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The Pacific Islands' Challenges:

Perspectives of Economic Development in the Small Island States

【INTERIM REPORT】

Pacific Islands Centre

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Preface

In recent years, the economic development in the Pacific region has been perceived to be generally positive. This development is reflected by Liquefied Natural Gas (LNG) and the natural resources boom in Papua New Guinea (PNG). However, when we highlight the economic growth of the Small Island States (SIS) in the region in particular, the situation is markedly different. These SIS are still struggling with the vulnerability of their economic fundamentals and have found it challenging to develop stable and profitable national income resources.

How can we establish a strategy for the economic development of small islands? This topic has fostered lengthy discussions among academics, including those in Japan. Some of the discussion from Japanese scholars is unique and ideal : some have criticised the lack of the knowledge regarding Pacific fundamentals among main stream economists, and others have focused on 'Trust Fund' system to stabilize the economy in SIS. However, such arguments have not been shared with Pacific leaders due to their limited exposure to these concepts and to the language barriers.

This paper will report on various aspects of small island economies as seen by Japan's leading academics and specialists of the Pacific Islands. The Japan Pacific Association (JAPIA), which organised the series of sessions and compiled this report, is a specialist group focusing on the Pacific region and has been working in and for the region, since its establishment in 1974 as the Japan Micronesia Association. The JAPIA have rich historical documents and experts from academic, business and even government bodies. I believe that this report will provide many suggestions to help leaders formulate a development strategy for each country and for the entire region. The Pacific Islands Centre (PIC) commits itself to assisting with the sustainable development of the Forum Island Countries (FICs) through the field of trade, investment and tourism promotion in Japan.

Before concluding this preface, I wish to express my sincere gratitude to the Ministry of Foreign Affairs of the Government of Japan for their continuous support to the PIC and for enabling us to conduct this study through their financial contribution to the PIC.

Kazuyoshi Ogawa
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Note: Pacific Islands Centre (PIC)

The PIC is an international organisation established under an agreement between the Japanese government and the Pacific Islands Forum (PIF) in 1996. The PIC is under the control of a Governing Board consisting of the Japanese government and the Pacific Islands Forum Secretariat (PIFS). This organisation aims to assist in the economic development of the Pacific Island countries through promoting exports from the FICs to Japan, promoting the inflow of investment from Japan to the FICs, and vitalising tourist traffic from Japan to the FICs. The PIC also takes part in the PT&I (Pacific Islands Trade and Investment) as its Tokyo Office.

Pacific Islands
Trade & Invest

Introduction

After independence, the Pacific Island countries emphasised the fostering of industries to promote economic development and the achievement of economic self-reliance. In other words, they aimed to depart from a conventional production system based on a subsistence economy and to establish export-based production (Kobayashi 1994).

However, the Pacific Island countries have geographical disadvantages that impede their industrial promotion, export promotion and economic development.

・Small Land Area and Population
The domestic markets in the Pacific Island countries are small. More importantly, the limited land area and population makes mass production and stable production difficult.
・Scattered Islands and Population
This characteristic makes high-volume production and stable production as well as the intensive use of technology, capital and human resources difficult.
・Remoteness
The Pacific Islands are located far from major markets, creating problems in communication, human interaction and transportation costs.

As a result of these features, the Pacific Island countries have not yet succeeded in developing local industries or establishing export-based production (Milne 1992; Berno 1999; Choy 1984; Pearce 1995). Eventually, these countries developed into a particular type of economic structure, the so-called MIRAB economy. The MIRAB — economyMigration, Remittances, Aid, and Bureaucracy — is an economic model explaining the economies of SIS proposed by Bertram and Watters (1985). Using this model to analyse the economies of the Pacific Island countries, they identified an economic situation in which current-account transfer payments (remittances, dividends, interest earnings, social welfare payments, government budgetary subventions and a wide variety of other official transfers) and non-tradable production (generally dominated by government, hence the term "Bureaucracy") function as leading sectors in economic development in place of the World Bank's preferred mix of export-led tradable production and private-sector investment (Betram 1999, 105). Most Pacific Island countries have been operating under a MIRAB economy, although this economic structure has been criticised as being a "rental economy" (Bertram 1986, 1993, 1999; Bertram and Watters 1985, 1986; Poirine 1999).

This report will examine how the Pacific Island countries can overcome their geographical disadvantages and create and develop industries, leading to the creation of employment opportunities, foreign currency acquisition, economic development and the achievement of economic self-reliance.

