Governments often have initially established these enterprises because local entrepreneurs did not have the financial or managerial capacity to take advantage of the opportunities.

- Restructure the economy. One of the fundamental objectives of privatization is to achieve a restructuring of the economy. Privatization can be used as a measure to reduce the size of ailing sectors of the economy that have been supported by government ownership of enterprises but that have lost their comparative advantage in world trade. Privatization of these enterprises puts them to the test by withdrawing government subsidies and testing their capacity to sustain a stream of annual losses without going into bankruptcy. When exposed to market forces the privatized firms often are required to rationalize their operations by deleting unprofitable products and expanding the production of products that have a proven comparative advantage. Government may implement large-scale privatization programs with the objective of restructuring the economy by contracting the overall size of the public sector and expanding the private sector to achieve improvements in the efficiency of resource utilization and to accelerate economic growth.

**Basic Methods of Privatization**

Among the many techniques for privatization the two most promising options for the South Pacific are:
1. **Commercialization to improve the performance of public utilities.** The worldwide enthusiasm about privatization is not very practical in the South Pacific because the local entrepreneurs with cash resources and experience are simply not available. Consequently, commercialization as a strategy is far more sensible than privatization. An excellent example is the Fiji government program wherein the post and telecommunications sector is being converted into a corporation. Basically, the P & T is attempting to operate in the same way as the private sector with a focus on profit and cost recovery, loss minimization, cost analysis, demand analysis, etc., and with a more flexible use of human resources. Corporatization commercialization is particularly well suited for the larger statutory type of public utility service.

2. **Contracting out for government activities** such as maintenance of buildings, vehicles, gardens, etc. Contracting out is by far the most widely used form of privatization. Its popularity stems in part from the existence of legislative guidelines for the procurement of goods and services and the greater control that the government retains over a service under this form of privatization. Moreover, substantial cost savings have been reported in both developed and developing countries through contracting out of government services.

The other most commonly used techniques for privatization are: the public sale of shares in state-owned enterprises (SOEs); the private sale of shares in SOEs; the sale of the whole enterprise (complete privatization); the sale of complete parts of the whole enterprise (partial privatization); the sale of a portion of the whole operation (partial privatization); the sale of a government enterprise to the work force (management/employee buyout); the reorganization of a SOE into several component parts (fragmentation); the leasing of government enterprise facilities; the use of management contracts; the sale of government assets, buildings, plants, and equipment; the deregulation of government monopoly; the complete withdrawal of the provision of a government service; franchises; grants; vouchers; the mobilization of a nongovernment organization to take over government service; and self-service.
Planning for Privatization

Because privatization is not a simple solution, detailed planning needs to occur right at the beginning. Very few countries in the South Pacific have a specific privatization policy. The four main procedures or phases in the implementation of a privatization program are (1) preparing for privatization, (2) detailed planning on selected government state-owned enterprises and activities targeted for privatization, (3) implementation, and (4) monitoring and evaluation.

THE EXPERIENCE OF KIRIBATI IN PRIVATIZATION

Scope for developing the Kiribati private sector is limited by the economywide constraints that retard the production process. The constraints also have an institutional and procedural source particularly in the government policies governing or not adequately controlling trade and production. The government or public sector is very large compared with the private sector although the private sector accounts for the entire visible exports in the past ten years. Like the public sector the private sector lacks workers with the skills needed to develop manufacturing and other agro-based processing. There is also a traditional/cultural opposition to the individualistic market-based type of development that has been erroneously interpreted by most observers as an aversion to industry and productive work.

Kiribati, like other Pacific microstates (Tuvalu, Marshall Islands, Cook Islands), is heavily dependent on outside aid and worker remittances. All developments that have taken place have been aid-financed. A very small proportion of the total investment can be attributed to commercial financing by the Kiribati National Bank. The role of and prospects for the Kiribati private sector must be considered against this background.

The government of Kiribati has a policy of privatization mainly for budgetary benefits, i.e., to eliminate the annual subsidy that it pays to the national corporations and statutory bodies that are part of government. In addition, the government feels that privatizing these bodies would ensure a more equal distribution of resources.
The major constraint is manpower skills. However, under privatization most of these corporations would be staffed by the same people who manage them now. Thus there is the question whether changing the ownership and keeping the management would do any good. Technology also requires training.

Other major constraints include:

- problems with collection repayment on the part of the Development Bank of Kiribati.
- problems with the institutional framework in that most countries in the Pacific share their resources; they are equalitarian societies, which is not conducive to profit maximization.
- problems with the administrative procedures, which are slow in dealing with the requirements of private entrepreneurs.

DISCUSSION

GOVERNOR COLEMAN: Originally most of the governments in the islands had been subsistence-type or communal-type governments based on the idea of service to the community. Privatization is an effort to change the service-oriented type of activity to the profit motivation of an activity.

LIEUTENANT GOVERNOR BLAS: There needs to be more emphasis on the human problems of privatization, in particular, the continuity of employment.

MR. MCMASTER: I agree that human industrial relations issues can negate the beneficial effects of privatization. For this reason the PIDP research studies recommend commercialization for the larger organizations such as the telephone companies. Commercialization is an intermediate method wherein the organization remains under government ownership and control and the employees stay in the system, but the system itself converts to a different mode of financial operation with the following objectives: earning a return on investment, using resources effectively, and providing services that consumers need. In other words, the private sector takes a
consumer-oriented, market-oriented approach; it takes the best aspects out of the private sector operation and brings them into public sector management, which is less disruptive and more promising than turning such an organization over to an untried private sector partner. This is particularly important in an island environment where such an organization may be a major employer of labor.

Another example of privatization is a firm in Tonga's Small Industries Centre that had extremely skilled craftsmen. To prevent them from migrating to New Zealand where they could earn more money, a buyout scheme was proposed wherein the employees became shareholders. Such a form of privatization spreads ownership, and key workers receive annual dividends and are motivated to stay in the business rather than migrate because they are involved in the management. One of the objectives of privatization is to develop a bigger entrepreneurial pool of people, to retain skilled labor, and to achieve more efficiency in terms of useful labor.

MR. VAKATORA: I prefer the word "corporatization" because privatization implies shareholders who are members of the public rather than the organization owned by the government.

GOVERNOR COLEMAN: Security of employment is a key issue. Consequently, American Samoa established a fund, before privatization, to protect employees in the event of dislocation. The human element is a very difficult element because then it becomes a political factor, which is the most important consideration when elected leaders have to make decisions.

GOVERNOR WAIHEE: Hawaii has experienced a great deal of privatization in the area of human services that are contracted out. This situation has led to the creation of an industry of people submitting grant applications to the legislature. Expenditures on these services have increased as a result. A constituency can be developed whose existence depends on government that is not your government workers, i.e., contractors.

PRIME MINISTER PAENIU: Co-ops play an equally important role in the microstates.
MR. MCMASTER: Co-ops are included in the use of community groups that can identify the need for public services and join together to provide those services rather than wait for the government to act.

MR. KOFE: Cooperatives seem to have fared better in Kiribati and Tuvalu than in other countries in the South Pacific. The idea of cooperatives is more in line with the communal nature of these islands, i.e., the sharing and communal owning of the enterprise. But when private entrepreneurs compete with co-ops the latter loses, which is happening now in Fiji.

The delegate from Fiji agreed, saying that the country is moving away from co-ops because it is difficult for a group to continue without the incentives of a profit system. The problem is how to service the individuals.

PRIME MINISTER PAENIU: Tuvalu is considering moving away from the cooperative strategy because it is a monopoly; the country is therefore searching for alternative models and seeks the cooperation of donors in the privatization process. They must realize the political implications of a move to commercial terms. If the country is to become self-reliant and self-sufficient, the people will have to pay for the services. Moreover, the people are accustomed to paid wages; whereas before they performed the service voluntarily on a community basis. The donors' patience is important as the government strives to change the system of subsidies. The donors and the international community have a role in assisting the government in trying to bring back the communal way of doing things at lower prices.

If the public utilities are privatized, a delegate asked, what would be the reaction of the consumers who are supposed to pay the higher rates. Also the private organizations will not be interested in investing unless they have an adequate return on their investments. The issue is more political than commercial.

MR. MCMASTER: Governments often provide free services without testing the demand for them. Often a move toward com-
Commercialization can lead to a much more efficient allocation of resources within the government sector. In reorganization, staff training can reorient the staff toward a consumer/customer-oriented approach, which increases productivity.

GOVERNOR COLEMAN: Another important point is the diversity of the economy. We should proceed with privatization in stages because some of our social systems are different. The idea of privatization is really a capitalistic free enterprise system, but most of our social systems are communal subsistence-type systems. If, for example, our medical costs rose too high, people would return to traditional medicine. Each leader must gauge the level of economic growth that the country is in and then proceed in stages rather than in a completely destructive type of change.

GOVERNOR WAIHEE: Some things do not lend themselves to privatization. If the task is similar to normal government services, the harder it is to privatize it. Consequently, it is always easier to privatize a new area than to privatize anything traditional, which is a compelling argument for not drifting into privatization. It is important to think about why we are doing it and to plan carefully. If we tried to privatize rural hospitals, it would lead to unacceptable cost increases and to a drop in the quality of care. It is a kind of choice.
TRADE AND INVESTMENT OPPORTUNITIES

chaired by
The Right Honorable Ratu Sir Kamisese Mara
Prime Minister of Fiji

RESEARCH ON TRADE AND INVESTMENT

Over the past decade the growth in the region has generally been low with declining growth in exports and declining productivity of investments. In consequence, an important theme emerging from PIDP's research is the need for some degree of structural change in the economies toward higher value production.

In the aggregate picture the growth prospects for the world's economy are quite favorable and positive. Thus if the past statistical relationship between the world economy and the Pacific islands holds, then the news for the region is encouraging, particularly in terms of exports and growth.

A general finding of PIDP's various sector studies is one of cautious optimism. The investment opportunities considered range from minerals, at one extreme, to the microstates, at the other.

Minerals Development

Several of the world's largest gold and silver deposits have been discovered in the region. Papua New Guinea produces some 40 tons, Fiji about 5 tons, and Solomon Islands less than a ton. Annual gold production in mid-1990 for the entire region was expected to produce 100 tons of gold per year, or about 1.3 billion dollars worth of gold.

Based on the expected increase in mining and exploration activity in the region, two major recommendations are:
1. The Pacific island countries need to formulate a national gold policy that is specifically tailored to its medium- and small-scale gold mines.

2. Studies in the future must focus on the local rather than national level and must address issues of land, hyperinflation, economic expectations, environmental impacts, revenue sharing, and mineral ownership.

Tourism
Tourism, which is the subject of Discussion Session 1, is experiencing an unprecedented level of investor interest. The improved prospects for the world economies augers well for both tourism demand and investment.

Export Agriculture
The research on export agriculture examined both the traditional bulk export commodities, which have been the mainstay of Pacific island economies for many years, and the newer non-traditional areas, with emphasis on the latter.

Although the Pacific island economies have been experiencing a prolonged price trough in virtually all commodities, an improvement in commodity prices is forecast for the next five years. Consequently, priority should be given to attracting investment in traditional export agriculture; in addition, greater commitment and resources are required to diversify agricultural exports.

The major findings and recommendations for increasing the level and productivity of investment in traditional bulk commodities are:

- Commercial, or private, management and extension companies need to play an increased role in commodity agriculture.
- Government has a crucial role in providing the legal and institutional environment conducive to investment in commodity agriculture.

In terms of non-traditional agriculture, the performance has generally been disappointing, attracting limited private investment. However, certain developments such as Fiji ginger and Tongan squash suggest that the Pacific island countries can develop niche export
crops. These examples show how high value commodities that are trivial in terms of international trade can make a significant impact on a small island economy.

The major findings and recommendations relating to increasing the level and productivity of investments in non-traditional agriculture are:

- Priority in resource allocation needs to be given to safeguarding the quarantine status of island countries.
- Horticultural export industries, even extending into post-harvest treatment, need to be privatized.
- Exporters and processors need to provide their own extension services to contracted farmers.
- Government has a crucial role in creating an environment for sustained private investment.
- Aid should be redesigned and directed toward the private sector rather than traditional government avenues. A major contribution can be made by Hawaii, in post-harvest treatment, and New Zealand, in perishable export commodities.

Export Manufacturing

The last five years have seen two significant developments that confirm the region's comparative advantage in certain lines of manufacturing: (1) the successful establishment of Tonga's Small Industries Centre and (2) the dramatic growth in Fiji's garment exports. In addition, the region offers the investor the following advantages: market access (particularly SPARTECA), generous incentives, generally low wage structures, and a readily trainable labor force.

The major lessons and recommendations for increasing the level and productivity of investment are:

- Smallness and isolation are not insurmountable constraints.
- Expeditious administrative procedures are important.
- Active investment promotion yields substantial benefits.
- The Fiji experience illustrates the value of a strong domestic manufacturing sector as a basis for export manufacturing development.
Fiji's Tax Free Factory Scheme has shown that significant export manufacturing development can be initiated without investment in industrial estates.

Small industry centers can make an important contribution (developing such infrastructure is an appropriate use for aid and technical assistance funds).

SPARTECA has been the key ingredient in the establishment of export manufacturing in the region. However, the inflexibility of the Agreement's rules of origin continues to act as a brake on development. Any bona fide manufacturing operation in the islands should fall within the duty free provisions.

The recent U.S. request to Fiji for voluntary restraints on garment exports to the U.S. market is likely to seriously undermine investor confidence in manufacturing in the region. Strong regional representation should be made on this issue.

Marine Exports

The demand for canned tuna will continue to be strong over the next decade. However, investment in new cannery operations can be viable only if vertical integration occurs between the catching and processing sectors.

For islands in close proximity to Japan, sashimi tuna represents an outstanding opportunity. Investments in fishing vessels designed to harvest sashimi tuna—provided they are linked to air-freight services to Japan—are highly profitable.

Few other marine resources are currently available to regional countries that could support large-scale enterprises. High value products such as bèche-de-mer and deepsea snapper can make significant and sustainable contributions to export earnings if they are well managed. However, government needs to provide appropriate regulation.

The Microstates

The microstates have both physical and institutional constraints. In physical terms, they have absolute smallness in land area size, small populations, and thus small domestic markets. To these factors can be added the general paucity of natural resources and the scattered nature of the islands and their distance from metropolitan markets.
The institutional constraints include the communal and equalitarian nature of their economies, which is a constraint in terms of the private property base mode of production. Another institutional constraint is the governmental administrative institutions and procedures, which constitute constraints insofar as they fail to respond quickly to the demands and requirements of private entrepreneurs.

These physical and institutional constraints have resulted in a narrow economic base, low economic growth, low absorptive capacity, import dependence, aid dependence, openness in economy, and thus vulnerability to external influences.

In general, the opportunities for investment are very restricted in the microstates. However, based on PIDP's studies of Kiribati and Tuvalu, certain investment opportunities have been identified:

- **Marine products.** The combined EEZ (exclusive economic zones) of all microstates exceeds 10 million sq km and includes tuna and other marine fishery resources, which represent a huge potential for private foreign investment. The microstates have shown an interest in joint venture fishery developments.

- **Tourism.** The natural beauty of the atoll islands is an attraction for tourists, and investment opportunities exist in hotel development and transportation industries.

- **Handicrafts.** Because the people in these islands are very skilled in handicraft work, some scope exists for investment expansion in handicraft industries. Of particular importance is the overseas marketing of these products.

- **Manufacturing.** Most microstates have launched programs to develop their manufacturing industries, but most are inward looking import substituting. There are opportunities for exploiting high value manufacturing niche markets such as in garments.

To enhance their prospects in private sector development, the microstates may wish to promulgate formal policies in the following areas:

- develop investment incentives combined with trade and commercial liberalization.
streamline procedures to facilitate the needs of private entrepreneurs, particularly the one stop shop.

- introduce training programs to develop entrepreneur and business skill training.
- support a South Pacific Regional Chamber of Commerce.

Government should also develop policies in the informal environment:

- concentrate on voluntary economic organizations, which are flourishing in these islands today. For example, informal groups are more effective in fundraising than governments.
- redirect government policy to harness the economic power of voluntary groups.

DISCUSSION

MR. VAKATORA: Dr. McGregor, have you taken into account any study on transportation?

DR. MCGREGOR: No specific study on the transportation sector has been conducted, but transportation problems were taken into account in identifying investment opportunities.

MR. RINGROSE: Another constraint of the microstates is having to deal with a multiplicity of aid donors and their respective procedures.

MR. KOFE: Streamlining the procedures would be useful for the microstates; they do not have the resources to deal with most of these organizations.

DR. MCGREGOR: Given the urgency of maintaining a high level of plant quarantine standards, new techniques are being developed in Hawaii that could be transferred to the Pacific islands to assist in ensuring that the fruit fly, for example, will not prejudice exports to Pacific Rim markets. The technology is such that it requires major technical assistance. Governments could facilitate the transfer of technology and enforce the quarantine standards, but the private sector should handle the actual treatment.
SUPPORT FOR SMALL BUSINESS
DEVELOPMENT

chaired by
The Honorable Hirosi Ismael
Vice President of the Federated States of Micronesia

RESEARCH ON SMALL BUSINESS

The programs of the principal enterprise support organizations (ESOs) are examined in five countries: Fiji, Solomon Islands, Tonga, Vanuatu, and Western Samoa. In some countries, very little is provided in the way of support services to entrepreneurs. In others, particularly Fiji, an array of organizations is involved in small business development with the consequent problems of duplication, failure to share information, and inability to recognize gaps in the services being offered.

Specific problems of existing ESOs include:

- one-dimensional services
- proliferation of overlapping services
- inadequate monitoring
- staffing problems
- inappropriate and inaccessible services

A coordinating mechanism is needed for enterprise support to facilitate access to the services that are needed by small businesspeople. One way is to provide one-stop small business centers (SBCs) at the local level, which are supported by a regional backup organization.

The small business centers could also coordinate and complement existing services. To provide a first contact point for entrepreneurs, however, they need to publicize themselves and their services. They also have to promote the idea of self-employment as an option, which involves advising government on macroeconomic issues and
international agencies on the needs of small businesses in the community.

Additional roles of small business centers would be to collect usable information, to consult and advise, to provide integrated comprehensive training programs for target industries and target people, and to pursue a community development role.

Given the resource limitations in the region, the following specific recommendations of PIDP's research are based on launching the idea of SBCs in a cost-efficient way and making the existing small business support organizations more effective.

1. Use of USP's extension infrastructure

The University of the South Pacific (USP), which offers management and accounting programs at its main campus in Suva, has an extension network with ten national centers. This extension network could provide some of the infrastructure for coordinating the region's SBCs. The regional nucleus organization could be located near the head office of USP's extension services in Suva. Similarly, the head office of a country's SBC could be located, where possible, at or near the local USP center. Such an arrangement would facilitate easy communication between the SBCs of the region (via USP's satellite network). Many USP centers also have facilities, such as classrooms and libraries, which could be invaluable to an SBC.

2. A regional nucleus organization

A nucleus organization should be established to facilitate regional cooperation and coordination of the resources and services that are common to the region. Its principal objectives will be to promote and assist the development of SBCs in the countries of the region, to develop and identify regional resource materials, and to provide training programs for the staff of local SBCs.

3. National Small Business Centers (SBCs)

The establishment of one-stop small business centers is recommended at national and subnational levels. These centers will keep track of enterprise support services already available in a community, identify gaps in existing services, and develop strategies to fill those gaps. A key purpose of the SBCs will be to simplify the lives of potential entrepreneurs by providing easy access to a comprehensive
library of resources and services. Some of these services will be offered by the center itself, some by other agencies to which the entrepreneur can be referred by the SBC. Another central aim of SBCs will be to ensure that the enterprise development services in a nation are coordinated and tailored to the specific problems and needs of local entrepreneurs.

4. Private/public/NGO partnership

To ensure that SBCs make effective use of local resources, each center also should seek to involve local businesses, educational institutions, relevant NGOs, labor unions, and service clubs, as well as appropriate governmental and intergovernmental agencies.

5. Integrated development programs

The programs of the SBC network should be designed to provide comprehensive, integrated packages of services targeted to appropriate groups, communities, and industrial sectors. PIDP’s research outlines a range of strategies for offering integrated services, including successful models from overseas and from the region. Specific recommendations are presented for integrated development programs in the following areas:

- the establishment of small businesses in the tourism industry
- the development of small businesses by young people.

Much of what has been published on entrepreneurship in the South Pacific tends to dwell upon the constraints that make life difficult for budding entrepreneurs. PIDP’s research on small business attempts to go beyond an analysis of problems to identify specific strategies for developing the entrepreneurial potential of the people of the South Pacific. Decision makers are provided options to expand their thinking rather than constrain it. A compendium of strategies are presented for entrepreneurial development from which decision makers can choose according to the priorities and needs of their own local communities.

DISCUSSION

PRIME MINISTER PAENIU: I endorse the concept of using existing organizations such as the USP extension infrastructure, but the microstates must strive to be self-reliant and economically
independent and may later wish to have their own capabilities. In the same spirit of using existing infrastructures, an alternative to the idea of a regional nucleus organization, which might be more relevant to the subsistence economies, would be for the Forum Secretariat to work with larger businesses on trade and investment and the South Pacific Commission to concentrate on the smaller subsistence-level activities, i.e., to encourage people into more monetary or income generating levels. Tuvalu is trying to promote self-employment for farmers, for whom agriculture is no longer a reliable primary resource, and thereby to foster the economic growth of microstates.

Additional problems of small businesses are access to capital and the absence of a strong government commitment to business, a need that might be met by expanding the activities of BUDAB and the development banks. However, the development banks have so far been unsuccessful in accomplishing their original mandates; thus perhaps the national small business center could be a part of the overall revamping of the development bank.

PROFESSOR BRISCOE: The USP has been suggested as the regional organization because of its strong communication links and because it is already to some extent involved in the business of training for management; in addition, it could take a leadership role at relatively little cost. Use should also be made of other existing resources in the community, many of which already have organizations similar to small business centers. Development banks, however, are not appropriate for this role because bankers are not knowledgeable enough about the difficulties in actually operating a small business. Larger organizations could second people to small business centers; also retired people could help. Such centers need to be people-oriented, practical, and down to earth. They would also be less costly to operate; such organizations could be largely self-supporting, which should be a major goal.

The shortage of money is not the key problem. The real problem is coming up with sound and promising investment opportunities. Consequently, the focus is on the develop-
ment of people, the development of skills, so that they will be a good risk for the banks and so that they can raise money. To use the resources that already exist in the community, it may be necessary to designate an existing organization as the small business center—so long as the private sector is involved. This is a very important safeguard.

DR. WILLIAMS: Duplication is not necessarily bad and cooperation is what is needed. The Pacific Business Center, which provides management and technical support services to Hawaii and the U.S. affiliated Pacific islands, uses the circuit rider approach to provide confidentiality for businesspeople. The use of development banks as contact points may not be the best approach because of the inherent adversarial relationship between the client and the bank. The Pacific Business Center's cooperation is offered to help fill the gaps in the business support network.

MR. MUFTI: I support the idea of a national small business center interrelated with the regional network. However, some communities cannot set up business centers without assistance including financial assistance; it is difficult for the community to initiate the development plan. Land, for example, has to be developed at the government level as part of the integrated policy and planning structure. Then the international agencies can come into play. The ADB, which provides technical assistance, can help set up a business center; it would be futile to expect the development banks to establish something like this. The initiative has to come from the government. It has to organize the local people. It has to prepare a plan in such a way that it becomes a viable project to be presented to the ADB. Once the center is established, the development banks, which also receive loans from the ADB, can keep it going, and the circle becomes complete. But the government cannot be kept out of this process; it has to take the initiative.

PRESIDENT TABAI: Do the various governments in the South Pacific know about this service of the ADB? One of the problems is that they do not know what is available.
MR. MUFTI: The ADB is in constant contact with the eight member countries, and the Marshall Islands and the Federated States of Micronesia will soon become members. However, the limitation is that only member countries can be financed.

PRIME MINISTER PAENIU: Perhaps the international community could fund the regional nucleus organization.

PROFESSOR BRISCOE: One of the recommendations of the PIDP research was that of a mobile business adviser whose schedule would be known in the various communities, which would permit networking down from the national small business center. The purpose of the center is not only to provide integrated programs but also to help people who walk in with an idea and need to know where to go for help. They may need technical training, a piece of machinery, money, or just advice. Their needs are unimaginably wide, and the center needs to perform this function well, which is why the center needs to know the community and to know what sources of help are available so that it can make adequate and appropriate referrals.
CLOSING PLENARY SESSION

chaired by
The Honorable John Waihee
Governor of the State of Hawaii
PRIVATE SECTOR DEVELOPMENT PROGRAMS AND THE ROLE OF INTERNATIONAL AGENCIES

Jim McMaster
PIDP Fellow and
Professor of Economics and Head of the Financial Studies
University of Canberra, Australia

Your excellencies, ladies and gentlemen, Pacific island leaders. It gives me great pleasure to present this report in which we have attempted to summarize the major recommendations for suggested programs and also policy changes. The recommendations flow from the wide range of reports that we have presented and tabled at this meeting. The international agencies have all indicated a great enthusiasm to assist the Pacific island countries with the development of their private sector. We are recommending that each of the Pacific island nations consider developing an integrated approach to private sector development, and we are recommending that this could be done through the development of a private sector development program.

Let me briefly outline some of the features of such a program. We are suggesting that should you adopt an integrated approach, it may be valuable to call upon the international agencies to assist in the planning and coordination of this approach. In this regard the World Bank or the Asian Development Bank could play a key role in assisting with the formulation of such a program, the appraisal of projects, and the design of implementation strategies and implementation systems. The aid donors, of course, have always played a valuable role in assisting private sector development, and they may also be able to assist in a coordinated approach through a co-financing style of operation. Thus a major element is the importance of a new approach to development finance. Another major area is the development of the export marketing approach, and a series of new pro-
grams and policy suggestions are made for strengthening export market development.

Professor Briscoe's paper on small business development came forth with a series of practical and sensible recommendations to accelerate entrepreneurial development and to assist small business development.

We have also had several papers that have reviewed strategies and programs for manufacturing development, particularly incentives in the development of small-scale industries. Also we have stressed the importance of appropriate technology transfer and the importance of schemes such as new product development assistance schemes and technology assistance schemes. There is also, of course, a very important role for accelerating private sector agriculture development, and this is where most of the aid resources or the majority of them have gone.

We have also tabled at this meeting some new proposals for accelerating tourism development. So we suggest that these series of program elements could be combined in an integrated approach to private sector development.

Just quickly highlighting some of the main suggestions, we have stressed the human resource development aspects of strengthening our finance institutions, institutional strengthening of the development banks, the development of credit guarantee schemes to assist the commercial banks to provide more effective finance to the private sector, the interesting opportunities for developing venture capital, the expansion and promotion and more effective use of the joint venture schemes, both the Australian and New Zealand Schemes, which have great potential but yet that potential has not been fully utilized. And there is also the importance, of course, of human resource development in training relating to the strengthening of credit provision.

In the area of export market development, many of the large countries now are moving away from import replacement strategies toward a much stronger focus on export market development. And in Peter Thomson's important paper we outline some procedures for strengthening the export sector, particularly the establishment of a
South Pacific Regional Trade Commission, the opening of offices in Brussels and Los Angeles and maybe later on in places like Hong Kong and Tokyo. The concept of establishing a trade data bank, the importance of having marketing information and international marketing research, feeding that information to the private sector, strengthening the national export marketing authorities in terms of improving their capacity and performance, delivering services to the private sector particularly to assist new exporters into the export market, providing them with training and export procedures, and assisting them in that learning process as they move to exporting. We have also suggested a regional training program and export market development and the importance of credit guarantee schemes for exporters to assist them with cash flow and the importance also of using the industry associations by providing them with technical assistance.

In the area of small business development and entrepreneurial problems, Professor Briscoe's paper came forth with a costed and very practical approach to small business development, and it is based on using the existing infrastructure at the University of the South Pacific. This program is extremely practical in its approach, and one that could play a very valuable role in assisting private sector development to strengthen national support institutions.

Turning to the manufacturing sector development, we reviewed the various incubator concepts for the concept of establishing incubator centers, mini-technology parks, and what we might call the village factory model whereby young entrepreneurs that are entering the export market gain special assistance during that first five years of their development when so many small businesses can encounter financial problems through poor management problems and cash flow problems.

It is also important to improve the efficiency and productivity and cost-effectiveness of public utility services. The public sector plays a very vital role in supporting the private sector so that programs directed toward commercializing or corporatizing public sector utilities can improve efficiency and deliver better quality services at the right time and the right place. All those types of programs are of great value to the private sector, and we should not neglect that side of our private sector development, the provision of public utility
services to the private sector and the provision of them in an cost-effective and efficient manner. We recommended the commercialization strategy as one that has many benefits.

Technology is another area that we have emphasized: the importance of a more effective technology acquisition system. Our findings have generally shown that a very low level of research and development has been taking place in the South Pacific, and here the international agencies and aid donors have a very strong comparative advantage. They have the appropriate technology. They have the capability to transfer that technology through joint venture schemes and through the provision of special technical assistance.

Let me quickly identify the other problem areas, and then I will talk about the importance of some follow-through from these reports. We have all seen situations where conferences present excellent reports, and often it is a great pity that they sit on the table or on book shelves and gather dust and there is no follow-through. The next steps not taken. There is no efficient implementation plan. We are most conscious of that factor, and we would be very keen to see many of the recommendations flow into implementation and develop into country action plans.

In that regard we are recommending that seminars or workshops be held in individual member countries where a team of experts from the international agencies coordinated maybe by PIDP could meet to work very intensively to translate many of these recommendations and suggested programs into an integrated, well-planned, well-targeted private sector development program. Of course, that would also contain elements of fisheries development, tourism development, privatization programs, and most importantly microeconomic reforms.

And this is where we see the World Bank and the Asian Development Bank playing a key role because they have provided a great deal of assistance to our economies in identifying the most appropriate macroeconomic and microeconomic reforms that are necessary to support private sector development. The importance of appropriate macroeconomic policies has been stressed at a number of occasions at this conference, and microeconomic policies are also
very important—policies that encourage competition and policies that encourage efficiency and productivity.

Finally, we have found that many of the suggestions we put forward relate to human resource development. Many of the incentive programs and systems for accelerating private sector development have focused on capital, on foreign capital and technology, on buildings and equipment, and so forth. But the most important element in private sector development is the development of human capital, the development of young entrepreneurs, and the development of the business spirit that leads to accelerated private sector growth.

DISCUSSION

PRIME MINISTER RATU MARA: I would like some clarification on the incubator model and the village model. What is the distinction between the two?

MR. McMASTER: The incubator model, is a model that has been applied in many countries in the world, and basically it is a system of assisting young entrepreneurs, small businesses, during the first early years of their development. Normally, a firm comes into an industrial estate and receives subsidized factory rental and at a location where it can undertake its manufacturing. Of most importance is the subsidized technical service at the estate. For example, the estate management may provide financial planning services, services to assist in the technology aspects of production, services to assist in marketing, and so forth. The concept of an incubator, an incubator for raising chickens and so forth, is a controlled environment where there is some protection from external forces. I think the word incubator basically means that it is a business environment that provides support and nurtures entrepreneurship and assists entrepreneurs to overcome the normal problems that they face in the early phase of their development. In practical terms it is an industrial estate in which there is subsidized rental and range of marketing assistance, technical assistance, and so forth provided.
The village factory concept, is a very interesting concept that has been implemented in Malaysia. The furniture manufacturers' association came together and decided that their members were scattered all throughout Kuala Lumpur operating often in backyard environments without effective support services. Individually, they had difficulty in winning export contracts mainly because their products were not up to standard, their design was often inappropriate to the target markets, sometimes the quality control was poor, and at other times they simply did not have the capacity to fill large orders. Consequently, they decided to form an industry village, which involved a dozen or so very small manufacturers relocating in a village environment in a small industrial estate where they were all clustered together and able to gain conglomeration economies. In that case the manufacturers' association organized a range of other support services. First, it hired some experts in international marketing. It engaged in a process of identifying furniture markets around the world that Malaysia could satisfy, and it did the market research to look for those niche markets. Next, it identified expert furniture design persons who identified the most appropriate type of furniture and the best way to manufacture it in knock-down form so it could be packaged and effectively exported. It also examined the most appropriate and attractive packaging, labeling, and quality of fabric so that the firm got the benefit from that design expertise. Consequently, here we have a system of 12 small furniture manufacturers, all producing for the local market, that now are very successfully exporting because virtually they have formed themselves into a much larger organization, have gained those conglomeration economies, and have been able to purchase services that they individually would not have been able to afford. That is the concept of the village factories: small entrepreneurs clustering together not as competitors but in the cooperative spirit to tackle export markets.

There is a similarity in both concepts, that is, conglomeration and provision of assistance.
MR. CHEETHAM: Speaking for the World Bank we would be more than willing to support initiatives that any individual government as a member of the bank would like to put forward for World Bank consideration. We would also be willing to play some modest role in perhaps helping to translate a lot of these excellent ideas, which we have heard about during the conference, into some more concrete programs for action. I would think those are some of the next steps that would need to be considered. Should individual governments then want to put forward for consideration financing proposals to the World Bank, we would certainly be willing to consider those proposals. As people know, we are also willing to help governments actually formulate individual projects and programs as a part of the assistance package.

The bank is already supporting private sector development in many ways indirectly at least in the Pacific region. We do lend for infrastructure development that is vital for successful private sector initiative. We do lend for education programs and training programs, which have been high on the agenda of a number of governments in this part of the world.

It may be of interest to note that one of the World Bank group affiliates, the International Finance Corporation, is currently working on a proposal called the South Pacific Project Facility Proposal that would be funded to the tune of some $7 million if various negotiations that are under way at the present time are successful. This facility would be available to member governments that support individual investment proposals coming from particular entrepreneurs. But the scheme would involve a small staff working with individual private investors who may want some help in putting together a proposal for consideration by a bank or a venture capital operation. I think we have learned over the years that it is sometimes a problem for individual investors, small investors, to get the necessary assistance to put together a credible proposal for consideration by a bank or another investor. This facility will aim to address that kind of a concern. If the discussions under way are successful, we hope this facility will be in operation before the end of this
It is modeled on the already successful facilities that we have in the Caribbean area and in the Africa region where we have been operating similar facilities. Typically, we would expect individual investment proposals in the neighborhood of a few hundred thousand dollars or perhaps up to a few million dollars in size. The facility would also provide assistance if needed to individual investors in the first few years of a start-up operation. Not only would it help an individual investor put a proposal together, it also would perhaps advise on suitable sources of financing for that project including possibly coming to the IFC itself either for debt or equity financing should that be needed. And it would if need be provide some follow-up help in the early years of the operation of the project.

MR. NAGAI: Let me briefly expand on our ESCAP activities related to the Pacific island nations. Being fully conscious of the geographical handicaps and other special problems confronting the Pacific islands, ESCAP has created a special sub-program entitled special measures in favor of developing Pacific island countries in ESCAP work programs to provide increased technical cooperation to the Pacific island nations.

Last year alone ESCAP Pacific Operations Centre, as it is known to you, EPOC, which is located in Port Vila, Vanuatu, conducted 26 advisory missions and 31 short-term consultancies in response to requests made by the Pacific island nations. Its success was in mobilizing some 20 million additional extra budgetary resources annually. In addition, voluntary contributions from Japan, Netherlands, Norway, Australia, and also UN agencies such as UNDP and UNFPA makes it possible for ESCAP to organize more than 120 seminars, workshops, and training courses for the developing nations of the ESCAP region including the Pacific island nations. Some 20 Pacific island government officials participated in 35 of these meetings/training courses undertaken by ESCAP last year alone. Twelve training courses were organized specifically for the Pacific island nations. Among the ongoing projects there are training courses on trade facilitation methods, establishment of a regional trade information network system in cooperation with the private sector, and
also extension of the foreign broadcasting system, tourist promotion, and others. ESCAP will intensify its activities in areas such as population, transport, communication, human resources, energy, urbanization, environment, and natural disaster reduction. I am providing this information specifically in the interest of the leaders of the Pacific island nations.

MR. MUFTI: The Asian Development Bank co-financed the private sector study with PIDP, and recommendations are now being considered by this conference. It was quite a big task inasmuch as 30 consultants compiled about 70 small reports, which will result in nine large reports and ultimately the one final report. I must say that PIDP has organized the whole thing in an excellent manner.

The work is still continuing, but we are quite pleased with what has been produced so far, and now we are looking forward to the next phase. Whatever comes out of these studies and how much of it can be translated into practical projects and programs will depend greatly on the initiative of the governments themselves and on their own priorities but with the assistance of PIDP. We shall be able to extend our assistance in whatever form it is required in line with the policies and procedures for the second phase. And actually we are very keen for it: not only for the governments but also for some sort of assistance and co-financing from other donor agencies because there may be some qualifications. For instance, the reports produced in this conference have emphasized to a very great extent the regional element. But the regional element in the context of ADB has slightly different connotations from those in the context of the PIC. The PIC has about 20 countries as its members whereas the Asian Development Bank has only eight member countries, and for us the region consists of those eight members. Of course, when another two will be added, Marshall Islands and Micronesia, then of course it will be ten. But we have this limitation, and it is here that we feel that the other aid agencies can fill the gap. We are looking forward to practical proposals and programs, and we shall be able to offer all assistance.
PRIME MINISTER RATU MARA: I assume that much of the help of the international agencies flows through the government channels. Are there channels for the enterprising private sector to go directly to the international agencies without going through the governments?

MR. MUFTI: This observation is very correct so far as the Asian Development Bank is concerned in that we have been assisting even the private sector through the government channels. That is, we have been helping the development finance institutions, which have been in turn offering assistance to the private sector. Since 1983 we have enlarged our scope and now are directly assisting the private sector in the form of equity participation as well as unguaranteed loans to the private sector. We have given such assistance in about 11 countries, but we have not done anything so far in the southwest. That is what we intend to do, and this study, which is being co-financed with PIDP, marks its beginning. Recently, we had a task force study in the bank itself that has recommended the bank should give seed capital and risk capital to small enterprises in the South Pacific. If the governments are able to develop some plans that have been recommended in these reports we shall be only too glad to help.

MR. CHEETHAM: At present the World Bank group has two methods for providing direct assistance to the private sector—direct assistance in the sense of providing them with financing for projects. One is through the IFC itself. A private investor, or a group of investors, can approach the IFC and ask the IFC to join in as a financier of that project, and the IFC can and does join such projects with either equity or debt financing. There has been some IFC participation in the South Pacific in the past, not a lot but there has been some. The other direct form of support from the bank group comes as a result of our lending through the development banks. Of course, those loans do go through the government. The government guarantees the repayment of the loan, but the funds are onlent to the individual borrowers of the development banks. If this new IFC project preparation facility is launched later in the year, as I expect it will, that would provide a third form of direct assistance through the private sector, as I men-
tioned already, by way of helping individual investors prepare project proposals for financing consideration.

Mr. Chairman, if I can just go on a slightly different track, I do have one question as a point of clarification. On the screen there are some numbers involving an annual budget of $20-30 million or $20-28 million dollars, if I understand correctly. I wonder if we can be told a little more about that. Is this assistance that is being suggested that is incremental to what the donors are doing at the present time? Is the proposal more in the nature of not necessarily additional financing but perhaps taking existing financing that is available from the donor community and packaging it differently? Could we hear just a little more about what lies behind some of these numbers?

MR. McMASTER: Thank you for your question. I did not get down to explaining those points on the slide. We have done some indicative costing of all the proposals that have come forward from the 70 or so individual reports. And this is simply to give an idea of the resource requirements and the level of funding that we envisage. We envisage, if countries are really to make a sustained thrust for private sector development, this as being a major reallocation and repackaging of resources. Obviously, given the resource constraints, it is unlikely that most of the small island economies will have any additional resources although it is always desirable to see especially the donors come forward with additional resources. What we are suggesting is a reorientation of aid toward projects that directly support private sector assistance and we decided against it. Hypothetically, we decided against the program for two different sizes of economies. For the larger style economy such as Fiji and Papua New Guinea we would be looking at perhaps an annual order of magnitude of somewhere around the $20 million a program phased over a ten-year period, so you are talking about $200 million over a ten-year cycle. And, of course, when you look at Fiji's aid budget it runs about $40 million per annum so that we are indicating about half of the resources going directly toward projects that assist private sector development.
If we go down the scale to the smaller islands of the microstates, the level of resources is getting much lower, and $3-8 million per year is the order of magnitude. But these were simply indicative figures to impress upon the group the level of resources needing to be redirected to support a sustained private sector development thrust in an integrated way so that the programs support each other. Many of these programs, of course, already exist. It is a matter of redesigning them and ensuring that they are coordinated well together so that your small business development program is coordinated well with the industrial estate, which coordinates well with the finance aspects and so forth.