Development of Exportable Products: The Agricultural and Manufacturing Industries

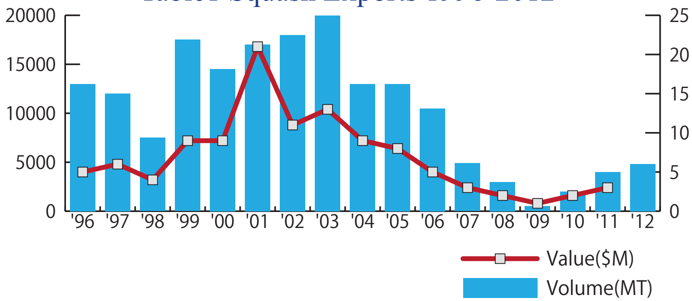
Production of Agricultural Commercial Products

The Pacific Island countries cultivate several commercial crops such as coffee, cacao, vanilla, copra and others. Most of these crops were first planted under colonial rule. For the last few decades, the cultivation of indigenous products such as kava and noni has been promoted, and these are expected to be new commodities for export (Kazama 2006; Sofer 2007). However, the export of these indigenous products has not grown steadily because of policies and changes in the circumstances of the importing countries as well as due to poor export strategies on the part of the Pacific Island countries. The export of kava has been in stalemate due to import restrictions on the product invoked by European countries. Because noni targeted a niche market, the end of a boom in noni in the Japanese market caused a decline in its export. Additionally, the emergence of many noni exporters in the Pacific Islands region resulted in an increase in regional competition over this niche market, which further influenced its decline. It is unlikely that kava and noni will play a role in contributing to economic development.

Currently, it appears that coffee and other products face similar problems. It has been expected that these countries will address these challenges and continue their efforts to develop exportable agricultural products.

As regards export to the Japanese market, squash in Tonga can be considered to be a successful case, albeit a short-lived one. The export of squash started at the end of the 1980s. In 2003, its export was at its peak (see Table 1) with exports of 22,500 tons, engaging approximately 300 local farmers in the cultivation of squash and employing thousands of local people (Tonga MCTL 2012). During the peak period, the industry greatly contributed to the creation of employment opportunities, foreign currency acquisition and economic development in Tonga.

Table1 Squash Exports 1996-2012



Source: MAFFF 2013.

However, after 2003, the volume of squash export to Japan drastically declined (see Table 1), and export reached its lowest volume, 500 tons, in 2009 (Tonga MCTL 2012). In 2010, there were only six farmers remaining in the industry (Tonga MCTL 2012), while at present, approximately 20 farmers and four exporters work in the industry (Tonga MCTL 2012 and Nishi 2013). Nishi Trading, the oldest and largest squash farmer and exporter, announced that it would cease the production and export of squash in 2013.

The decline of squash exports has been brought about by several factors.

Causes for the Decline

・Fluctuating Price

Export values have been influenced by a fluctuating commodity price (see Table 2).

The costs of freight, fuel and inputs such as fertilisers and seeds have increased.

・Poor Management and Governance

The government issued many exporter licenses to obtain a quick profit, bringing many inexperienced exporters into the industry. This inexperience, in turn, caused inefficient farming with an increased number of farmers. The drastically increased number of farmers also led to intense domestic competition as well as a decrease in the quality of products.

The fluctuation in the number of farmers also destabilised the volume of products.

・Competition

Small and unstable volumes of products from Tonga created a disadvantage in global supplier competition.

Mexico started to export squash at a cheaper price to Japan.

・Added Value

Efforts to generate additional value have not advanced.

・Transportation

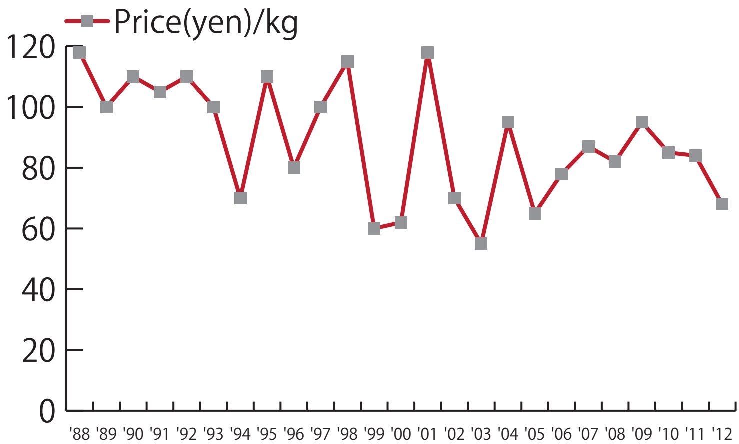
Transportation costs constituted over 50 per cent of total costs.

There is frequent suspension of shipping.

・Infrastructure

There are still infrastructure problems in terms of roads, storage and power.

Table2 Fluctuating Price of Squash to the Japanese Market



Source: Nishi Trading 2013

The decline of squash exports, or the failure of the development of the squash industry, indicates several lessons and challenges that must be addressed to advance foreign currency acquisition and sustainable economic development through the development of exportable agricultural products. The first two lessons/challenges, in particular, are the most critical for the development of exports and industries.

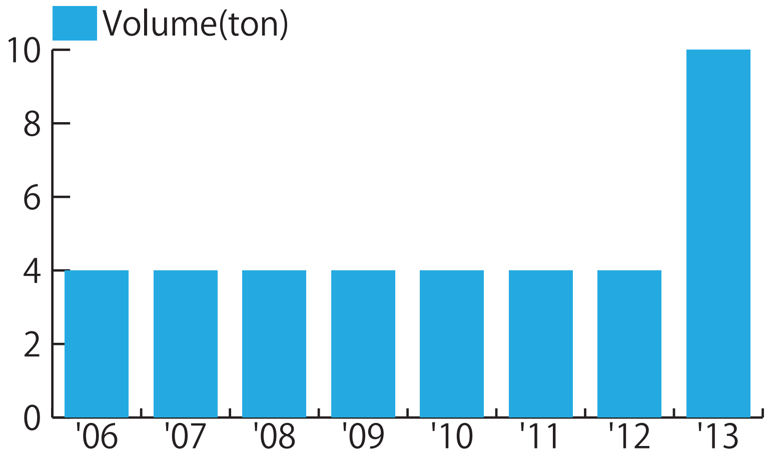
Lessons / Challenges

- Developing a countermeasure for fluctuating commodity prices
- Overcoming poor management and governance
- Finding a niche market
- Developing quality control and brand image
- Developing value-added products
- Improving transportation
- Developing infrastructure

Considering these lessons and challenges, satoimo (Japanese taro) is an agricultural product that has the potential to contribute to sustainable economic development in Tonga.

The Tinopai Farm in Tonga began to cultivate satoimo in 2001 and to export it to Japan in 2004. The company is still the only farmer and exporter of satoimo. The export volume of this product is still very small in comparison with squash, as the volume of satoimo export has fluctuated between five and ten tons in recent years (see Table 3). The company has been planning to establish a facility to produce frozen satoimo under cooperation with companies in Japan and New Zealand and then to export at least 1,000 tons of frozen satoimo per year to the Japanese market.

Table3 Satoimo Export 2006 - 2012



Source: Tinopai Ltd

According to an interview with the director at the Tinopai Farm, it appears that the satoimo industry has succeeded in tackling the issues that caused the decline of the squash industry and has resolved the challenges of developing exportable agricultural products and sustainable economic development. The Tinopai Farm has maintained a contract with one supermarket in Japan for 7 years that includes a fixed price for their products. The price of satoimo is fixed at 250 Japanese yen per kg, while the squash price has fluctuated between 60 and 120 Japanese yen per kg (see Table 2). In addition, the satoimo industry offers the potential to export value-added products in the future; for example, the Tinopai Farm is planning to establish a facility to produce frozen satoimo.

More importantly, in the satoimo industry, poor management and governance has not posed a problem. According to the Tinopai Farm, the cultivation of satoimo is not as easy as squash, and other farmers do not have the required knowledge. Furthermore, the Tinopai Farm is the only company with Taneimo (seeds of satoimo), and it has established a trusting relationship with the Japanese market. As such, the company can control and manage all stages from planting to export.

In addition to setting a minimum guaranteed price and establishing strong management and governance, the Tinopai Farm argues that it is important to develop products and industries under a long-term vision for the development of exportable products. The rapid expansion of products and industries may contribute temporarily to the increase of export volume, value and economic development, but it creates many adverse effects and eventually results in the decline of industries. This negative effect is demonstrated by the expansion and decline of the squash industry. As such, the governments in the Pacific Island countries should approach the development of products and industries under a long-term vision and support the development of exportable products over the long term, even if products and industries do not show short-term tangible results such as an increase in export volume and value.