AMBITIAD SMART: I found everything extremely interesting in this conference. And one thing that keeps coming up is the importance of the personal element, and talking about direct aid to individual companies brings me to a point I made in an officials' meeting at the beginning. There are two organizations in Britain that could be a direct benefit to individual exporters.

One is called the Developing Countries Trade Agency, which was set up by the British government in 1973. It helps developing countries promote their economic growth by increased exports especially to the United Kingdom. Its personnel are fluent not only in English but also in French, German, and Spanish. It provides printed databases of U.K. importers known to be interested in developing country products, and it gives assistance to developing country export executives visiting Britain, particularly with appointments and marketing information. It maintains close contact with developing country diplomatic mission residents in the United Kingdom. It also makes exploratory visits to identify export-ready products and companies.

The other organization with which several heads of government will be familiar is the British Executive Service Overseas (BESO). This organization was set up with the backing of the British government and the Confederation of British Industry and British Industry and Commerce. It sends experienced businessmen with general management, profes-
sional, or technical skills to advise small- and medium-sized businesses in developing countries on specific problems, and most of these people are either retired or about to retire. They come from a very wide range of professions and disciplines. They normally go to a country for two or three months but can stay as long as six months, and they are on the spot and will help any individual business, in any direction it wishes to establish itself, get off the ground and move toward export. There is no fee for the organization requesting the advice whether it is government or private. It pays only local living expenses and provides local transport for the time that the expert is there. If anybody would like to know any more about this organization, I would be delighted to provide the details.

MR. RINGROSE: Mr. Chairman, I would like to associate myself with the remarks made earlier this morning by Russ Cheetham that we would like to assist the Pacific island countries in implementing some of the excellent recommendations that have come out of this meeting.

The private sector is for us, in UNDP, a priority sector, and we will continue to give all the help that we can. We are, as you already know, operating in all the Pacific island countries represented here today, and through our universality we can bring expertise from all countries in the world. In particular from other developing countries because we see great merit, as has been endorsed at this meeting, in the transfer of appropriate technology from one developing country to another, and we will continue to work toward that.

We are already active in many countries in the Pacific in private sector activities especially in small business development and currently with assistance to some of the development banks. We are particularly active in human resource development. However, I take very seriously note of the point made by the President of Kiribati that all the ingredients, all the incentives are already in place, maybe with our assistance or the assistance of other donors; yet not enough is happening. This suggests to us that we in the United
Nations system will certainly sharpen our pencils and try to make sure that the assistance that we provide is enhanced and is made as effective as possible.

In the months to come we do look forward to receiving from all Pacific island countries new requests for assistance to implement some of these recommendations. Also through our regional programs we hope we can be of help as well.

Considerable emphasis has been placed on the needs of strict quarantine measures and on the fruitfly problem, and I am happy to inform you that in consultation and collaboration with the South Pacific Commission and also with the government of Australia we will be implementing a new project to assist in this area very shortly. We are also most interested in the recommendations for regional improvement of the information to exporters and would-be exporters. If so requested we would be very pleased to work closely with the Forum Secretariat in trade information.

Like many other participants, we are believers in the one-stop shop model. We have been working with the government of Tonga for some years now in the small industries scheme there, and we also see the feasibility of the replicability of the Tongan model in some of the other smaller island states and will be happy to help in this respect, either nationally or through a new regional program.

We are at this moment also in discussions with the IFC to collaborate with them on the South Pacific Project Facility so that the larger-scale entrepreneurs, be they national or foreign, have an opportunity to obtain rather larger forms of credit than are available in international development banks to get worthwhile projects off the ground. We hope that by joining in partnership with the IFC we can then open this facility to not only the World Bank member countries of the Pacific but also all countries of the Pacific because of the universality approach that UNDP is able to provide.

We are also interested in developing a regional program to assist countries in making credit available to small busi-
nesses. As was mentioned at an earlier session, some of the problems of the entrepreneurs related not so much to the interest rates of credit but rather to the availability of credit, the access to that credit. We would be pleased to help in that respect.

Those are a number of ways in which we can see already where we can be of help, and we look forward indeed to working with our colleagues in all the island countries present.

PRESIDENT TABAI: Do the international organizations have booklets advising how to get assistance for the private sector?

MR. RINGROSE: I take that comment from the President of Kiribati very seriously because we heard in an earlier session that in Solomon Islands the entrepreneurs were not aware of the various facilities and incentives that are available to them. Now this came as some embarrassment to me although I was spared some of that because Solomon Islands representative is not here. Because we are assisting that government in, indeed, small business and medium-size business industrial development, I have to admit that it suggests that despite the work that we are doing and the assistance we are providing, the people we are trying to serve out there in the marketplace are still not yet aware of what is available to them. I think what the President of Kiribati has just said underlines that point, and we take note of it and will act on it.

MR. NAGAI: I would like to send development materials and information to the distinguished leaders of the Pacific islands with regard to our activities related to the Pacific islands including seminars, lectures, and others. We shall send it to you, Mr. President, and distinguished other guests from the Pacific islands.

The delegate from Japan noted that the Japanese government has been offering training courses in fields such as trade, commerce, and tourism as a part of the development of human resources for developing countries including the Pacific is-
land countries. If you have any requests for this kind of cooperation, please let us know for our consideration.

In addition the Forum Secretariat has been planning the so-called industrial development advisory service plan to help small island countries to establish small-scale business manufacturing industries. Our government is to use $300,000 of our contribution to the UNDP human resource cost sharing program to help this plan. This project document is being prepared by the Forum Secretariat and the UNDP Fiji Office. We are hoping such a document will be completed soon.

MR. SMITH: First of all as a matter of detail, I should join or perhaps I should say follow my United Kingdom colleague in pointing to the fact that there are in existence, as I am sure many of the distinguished leaders are aware, two major Australian institutions designed to contribute to the development of exports from the island countries to Australia and New Zealand. The first is the South Pacific Trade Commission, which has been operating for some years. The permanent trade commissioner is Mr. McCabe who is known to many and who has contributed to a very significant degree in the development of Pacific island exports.

The other body that I should mention specifically is in a way a counterpart to the organization mentioned by Mr. Smart, and that is the Australian Executive Service Overseas Program, which goes by the acronym ESOP, which works in much the way that Mr. Smart has already described. Retired or near-retired executives from a wide range of industries make their time available to assist corporations and undertakings in developing countries on the basis that the only costs payable by those countries are local costs for periods of several months or shorter or longer as the case may be. They are able to provide a degree of hands-on cooperation and assistance, which has been found to be very valuable in a number of countries throughout Southeast Asia and the Pacific.
I would like to refer to one other matter. There have been a number of references to the SPARTECA program during the course of the discussions both in committee and in plenary. Perhaps since those references intended essentially to talk about difficulties that have been perceived in the operation of the SPARTECA program, I might take the opportunity of restating the purpose of that program, which (notwithstanding difficulties that may have arisen and that I hope we can help to overcome) has been a very effective instrument. The South Pacific Regional Trade and Economic Cooperation Agreement, to give it its full title, has as its objectives.

- To have duty free and unrestricted access to the markets of Australia and New Zealand over as wide a range of products as possible.
- To accelerate the development of the Forum island countries, in particular, through the expansion and diversification of their exports to Australia and New Zealand.
- To promote and facilitate this expansion and diversification through the elimination of trade barriers.
- To foster the growth and expansion of exports of Forum island countries through the promotion of investment in those countries.
- To promote greater penetration by exports from Forum island countries into the Australian and New Zealand markets through such measures as cooperation in the marketing and promotion of goods from Forum island countries.
- To promote and facilitate economic cooperation including commercial, industrial, agricultural, and technical cooperation.

Mr. Chairman, I hope that you and the distinguished leaders will bear with me when I say that I believe this has been and continues to be an effective program, and I would be concerned if the only references to this program were essentially
negative references in which difficulties are seen rather than the achievements that the program has brought.

There had been reference to problems of rules of origin, and I have certainly taken note of those references. I must say that I have not really been successful in obtaining a real clarification of precisely why those problems are perceived to exist. Certainly, we have looked at that and see that there are some potential considerable disadvantages not only from the point of view of Australia and New Zealand but also from the point of view of the island countries themselves. Making significant changes to the rules of origin is perhaps a matter on which we can certainly have some further discussions.

Reference was also made to the possibility of the extension of provisions of the closer economic relations arrangements between Australia and New Zealand. I believe that perhaps those comments did not fully understand the nature of that particular relationship between Australia and New Zealand—the most notable feature of which is that it is fully reciprocal. In other words, the objective of free entry of goods goes both ways, and that would not necessarily be something that we could think it either appropriate or advantageous to apply to our countries in the region. It is something that relates to and flows from the special relationship between Australia and New Zealand and the standard of development of those two countries.

I would like to underline one main continuing principle that flows from all of this, and that is the firm commitment of Australia to the growth and development of the economies of Pacific island countries; that commitment to the development and growth of those economies and the role that we can continue to play is firm and unvaried. I hope that we will be able to join with our colleagues in the Pacific in continuing to promote that development in the future.

MR. RAVUVU: I am very pleased with the excellent ideas in terms of economic development for our island states. However, I have a concern that I would like to express to this honorable
conference, which has been alluded to in some way or the other by a number of our leaders from the small Pacific island states. And that is the lack of cultural and social discussion relating to the problems that most our Pacific island states are faced with. We are in a dilemma.

My experience with our Fiji Trade and Investment Board has pointed out a clear message that unless we develop our people in the Pacific socially and culturally, it is very difficult for them to adjust well to the business or commercial atmosphere. I will focus on the human development resource. I believe that we are not only going to develop the few who will be managers or the business experts but also we should not forget that we will have to look at the broad educational development of our people so that culturally and socially they will be prepared to handle that situation. I am particularly worried that our economic development will continue to develop the few to the detriment of the majority.

Our experience has shown in our efforts to increase Fijian involvement in business. I am frustrated at times because there is a very different atmosphere that exists among our people and the business community. For this reason I would very much like to see that sometimes the cultural and social constraints (which are not included in the constraints in the presentation this morning) be included for future discussion. I am very much aware of the difficulty in doing this, but I am also aware of the difficulty faced by small island countries in the development of education, which I think is a very important aspect of adjusting. I would like to direct my request to the international organizations, the donors, not only to look at economic development as the most important thing but also to be benevolent enough to look at developing our education system to the extent that we will be well prepared for all these adjustments.

PRIME MINISTER LOUECKHOTE: I would like to say that New Caledonia and French Polynesia today and yesterday in this Anglo-Saxon environment did not permit us to express ourselves as freely as we could have done in our language. Therefore I would like to suggest that any further conferences with the
East-West Center have simultaneous translation so that there can be equal participation from all the delegations.

GOVERNOR WAIHEE: I thank the honorable gentleman from New Caledonia for his suggestion, and I apologize on behalf of the conference for not being able to do that. As a matter of fact, we attempted to have simultaneous translation, and unfortunately even in the very best hotels in Hawaii, sometimes the technical matters do not work out. It is a curse of our modern age, but I can assure you we will attempt to do that in the future.

At this time the agenda calls for a presentation from the Prime Minister of the Cook Islands regarding pre-disaster planning.
PRESENTATION ON PRE-DISASTER PLANNING

The Honorable Geoffrey Henry
Prime Minister of the Cook Islands

I will try to be brief in this presentation because the full text of my statement is ready and has been distributed (see Appendix VII) and because I am conscious of the very important matters of national affairs that have to be attended to shortly after this conference.

Our territory the Pacific islands has long been liable to natural disasters such as hurricanes and cyclones and typhoons and so forth. Cyclones Ofa and Peni just recently caused at least the loss of 13 lives and estimated minimum damage of $100 million to houses and public buildings and to essential infrastructures such as bridges, roads, and seawalls, water supply, electricity, and telecommunication facilities. Considerable damage has been caused to foreshores, and how does one quantify the emotional misery that has been caused by the losses sustained by so many people in such a short time.

Our research has indicated that a considerable amount of work has been done and a considerable amount of writings have been prepared in respect of this particular subject. The likes of Mssrs. Hamnett, Guy, and Maiasa, for example, have conducted their own studies at the request of PIDP, but there is in fact a fairly large body of written work that has been done on this subject matter and that has been brought in fact to the attention of some of the Pacific territories. In fact, pre-disaster planning was also identified as an important matter by the First Pacific Islands Conference, which was held some ten years ago.

The Pacific Islands Development Program undertook an initial study of the then disaster situation in the region and disaster preparedness,
and the findings of that study included the costs of natural disaster, which it found to be a growing cost as a result of economic development and increasing government involvement in relief and rehabilitation. The findings also found that the major economic impacts of disasters were in housing and agriculture and that they were becoming more severe. Some countries had made progress in pre-disaster planning but others had not, and much work still remains to be done. There were relatively inexpensive disaster preparedness and mitigation measures aimed at housing, agriculture, and other sectors that could reduce the costs of natural disasters.

Based on that survey conducted by the Pacific Islands Development Program in the early '80s, PIDP organized a disaster preparedness strategy seminar in 1983, which in the main concentrated on the following matters:

- national disaster planning
- economic vulnerability reduction
- housing vulnerability reduction
- agriculture development
- disaster preparedness

Many recommendations were made as a result of that seminar. I will not go through them. They are all listed in my paper. But some of the activities that were recommended were a model program and housing vulnerability reduction in Solomon Islands. This is one of the activities that came out of the seminar in 1983. And there was also the training of officials in FSM, Marshall Islands, Palau, and Kiribati. There was also a national vulnerability assessment in several countries including the Cook Islands, Fiji, and Western Samoa. There was also the publication of papers and manual on Procedures and Guidelines for Disaster Preparedness and Response. This was produced in 1984, and Post-Disaster Assessment was also produced in 1986. So while a considerable amount of work has been done on this area, and some very valuable work has been done, I feel nevertheless that there is plenty of room for improvement in the manner in which our region, particularly the smaller countries in the region, can do to help mitigate the effect of storms and prepare themselves for the onslaught of such ravaging experience. The fact of the matter is that scientists would tell us that the world temperature
is rising, minimal as it is, but it is rising, and we can therefore expect hurricanes and typhoons to happen more frequently and indeed with a greater severity experienced hitherto.

So the proposition I am putting forward here is that the first stage of this new project, if you want to call it that, could be the detailed assessment of current pre-disaster planning in our territory in the Pacific focusing on such areas as

- national disaster policies;
- impact of cyclones, hurricanes on houses, public buildings, infrastructure, and agriculture, and foreshore protection (a matter that has not received adequate attention in the past);
- regional disaster insurance scheme—something that was referred to in the past, but little has been done about it;
- hurricane warning and communication systems and the delivery of assistance after the impact of disaster.

The objectives of this assessment would be to identify the strengths and weaknesses of existing arrangements with a view to improving national and regional capacities and to identify areas of concern not addressed in earlier PIDP studies and to review existing PIDP publications in light of recent experience so that they can be revised and perhaps updated as required.

One part of the activity for PIDP to consider is convening a meeting of regional experts, climatologists and structural engineers, coastal defense experts, and so forth, to review the study and formulate detailed projects where required. Those projects can be put to the Standing Committee for its approval or for it to set priorities. Then PIDP on the basis of the approval given by the Standing Committee can proceed with project implementation.

Some areas of importance are, of course, building standards. We note the work that the Australian government is doing for some of the Pacific territories in terms of preparing a set of building standards, and the Cook Islands right now is in discussion with the government of Japan with a view to obtaining assistance in foreshore protection work in the Cook Islands. Some of our smaller territories are very vulnerable in terms of foreshore disaster. Every high sea and every cyclone or typhoon tends to carve away more and more of
our beaches and foreshore, and the little islands are becoming even littler, even smaller with every disaster. We have held discussions with the Japanese government, and we are grateful for the assistance granted hitherto up to this point whereby we are looking at some schemes to protect the foreshore of our small islands.

In conclusion, the kind of direction that I am looking at, Mr. Chairman, is to propose to the conference to note especially the considerable amount of work that has been done by PIDP on disaster preparedness but to recommend that PIDP instigate a review of the current state and effectiveness of pre-disaster planning in our region, to convene a meeting of experts to review the assessment and prepare detailed projects, and then to implement over the next few years, be it five, be it ten, those projects approved by the Standing Committee.

Mr. Chairman, there is a very brief and a very quick summary.

GOVERNOR WAIIHEE: Thank you Mr. Prime Minister. We appreciate the extensive work that you put into this proposal, and with your indulgence I would like to, on behalf of the conference, refer this to the Standing Committee for action and implementation. I am sure that the leadership of the Standing Committee can see to it that the proposal gets the action that it deserves.
OTHER CONFERENCE BUSINESS

Governor Waihee announced that at this time we have on the agenda four resolutions for action.

The first is the proposed operating guidelines for the Pacific Islands Development Program (PIDP); it establishes the relationship between PIDP and the Pacific Islands Conference and the Standing Committee. It delineates the relationship between the East-West Center, the Pacific Islands Conference, and the Standing Committee, and it discusses the other various relationships that we have within our program.

The second document sets out the proposed research and coordinating role of PIDP, essentially referring to the need for core staff and the need for our continued work in the area of economic and social research.

The third document, which we have for review and for action, is the Pacific Islands Conference structure dealing with the membership of the conference and the Chairman of the Standing Committee, the Secretary-General, and various other structural matters.

And the fourth document that we have deals with the necessity for the Standing Committee to review the contribution policy of this organization from the various member states.

The four resolutions, which were passed, were moved by Vice President Ismael of the Federated States of Micronesia and seconded by Governor Coleman of American Samoa. The motion was passed by unanimous consent.

The next item on the agenda is the membership of the Standing Committee. The motion was proposed by Mr. Savoie of French Polynesia and seconded by President Tabai of Kiribati. The motion was passed by unanimous consent. The members of the Standing
Committee are American Samoa, Cook Islands, Federated States of Micronesia, Fiji, French Polynesia, Nauru, Papua New Guinea, Tonga, Tuvalu, and Vanuatu, with Hawaii as a permanent member of the Standing Committee.

The position of Secretary-General, Dr. Langi Kavaliku, was moved by Prime Minister Paeniu of Tuvalu and seconded by Governor Coleman. The motion was carried by unanimous consent.

The Vice-Chairman of the Standing Committee, Governor John Waihee, was moved by Prime Minister Henry and seconded by President Tabai. The motion passed by unanimous consent.

The Chairman of the Standing Committee, Prime Minister Geoffrey Henry, was moved by Prime Minister Ratu Mara of Fiji and seconded by Deputy Prime Minister Vaea of Tonga. Prime Minister Henry was elected by unanimous consent.

GOVERNOR WAIHEE: I would like on behalf of the Standing Committee to make acknowledgment to the present Standing Committee Chairman, President Tabai of Kiribati. I know I speak for all of us when we tell you that we have appreciated your leadership and your guidance for PIDP, for the Standing Committee, and for the Conference as a whole. At this time I would like to invite the Prime Minister of the Cook Islands to the front of the room where he can conduct the rest of our official business.

PRIME MINISTER HENRY: I would like to say a few words in thanks to my colleague in the conference who have shown misplaced confidence in me. I have always found in every occasion when the "Pacific Way" is employed one gets enriched in experience by it. I would like to thank my colleagues for allowing the Cook Islands to wear the honor of being the Chairman of the Standing Committee and that honor will be discharged with the best of our ability.
CLOSING REMARKS BY HEADS OF GOVERNMENT

PRIME MINISTER HENRY: I now would like to invite the distinguished leaders and representative of the countries represented here at the conference to make their closing remarks.

PRIME MINISTER PAENIU: Mr. Chairman, it has been a great experience to have participated in this conference. Early at the start of the conference I had two missions. One was to learn more about PIDP and its program and how it could benefit the development of Tuvalu. The second mission was to assess whether Tuvalu should be participating in PIDP activities especially in terms of contributions.

Mr. Chairman, Tuvalu has not been making voluntary contributions to PIDP in the past, which was basically due to budgetary constraints. Now that the conference has come to an end, Tuvalu being the smallest of the smaller island states in the Pacific, I see that as a challenging place to conduct research and development projects as an extreme model for developing a viable small economy or the smallest economy. I do see the applied research and development role that PIDP has been playing as an imperative prerequisite to the take-off of the Tuvalu economy in future years.