Development of the Manufacturing Sector

As indicated in the Introduction, the Pacific Islands region has geographical disadvantages that are generally regarded as being irresolvable problems for developing its manufacturing sector. Indeed, there have been few manufactured products for export in the region.

In Fiji, garment factories were established, and they expanded rapidly during the late 1980s and early 1990s by exporting products to the Australian market through the South Pacific Regional Trade and Economic Co-operation Agreement (SPARTECA). Although the garment industry played a role as one of main industries in Fiji, global trends toward preferential protectionism have made it difficult for the industry to survive so as the sugar industry.

In Samoa, the Yazaki Corporation has a plant that manufactures a wire-harness for automobiles (Tsujita 2002). The company has contributed to the creation of employment opportunities and led to the development of exports in the country. In 1996, the Yazaki plant in Samoa exported 128 million Australian dollars in their products, and its share in the total export values in Samoa was recorded at approximately 92 per cent. The company has provided the largest employment opportunities in the country since its establishment in 1995; the number of employed ranged between 800 and 1000 in recent years (Kurosaki 2013a, 21), while in 1997, approximately 3,600 labours worked in the plant (Ogawa 1997, 65).

The Yazaki Corporation began thinking of relocating the plant in Australia in the late 1980s because of increasing labour costs and a shift in policies to protect the automotive industry. This plant in Samoa was therefore established as a supply centre of wire-harnesses for Toyota Australia. However, it is important to understand that the Yazaki Corporation's establishment of a plant in Samoa is an exceptional case. Other Toyota vendors have not established plants in the Pacific Islands region. These vendors primarily supply automotive components from plants located in Thailand, although the establishment of plants in the Pacific Islands region has an advantage because tariffs between the Pacific Island countries and Australia and New Zealand have been eliminated under the SPARTECA (Ogawa 1997, 65).

To attract the Yazaki Corporation, the Samoan government gave the company extraordinary preferential treatment. The government provided industrial land and buildings for the plant (which was built by the government) for free, and it incurred costs for warehouse land (Ogawa 1997, 65-6). In addition, the consumption tax for products in the plant was exempted (Kurosaki 2013, 21). It can be said that these extraordinary preferential treatments contributed to attracting the Yazaki Corporation. In other words, it is possible for the Pacific Island countries to invite foreign companies and attract foreign investment given their geographical disadvantages if offering unusual preferential treatment.

A New Attempt towards Economic Development: The Prospects for Invisible Export

In the Pacific Islands region, it appears to be challenging for the agricultural and manufacturing sectors to play a significant role in leading foreign currency acquisition and in economic development. The countries in the region have not been able to develop exportable products, primarily due to their geographical disadvantages such as limited land and population, dispersed islands and population and remoteness. In addition, one after another, new industries and exportable products have proven difficult to foster. However, the sale of services, or "invisible exports" (Hezel 2012), is potentially a competitive industry that could aid development in the Pacific Islands countries.

Some SIS in the Pacific Islands region have invented industries, ranging from the sale of coins and stamps or offshore banking in the late 1980s, to rental services for telephone lines in the 1990s, to the sale of internet domain names in the 2000s (see Column 3). These industries, which primarily sell services, have been successful in obtaining foreign currency and can be described as a new attempt towards economic development.

These industries have been established by taking advantage of national sovereignty. It is difficult or impossible for a large country to establish industries using national sovereignty; therefore, these successes can be attributed to the small size of these countries' territory and population. The decision making process in these small countries is relatively not complicated. Policies can be implemented flexibly, rapidly and boldly under strong leadership.

Although these industries have developed successfully, it is necessary for these countries to watch for the abuse of services. For example, offshore banking services have been criticised as being a hot bed of money laundering. The abuse of services could possibly lead to the collapse of the country's credit and eventually hinder economic development. However, it cannot be denied that these types of service industries based on national sovereignty have considerable potential to help these countries develop. The registration of foreign vessels under a flag of convenience in the Republic of the Marshall Islands (RMI) (see Column 1) and captive insurance in the Federated States of Micronesia (FMS) (see Column 2) can be represented as recent successful examples.