As we are most vulnerable to external factors for which we have no influence at all insofar as the economic world is concerned, it is important that we formulate and implement appropriate policies to ensure the effective management of our very limited resources. You are aware that Tuvalu has a trust fund, which is a major asset and the most reliable asset that we look to for our continuity in meeting the aspirations of our people in the future. In order to manage this fund very well and to have the maximum or the optimum impact of it on the lives of our people, it is very important that we
do formulate and implement appropriate policies. Hence I see the role of PIDP as demonstrated by this conference as being very useful to Tuvalu.

Very recently we have accorded very strong commitments to the development of the private sector, and hence the decisions and recommendations arising out of this conference have indeed given me ideas as to where or how we could best approach the development of our country in promoting private sector development. One example is the anticipated role of PIDP in the disaster preparedness and rehabilitation as instigated by yourself, Mr. Chairman, in your presentation earlier. I see that as a very important proposal or development project for Tuvalu since we are highly susceptible as well to the environmental factors.

For those reasons, Mr. Chairman, I opted to offer and participate in the Standing Committee not only for the sake of Tuvalu but because the most valuable contribution of His Excellency President Tabai is moving out of the Standing Committee. I also see myself as a strong advocate for the needs of the small island states in the Pacific. Having said that, Mr. Chairman, I would like to take this opportunity to convey my sincere thanks to the Governor of Hawaii for this most hospitable time and hospitality extended to us, and I look forward to the future and most pragmatic program that PIDP will continue.

DEPUTY PRIME MINISTER VAEA: I would like to say how honored I am to be able to participate in this PIC Conference. I am sure I and my senior, whom I am here to replace, will continue to take intense interest in the course of which PIC is leading. I am very pleased to be here and to be on this particular island of Hawaii. It is a great pleasure to be here for the first time and to see the islands and enjoy the hospitality extended to us by the people of Hawaii, and I would like to say thanks to the government and people of Hawaii and to Governor John Waihee.

I am very pleased also to be able to learn yesterday that this famous navigator of 200 years ago, Captain Cook passed peacefully here on this island somewhere out at Kealakekua,
and I am also pleased to be associated with the leaders of the Pacific islands government with whom we hope to have dialogue and be associated during this period of development of our island countries. So on this note, Mr. Chairman, I would like to point out that everything was covered with regard to development, but freight and transportation have not been brought up. This is a problem with regard to the development of these Pacific islands, which all have geographical handicaps because of where they are located. Freight, transportation by sea or air, is something to be noted for future discussions.

Another important factor that helps tourism for the Pacific is the media. The media have been using their freedom of expression, freedom of publicity to publicize news that deters people from coming to the Pacific islands because of various news reports that were not true but had some adverse effects on us.

PRIME MINISTER RATU MARA: First of all I would like to thank the Governor of Hawaii and the State for the hospitality extended to all of us. This country, Hawaii, has been noted in the hospitality industry for a very long time. We have come to taste and prove that the quality is as good as ever and we would be willing to come again. Thank you very much, Governor.

I would like to thank each and everyone of my colleagues for their cooperation in getting through our business in good time and for the cooperation extended to each and everyone who participated. I would like to thank, certainly, the private sector representation. For ten years we have been trying to get them to attend and they have attended. I hope that in the future they will be heard as much as the inner circle has been heard. We want to learn from the hard school of experience how to privatize government and reduce its staff. And I would like to thank each and everyone for making this conference a very successful one.

MR. RECHEBEI: First of all I wish to take this opportunity to convey the personal apology of His Excellency Vice President Kuniwo Nakamura for not being able to be here with you today to
deliberate on this very important subject, which I believe is very close to his heart. The reason for his not being able to be here is there was a tragic accident back home where the son of the President was killed in the accident.

Secondly, Mr. Chairman, I wish to join the previous speakers in expressing our personal appreciation for the Hawaiian hospitality extended to us by the Governor and his staff and also the organizers of the conference.

The conference has been very successful, and it has been a very generous consensus in support of the role of the private sector in the development of the Pacific island economies. However, in view of the different levels of economic development and experiences, we believe that exchanges of experiences and ideas amongst ourselves and experts within the discussions will enable us to come up with a certain plan of action that will assist our island nation in developing and creating an environment that would be conducive to development and strengthening our local private sectors and foreign investment. With the Pacific impression of the role of private sectors, the developing island economies have some problems that we experience particularly with respect to overtaxing our infrastructures and also causing irreversible damage that would be imposed on our environment. We need further and careful consideration with experts around this conference and also the regional organizations in promoting and creating an atmosphere where we could be able to solve some of these problems that are very unique to island economies.

PRIME MINISTER HENRY: I am sure this conference would be happy if I were to speak on its behalf by inviting the representative on Palau to convey to the Governor our condolences and deep commiserations on the bereavement that has befallen him. We would be happy if you could do that for us.

The delegate from the Commonwealth of the Northern Mariana Islands noted that the Governor had to return prior to the closing of this conference because there is some urgent business at home that he needed to attend to. He would like to
thank the chair for the great hospitality that you have shown us while we were here. We would also like to convey to you that what we have learned here during the deliberations we will bring back home.

Our Governor also would like for us to consider that in our next meeting we would also focus on the northwestern Pacific problems. The problem in the northwestern Pacific is quite unique and may be a lesson to be learned for the southern Pacific. Because tourism is one of our major commodities in economic development in the Commonwealth, we have experienced the success over here, and we thank you, Governor Waihee, for bringing us here to the Big Island. During this experience we will see that what we have learned here will also be implemented in our island.

PRESIDENT TABAI: Mr. Chairman, I will be very brief. First, I want to add my thanks to our host for all the courtesies that have been extended to us since our arrival. We have all enjoyed our stay here. My other half also told me that she has enjoyed her stay here as well. This is her second visit to Hawaii.

For me this is the last time to attend PIDP, and our law requires that I retire early next year so there is no other way that I can continue to attend PIDP. I want to say, however, that I will miss PIDP meetings and Hawaii where I have come to know many friends in this State. But like all the things in life they all come to an end. I want to say, however, that we will continue our interest and support for PIDP.

One last comment I want to convey the apologies of my friend, the President of Nauru, who had to leave to catch his flight. As you know this is his first visit to this meeting, but as a sign of his interest he has agreed to be on the Standing Committee. In my view that is a very good sign for PIDP for the future. On that note, Mr. Chairman, I want to thank you and everybody for the courtesies extended to all of us.
MR. SAVOIE: Mr. Chairman, I would like first to associate myself with the remarks made by the representative of New Caledonia. Particularly as a point concerning Francophile people.

On behalf of Mr. Alexandre Leontief, President of the Government of French Polynesia, I would like to point out again the interest we put in the program and works undertaken by PIDP. I do not doubt that the conclusions and recommendations of the Third Conference will give great hope for our country, particularly the priority given in our work to the role of the private sector in the development of our countries.

PIDP with the South Pacific Commission are the only two regional organizations of which we are a member, and this gives us an important opportunity to meet leaders and policymakers of all countries of the Pacific region. This enables us to know and understand each other better. This also enables us to know the different international agencies working in our region. And this better understanding will help not only our government but also our local entrepreneurs to be more involved in the building of our common future not only in terms of development but also in terms of preparing ourselves to fight or to react against natural disasters as you pointed out, Mr. Chairman. So in that way I would like to reiterate our proposal to host the Fourth Pacific Islands Conference in Tahiti, and I hope we will be able to equal the hospitality of the people of Hawaii. I take this opportunity to convey to Governor John Waihee and to the people of Hawaii the thanks of the delegation of French Polynesia.

VICE PRESIDENT ISMAEL: On behalf of President Hagelgam and the people and government of my country, the Federated States of Micronesia, I would like to preface my brief intervention by associating myself with the earlier speakers in expressing my sincere thanks to Governor Waihee and the people of Hawaii and PIDP for the warm aloha extended to me and my delegation. I would also like to thank President Victor Li, Dr. Steven Halapua, and their able staff for their excellent arrangements for this important conference.
I wish to record my country's strong support for the focus of private sector development. Like most small island countries of the Pacific, the Federated States of Micronesia's economy is for all practical purposes the government. True, we are making modest strides in the private sector, but they are of small scale. Because the Federated States of Micronesia is a microstate, we share many of the constraints on private sector development that are common to small island countries. My delegation and I have learned a great deal from the excellent reports and professional studies done by PIDP. The presentation of various experts and subsequent group discussions have been most enlightening. I thank you all for sharing your experiences with us.

Having said that, I would like on behalf of my government to register my request to this conference that future research by PIDP be focused on small island states and territories for obvious reasons. They are the ones that need the most help, and PIDP has not done enough in the way of economic research in these areas. I would further ask that research be carried out on relevant subjects that have practical application to our respective situations. The organizations that are ably represented at this conference definitely hold some of the solutions to our economic problems. I ask that a coordinated approach be the guiding principle in seeking assistance from them.

In closing I would like to extend our sincere appreciation once again to Governor Waihee and the people of Hawaii for their warm and sincere hospitality to us.

Our last note is to the Standing Committee. I would like to give you an invitation to conduct your first Standing Committee meeting in Pohnpei, Federated States of Micronesia.

GOVERNOR COLEMAN: Ten years ago we met at the Pacific Islands Conference. Those of us who attended at that time all had black hair. Now you see some of us have white hair. My friend Ratu Mara and I had black hair at the time, but it goes to show that there is part of the aging process as we go along
that gives us a great wealth of fond memories. This PIC was part of the architecture designed by Ratu Mara and the others ten years ago in order for us to have access to the wealth of information and research of the East-West Center and at the same time for the island states, territories, even those under the United States to be together not as nationalities but as people, neighbors as part of the Pacific island village. And here today we see the fruits of the vision of some of those leaders who have gone on to eternal life.

I recall the time that Ieremia Tabai first came and took over. And when he took over the Standing Committee it was never a sitting committee. They stood up for everything they could give us for all the information that they were able to get from the research, and our thanks and gratitude go to the East-West Center. We have always enjoyed the hospitality of this great State of Hawaii, and what has happened today is change in breakthroughs. It is a major breakthrough to see the Governor of Hawaii as the Vice-Chairman of the Standing Committee. Before there was a reluctance on the part of us under the United States to not be so bold as to appear as if we are trying to dominate. But I think as time goes on we now have progressed to where we are all here as equals. We are all here as brothers and sisters so that the vision for the future of the Pacific islands will always be bright.

The meeting site is a very important site. This is one of the most historic sites where the Polynesians traveled and landed in this area. I want to thank the Governor of Hawaii and all the staff and the people of Hawaii for all the hospitality given us, and also we are looking forward to that happy occasion to share some of the Hawaiian cuisine. I would like to, in closing, express my thanks to all the representatives here, the business sectors, the various governments, for all your contributions in making this meeting a very successful one. A lot of subjects were talked about, and we each take with us all this information. It is going to be very helpful to our people. So in ending, like in that old Polynesian refrain, now is the hour we must say goodbye, and we want to say goodbye and God bless you all.
PRIME MINISTER HENRY: We are now close to the end of this conference, but before we do I just wanted to comment for myself and I would then like to invite the Governor to make his closing comments.

As Governor Coleman rightly said, some ten years ago, which is exactly a decade ago, this conference came into being. Since then two have been held, and this is the third, and we are just about at the end of the Third Conference. For us young people who have become involved in this conference, we have come to learn a great deal from the wisdom and the experience of people such as the Governor himself, Ratu Mara, and others. And it is probably not a coincidence that in this the first year of the last decade of this century, this conference was held here on the island of Hawaii. Hawaii is, of course, the traditional homeland of Pacific people. It is as if we are now leaving Hawaii of the tenth, the last decade of the Pacific, and this conference is venturing forth from here out into the exciting and wonderful world that lies ahead of us in our developmental efforts to find for our people a somewhat better place in the sun.

I would like to join in with the others in extending our thanks to a number of people. Firstly, to Governor Waihee and his government and the wonderful people of Hawaii who have made this an enjoyable and enriching experience for all of us here on this very historic island, which happens to be his homeland. Please join me in saying thank you to the Governor, his government and the people of this wonderful country.

GOVERNOR WAIHEE: On behalf of the people of Hawaii it was indeed an honor for us to host all of you in our State. It is not too often that we get a chance to bring together people who we consider among the most important in our region of the world for discussion, for the betterment of our region and of our peoples. So we are indeed honored by your presence. On a personal note I might say that it is a real pleasure for me to bring so many friends together in fellowship and in commitment to making this part of the world better for our
peoples. Once again Hawaii has enjoyed having you. Make this a habit. Thank you very much.

PRIME MINISTER HENRY: Just one or two other matters. I would also like to extend thanks to, first of all, the President of the East-West Center, Mr. Victor Li, for the support that the East-West Center has been lending to the programs and the projects that have been dreamt about and brought forward by island leaders, and I would like the island leaders to join me in saying thank you to Mr. Li and his organization.

Equally committed and hard working has been the staff of PIDP who in the last six months or so has been led by Dr. Steven Halapua. I would like on your behalf to thank him, his staff, who have hardly had any sleep during the last three months or so, especially the last few days and also to all the associate researchers that have worked with the staff of PIDP in preparing documents for our consideration and in conducting research in respect of programs that have been raised by the Standing Committee. I would like you to join me in saying thank you to Steven, his staff, and all those who have contributed to the research program for this conference.

But also I would on behalf of the Pacific island leaders and on behalf of the Governor to extend our thanks to the representatives of regional and international organizations who are present here today: the banks who are here, the representatives of governments who are here, as well as those from the private sector who have accepted the invitation to join us in this conference where we together can look at how governments and the private sector can best work in the Pacific toward the betterment of our own people. We thank you all for coming today.

As the Governor of American Samoa said, now is the hour to say goodbye, and on behalf of us up here at the front table we would like to wish you all a safe journey back home, bon voyage, and aloha.

GOVERNOR WAIHEE: The meeting of the Third Pacific Islands Conference of Leaders is adjourned.
CONFERENCE RESOLUTIONS
AND
CONFERENCE COMMUNIQUÉ
DOCUMENT 1: Operating Guidelines for the Pacific Islands Development Program (PIDP) of the East-West Center (EWC)

Introduction:

It is now ten years since PIDP was established and became an integral part of the EWC after the First Pacific Islands Conference (PIC) of Leaders with the theme, "Development the Pacific Way." PIDP has continued to adapt in order to help meet the development needs of the Pacific islands region through cooperative research and training. The valuable experience gained during this time enables us to restate the role of PIDP and its relationship to other bodies.

After due consideration the Third Pacific Islands Conference approved the following recommendations:

1. Relationship between PIDP and PIC/Standing Committee

PIDP shall continue to carry out research and training activities based on the expressed priorities of the PIC. Between sessions of the PIC, the Standing Committee shall act on behalf of the PIC in establishing priorities and reviewing activities and products of PIDP.

2. Relationship between EWC and PIC/Standing Committee

(a) The EWC shall continue to be responsive to island country needs and wishes and shall continue to help ensure that these needs and wishes are met by PIDP. Any proposals for substantive revisions to the PIDP program shall be made only with the approval of the Standing Committee.

(b) The Director of PIDP is an employee of the East-West Center and thus shall be recruited and appointed under conditions of service of the Center. The PIC and the EWC agree, however, that
there shall be close consultations between the President of the EWC and the Chairman and members of the Standing Committee regarding the recruitment and appointment of the Director.

The President of the EWC and the Director of PIDP shall have direct access to and communications with members of the PIC on technical and operational matters. On policy and other matters they shall whenever possible consult with the Chairman of the Standing Committee or the Secretary-General.

3. Relationship between PIDP and EWC

PIDP is an integral part of the EWC on par with the institutes and other major programs of the EWC. The EWC shall continue to exercise oversight over PIDP in the same manner as over the institutes and other programs.

4. Relationship between Director of PIDP and SPOCC

The Director shall continue to play a full and active role in the South Pacific Organizations Coordinating Committee (SPOCC) to ensure that PIDP activities fully complement those of other regional organizations. The Director shall also advise the President of EWC of the results of SPOCC consultations so that other EWC activities might also complement other regional programs.

5. Fund-raising

PIDP shall continue to seek additional public and private sector resources to supplement its EWC base funding.
DOCUMENT 2: Research and Coordinating Role of PIDP

Introduction:

With the series of research projects based on the priorities established by the First Pacific Islands Conference in 1980 and the Second PIC in Rarotonga in 1985 coming to a close, it is appropriate to examine the philosophy and direction of PIDP. To administer the research program prioritized by the PIC, PIDP has performed a dual role: direct research and coordination of research activity. Under direct research activity, projects have been conducted by researchers hired for the duration of the project. As regards the coordination of research activity, the projects have been contracted out. This mode of operation arose because of the wide range of research topics in which the PIC was interested but which could not be effectively conducted by the small number of PIDP core staff members.

Although the coordinating role has been successful in providing research reports, it has not functioned adequately in other aspects. PIDP has not established an identity for itself but rather has oscillated in capability depending on the phase of the project cycle. The core staff component has been small, and the number of staff members has been insufficient to reach a critical mass. This situation has not been conducive to professional research.

Furthermore, the major findings of previous research projects have not been followed-up with thorough implementation or monitoring. Training and dissemination of PIDP's research findings have also been inadequate because PIDP has lacked the continuity in professional staff to fulfill these needs.

With the exception of one or two projects, the majority of the projects already undertaken at PIDP were concerned with economic development issues. At the 1980 meeting of the PIC the leaders focused on strategies that could (i) lead to self-sufficiency, (ii) meet basic human needs, (iii) allow for control of their destinies, (iv) enable them to
speak with a united voice in international forums, (v) promote national development, and (vi) enhance regional cooperation.

These ideals will be harder to maintain as the material standard of living of the peoples of the Pacific island countries becomes increasingly dependent on the government sector and foreign assistance. It became increasingly evident that the private sector should play a more effective role in meeting the development needs of the Pacific island countries in the 1990s.

Moreover, PIDP is now a member of SPOCC. Within this new grouping of regional organizations there is a need to clearly identify the role of each body, to avoid duplication of function, and to concentrate the efforts of each on the functions they are most suited to. The area of specialization of some bodies such as the Forum Fisheries Agency (FFA) and the South Pacific Applied Geoscience Commission (SOPAC) are already clearly defined and identified. In the case of PIDP a comparative advantage has been established in Economic Development and the Private Sector with the completion of the Private Sector Project.

As a means of reconciling the requirement of coordinating a wide range of research priorities with the need to attain a critical mass of permanent core staff to provide cooperative post-research implementation and monitoring and training, the Conference approved the following recommendations:

1. Coordinating/Research Role and Professional Staff of PIDP

   PIDP shall continue to operate at two levels: it shall continue to coordinate research over a wide range of issues as determined by the PIC, and it shall have a core of professional staff who shall be appointed as research associates for PIDP.

2. Economic Development and the Private Sector (EDPS) of PIDP

   PIDP shall support economic and social research activities in the following areas: sector analysis including agriculture, marine products, mining, manufacturing, and tourism (with project identification and evaluation); aid, trade, and international investment; macroeconomic policy analysis; small business; finance including development banks and venture capital; and privatization and commercialization.
DOCUMENT 3: Pacific Islands Conference, Membership/Chairman of the Standing Committee of the Pacific Islands Conference

Introduction:

From the records of the Minutes of the Fifteenth Meeting of the Standing Committee, 15-16 February 1989 (see especially pp. 14-15) and the Sixteenth Meeting of the Standing Committee, 30-31 January 1990 (see especially pp. 7-8), the question relating to the Pacific Islands Conference and membership of the Standing Committee was discussed with the view to “keep others [non-members] from feeling left out.”

In the spirit of the recorded discussion, the Pacific Islands Conference approved the following recommendations:

1. Pacific Islands Conference

   1.1 The Pacific Islands Conference shall meet once every three years.

2. The Standing Committee

   2.1 The Standing Committee shall consist of nine members selected by the PIC and Hawaii as a permanent member.

   2.2 The maximum duration of each membership shall not exceed three years but can be extended if reappointed by the PIC.

   2.3 Members of the Pacific Islands Conference not themselves members of the Standing Committee may send an observer to each meeting of the Standing Committee.
2.4 The Standing Committee shall serve as the executive committee of the Conference and shall meet at least once a year. Additional meetings of the Standing Committee, as deemed necessary, may be called by the Chairman.