A new attempt towards development in the Pacific Islands region is not confined to industries established by taking advantage of national sovereignty. One new industry that is developing utilises a new technology and new information and communications networks. In Tonga, a call centre project has been started with the understanding that the country will introduce an optical fibre at the end of August 2013 (see Column 4). Given the introduction of new technology and networks, Tonga's comparative advantages of low labour costs and a high level of English proficiency can provide an effective environment for this type of business. Service industries based on new technologies and networks also have substantial potential for development in the Pacific Island countries.

In industries selling services as indicated above, the geographical disadvantages that have hindered the development of the Pacific Island countries will no longer be critical problems. As such, it can be expected that invisible exports will be one potential engine for economic development in the Pacific Island countries.

Column 1
.tv in Tuvalu

The Internet domain name .tv is the internet country code top-level domain for Tuvalu. In the late 1990s, the Tuvalu government marketed the right to sell the domain name (Kazama 2009, 393). In 1998, the Tuvalu government contracted with the Canadian company, Information CA Touch Corporation, on the provision that the company would pay 50 million US dollars for the right to sell the domain name and provide 65 per cent of the profits from the sales to the government (PACNEWS 11 August 1998). After the default of this contract in 2000, the US company dot TV won the contract under the condition that the company would pay 50 million US dollars to Tuvalu over 10 years. With these revenues, Tuvalu achieved recognition as the 189th state of the United Nations membership and surfaced the roads throughout the islands (Asahi Shimbun 25 July 2002).

At present, Verisign operates the sales of the domain name. The Tuvalu government has 20 per cent ownership of the company. According to the Tuvalu government national budget, the government has received revenues of approximately 2.2 million Australian dollars annually from the sales of the domain name (Tuvalu 2010). The revenue from this project is approximately 12.2 per cent of total domestic revenues in the 2010 budget (Tuvalu 2010).

Column 2
Captive Insurance in the Federated States of Micronesia

The system of captive insurance, a method of risk management, is beneficial to companies in some respects. For example, insurance costs can be reduced through holding their risk by themselves. Companies can negotiate a better deal on insurance costs through reducing their dependence on the insurance company. The system allows for tax avoidance. Companies can then turn over the costs for the risk that they hold.

However, companies cannot establish captives in Japan because of Japan's legal and tax restraints. A captive can only be established in countries that enact special legislation for their establishment. Against this background, the Federated States of Micronesia (FSM) passed special legislation allowing the establishment of captives in 2008 and started to attract foreign companies in 2009. In particular, the country has targeted Japanese companies and established a corporate tax rate according to a Japanese trigger clause. If Japanese nationals own a company overseas, the owners must pay corporate tax to the Japanese government if the overseas corporate tax is less than 20 per cent. By 2012, eight captives had been established, and at present, this industry is the largest source of tax revenue in the country. It is expected that this industry will develop further as the captive insurance system has drawn attention as an efficient method of risk management.

The development of this industry in the FSM can be attributed to the government's approach; it set a fair target market and established a law based on thorough research and analyses of the legal and tax system in Japan. This approach to creating a niche industry must be learnt by other small island countries.

Column 3
Registration of Foreign Vessels under a Flag of Convenience in the Republic of the Marshall Islands

To have a vessel under a flag of convenience means that a vessel is registered in a country other than the country of residence of the vessels' owners. In general, owners of vessels can obtain benefits in terms of tax and labour costs by registering vessels under a flag of convenience.

The Republic of the Marshall Islands (RMI) has provided services in the registration of foreign vessels under a flag of convenience with the support of the US company International Registries (IRI) since the early 2000s. Under the leadership of IRI, the RMI government has provided preferential tax treatment to the companies of foreign vessels and has relaxed regulations regarding the nationality of crews to encourage the registration of foreign vessels in the RMI. In addition, IRI has simplified procedures for the registration of vessels and the establishment of companies in the RMI. Companies owning foreign vessels can complete the registration of vessels and the establishment of companies via fax or e-mail without visiting the RMI (Kurosaki 2013c).

In 2010, the RMI became third behind Panama and Liberia in the world in terms of the total tons and the number of vessels registered under a flag of convenience. This industry has satisfactorily developed. However, before the further development of this industry, the country must address some challenges related to safety, responsibility and compensation for accidents at sea.