2.5 The results of the studies and the decisions of the Standing Committee shall be transmitted to all of the countries of the PIC by PIDP.

3. Chairman of the Standing Committee

3.1 The Chairman shall be elected by the Pacific Islands Conference.

3.2 The term of the Chairman shall be three years, from one Pacific Islands Conference to the next.

3.3 In the event that the Chairman cannot complete his term of office, the Standing Committee shall select a successor to complete that term of office. Until such selection is made, the Vice-Chairman shall act as the Acting Chairman.

3.4 The post of Chairman of Standing Committee shall be a personal appointment rather than a country-related appointment.

4. Vice-Chairman of the Standing Committee and the Conference

4.1 The position of Vice-Chairman of the Conference and the Standing Committee shall be established.

4.2 The provisions for his selection, term, and succession shall be identical to those governing the office of the Chairman.

4.3 The principal duties of the Vice-Chairman are to preside at meetings in the absence of the Chairman and to assume the position of interim Chairman when there is a mid-term vacancy in the Chairmanship until such time as the Standing Committee selects a new Chairman.
5. Secretary-General of the Standing Committee and the Pacific Islands Conference

5.1 The position of the Secretary-General as established by the First Pacific Islands Conference shall continue, and the holder shall be appointed by the Pacific Islands Conference. The specific responsibilities of the Secretary-General shall be determined by the Standing Committee. The position is not an EWC/PIDP position. The Secretary-General shall be the Secretary-General to the PIC and the Standing Committee.

6. Program Planning Committee

6.1 The Program Planning Committee as established by the First Pacific Islands Conference shall continue, and members shall be appointed by the Standing Committee with preference for countries that are not members of the Standing Committee.

6.2 The Chairman of the Program Planning Committee shall be the Director of PIDP.

7. Secretariat

7.1 PIDP shall provide the services of a Secretariat for the PIC, Standing Committee, Program Planning Committee, and Secretary-General.

8. Funding for Meetings of PIC, Standing Committee, Program Planning Committee, and Secretary-General

8.1 The cost of the meetings of the Pacific Islands Conference and the various Committees as well as the Secretary-General will be met according to a formula agreed to between the Standing Committee and the EWC.
DOCUMENT 4: Reaffirm PIC
Country Contributions

Introduction:

At the Fifteenth Meeting of the Standing Committee, the Chairman suggested that the matter of country contributions should be discussed at the Third PIC.

The Third PIC was requested to consider a procedure for the collection of annual country contributions from member countries to support PIDP's ongoing policy research and training efforts.

At the 1985 PIC, the members agreed to a contribution formula based on the number of EWC participants from each of the island countries. The scale of contributions was thus determined by the benefits assumed to be derived by each country through EWC programs. Appendix 1 shows how each country was placed in the scale for annual contributions.

In concluding the 1985 discussion related to the contributions formula, it was pointed out that countries not able to meet this funding obligation should not be excluded from participation in the PIC/PIDP program. However, the question of determining on what basis a country should be excused from meeting its contribution annually was not addressed.

Since the contribution scale was adopted, total contributions have been disappointingly below what was projected for PIDP through this source of support. This has, in some measure, resulted in a limitation on the level of activity PIDP could undertake and has likewise increased the amount of time and effort that PIDP has had to expend toward seeking other sources of support.

Moreover, the unpredictability of funding from member country contributions has also affected PIDP's ability to accurately project re-
sources for budgeting purposes and, in turn, conduct effective program planning.

In order to address the foregoing, it was requested that the PIC urge member countries to make greater efforts not only to participate but to contribute funding for PIDP. These financial contributions do not have to be substantial, but it would be greatly appreciated if all member countries from 1990 onwards are seen to be full financial participants in PIDP.

It is fully understood that the economies of most island countries are small and resources are limited, and hence a voluntary contribution only is requested at this stage. It should be noted that even if all countries contribute as per formula approved in the Second PIC in the Cook Islands, the PIC will be responsible for only 20 percent of the budget of PIDP. For the long term, the Conference recommended that:

the Standing Committee study the country contribution issue in relation to the needs of PIDP and the resources of the island countries and recommend a formula that will allow island countries with scarce resources to contribute financially and to allow PIDP to fulfill its responsibilities to the PIC.
Appendix 1: Contributions by number of East-West Center participants

<table>
<thead>
<tr>
<th>Group</th>
<th>Participants, 1960-84</th>
<th>Amount</th>
<th>Countries and territories</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group A</td>
<td>500 or more</td>
<td>$25,000</td>
<td>American Samoa</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Federated States of Micronesia</td>
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<td>Fiji</td>
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<td>Hawaii</td>
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<td></td>
<td></td>
<td></td>
<td>Northern Marianas</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Western Samoa</td>
</tr>
<tr>
<td>Group B</td>
<td>250-499</td>
<td>$20,000</td>
<td>Palau (Belau)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Guam</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Marshall Islands</td>
</tr>
<tr>
<td>Group C</td>
<td>100-249</td>
<td>$10,000</td>
<td>Cook Islands</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>New Caledonia</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Papua New Guinea</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Solomon Islands</td>
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<td></td>
<td></td>
<td></td>
<td>Tonga</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Vanuatu</td>
</tr>
<tr>
<td>Group D</td>
<td>1-99</td>
<td>$2,000</td>
<td>Easter Island</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>French Polynesia</td>
</tr>
<tr>
<td></td>
<td></td>
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<td>Nauru</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Niue</td>
</tr>
</tbody>
</table>
CONFERENCE COMMUNIQUÉ
11 April 1990

The Third Pacific Islands Conference was attended by the leaders of most island countries of the Pacific region; representatives of several metropolitan countries, regional and international organizations, research and educational institutions; and leaders of private sector institutions. The meeting was held at the Mauna Lani Bay Hotel, Kona, Hawaii, from April 9 to 11, 1990. Governor John Waihee of the State of Hawaii served as Conference Chairman.

Like the First Pacific Islands Conference (1980) and the Second Pacific Islands Conference (1985), this meeting provided a unique opportunity for island leaders to discuss and exchange views regarding their regional development goals, ideas, problems, and experiences; to identify priority research areas for strategies in meeting national and international goals; and to expand the dialogue leading to an improved understanding among island leaders and peoples, as well as between them and supporting governments, organizations, and agencies.

In opening the Conference, President Ieremia Tabai of Kiribati stated that the Conference "provides us with an opportunity to sit down and mix together, to discuss and share our views and experiences on how we can all assist the process of development—an area I believe that must be regarded as a priority for all of us. This is a particularly good forum for this as we are all here as equal participants united by our common purpose and objective underlined by the need to improve the economic status of our people." Governor John Waihee, in welcoming the leaders and participants, stated that a community of Pacific islanders must meet and continue to meet so that priority research areas can be identified to help countries achieve and improve the well-being of their peoples because the Pacific islands, poised at the threshold of the 21st century, are in a critical stage of development.

"Regional Cooperation with Emphasis on Private Sector Development" was adopted as the major theme of the Third Pacific Islands
Conference and reflected a widespread recognition of the critical role to be played by the private sector in the development of island countries. Major topics included opportunities for tourism development, incentives for private sector development, the financing of private sector development, trade and investment opportunities, and support for small business concerns. Other areas of interest and importance were also discussed and included government and administrative systems, disaster preparedness, development of youth, and training to meet the manpower needs of island countries.

Reports on a series of research projects were presented to the Conference. These were discussed in the Plenary Sessions and in specific group meetings to encourage a full exchange of views. During the Conference many of the objectives and problems were identified. Although most of the issues could not be discussed in detail because of time constraints, the Pacific island leaders identified general areas and guidelines regarding priority research projects for the Pacific Islands Development Program (PIDP).

Because this Conference marked the end of the first decade of the Pacific Islands Conference, it was thought appropriate to review the organization of the research program since its establishment in 1980 and to set up an organizational structure. In order to ensure the system's continuing efficiency and its adaptability to meet new and changing demands, the Conference agreed to maintain the basic structure established in 1980 but to define it in a more formalized manner in cooperation with the East-West Center. The following organizational structure was agreed upon:

- Pacific Islands Conference
- Standing Committee
- Program Planning Committee
- Pacific Islands Development Program

The officers of the Conference, other than the PIDP officers, are the Chairman of the Conference, the Chairman and the Vice-Chairman of the Standing Committee, and the Secretary-General of the Conference and the Standing Committee.

A review of the progress over the past ten years showed that the Pacific island countries on their own and as an integral part of the global community are changing rapidly and that they need to examine issues in shorter time periods than in the past. Consequently, the
Conference agreed that instead of meeting once every five years, it will now meet once every three years.

As in the past, the Conference elected officers and members of committees for the next three years. The Conference unanimously approved the appointment of the following officers and members:

**Standing Committee**

**Chairman:** Geoffrey Henry, Prime Minister, Cook Islands

**Vice-Chairman:** Governor, State of Hawaii

**Members:**
- Governor, American Samoa
- President, Federated States of Micronesia
- Prime Minister, Fiji
- President, French Polynesia
- President, Nauru
- Prime Minister, Papua New Guinea
- Prime Minister, Tonga
- Prime Minister, Tuvalu
- Prime Minister, Vanuatu

The Conference appointed Dr. S. Langi Kavaliku as Secretary-General. Members of the Program Planning Committee will be appointed by the Standing Committee.

The leaders of Pacific island countries appreciated the participation of the representatives of metropolitan governments, leaders from the private sector, and representatives of international and regional organizations and educational and research institutions. They are an essential part of the Conference because the Pacific islands are an integral part of the global community. And in the last decade of the 20th century, cooperation among peoples and institutions is critical for our future.

The Conference also wishes to express its thanks to the President of the East-West Center, the Interim Director of the Pacific Islands Development Program, and the PIDP staff for their outstanding work to ensure a successful Conference. Finally, the Conference wishes to express its appreciation to the Governor of the State of Hawaii and the people of Hawaii for their generosity and their blessings of the mana, which ensured that the leaders of each canoe arrived safely and that the meeting of the Pacific branch of the family of man was a success.
APPENDIXES
Appendix I

Conference Agenda

THIRD PACIFIC ISLANDS CONFERENCE
Mauna Lani Bay Hotel, Island of Hawaii
April 9-11, 1990

AGENDA

THEME: REGIONAL COOPERATION WITH EMPHASIS ON PRIVATE SECTOR DEVELOPMENT

Sunday, April 8
6:00 to 8:00 p.m. OPENING RECEPTION
Welcoming remarks by the Honorable John Waihee, Governor of the State of Hawaii and Chairman of the Conference
Location: by the Mauna Lani Bay Hotel swimming pool

Monday, April 9
7:30 to 8:30 a.m. Buffet Breakfast
Location: Canoe House Restaurant
9:00 to 12:00 Fieldtrips for Heads of Delegations
9:00 to 12:00 Briefings and Forum for the Private Sector and International Agencies
Location: Main Conference Room
12:00 to 1:30 Lunch at Leisure
2:00 to 3:45  **OFFICIAL OPENING SESSION**  
Location: Main Conference Room  
- Address by His Excellency Ieremia Tabai, President of Kiribati and Chairman of the Standing Committee of the Pacific Islands Conference  
- Address by Dr. Victor Hao Li, President of the East-West Center  
- Review and Adoption of the Agenda  
- Remarks by Heads of Government/Leaders of the Delegations of Pacific Island Countries

3:45 to 4:15  **Refreshments**  
- Photographs for Heads of Delegations

4:15 to 5:45  **PLENARY SESSION**  
Location: Main Conference Room  
- An Introduction to the Role of the Private Sector in Development  
- Pacific Island Economies in the Global Context  
- Expanding Trade and Investment in the Pacific Islands

6:30 to 9:00 p.m.  Reception hosted by Dr. Victor Hao Li, President of the East-West Center  
Location: by the Mauna Lani Bay Hotel swimming pool

**Tuesday, April 10**

7:15 to 8:15 a.m.  **Breakfast at Leisure**

8:30 to 9:45  **DISCUSSION SESSION ONE**  
Topic 1: Requirements and Opportunities for Tourism Development  
Location: Main Conference Room  
Topic 2: Incentives for Private Sector Development  
Location: Conference Room 2
9:45 to 10:00   Refreshments

10:00 to 11:15   DISCUSSION SESSION TWO
Topic 1: Financing Private Sector Development
  + Role of Financial Institutions
  + Enhancing the Contribution of Development Banks
  + Opportunities for Venture Capital
Location: Main Conference Room

Topic 2: Creating Business Opportunities through Privatization Strategies
Location: Conference Room 2

11:30 to 1:00   Buffet Lunch
Address by Ms. Marilyn Meyers, Deputy Assistant Secretary, United States Department of State
Location: Canoe House Restaurant

1:00 to 2:15   DISCUSSION SESSION THREE
Topic 1: Trade and Investment Opportunities
Location: Main Conference Room

Topic 2: Support for Small Business Development
Location: Conference Room 2

2:30 to 5:45   Fieldtrips for Heads of Delegations

7:00   Dinner at Leisure

Wednesday, April 11

7:15 to 8:15   Buffet Breakfast
Location: Canoe House Restaurant
8:30 to 9:15 PLENARY SESSION
Private Sector Development Programs and the Role of International Agencies
Location: Main Conference Room
9:15 to 9:30 Coffee Break
9:30 to 10:15 DISCUSSION SESSION
Reports from Plenary and Discussion Sessions to the Conference: Summary and Recommendations
Location: Main Conference Room
10:15 to 10:25 Break
10:25 to 12:15 PLENARY SESSION FOR PACIFIC ISLAND GOVERNMENTS AND REGIONAL AGENCIES
+ Conference Business
+ Resolutions
+ Presentation by The Honorable Geoffrey Henry, Prime Minister of the Cook Islands
+ Remarks by the Heads of Government/Leaders of the Delegations of Pacific Island Countries
Location: Main Conference Room
Lunch and Afternoon at Leisure
6:00 p.m. GOVERNOR WAIHEE'S HAWAIIAN LUAU
Appendix II

LIST OF PARTICIPANTS

COUNTRY DELEGATIONS

AMERICAN SAMOA

The Honorable Peter T. COLEMAN
Governor of American Samoa
Pago Pago
American Samoa

Ms. Amata RADEWAGEN
Special Advisor to the Governor
Washington Office of the Governor
Washington, D.C.

Mr. Tautai A.F. FAALEVAO
Attorney General
Pago Pago
American Samoa

Mr. Peter E. REID
Senator
Pago Pago
American Samoa

Mr. William P. COLEMAN, III
Secretary to Cabinet and Chief of Staff
Pago Pago
American Samoa

CHILE

Mr. Lionel DEL SOLAR
Consul General of Chile
Los Angeles
California

Mr. Keith E. ADAMSON
Honorary Consul
Consulate of Chile
Honolulu
Hawaii

COOK ISLANDS

The Honorable Geoffrey HENRY
Prime Minister
Rarotonga
Cook Islands

Dr. James GOSSELIN
Chairman, National Advisory Board
Rarotonga
Cook Islands

Mr. Robert WORTHINGTON
Honorary Consul
Honolulu
Hawaii

AUSTRALIA

Mr. Richard J. SMITH
Deputy Secretary
Department of Foreign Affairs
Canberra
Australia

Mr. Robert J. TYSON
Australian Consul-General
Honolulu
Hawaii
FEDERATED STATES OF MICRONESIA

The Honorable Hiroshi ISMAEL
Vice President
Kolonia, Pohnpei
Federated States of Micronesia

The Honorable Yosiwo P. GEORGE
Governor of Kosrae State
Kosrae
Federated States of Micronesia

Mr. Luey K. LUEY
Special Assistant to the President
Palikir, Pohnpei
Federated States of Micronesia

Mr. Asterio R. TAKESY
Deputy Secretary
External Affairs Department
Palikir, Pohnpei
Federated States of Micronesia

Mr. Marcelino ACTOUKA
Secretary
Department of Resources and Development
Pohnpei
Federated States of Micronesia

Mr. Kasio E. MIDA
Liaison Officer
Honolulu
Hawaii

Mr. Manny MORI
President
PSM Development Bank
Kolonia, Pohnpei
Federated States of Micronesia

FIJI

The Right Honorable Ratu Sir Kamisese K.T. MARA
Prime Minister
Suva
Fiji

Ratu Finau MARA
Chief Assistant Secretary
Ministry of Foreign Affairs
Suva
Fiji

The Honorable Tomasi VAKATORA
Minister for Housing and Urban Service
Suva
Fiji

Mr. Robin YARROW
Permanent Secretary for Foreign Affairs
Suva
Fiji

Mr. Joseph O. BROWNE
Private Secretary
Suva
Fiji

Dr. Joseva NASAROA
Suva
Fiji

Superintendent Babu SINGH
Security Officer
Suva
Fiji

FRANCE

Mr. Jacques MANENT
Head of Pacific Affairs Division
Paris
France

Mr. Daniel DROULERS
Consul-General of France
Honolulu
Hawaii

FRENCH POLYNESIA

The Honorable Georges KELLY
Vice President
Papeete, Tahiti
French Polynesia
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The Honorable Louis SAVOIE
Minister of Finance
Papeete, Tahiti
French Polynesia

Mr. Denis Hong KIOU
Director of Cabinet (Vice Presidency)
Papeete, Tahiti
French Polynesia

Mr. Jean Paul LEHARTEL
Assistant of the Vice President
Papeete, Tahiti
French Polynesia

Dr. Charles GARNIER
Head of Agronomic Research Office
Papeete, Tahiti
French Polynesia

Ms. Orama WINKLER
Public Attaché
Papeete, Tahiti
French Polynesia

GUAM

The Honorable Frank F. BLAS
Lieutenant Governor
Agana
Guam

HAWAII

The Honorable John WAIHEE
Governor of the State of Hawaii
Honolulu
Hawaii

Ms. Ilima PIIANAIA
Director
Office of International Relations
Honolulu
Hawaii

Mr. George ROBERTSON
Administrative Assistant to the Governor
Kealakekua
Hawaii

Mr. Francis LUM
Protocol Officer
Honolulu
Hawaii

Ms. Michelle IKEDA
Secretary
Honolulu
Hawaii

INDONESIA

Mr. Djunaedi SUTISNAWINATA
Consul-General of Indonesia
Los Angeles
California

JAPAN

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Suva
Fiji

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Secretary
Embassy of Japan
Suva
Fiji

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Consul-General of Japan
Honolulu
Hawaii

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Kiribati

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Bairiki, Tarawa
Kiribati
Mr. Teraku TEKANENE  
Secretary for Trade, Industry, & Labor  
Bairiki, Tarawa  
Kiribati

Ms. Elizabeth NAARE  
Protocol Officer  
Bairiki, Tarawa  
Kiribati

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Marshall Islands

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Special Assistant to the President  
Majuro  
Marshall Islands

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Attorney General  
Majuro  
Marshall Islands

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Planning and Statistics  
Majuro  
Marshall Islands

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Clerk of the Cabinet  
Majuro  
Marshall Islands

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Chairman  
Nauru Phosphate Royalties Trust  
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Central Pacific

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Central Pacific

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Aide De Camp  
Yaren, Nauru Island  
Central Pacific

Ms. Peta GADABU  
Private Secretary  
Yaren, Nauru Island  
Central Pacific

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New Caledonia

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Déologue pour le Commerce Extérieur  
Haut Commissariat de la République en Nouvelle-Calédonie  
Noumea  
New Caledonia

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Yaren, Nauru Island  
Central Pacific

The Honorable Kinza CLODUMAR  
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Yaren, Nauru Island  
Central Pacific

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Associate Minister of Foreign Affairs and Trade  
Wellington  
New Zealand
Mr. Gordon SHROFF
Director, South Pacific Division
Ministry of External Relations and Trade
Wellington
New Zealand

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

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Governor of the Commonwealth of the Northern Marianas
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Mariana Islands

Mr. Eloy S. INOS
Director of Finance
Saipan
Mariana Islands

Mr. Francisco S. ROSARIO
Public Information and Protocol Officer
Saipan
Mariana Islands

Mr. Joaquin S. TORRES
Acting Director
Commerce and Labor
Saipan
Mariana Islands

PALAU

Mr. Ramon RECHEBEI
Chief of International Trade Division
Bureau of Foreign Affairs
Koror
Palau

TONGA

The Honorable Baron VAEA
Acting Deputy Prime Minister and Minister for Labor, Commerce and Industries
Nuku’alofa
Tonga

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Minister of Education, Works and Civil Aviation
Nuku’alofa
Tonga

Mr. Semis TAUMOEPEAU
Chief Tourist Officer
Tonga Visitors Bureau
Nuku’alofa
Tonga

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Prime Minister of Tuvalu
Funafuti
Tuvalu

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Tuvalu Ambassador to Fiji
Suva
Fiji

Ms. Misalaima NELESONE
Assistant Secretary General
Funafuti
Tuvalu

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British Ambassador to Fiji
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Fiji
UNITED STATES

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Deputy Assistant Secretary - EAP
Department of State
Washington, D.C.