Column 4
Call Centre Project in Tonga

ProComm Services, backed by 100 per cent Japanese capital, began a call centre project in Tonga in April 2013 with the guarantee that an optical fibre will be introduced at the end of August 2013. At present, the company has established a call centre section of the Tonga Communication Corporation. The call centre operates 24 hours a day and 365 days a year. The company employs 34 staff, including 27 operators, and these operators work in three shifts around the clock. They have received 8 weeks of training under a curriculum based on the training programme for a call centre operator for the Australia New Zealand Bank consisting of 6 weeks of lectures and 2 weeks of on-the-job training.

ProComm Services indicates several factors, other than the introduction of an optical fibre, as reasons behind their establishment of the call centre company in Tonga. In Tonga, people speak English fluently, like native speakers; labour costs are cheaper than other countries (one third of the Cook Islands and two thirds of Fiji); the quality of human resources is high; and the residents are diligent and friendly and have a strong sense of community.

The company has been seeking to assume the call centre responsibilities of companies in Australia and New Zealand. It can be expected that ProComm Services will succeed in expanding the business because labour costs for an operator in Tonga is one tenth of those in Australia and one sixth of those in New Zealand. The company is also planning to expand its business into the field of online work in the foreseeable future.

Prospects for the Tourism Industry

In addition to the development of exportable products and the sale of services, the tourism industry has to be focused in considering the development of SIS in the Pacific Islands region. It has been said that most countries in the region have some ingredients to attract tourists such as an exotic location, balmy weather and an aura forever associated in the western mind with paradise (Hezel 2012, 16). As table 4 indicates, approximately 1.5 million people visit the region each year. In particular, Fiji, Papua New Guinea, Samoa, Palau, the Cook Islands and Vanuatu in the FICs are popular tourist destinations.

Table4 Annual International Visitor Arrivals to PIF countries, New Caledonia & French Polynesia

	1990	1995	2000	2005	2007	2008	2009	2010	2011	2012
Cook Islands	33,882	48,500	72,994	88,397	97,019	94,776	101,229	104,265	113,114	121,757
Fiji	278,996	318,495	294,070	549,911	539,881	585,031	542,186	631,868	675,050	660,590
French Polynesia	132,361	172,129	240,450	208,045	218,241	196,496	160,447	153,919	162,776	168,978
Kiribati	3,040	3,318	4,578	3,037	4,709	3,871	3,944	4,701	5,256	4,907
Marshall Islands	4,856	5,500	5,246	9,173	7,200	6,022	4,923	4,563	4,559	4,590
New Caledonia	85,213	86,256	109,587	100,651	103,363	103,672	99,379	98,562	111,875	112,204
Niue	649	2,161	2,010	2,793	3,445	4,748	4,662	6,214	6,094	5,048
Papua New Guines	40,742	32,578	58,429	69,251	104,122	120,139	125,891	146,933	163,173	167,149
Samoa	47,642	67,954	87,688	101,807	122,356	122,163	129,305	129,500	127,420	134,660
Solomon Islands	9,195	11,795	5,753	9,400	13,748	16,264	18,260	20,521	22,941	23,925
Tonga	20,919	29,520	37,694	41,862	43,344	50,462	45,711	47,081	46,005	49,010
Tuvalu	671	920	1,504	1,085	1,130	1,559	1,622	1,657	1,201	1,019
Vanuatu	35,042	43,721	57,360	62,082	81,345	90,654	100,675	97,180	93,824	108,145
Palau	23,398	44,850	57,732	86,126	88,175	79,359	71,887	85,593	109,057	118,754
Federated States of Micronesia	-	-	33,000	18,958	21,146	-	-	-	-	-
Nauru	-	-	-	-	-	-	-	-	-	-
Total	716,606	867,697	1,035,095	1,352,578	1,451,231	1,475,216	1,410,121	1,532,557	1,642,345	1,680,736

FSM (estimate average) 15,000-35,000

Nauru(estimate average) less than 1,000

Source: National Tourism Office and National Statistics Office of PIF countries, New Caledonia & French Polynesia

Source: Kurosaki 2013 p. 28

The tourism industry in the Pacific Islands region has experienced several development processes, ranging from large-scale resort development in the 1980s to the development of eco-tourism in the 2000s. The trajectory and travails of the Pacific Island countries in their development as tourist destinations have offered at least three requirements for the development of the tourism industry.