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Deputy Director
U.S. Trade and Development Program
Washington, D.C.

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Regional Director
U.S. Trade and Development Program
Washington, D.C.

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Regional Director
U.S. Agency for International Development
Suva
Fiji

Mr. Geoffrey CASTON
Vice-Chancellor
University of the South Pacific
Suva
Fiji

Dr. Rajesh Chandra
Pro Vice-Chancellor
University of the South Pacific
Suva
Fiji

Mr. Russell J. CHEETHAM
Director
The World Bank
Washington, D.C.

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Executive Secretary
Pacific Science Association
Honolulu
Hawaii

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Program Director
Foundation for the Peoples of the South Pacific
Suva
Fiji

Admiral Ronald J. HAYS
President and Chief Executive Officer
Pacific International Center for High Technology Research (PICHTR)
Honolulu
Hawaii

Mr. Steve HOULIHAN
Director
South Pacific Trade Office
Auckland
New Zealand

Mr. Stanley HOSIE
Executive Director
Foundation for the Peoples of the South Pacific
Los Angeles
California

REGIONAL ORGANIZATIONS AND INSTITUTIONS

Dr. Failautusi AVEGALIO
Professor
College of Business Administration
University of Hawaii
Honolulu
Hawaii

Mr. Atanraoi BAITEKE
Secretary-General
South Pacific Commission
Noumea Cedex
New Caledonia

Mr. Christopher BROWNE
Division Chief
International Monetary Fund
Washington, D.C.
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<tr>
<th>Name</th>
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<tr>
<td>Dr. George IKEDA</td>
<td>Director of Research</td>
<td>School of Travel Industry Management</td>
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<td>Dr. Malama MALEISEA</td>
<td>Director - Center for Pacific Islands Studies</td>
<td>University of Canterbury</td>
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<td>Japan Resources Association</td>
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<td>Pacific Conference of Churches</td>
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<td>Asian Development Bank</td>
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<td>Economic and Social Commission for Asia</td>
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<td>Pacific Basin Development Council</td>
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</table>
Mr. Samuel OSIFELO  
Trade And Development Division  
Forum Secretariat  
Suva  
Fiji

Mr. Patrick PILLON  
Researcher  
ORSTOM  
Noumea  
New Caledonia

Dr. Aseasea RAVUVU  
Chairman  
Fiji Trade and Investment Board  
Suva  
Fiji

Mr. Nigel RINGROSE  
Resident Representative  
United Nations Development Program  
Suva  
Fiji

Professor R. Gerard WARD  
Director  
Research School of Pacific Studies  
Australian National University  
Canberra  
Australia

Dr. Terence WESLEY-SMITH  
Deputy Director  
Center for Pacific Island Studies  
University of Hawaii  
Honolulu  
Hawaii

Dr. Angela WILLIAMS  
Director  
Pacific Business Center Program  
University of Hawaii  
Honolulu  
Hawaii

Mr. Fernando Z. VICENTE  
Country Director, South Pacific  
United Nations Industrial Development Organization  
Suva  
Fiji

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President Cabinet  
Chamber of Commerce of French Polynesia  
Papeete, Tahiti  
French Polynesia

Ms. Marjorie BUDAN  
Press Attaché  
Chamber of Commerce of French Polynesia  
Papeete, Tahiti  
French Polynesia

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Group Vice President - Diversified Companies  
Hawaiian Electric Industries, Inc.  
Honolulu  
Hawaii

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Area Manager  
Matson Navigation Company  
Honolulu  
Hawaii

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Director, South Pacific Sales  
Hawaiian Airlines  
Honolulu  
Hawaii

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Conzinc Riotinto Australia, Ltd.  
Melbourne  
Australia

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General Manager  
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South Pacific Inc.  
Honolulu  
Hawaii
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Honolulu  
Hawaii

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Vice President  
GTE - Hawaiian Telephone  
Honolulu  
Hawaii

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Director - Technical Services Division  
Hawaiian Electric Company, Inc.  
Honolulu  
Hawaii

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Brewer Chemical Corporation  
Honolulu  
Hawaii

Mr. Tsutomu KIKUCHI  
Assistant Coordinator of PECC PIN Task Force  
Japan National Committee for Pacific Economic Cooperation Conference (JANCPEC)  
Minato-ku, Tokyo  
Japan

Mr. Jerry KRAMER  
President  
Majuro Chamber of Commerce  
Majuro  
Marshall Islands

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Technical Advisor  
Chamber of Commerce of French Polynesia  
Papeete, Tahiti  
French Polynesia

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Vice President  
Chamber of Commerce of French Polynesia  
Papeete, Tahiti  
French Polynesia

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Managing Director  
Teta, Ltd.  
Nuku'alofa  
Tonga

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President  
Hawaiian Electric Renewable Systems  
Honolulu  
Hawaii

Mr. Yoshio MASUDA  
Japan Resources Association  
Yokosuka-shi  
Japan

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Manager - Marketing Department  
Hawaiian Electric Company, Inc.  
Honolulu  
Hawaii

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President  
Aloha Airlines  
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Hawaii

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The Pacific Society  
Minato-ku, Tokyo  
Japan

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Senior Research and Planning Officer  
Asian Productivity Organization  
Minato-ku, Tokyo  
Japan
Mr. Allen PICKENS
Chairman, Pacific Initiatives Committee
Guam Chamber of Commerce
Tamuning
Guam

Mr. Dudley PRATT
President & CEO
Hawaiian Electric Industries, Inc.
Honolulu
Hawaii

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Sasakawa Island Nations Fund
Minato-ku, Tokyo
Japan

Mr. Takahide SHIBATA
Assistant Deputy Executive Director
Japan National Committee for Pacific Economic Cooperation Conference (JANPEC)
Minato-ku, Tokyo
Japan

Mr. Orson SWINDLE
Vice President
Commercial Pacific, Ltd.
Honolulu
Hawaii

Mr. Eliakim Taenge TOBOLTON
Managing Director
Investment Corporation of Papua New Guinea
Port Moresby
Papua New Guinea

Ms. Valerie L. WARREN
President
Pacific Islands Association
Kailua
Hawaii

Mr. Makoto WATANABE
Deputy General Manager, Policy Planning Office
Tokyu Corporation
Tokyo
Japan

Mr. Harwood “Dan” WILLIAMSON
Group Vice President - Utility Companies
Hawaiian Electric Industries, Inc.
Honolulu
Hawaii

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Vice President - Marketing
Hawaiian Electric Industries, Inc.
Honolulu
Hawaii

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President

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Research Associate
International Relations Program

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President’s Office

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AV Production Officer
Logistics

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Project Fellow
Resource Systems Institute

Mr. Webster NOLAN
Director
Public Affairs

Dr. Mark VALENCIA
Research Associate
Resource Systems Institute

Mr. John WILLIAMS
Information Officer
Public Affairs
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Student Assistant

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Secretary

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Professor
University of the South Pacific
Suva
Fiji

Mr. Rodney COLE
Assistant Executive Director
National Centre for Development Studies
Australian National University
Canberra
Australia

Mr. Taturoanui Graham CROCOMBE
Consultant
Auckland
New Zealand

Mr. Siliga KOFE
Lecturer
Department of Economic
University of the South Pacific
Suva
Fiji

Mr. Jim MCMASTER
Dean
Faculty of Management
University of Canberra
Canberra
Australia

Mr. Soane RAMANLAL
Consultant
Ramanalal Hotel
Nuku'alofa
Tonga

Professor Anthony THIRLWALL
Keynes College
University of Kent
Canterbury
United Kingdom

Mr. Peter THOMSON
Thomson Pacific Resources, Ltd.
Auckland
New Zealand
Appendix III

OPENING REMARKS
Georges Kelly
Vice-President of French Polynesia

Governor of the State of Hawaii, the heads of governments, dear colleagues, ladies, and gentlemen.

It is a great honor for me to present to you on behalf of His Excellency Alexandre Leontieff, President of French Polynesia, our most sincere salutation to the people of the Pacific.

It is for me the first time that I have participated in such a conference, which will last three days and which will debate on regional cooperation in the Pacific. The different working groups will discuss the studies conducted by PIDP on the role of the private sector; the development of our islands, particularly tourism and fisheries; demographic problems, which involve youth; the exploitation of mineral resources; agricultural development and export; and also new potential unexploited resources.

Our association with the PIDP program demonstrates our will to participate in this program of interregional cooperation and to insert ourselves into our natural environment, which is the Pacific, and also to maintain our relationships with our neighbors, the Melanesians, Micronesians, and Polynesians of the region.

However, I would like to show today some of the orientation that probably PIDP could consider. But, of course, you would probably think that I will be biased because I will be interested in developing my islands, which is French Polynesia, of course. However, because we belong to a Francophile country we feel a bit alienated from the Anglo-Saxon side. Since we have the same culture and ways we can actually translate our language instantaneously, which will put all
the barriers down. To enhance a better communication between our countries it will be important that we can train our people in the same manner so we can all communicate in the same language. However, it is also interesting if we can reverse the processes and you can be trained also from our side.

A lot of studies have been done in agriculture, particularly in export of goods. I wish that some similar study can be done from our side of the country. But, of course, we can use other models that have been used in other countries since we have similar problems. Although agriculture in my country on my side of the Pacific has been rather not well developed I wish now that a new rebirth be taken into consideration.

Of course, the weight of the government in a country is important; however, the association with the private sector might allow development to progress. And the private sector is responsible for creating new work; however, we have to underline the fact that a lot of people are not trained properly. Probably it would be wise if we could think about a training program for our people to work together.

And before we are finished I would like to tell you something. I would be honored to invite you for the next PIDP meeting in Tahiti. Of course, five years is long and we never know what will happen in five years, but I wish that this invitation stands. Thank you for your attention. Maururu and laorana.
Mr. Chairman, distinguished Pacific nation leaders, representatives and delegates, ladies, and gentlemen.

I will speak very briefly about the subject that I am proposing to bring the attention of PIDP, and that is in respect of the subject, disaster preparedness. I believe the Pacific nations ought now to address the subject of natural disasters in a less blase and more positive manner than we have been doing in the past, and I believe the time has come when we ought to track to this subject, this sphere of interest. The participation of developed countries is especially important with their resources that are available to them to help us develop now for ourselves a greater degree of self-protection, self-reliance, and indeed confidence in times of disaster because we need to show them that it is cheaper to help us now than to help when the disasters have hit.

Throughout the Pacific, nations are affected by natural disasters, which pop up from various parts of the world, and we all know the dangers that are predicted in terms of the greenhouse effect, and I think the time has come when we should start looking at what those effects might be and how best small island nations, particularly low-lying countries in the Pacific, may be better prepared for eventualities of the greenhouse effect.

That basically, Mr. Chairman, is the subject of the paper that I will be bringing. We will be distributing the paper very shortly, and we will be addressing it in a fuller form Wednesday. (See Appendix VII).
Let me, Mr. Chairman, take this opportunity, lest it does not become available to any of the others, to say a few comments. I hope the other leaders do not mind me doing it on their behalf. We want to congratulate you for being the Chairman, and we know that you are going to guide our discussions very skillfully over the next two days or so. We certainly hope that will happen. We also want to say how pleased we are to be here in your home island. How wonderful the hospitality has been that is so much a part of Hawaii and so much a part of our people of the Pacific, and we want to thank you for all the arrangements for the conference that we have experienced today. We know that it is all going to be above par from here on.

Finally I would just like, on behalf of the leaders of the Pacific and distinguished representatives of Pacific nations, to extend our congratulations to the Chairman of the Standing Committee of PIDP, President Ieremia Tabai, who has guided the Standing Committee discussions over the last five years and who has always been very helpful in our request for support.

I feel that we should say thank you to him, say thank you to you, Mr. Governor and to your government and the people of Hawaii, and I would like to invite all those in this room to join me in expressing our thanks.
Appendix V

OPENING REMARKS
Lionel Del Solar
Consul-General of Chile
Los Angeles, California

Your excellencies, leaders of the Pacific islands. It is a great honor for me to represent the Chilean Democratic Government at this Third Conference of the Pacific Islands. Chile as a part of the Pacific Basin believes it is very important to participate in the deliberations that will take place during this meeting. Chile will endeavor to gain new markets for our products and increase the number of commercial, financial, and technological partners.

Chile feels it has the potential to play an important role in this oceanic community:

1. Due to its geographical position Chile has more than 4,000 km (2,485 miles) of Pacific coastline, plus the assets of Easter Island, Juan Fernandez, and other islands. With its Antarctic elongation the Chilean coastline represents the longest stretch of territory in the American Pacific coast.

2. There are strong economic and commercial reasons to reinforce this Pacific identity. The Chilean government wants to maintain economic principles consistent with those of our Pacific partners, based mainly on free trade, export promotions, and a policy for foreign investments. Due to this fact Chile will intensify its participation and trade in the Pacific Rim.

On the other hand, Chile’s activity in this area can be summarized as follows:

While maintaining and strengthening our traditional ties with the United States of America, Canada, Australia, New Zealand, Japan,
the People's Republic of China, and Korea, we have fostered diplomatic and commercial links with the Asian countries. Our diplomatic ties with the Pacific insular states of Polynesia, Melanesia, and Micronesia have been also intensified.

Presently, our country has formal diplomatic relations with nine of the independent states of the South Pacific region.

Chile has also established 13 trade offices to look after the needs of its export seekers in the region and to analyze market opportunities.

Mr. President, allow me to remind everyone that the Chilean Democratic Government will continue to promote the task performed by the private sector regarding the economic opening to foreign trade. Likewise, Chile will strengthen its links with the Pacific Basin countries in the cultural, scientific, and technological fields.

Finally, I wish to inform all of the distinguished delegations that His Excellency Mr. Patricio Aylwin, President of the Republic of Chile, has sent a letter to Governor Waihee to thank him for the invitation to this important conference. In this letter, President Aylwin highlights the cultural and commercial ties that Chile has with all the Pacific Basin countries, especially through Easter Island located in Polynesia.

President Aylwin points out that Chile feels committed to the future of insular countries. Due to this fact he has maintained bonds that have been increased with the opening of diplomatic relations with almost all of the independent nations. President Aylwin also adds that the Chilean government wishes to deepen them by cooperating in those areas in which we have experience.

Thank you very much, sir.
Appendix VI

ADDRESS
Marilyn Meyers
Deputy Assistant Secretary of State
Bureau of East Asia and Pacific Affairs
U.S. Department of State

Governor Waihee, President Li, Mr. Chairman, members of the Standing Committee, excellencies, distinguished guests, ladies, and gentlemen.

It is my great honor and pleasure to be here as the representative of the United States Government at the 1990 Pacific Islands Conference. As the Deputy Assistant Secretary of State responsible for our relations with the Pacific islands, I devote considerable time and effort to developing and implementing our policies in this region.

The United States is a Pacific as well as an Atlantic nation; the thrust, the focus on movement has always been westward. American clipper ships were among the first to arrive in Canton’s harbors and our first consulate was opened in Japan in 1856 by a diplomatic colleague of mine named Townsend Harris. At the end of the 19th century, during our colonial era, the United States acquired the Philippines and Guam from Spain and, at that same time, divided Samoa’s territory from Germany.

World War II brought, of course, intense involvement of the United States throughout the Pacific. Almost 9,000 of our finest young men never came home—from places such as Guadalcanal, the Coral Sea, Tarawa, Papua and New Guinea. Those guns fell silent almost 45 years ago but since that time we have again been involved in two wars in Asia in defense of freedom and of the right of people to self-determination—to choose their own way.
So I would argue that rather than "neglect" the Pacific, of which the South Pacific is an integral part, as some have charged, the United States has, since 1945, under our defense and security arrangements negotiated post-war, done much to create an environment of peace and stability into which many new Pacific states have been born. The movement toward decolonization began with Western Samoa in 1962; most recently, in 1986, the Republic of the Marshall Islands and the Federated States of Micronesia completed their own process of self-determination. We would hope that Palau too will pursue amending its constitution so that it can join the United States in Free Association as the majority of Palauan voters have repeatedly voted to do.

World War II brought, of course, material changes too—a vast influx of, according to one journalist, "hundreds of thousands of troops, bringing with them a mass of weird and wonderful equipment and supplies. But more important, in the long term, were the new ideas and new ways of doing things."

New ways? New ideas? Perhaps simply a reawakening of a concept long buried, that regardless of race, people should be allowed to determine their own future.

But what of the South Pacific, you may ask? What are the U.S. concerns, the U.S. interests here?

We do have important political, strategic, and economic interests in the South Pacific. I would like to take this opportunity to review for you our activities and programs as we head into the 1990s. What are the concrete steps we have taken in the recent past? How will we build on these events in the future?

Let me begin with a summary of U.S. objectives—political, strategic, and economic—in the region. Our political objectives are to strengthen democratic institutions, foster political stability, and encourage governments friendly to the U.S. Since the decolonization of much of the area began with Western Samoan independence in 1962, democracies have generally flourished throughout the South Pacific. This is no mean achievement, and one of which you should be proud. This factor is one of the real strengths in our bilateral relationships in the region.
U.S. strategic objectives are several: to maintain the right of free passage, port access and overflight rights; safeguard lines of communication to Australia and the Indian Ocean; and prevent the South Pacific from becoming an area of superpower rivalry. Although most of the Pacific island nations are indeed quite small, the area you encompass—especially with your Exclusive Economic zones—is enormous, giving the region great strategic importance.

U.S. economic objectives are to encourage economic growth, development, and mutually beneficial trade and to maintain U.S. access to regional fisheries and natural resources. You know better than I that many of the Pacific island nations face real constraints, including few natural resources, shortages of skilled personnel, uneconomically small markets, and huge transportation costs. Creating sustainable economies in the region will both raise local standards of living and help strengthen overall stability.

These objectives are sound and, because they are, they have changed little since World War II. However, the region itself has changed considerably. Most of the states of the South Pacific had become independent by the end of the 1970s, creating both uncertainties and opportunities. With the process of independence and evolution from traditional to more modern societies, political, economic, and social problems have increased. You—the new leaders of the region—have naturally shown a desire to demonstrate your national sovereignty, while often hard pressed by the rising economic expectations of your people. The area has experienced internal political flare ups—which can affect the peace and stability of the region.

The position and image of the U.S. in the region has also, we believe, quite clearly changed. We enjoyed tremendous goodwill following our common effort during World War II. This is still a positive factor for us, but the older generation is passing from the scene, and we must create new bonds with the oncoming generation.

What have we been doing to make our presence felt more positively in the South Pacific and to contribute to our common goals of political stability and economic development? We have broadened our diplomatic presence in the region, for the first time sending resident diplomats to Solomon Islands and Western Samoa. Those two
complement our two existing embassies in Papua New Guinea and Fiji. We have also upgraded our relations with the Republic of the Marshall Islands and the Federated States of Micronesia, and we will be sending out full-fledged ambassadors soon to our embassies in Majuro and Kolonia to succeed our U.S. representatives.

What of economic development? President 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 the product not of massive aid packages, but of free and open economies...." United States development assistance to the 10 independent developing countries of the South Pacific is centered on this concept. It finds fertile ground, as the societies share a genuine commitment to representative government, open economies and political processes, and the need for a vital private sector.

As you know, our regional USAID program is coordinated out of Fiji, with a country office in Papua New Guinea. During the 1990s, we will seek to promote broad-based national economic growth through, amongst other things, increasing income to private enterprise and entrepreneurs from agro-marine commerce while protecting the natural resource systems vital to the life of the Pacific.

We have other programs in the area: an active U.S. Information Agency regional office here in Hawaii with country offices in Fiji and Papua New Guinea, and significant public relations and assistance programs for the islands arranged by USCINCPAC headquarters in Honolulu. It was through USAID and CINCPAC that we were able to respond so quickly to appeals for help from Western Samoa in February after Cyclone Ofa hit. I might add that, of course, significant disaster relief was channeled to American Samoa through the Federal Emergency Management Agency in the wake of the same storm, and that CINCPAC was very active in helping there also.

Another key U.S. agency active in the region is the Peace Corps. We now have some 400 volunteers in 13 Pacific island countries, including 70 in Papua New Guinea, 85 in Fiji, 65 in the Federated States of Micronesia, 50 in the Solomon Islands, 40 in Tonga, and 30 in the Republic of the Marshall Islands. In addition to the eight Peace Corps workers in Kiribati, we also have 14 trainees there. The volunteers in Western Samoa put in yeoman service in the wake of Cy-
clone Ofa, switching overnight from their normal tasks to helping with disaster relief. Our newest Peace Corps program is in Vanuatu, where three teachers began working at the beginning of this year, and we expect four to arrive in the Cook Islands this June. We want to assure that the Peace Corps contribution to South Pacific development remains matched to your needs, and Peace Corps Director Paul Coverdell will shortly visit Papua New Guinea, Fiji, and Tonga to assure that this remains the case.

We recognize the crucial importance that fisheries resources play for the countries of the South Pacific. We are gratified that we were able to conclude the South Pacific Fisheries Treaty with 16 countries of the region. We are now approaching the third year of this five-year Treaty. Not only did it end years of friction and acrimony over our tuna fishing, but it also provides a major annual infusion into the region of ten million dollars in U.S. government assistance as well as two million dollars in license fees and private funding. Our Deputy Assistant Secretary for Oceans and Fisheries, Edward Wolfe, traveled to Port Moresby in February for the second annual review of the Treaty. During this meeting, the parties to the Treaty agreed that it is operating successfully and to the benefit of all parties. We hope that the Treaty will continue to provide the foundation for a long-term positive fisheries relationship between the U.S. and the Pacific island states.

We share the concern of the Pacific island nations over the problem of large scale driftnet fishing for albacore tuna in the South Pacific. We have been supportive of the efforts of the Pacific island nations on this issue, for example at the South Pacific conference in Guam in October, and in a common effort at the United Nations later in the year. We are currently giving serious and positive consideration in acceding to the treaty and protocols on driftnet fishing which was concluded last November in Wellington. Meanwhile, we are working closely with the Pacific island nations in the negotiation of a regional agreement to conserve and manage the highly migratory South Pacific albacore tuna stocks.

We have taken a more prominent role in regional organizations. We participate actively in the South Pacific Commission and took part last summer in the South Pacific Forum's first Post-Forum Dialogue. We look forward to the second Post-Forum Dialogue in Port Vila in
August. We signed the South Pacific Regional Environment Program (SPREP) Convention in 1986 and are currently reviewing it for ratification. We also participate actively in the Committee for Coordination of Joint Prospecting for Mineral Resources (CCOP/SOPAC).

We have increased the number of our high-level visits to the South Pacific, including Congressional delegations and high-level delegations for important events in the region. We will continue to encourage this type of venture, which exposes more Americans to the potential and concerns of the South Pacific and enables them to play a more interested role.

On March 30, in a major speech before the World Affairs Council in Dallas, Secretary of State Baker noted that “beyond containment lies democracy” and that we have a major interest in supporting sister democracies around the world.

As you are aware, new democracies have arrived on the scene, and we are taking steps to support these emerging democracies in Eastern Europe and Central America. However, we are not a nation of unlimited resources and how much we can do in the South Pacific as well as in other areas will inevitably be affected by these world changes. But we are also committed to the best of our ability to continuing our efforts to support you and other developing nations.

There is much more we would like to do. We would like to increase our aid to the region. Following the success of our small embassies in Honiara and Apia, we would hope to open one or two additional one-officer posts. We will try to get our people out to the region more often, to better understand its problems and needs, to develop the personal contact that is so important in the South Pacific. I am pleased to say that following this conference I will be going on to the Republic of Marshall Islands and the Federated States of Micronesia for my initial visit and consultations in these countries. We are aware that the very process of seeking to demonstrate greater attention and concern for the South Pacific risks raising expectations that may be impossible to meet. Nonetheless, we will be doing our best to pursue the objectives I outlined earlier and to maintain the momentum of our policy, searching for innovative ways to be responsive and to find areas where we can work together on issues of importance to us both.
Appendix VII

PRE-DISASTER PLANNING FOR TROPICAL STORMS
IN THE PACIFIC:
A DISCUSSION PAPER PREPARED BY THE COOK ISLANDS

1. Introduction

1.1 The Pacific Island region has long been plagued by periodic natural disasters, particularly hurricanes and tropical storms, the latter commonly termed cyclones in the South Pacific and typhoons north of the equator. Only this year, for example, Cyclone Ofa struck Tuvalu, Tokelau, Western Samoa, American Samoa, Wallis and Futuna, Tonga, and Niue. It was followed shortly thereafter by Cyclone Peni, which hit the Cook Islands and French Polynesia. Similar storms strike elsewhere in the region as well, of course, including island groups in both Melanesia and Micronesia.

1.2 With extremely high winds and accompanying abnormally high seas, the storms often leave a wake of death and destruction in their paths. In the case of Cyclone Ofa, for instance, 12 lives were reportedly lost and over US$100 million damage was caused in Western Samoa alone. Throughout the region ravaged by Ofa and Peni, many houses and public buildings, as well as essential infrastructure such as bridges, roads, seawalls, water supplies, electricity-generating and telecommunication facilities were either totally destroyed or severely damaged. In many island communities, food crops were similarly affected, posing possible health problems in the months ahead. For the various governments concerned, the effects of the two cyclones will be felt for months and years to come.

1.3 In light of these recent Cyclones, it is opportune for the Third Pacific Islands Conference to examine the current state of pre-disaster planning in the Pacific Islands region and what might be done by the countries and territories of the region to mitigate the disastrous effects of such tropical storms in future.
2. Recent Consideration of Disaster Issues in the Pacific

2.1 In their useful paper on the subject, Michael Hamnett, Fred Cuny and Sio Maiasa explain that disaster preparedness or, more appropriately, “pre-disaster planning” is a term used to describe “the comprehensive range of efforts that can be made to reduce the destruction and disruption of a disaster before it occurs” (Disaster Preparedness and the State of Preparedness in the Pacific Region (PIDP 1983)). The term denotes action and emphasizes the most important aspect of the activity: planning. These actions contrast with post-disaster activities, which involve operations.

2.2 Pre-disaster planning, they continue, consists of three types of activities:

- disaster prevention, focusing on the hazard that causes the disaster and attempting to eliminate or drastically reduce its direct effects (e.g., construction of dams to prevent flooding);
- disaster mitigation, focusing on measures that can be taken to minimize the destruction and disruptive effects of a hazard and thus lessen the magnitude of a disaster (e.g., strengthening buildings so that they are hurricane resistant); and
- disaster preparedness, focusing on the development of plans to respond to a disaster once it threatens or has occurred.

2.3 Fortunately, increasing the effectiveness of pre-disaster planning on both a national and regional basis in the Pacific does not require starting from the beginning. Over recent years, meetings have been held in the region to discuss the topic, and the Pacific Islands Development Program (PIDP) has already carried out valuable work on the subject.

2.4 In regional meetings of officials on the subject held in 1976, 1979, and 1982, many specific needs within the above three types of pre-disaster planning were identified, including:

- the development of disaster-resistant housing designs, building codes, and technical assistance programmes aimed at building houses that will withstand hurricane-force winds;
• the establishment of agricultural development programmes aimed at reducing crop losses and economic vulnerability;

• the development of national or regional training programmes for operational ministry personnel in pre-disaster planning, mitigation techniques, and preparedness;

• the preparation and enactment of legislation for pre-disaster planning and emergency management;

• the development of infrastructure to support emergency services;

• the development of better disaster impact assessment techniques;

• the refinement of emergency management policies and procedures;

• the development of better disaster impact assessment techniques;

• the installation of more suitable and reliable communications systems;

• the development of disaster insurance schemes;

• the development of mutually acceptable regional and multilateral agreements for disaster assistance; and

• the development, or refinement, of national and sub-national disaster plans.

(Maiasa, Sio, and Michael Hamnett, Future Needs for Disaster Preparedness in the Pacific Region (PIDP 1983))

2.5 At the same time as regional meetings of officials were being held to discuss pre-disaster planning in the region, the same subject was attracting the collective attention of the Pacific Islands Conference, the Standing Committee of the Conference in November 1980 directed the PIDP to mount a regional study of pre-disaster planning in the Pacific. The major findings of the survey, completed in 1982, were:
the costs of natural disasters were growing as a result of economic development and increasing government involvement in relief and rehabilitation;

the major economic impacts of disaster were in housing and agriculture, and those economic impacts were becoming more severe;

some countries had made significant strides in the preparation of disaster preparedness plans and the development of disaster response systems, but others had not;

there was, however, a need for the development of comprehensive counter disaster policies aimed at both disaster preparedness and disaster mitigation;

rural communities were becoming less self-reliant as national government disaster assistance increased and governments were becoming more dependent on international aid for disaster relief and rehabilitation;

relatively inexpensive disaster preparedness and mitigation measures aimed at housing, agriculture, and other sectors could reduce the growing costs of natural disasters;

there was a need for ministries and agencies other than those directly responsible for disaster response to become active in preparedness and mitigation; and

there was a need for policy and technical assistance as well as training in disaster preparedness and mitigation.

(The Pacific Islands Development Program Disaster Preparedness Project (PIDP, June 1985))

2.6 Considering the above survey, the Standing Committee in April 1982 directed the PIDP to proceed with the latter's recommended policy assistance and training program aimed at building disaster preparedness and mitigation capability in the Pacific Islands region.

2.7 As part of that program, PIDP organized in March 1983 a Disaster Preparedness Strategies Seminar, which was held in Fiji. The Seminar engaged in wide-ranging discussions on four broad topics: (1) national disaster planning, (2) economic vulnerability reduction,
(3) housing vulnerability reduction, and (4) agricultural recommendations on each topic included the following presented below:

- national disaster planning:
  - planning was needed at national/provincial/local (village) levels;
  - plans must be simple, clear, and relevant to capabilities;
  - cost-benefit studies should be conducted to support planning;
  - roles and capabilities of regional countries and international agencies should be identified;
  - central control of requests to other countries and agencies should be initiated;
  - legislation was required and this should be given urgent consideration by governments;
  - counter-disaster and development planning must be closely related, and lessons learned from disasters needed to be applied to development;
  - regional warning advice must be timely and alternative means of communications must be identified;
  - national warning systems must be simple and easy to comprehend and a system common to the countries of the region should be investigated;
  - communications, both internal and external, were generally inadequate for warnings, information, advice, and counter-disaster operations, and these needed urgent attention;
  - training and disaster response exercises were essential to all levels associated with planning, operations, resource provision, communication, and review. Public awareness was also needed to support preparedness; and
  - training assistance, particularly in-country training (and overseas in the earlier stages of counter-disaster development) is generally needed to support the above.
- economic vulnerability reduction:
  - a list of available plans and informational materials should be provided to participating agencies to help identify resources for technical assistance;
  - technical assistance should be provided by relevant agencies to help countries develop formats for economic loss profiles;
  - all concerned organizations should be reminded that economic losses due to disasters in smaller countries are often proportionately far greater than higher volume losses in larger countries;
  - to the extent feasible, economic development planning should be flexibly structured to reduce losses due to disasters;
  - insurance enterprises, cooperatives, and other private sector financial institutions should be encouraged to share the burden with governments for disaster recovery;
  - there should be improved means of accounting for economic loss in order to facilitate planning for loss reduction;
  - disaster loss should be addressed directly in the formulation for national development plans, programme development, and other relevant initiatives;
  - donor countries should be encouraged to produce regional relief commodities and services to stimulate recovery in the local economy;
  - a regional skills bank in disaster mitigation and preparedness should be established upon which smaller governments could draw talent which they cannot afford to maintain themselves;
  - voluntary services should be fully utilized to develop and maintain preparedness programmes; and
  - a regional body should be established which can anticipate relief needs and trigger outside response in the event that communications from the affected government are not possible.
• reducing housing vulnerability:
  - information on construction techniques adaptable to local
    needs and preferences and which did not require plans or
    building regulations was needed and should be able to pro-
    vide them. There also was a need for public works and
    housing departments to consider housing requirements in
    high risk areas and to give particular attention to formulat-
    ing recommendations for the utilization of the most appro-
    riate designs and building techniques for such areas;
  - houses built in disaster areas should be kept under regular
    inspection to monitor their condition and performance over
    time;
  - there was a need for governments to consider the problems
    of insurance to cover houses built as part of a major housing
    replacement programme after a disaster which would pro-
    tect the capital outlay involved;
  - the possibility of a regional disaster insurance scheme should
    be fully examined. Such a scheme should provide an oppor-
    tunity for insurance coverage for small areas which cannot
    currently be economically arranged because the risk cannot
    be spread;
  - special attention should be given to the review of the safety
    of public buildings that have special community functions,
    as well as the need for an ongoing survey of the condition of
    the buildings to ensure that their ability to withstand major
    environmental stresses is maintained, particularly in the case
    of churches and community halls often resorted to for shelter
    in storms;
  - rather than awaiting the occurrence of a disaster, aid for im-
    provement of housing quality and the reduction of housing
    vulnerability should be made available as a part of general
    development assistance for upgrading existing housing as
    well as for housing needed in growing urban areas or ex-
    panded rural communities;
  - consideration should be given to incentives at the local level
    that could be adopted to encourage the incorporation of im-
proved building standards into the construction or repair of houses;

- surveys of appropriate housing designs and construction techniques should be costed as fully as possible so that the costs/benefits of proposed designs and methods can be analyzed at the national level;

- policies for the increase in housing reliability and for replacement after disaster impact should be differentiated in terms of rural and urban areas, reflecting the diverse factors applied in those contrasting socioeconomic situations;

- in the siting of buildings, there will often be a number of government departments involved so that interdepartmental interaction and cooperation are essential;

- there should be an investigation of roofing materials other than corrugated iron because of the latter's destructive effect in storms, bearing in mind at the same time the importance of roofs as water catchments; and

- building codes, where applicable, should be relevant to the areas involved and not imposed from outside the region without assessment of their suitability; and

- agricultural development and disaster preparedness:

  - the effects of disasters on agricultural production, especially potential losses, should be taken into account in the preparation of national development plans;

  - there is a need to recognize the value of traditional agricultural methods, including food preservation, and steps should be taken to initiate public awareness/education programmes to revive and develop such methods;

  - food security measures should be included in national development plans and particular attention should be paid to strengthening agricultural extension services;

  - in disaster situations, agricultural officers should be involved in the distribution of rations;
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- provision of food from external sources should be seen as a complement to, rather than substitute for, local, traditional food;

- in developing food preservation systems, priority should be given to the village/family level activities, so as to lessen the need for non-traditional foods;

- development banks should be encouraged to provide loans for agricultural reconstruction;

- public education programmes should be established whereby people are informed of what they can do to stockpile and preserve food prior to disasters; and

- farmers in disaster-prone areas should be encouraged to diversify crops to ensure some harvesting outside the disaster season.

2.8 Between 1983 and 1986, the duration of the project, PIDP published a number of manuals and reports, as well as carried out a number of pre-disaster planning related activities. It mounted, for example, a model program for housing vulnerability reduction in Solomon Islands; studied the response to hurricanes in Fiji at the request of the Fijian Government; conducted a disaster preparedness planning workshop for the Governments of the Federated States of Micronesia, the Republic of the Marshall Islands, Palau, and Kiribati; and carried out national vulnerability assessments in several countries including the Cook Islands, Fiji, and Western Samoa.

2.9 In concluding the project, PIDP observed that the project had attempted not only to identify what should be done but also to provide the technical tools and training necessary to do it.

3. Possible Future Activities of PIDP

3.1 There is no doubt but that the PIDP pre-disaster planning project produced valuable results in terms of research and training activities carried out and manuals and other reports published. At the same time, however, the destruction caused by Cyclone Ofa and Peni strongly suggests that there remains considerable room for im-
provement in the manner in which countries and territories of the Pacific Islands region mitigate the effects of hurricanes and tropical storms and prepare for their onslaught. There would appear value, therefore, in reinstating a new PIDP pre-disaster planning project to be implemented over the next five years. Although a detailed discussion of such a project is beyond the parameters of this paper, the following comments may assist Leaders to consider the possible merits of including such a project in PIDP's future work programme.

**Assessment of the Present Situation**

3.2 A first stage in the new project might be for PIDP to conduct a detailed assessment of the current state of pre-disaster planning in the South Pacific, focusing on such areas as:

- the implementation of national disaster policies and the operation of government bodies during cyclones and hurricanes;
- the impact of cyclones and hurricanes on houses, public buildings, infrastructure and agricultural areas;
- foreshore protection;
- the possibility of a regional disaster insurance scheme;
- the effectiveness of national and regional warning and communications systems; and
- the delivery of national and international emergency assistance to affected areas.

3.3 The objectives of the assessment would be to:

- identify the strengths and weaknesses of existing arrangements with a view to improving national and regional capacities in pre-disaster planning and disaster response;
- identify those areas of concern that were not addressed in sufficient detail in the earlier PIDP project; and
- review existing PIDP disaster-related publications in light of recent experiences so that the publications can be revised or updated as may perhaps be required. This would appear particularly useful in the case of such important manuals as Procedures and Guidelines for Disaster Preparedness and Response, by Carter, published in 1984, and the Post-Disaster Assessment: A. Management, and B. Field Survey, by Campbell and Chung, published in 1986.
Meeting of Regional Experts

3.4 The results of the assessment, together with a recommended course of action, might be referred by PIDP to the Standing Committee of the Conference for the Committee’s consideration and direction. At this stage, there would appear value in then convening a meeting of regional disaster planning experts as a second stage in the project. Guided by instructions of the Standing Committee, the meeting could review in detail the assessment made, as well as new information available and pre-disaster planning techniques applied since the conclusion of the previous PIDP project. On the basis of that review, they might be charged with recommending for Standing Committee consideration detailed sub-projects for implementation during the third stage of the project, including possible additions, revisions or refinements of existing PIDP disaster planning manuals.

Building Standards

3.5 With respect to new information on pre-disaster planning, for instance, considerable efforts have been made in recent years to improve and strengthen housing designs in cyclone-affected areas. An example is the Australian Government’s Pacific Building Standards programme, which is expected to provide the Cook Islands, Fiji, Solomon Islands, Vanuatu, and possibly Papua New Guinea with individual building codes with commentaries to accommodate future modifications, illustrated manuals to facilitate modifications to existing buildings by non-experts, and a compendium of proprietary products to ensure that island governments are no longer the dumping ground for sub-standard building materials. It is understood that both Tonga and Western Samoa have instituted similar national projects. Dissemination of the results of all of these projects as well as other similar information on the design and construction of wind-resistant houses could prove useful to other governments throughout the region.

3.6 A number of other recommendations emanating from the 1983 Disaster Preparedness Strategies Seminar (see paragraph 2.7 above) might also warrant further, more detailed examination during the next few years as part of the project, including the possibility of establishing a regional disaster insurance scheme and improving the effectiveness of both the regional cyclone warning system and emergency assistance from outside donor governments and agencies.
Foreshore Protection

3.7 It is suggested that one area deserving much greater attention than it has perhaps received to date is that of foreshore protection. Wave damage from hurricanes and tropical storms such as Cyclone Ofa and Peni have in some cases completely reshaped coastlines and torn away valuable beach, soil, seawalls, etc. This has often led to relatively small islands becoming even smaller, not to mention the loss of barriers protecting roads and bridges, houses and buildings along the coastal strip. Assistance is urgently required in the design and construction of appropriate protection for the most valuable resource Pacific peoples possess: their land. Thus far, the Japanese Government, for example, has indicated its willingness to assist at least one island country in the design of foreshore protection. Such assistance is most appreciated and reflects a keen understanding of the importance of the problem not only for the country concerned but also for the region as a whole. Research might be carried out under the aegis of PIDP on various modalities of foreshore protection in differing circumstances, research that might lead to valuable assistance from the Government of Japan and others in the actual construction of urgently needed coastal defenses.

3.8 In a number of the above activities and research projects, other parts of the East-West Center as well as regional and international institutions such as the South Pacific Commission, the Asian Development Bank, and the Asian Disaster Preparedness Centre might be able to render valuable assistance to PIDP in the implementation of the overall project, and they might well be encouraged to do so by the Pacific Islands Conference.