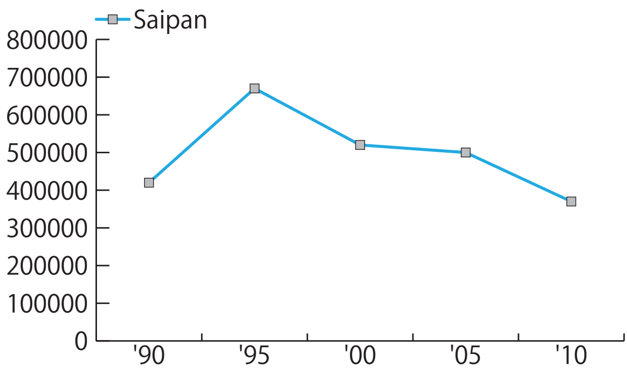
- The establishment and maintenance of a destination image
- The selection of a target market (region, and age and income group)
- Local people-led development with foreign investment partnership.

Needless to say, the development of tourism infrastructure and the securing of stable flight services are significant for the increase of tourists.

The promotion of the tourism industry in the Commonwealth of Northern Mariana

Islands (CNMI) to Japanese market can be offered as an example of a failure. In the 1980s, the tourism industry in CNMI developed rapidly, with a massive inflow of foreign investment and an increased number of flights; CNMI were advertised as a tourist destination primarily to the Japanese market. As a result of this development, CNMI enjoyed a mass influx of Japanese tourists in the 1990s. However, overexploitation of the industry led to a drop in tour and hotel prices in the islands and, thus, a diminished quality of services. This drop in quality caused the loss of regular visitors and a decline in the quality of customers. Finally, the number of Japanese tourists decreased and the Japan Airline stopped operating direct flights from Japan to CNMI. The tourism industry in CNMI gradually declined into the 2000s (see Table 5).

Table5 The Number of Japanese Tourists in Saipan



Source: Kurosaki 2013 p. 34

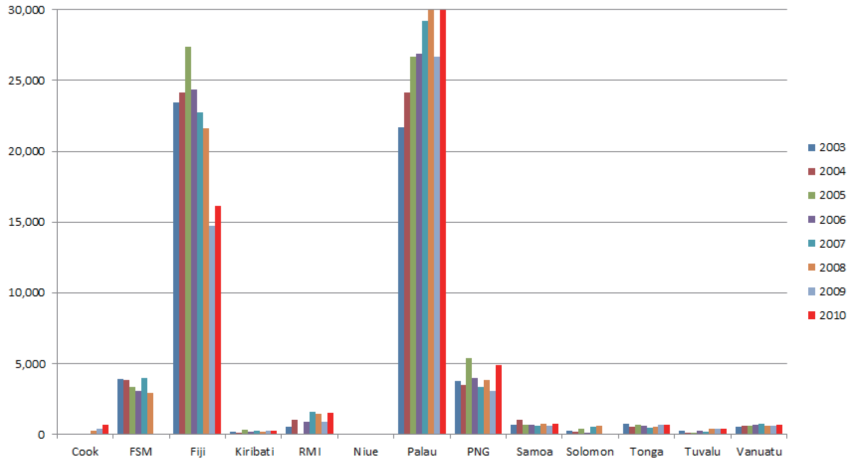
In the 1980s, Palau implemented a strategy to advertise the country's attractions, primarily targeted to the Japanese market (Carlile 2000; Yamashita 2000). The country then started advertising in Taiwan in the 1990s and Korea in the 2000s. To date, Palau has been successful in attracting many tourists from the East Asian region. More importantly, Palau has succeeded in establishing its destination image as a high-end resort as well as a diving spot. While many tourists say that Palau is a very expensive destination, this evaluation contributes to the establishment of the country's image as a high-end resort. Indeed, Palau attracts high-income visitors. As a result of its success in defining a target market and establishing and maintaining its destination image, Palau has continued to attract many tourists, making the tourism industry an engine of economic development. However, the country requires further effort to provide quality services and increase its tourists' satisfaction level. Improved services will strengthen Palau's image as a high-end resort.

In comparison with Palau, the decline of the tourism industry in CNMI can be attributed to their failure to establish and maintain a destination image and their inability to define a target market. In addition, it appears that poor management by the government contributed to the overexploitation of the tourism industry, leading to the decline of the industry in CNMI. While the tourism industry in CNMI was promoted individually by foreign investors and companies, the development strategies in Palau were initiated and controlled by local people. The issue of strategical administration is reminiscent of the decline of the squash industry in Tonga. In other words, eliminating poor management is an essential factor for development in all industries.