4. Conclusion

4.1 It is clear that pre-disaster planning is a form of national investment. Through careful preparation and the implementation of preventive planning and mitigating measures by Pacific island countries and territories in the course of their regular development planning, less costs might be incurred in protecting and maintaining national resources against possible hurricanes and cyclones than would be expended in repairing damages after islands have been struck. Regional governments can ill afford to sit back and await the attack of
hurricanes and cyclones without taking preparatory action both individually and collectively. A second PIDP pre-disaster planning project might assist them significantly towards that end.

4.2 It is, therefore, proposed that the PIC note the substantial work done previously by PIDP and direct PIDP to initiate a follow-up pre-disaster preparedness project that would:

- review the current state and effectiveness of pre-disaster planning in the region;
- convene a meeting of regional experts to review the assessment and prepare detailed projects for consideration by the Standing Committee; and
- implement during the next five-year period those projects approved by the Standing Committee.
Appendix VIII

THE MACROECONOMIC ENVIRONMENT FOR PRIVATE SECTOR DEVELOPMENT

Mark Sturton
PIDP Research Associate

This presentation highlights some of the key issues of macroeconomic policy in the Pacific islands that have been identified through the Private Sector Project. Attention is focused on those elements that directly affect the productive environment, as well as whether the conduct of policy has encouraged or discouraged economic activity and development. Because the private sector is the main vehicle to attain economic progress, the subject basically concerns whether the macroeconomic environment has fostered a hospitable climate for private enterprise.

The discussion is divided into two broad areas: Financial stability and a competitive price and cost structure.

Financial stability, the first area, is perhaps the most important ingredient of economic policy because without an orderly economic environment, productive activity will stagnate and fail to reach its potential. Overly expansionary fiscal policies, coupled with excessive domestic credit creation and foreign borrowing, will result in a deterioration in the external account, inflation, and debt service problems. Productive entrepreneurship will be discouraged if foreign exchange and credit are rationed and if prices are rapidly inflating.

The second area of interest is whether economic policy has generated a price and cost structure that (1) has provided an incentive for entrepreneurs to take risk and make profit and that (2) fully uses a nation's resources to the best of its productive potential.
1. Financial Stability

For the most part the governments of the Pacific islands have followed conservative fiscal and monetary policies, and a sound record of financial stability has been achieved. The small and very open nature of the island economies results in an almost immediate deterioration in the external account if imprudent fiscal and monetary policies are followed. With this awareness, and basically sound management, balance of payments problems and excessive inflation have been avoided.

Three observations concerning inflation in the Pacific islands are apparent. First, average rates for the 1980s compare favorably with the developing countries in Asia and are considerably less than those for all developing countries. The Pacific island nations have not suffered from hyperinflation, which is common to many African and South American countries. Second, the trend during the 1980s has generally been downward after the inflationary consequences of the oil price shocks in 1979 and 1980 worked their way through the system. Third, individual countries show different stories. Fiji and Papua New Guinea reveal relative stability, whereas Solomon Islands, Vanuatu, Western Samoa, and Tonga reveal greater variations. The peaks largely reflect the exchange rate policies adopted by the respective governments as they depreciated their currencies to maintain external and internal equilibrium.

In terms of foreign reserve coverage (the ratio of foreign reserves to monthly imports) all Pacific island nations have shown relative stability and an ability to maintain a freely convertible currency. In the case of Western Samoa economic problems were faced at the beginning of the 1980s, but it has now made a successful adjustment and enjoys a comfortable import coverage.

In terms of foreign debt service the position at the beginning of the 1990s for the Pacific islands does not pose a serious threat to financial viability. Both Fiji and Papua New Guinea show a larger debt service ratio than the other main Pacific island nations, which largely reflects the availability and use of grant aid by Solomon Islands, Vanuatu, Western Samoa, and Tonga. Both Fiji and Papua New Guinea have made extensive use of loan finance but largely at con-
cessionary rates of interest. In the case of Papua New Guinea the government undertook a program of commercial borrowing during the mid-1980s to meet public expenditure needs. This policy has since been reversed, and Papua New Guinea now faces a declining debt service burden.

In summary, the information presented indicates that the island nations of the Pacific have maintained financial stability, and in this respect economic policy has been successful. Periodic divergences from this norm have occurred in varying degrees of severity, but these occurrences have largely been the exception and have been rectified successfully.

2. A Competitive Price and Cost Structure

Have the Pacific island economies generated a price and cost environment conducive to encouraging productive investment and economic activity? The majority of products exported from the island economies fall into the category of primary commodities whose prices are determined in international markets and over which island producers have little control. There has been some departure from this norm recently in Fiji with the advent of tourism and sizable exports of garments. However, in general it is accurate to define the Pacific islands as price takers. In other words, the islands can remain competitive only through attempts to maintain a competitive cost structure. The three elements of prime cost are wages, the price of foreign exchange, and the cost of capital or the rate of interest.

Wages

Discussion on wages can be divided into two areas (1) the absolute level of the real wage and (2) the flexibility of wages to meet changing economic circumstances. In the first instance the basic real wage of unskilled labor in the Pacific islands is strongly influenced by the subsistence wage in the rural economy. The level of subsistence production in the traditional economy has meant that households have not been prepared to supply labor below a relatively high real wage by international standards. This well-known factor has meant that the Pacific island economies have not been able to develop a com-
parative advantage in many labor-intensive activities that have been exploited by other developing countries.

Wage flexibility is displayed by the island economies in varying signs of wage rigidity. In Fiji and Papua New Guinea wages were indexed to the cost of living as a result of a tripartite agreement between strong unions, employers desirous of industrial harmony, and governments. However, the result was a particularly inflexible system in the 1970s and early '80s. As a consequence under- and unemployment rose to high levels in both economies. In Fiji the reality of economic conditions exerted downward pressure on the real wage by the mid-1980s, and the system came under threat. The economic consequences of the 1987 military coup in Fiji brought disruption to the system, and nominal wages have remained unchanged for the last three years. In Papua New Guinea wage rigidity has remained in force through the 1980s, and only now with the advent of the closure of the Bouganville copper mine has any serious amendment to the system become possible.

In both economies it has been frequently argued that although wage indexation was far from ideal, it guaranteed industrial harmony and was therefore justifiable. However, the growing law and order problem, which is evident in both countries but particularly in Papua New Guinea, must give rise to grave doubts about this belief. Although a more appropriate wage structure would not necessarily guarantee full employment, it would generate more jobs and help improve the present law and order problem.

In the other Pacific island economies, wages are determined more through market forces than by any formal wage indexation process.

The Rate of Exchange

The exchange rate policy should be considered from two perspectives: (1) the exchange rate regime adopted by the island governments and (2) the absolute level of the rate of exchange. A discussion of the first concerns the mechanism of determining the rate of exchange in foreign dealings, and the second concerns the profitability of exporting and import replacing activities—collectively known as the traded goods sector. Given the very open nature of the island economies and their dependence on international trade, an appro-
appropriate level of the exchange rate is clearly of fundamental importance.

Most island governments in this study have adopted a fixed exchange rate regime, where the daily rate of exchange is pegged to a basket of currencies. The choice of currencies used in the basket is usually determined by the significance of trading partners in exports and imports. However, a variety of different combinations have been adopted by the island governments. In Papua New Guinea an import weighted basket is used, while in Vanuatu the Vatu was pegged to the Special Drawing Rights (SDR) until 1988 when a trade weighted basket was adopted. Fiji and Western Samoa follow this procedure, whereas Tonga has pegged its currency, the Pa'anga, to the Australian dollar.

The implication for the island economies of adopting these types of regimes is that the domestic rate of inflation is largely determined by the inflation rate of the respective trading partners. In other words, the rate of inflation in Australia, New Zealand, and Japan plays an extremely important role in influencing the domestic rate of inflation. The advantage of fixing the currency to a basket of currencies is that it averages out the rate of inflation imported from countries with different internal inflation rates. This procedure has proved quite successful in maintaining a relatively low level of domestic inflation, as indicated earlier.

We now consider the real level of the rate of exchange and the ability of island governments to effect a lasting change in the ratio of domestic to foreign prices. Clearly, any attempt to improve profitability in export and import replacing activities through currency depreciation that will be met with compensating rises in domestic costs will render an exchange rate policy ineffective.

Both Fiji and Papua New Guinea had a formalized wage indexation process during the 1970s and early '80s. In these circumstances any exchange rate depreciation would have led to a rise in import costs, a rise in the consumer price index, and a compensating rise in wages. Given the very open nature of the island economies, these changes work themselves through the system very quickly. Econometric evidence from the Private Sector Project suggests that a change in import prices fully works its way through the economy within one
year. In response to these forces the authorities in both Fiji and Papua New Guinea adopted an approach to exchange rate policy that in Papua New Guinea came to be known as the *hard Kina policy*. In other words, the exchange rate policy was geared to minimizing the rate of imported inflation, and no attempt was made to alter either the nominal or the real exchange rate.

Greater flexibility in exchange rate policy has become possible in recent years in these economies as a result of the weakening of the formal wage indexation process. In Fiji after the 1987 coup the government depreciated the Fiji dollar by 35 percent in order to maintain external balance. As a consequence, the profitability of the traded goods sectors was considerably enhanced and provided a considerable boost to the tourism sector. In Papua New Guinea the authorities have recently devalued the Kina by 10 percent for the first time in many years in response to the Bouganville crisis, and a pact with the unions has been achieved to depart from automatic indexation.

In the other economies of the Pacific the strength of the wage indexation process has never been as strong, and greater flexibility has been possible. Western Samoa, Vanuatu, and Solomon Islands have more actively used exchange rate adjustment as a tool of macroeconomic policy. However, the open nature of the island economies renders exchange rate depreciation a blunt tool of economic management even in the best of circumstances.

The Rate of Interest

Interest rate policy has not attracted the same concern in the Pacific islands as either wage or exchange rate policy. The experience in each island has been different, and generalization is not easily undertaken. Compared with the more developed economies, the interest rate policy has not played a critical role in macroeconomic policy. This observation results from the underdeveloped nature of the island capital markets and the lack of integration into international money markets. The lack of monetization of the subsistence sector and the conservative nature of both commercial bankers and policymakers have also played their part.
In the 1970s and early '80s interest rates were largely regulated and often set with a view to maintaining positive real rates and encouraging financial deepening. The efficient allocation of resources that flexible interest rates would arguably achieve was not widely perceived. Many countries imposed credit rationing to ensure that a certain proportion of commercial bank credit was available to the so-called productive sectors, usually agriculture, manufacturing, and the public sector. These policies were reinforced by conservative managers of overseas banks, whose main interest lay in funding secure loans for working capital and who had no interest in innovation in a uncompetitive market. In short, the commercial banking environment was conservative, uncompetitive, and regulated.

Conclusion

This discussion on the macroeconomic environment has suggested that the island economies have been largely successful in maintaining financial stability and providing a secure environment for private sector development.

On the more complex issue of ensuring that market prices reflect their economic costs, the results have been mixed. In Fiji and Papua New Guinea the wage system has been inflexible and resulted in loss of jobs, associated law and order problems, and until recently an inability to use the exchange rate as an instrument of economic adjustment. In the smaller economies the labor markets have been less rigid, but other factors have helped maintain wages at high levels, although exchange rate adjustment has been more frequent.

Macroeconomically, interest rates have been less important than either wage or exchange rate policy. However, a general movement occurred toward deregulation in the island economies in the latter half of the 1980s.

In conclusion macroeconomic policies have been evolving, and the island economies are now more adaptable and in a stronger position to meet the challenges of the coming decade than they were at the beginning of the 1980s or at the time of independence.
DISCUSSION

DR. HALAPUA: Dr. Sturton has highlighted some of the main issues regarding macroeconomic policies for the promotion of the private sector. The question of financial stability for the non-economies refers to prices and inflation and the balance of payments, which are very important to Pacific island countries. The issue of the balance of payments relates to saving and investment. Because we have representatives here from the major international organizations, which have a great influence on the policy of Pacific island countries, we would like to hear their response. First, there is the question of the interest rate. As Dr. Sturton has pointed out, on the one hand, we need a low interest rate policy to promote investment. On the other hand, one of the fundamental problems in the economies is the low saving, which requires a high interest rate. From experience we know that some of the businesspeople in Pacific island countries make money in the countries but then put their savings outside because of the higher savings rate of interest. These are the conflicts, and I invite your response to the relationship between saving and investment with regard to interest rate policy and exchange rate policies, which have implications for the balance of payments.

The other question is the terms of trade. Most people say that there is very little we can do about the terms of trade because the prices of our commodities are determined outside; in other words, we are the price taker. Consequently, we have to shift our attention to the question of the cost of labor; because we cannot control the prices of our commodities, we should focus our attention on the cost, and the main item in the cost of production is of course labor, which relates to the flexibility of the labor market.

Finally there is the question of tax policies. We have two main issues. On the one hand, we need protection for the infant industries to build them up to the point where they can survive and become effectively involved in export. On the other hand, others advise that no protection policies are bad.
You get spoiled. You are like a spoiled child; you will never learn to stand on your own feet. Again there are two conflicting issues with regard to protection. I would now like to invite your comments on these issues.

MR. CHEETHAM: Domestic interest rates are held at rather low levels through various forms of government intervention. As suggested, this policy does not necessarily produce the best results in terms of growth for development, and we increasingly advocate quite strongly that governments should attempt to manage an interest rate policy or a monetary policy in a manner that ensures that the market interest rates will prevail. We are attempting to build that sort of an approach into our own operations. We have not had much success generally around the world in lending, for example, through the banking system at subsidized rates. We understand fully the importance of providing subsidies to certain groups in economies. Generally speaking, we do not advocate the use of interest rates. Subsidized interest rates is a vehicle for providing subsidies. Our experience tends to suggest that when governments use that sort of a policy to provide subsidies they do not necessarily provide the subsidy to the intended group. It is usually some other group in society that captures the rent associated with subsidized interest rates.

We have found in Indonesia that some of the most successful programs of on-lending to small business have been programs that have set interest rates at market levels. One of the most successful programs in Indonesia is a program called the Koperasi program. Small loans are made to small businesspeople at market rates, and by market rates I am talking rates of 18-25 percent. Those programs are among the most successful of any credit programs in the country. The repayment rates are almost 100 percent whereas the repayment rates in the much larger subsidized programs are rather poor. One of the largest state banks that runs the program finds, contrary to the usual view, that lending to small business people is not profitable. This particular program contributes about 18-20 percent of the gross profits of that particular bank. The government of Indonesia is very keen to expand this program as rapidly as possible because the
program is demonstrating that it is access to credit rather than the price of credit that is the most important. And by rationing credit, by using low interest rates, you tend not to do anything about the access problem, leaving many people to pay much much higher rates outside the official credit markets.

Consequently, one of the questions for countries in this part of the world is, Is it appropriate to maintain low interest rates to promote development? What does one learn from the experience of countries in other regions? We are finding that access to credit is most important. And the pricing of debt at close to market rates together with improving access is perhaps the most important objective.

DR. HALAPUA: The accessibility to credit also reflects the policy regarding the allocation of credit. One of the problems with financial institutions that collect forced saving or compulsory saving is the allocation. Who actually gets the credit? Because these financial institutions are owned by the government, the government does have a policy with regard to the target sectors. We can solve the problems by raising the savings, but then who gets the savings? That issue brings me to the next question, that is, credit controls. I understand that the World Bank may feel that governments should remove the credit controls as a major element of financial adjustment. What is the feeling of the IMF in this case?

MR. BROWNE: The main point is that financial savings are a scarce resource, and you want to allocate them as efficiently as possible. If the interest rates are low because of credit controls, you do not necessarily get the sort of investment that you want to maximize the growth and development prospects over the medium term.

DR. HALAPUA: Is it correct to say that this type of policy emphasizes saving at the expense of investment, which has implications for the balance of payments in these countries? There are two ways of adjusting. Either you look at saving or investment, but the problem of interest rate policy is the focus on saving, and at the same time you tend to have a lesser effect on investment.
MR. BROWNE: There are no simple answers to many of these complicated issues, but the market allocation of resources is likely to produce an effective economy, which in the long term is likely to strengthen the balance of payments. Without an effective economy you cannot have the sort of growth and investment needed to provide the desired employment opportunities.

MR. RINGROSE: Regarding interest rates and the comment made by the World Bank, based on my experience earlier in Bangladesh, we were working very closely with the development bank. This bank, which now is lending to about 1 million people, is doing so entirely at the market rates of interest. The Koperasi experience in Indonesia is also getting very high repayment rates in the order of 98-99 percent. Of particular interest is that all the advances made to these people for very small businesses are being made without collateral.

DR. HALAPUA: That would lead us to another problem of collateral in relation to a lending system in the Pacific island countries. One of the major problems of collateral there is that the communally owned land cannot be used as security for borrowing from the banks, and this is a major problem that the development banks are facing in Pacific island countries. Do you lend to people who have adequate collateral or those who have credit worthiness? All of these issues have to be addressed.

PROFESSOR WARD: As Mr. Ringrose indicated, at the development bank the loans are being made. They are small loans, but they may be made without a form of collateral, and I believe that the same is true for much of the Koperasi Scheme. In other words, the loans are being made at a very local level, and the decision is being made by people who are at the local level and who are familiar with the people to whom the money is being lent. And judgments are made about their credit worthiness, not their ability and likelihood of repaying based on formal collateral. If it can be done in Indonesia and Bangladesh, I do not see why it cannot be done within the Pacific islands.
If there is a serious problem in the Pacific islands because the communal land tenure system prevents the land from being used as collateral, then one of the lessons from these other two examples in Bangladesh and Indonesia is that the loans are being made without formal collateral and they are still being repaid at very high rates, close to 99 percent. Thus the question is why do you need land as collateral in the Pacific islands?

DR. HALAPUA: Is the land tenure system in those countries similar to that in the Pacific island countries? Or are we talking about two different type of land tenure systems?

PROFESSOR WARD: There is not necessarily a link. These examples tell us why worry about the land tenure system because you do not need the land at all as collateral for these small-scale accessible loans. That is the lesson I think you can take from these examples.

DR. HALAPUA: Thank you, but I do worry about the land tenure system because it has implications for the incentives of producers. Do you produce for the whole community or do you produce for yourself?

PROFESSOR WARD: That is a different question.

MR. RAVUVU: Collateral depends very much on the attitudes of the loaning institution—whether it is government or private banking. I have seen the example of a person who does not have title to land but who gets the money from a bank without collateral; yet another group of people are not allowed to have it. How is credit worthiness measured when a person who is trying to start up a business has not got any kind of credit?

DR. HALAPUA: Your point also relates to the issue raised by the World Bank regarding the access to credit and who controls the allocation of credit. Is it the market forces or a God given leader who knows what is best for the country?
DR. FLOYD: Dr. Sturton indicated that wages were higher than the market would ordinarily determine. What are implications of that statement and is this problematic from an investment point of view?

DR. STURTON: Because of the high level of production in a subsistence economy, the wage the people are prepared to enter the modern sector becomes pushed upwards. As a consequence, the various economic activities that would be considered just candidates for development in many of the Pacific islands would not become profitable. Essentially, these are certain labor-intensive kinds of activities. This situation is compounded by the high levels of aid and government expenditure, which reinforce those tendencies. I do not intend to say that there are not many profitable economic activities but rather there are certain activities that would be less profitable because of this wage structure.

DR. HALAPUA: I would like to comment on the idea of reducing labor costs to increase profit in order to create more savings for investment. Most of the investment in Pacific island countries tends to depend on self-accumulation, but that raises many issues regarding cultural attitudes.
Appendix IX

LIST OF REPORTS DISTRIBUTED TO THE
THIRD PACIFIC ISLANDS CONFERENCE


McMaster, Jim, Future Role of International Agencies and Donors in Private Sector Development in Pacific Island Countries. 58 pp.


About the Editors

SITIVENI HALAPUA is director of the Pacific Islands Development Program (PIDP) at the East-West Center. Before joining the Center in 1989 as a research associate, he was senior lecturer in Monetary Economics at the University of the South Pacific. Born in Tonga, Dr. Halapua received his Ph.D. in Economics from the University of Kent, England.

BARBARA NAUDAIN, PIDP senior editor, has been with the East-West Center since 1972. She has an M.A. in International Law and Relations from Columbia University and has served as a consultant to the Government of India, the Government of Iran, the International Center for Living Aquatic Resources Management (ICLARM), the Population Reference Bureau, and UNESCO.
PACIFIC ISLANDS DEVELOPMENT PROGRAM

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