It is not generally difficult for SIS to adopt a strategy to establish and maintain an attractive destination image and to establish a target market for the development of their tourism industry. Due to the small size of the territory and population, the strategy can pervade the entire country and can be implemented consistently under a strong leadership. Therefore, if the governments/leaders can establish an attractive destination image and establish a fair target market, the tourism industry in these countries will have the potential for development.

As table 4 indicates, Fiji, Papua New Guinea, Samoa, Palau, the Cook Islands and Vanuatu have a large number of tourists. It is therefore expected that the tourism infrastructure in these countries is already developed. However, the number of Japanese tourists in Papua New Guinea, Samoa, the Cook Islands and Vanuatu has been small (see table 6). Although there are fundamental problems regarding flight connections between Japan and these destinations, these countries have space to develop the Japanese market through the establishment of a destination image as a “hidden paradise”. As regards Fiji, although the number of Japanese tourists has decreased over the last five years for several reasons, the country will be able to re-attract Japanese tourists using its high name awareness. Fiji is still a popular destination for Japanese honeymooners, which will also contribute to a resurgence in its popularity.

Table6 The Number of Japanese Visitors to the Forum Island Countries



Source: Kurosaki 2013 p. 29

Conclusion: Towards Overcoming Disadvantages

Various disadvantages have constrained the economic development of the Pacific Island countries, affecting their ability to compete in the global market. The size of these countries is one critical issue, implying limitations on land, labour, the domestic market and capital. In addition, the size of these countries means that they have very limited power to influence the global economy in terms of the price of products, monetary policy and global economic trends. For example, given their infant stage of development, it was necessary for the Pacific Island countries to be supported by preferential trade facilities. But these policies have been reviewed or abolished under liberalisation pressures from globalism, particularly starting in the late 1990s (Firth 2007).

However, it is worth noting that one characteristic of small states can be used effectively to promote economic development. In general, small states are able to flexibly restructure their legal and economic systems to invite new industries. Their decision making processes are comparatively uncomplicated due to the size of the government, and policies and regulations can be implemented and amended flexibly, rapidly and boldly if the leaders decide to take initiative to move forward.

The Singaporean government has often amended its laws and regulations to attract foreign investment. For example, the food law in Singapore did not permit Kikkoman, Japan's most famous soy sauce company, to label their sauce as soy sauce on the grounds that the ingredients of Kikkoman sauce did not meet the criteria required by the law. However, the government quickly amended the law so that they could invite Kikkoman to Singapore. At present, Singapore-made Kikkoman soy sauce nearly dominates the Japanese soy sauce market in the region.

This report has discussed various successful cases of economic development in the region, representing instances where the government has adopted bold policy initiatives and quickly developed a supportive investment environment. We see it in Samoa, whose ability to attract Yazaki resulted in a substantial increase in domestic employment. The ship registration scheme adopted by RMI has been a great success and has earned significant government income; the captive insurance programme in FSM that targets Japanese companies has also had remarkable results. These successes can be attributed to these governments' flexibility in introducing and amending tax systems, standards for company establishment, investment laws and other regulations so that they are able to attract foreign investors. This type of flexibility is difficult for larger countries. Furthermore, we should note that these types of arrangements can be supported by stable, united and reliable government/countries.

Of course, this flexibility is a 'two-edged sword'. Government flexibility does not always lead to the meaningful development of industries and economic growth. There have been various unfortunate examples discussed in this paper, and these failures could lead to the collapse of a country's credit and impede the potential for development. The island governments need to carefully examine the idea, develop the plan, define the target and execute the strategy. Poor economic governance and lack of information sharing both domestically and regionally has been one fatal issue impeding the success of new industries.

It is also worth noting that the government must take a long-term perspective when developing industries, supporting growth over the long term without being preoccupied by the pursuit of short-term profits.

At the same time, it is also essential to improve the physical environment to prepare for economic development by investing in infrastructure such as IT, stable public utilities, transport and such. Furthermore, establishing educational standards and information networks that are consistent with those outside of the region leads to more opportunity.

Small islands countries do not have the fundamentals that mainstream economists discuss in textbooks. Their leaders must appreciate the peculiarities of their countries and utilise their advantages with bold, rapid and flexible policy framework for development and implementation.

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