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**INDIGENOUS ENTREPRENEURSHIP AND TOURISM**

**DEVELOPMENT IN THE COOK ISLANDS AND FIJI**

**A Thesis Presented in Partial Fulfilment  
of the Requirements for the Degree  
of Doctor of Philosophy in  
Business Studies  
at Massey University**

**PAMELA TAKIORA INGRAM**

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2

INDIGENOUS ENTREPRENEURSHIP AND TOURISM  
IN DEVELOPMENT IN THE COOK ISLANDS AND FIJI

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Abbreviations

ACP	African, Carribbean and Pacific
ADB	Asian Development Bank
ECU	European Currency Unit
EDIT	Executive Development Institute for Tourism
EEC	European Economic Community
EIE	Electronic and Industrial Enterprises
CIDB	Cook Islands Development Bank
CITA	Cook Islands Tourist Authority
CLFS	Commercial Loans to Fijians Scheme
EDB	Economic Development Board
FAB	Fijian Affairs Board
FDB	Fiji Development Bank
FHA	Fiji Hotel Association
FNTC	Fiji National Training Council
FTIB	Fiji Trade and Industry Board
FVB	Fiji Visitors Bureau
HCIB	Hotel and Catering Industry Board (Fiji)
HPC	Hawaii Pacific College
IBRD	International Bank for Reconstruction and Development
ILO	International Labour Organisation
JVLS	Joint Venture Loans Scheme
NLTB	Native Land Trust Board
PATA	Pacific and Asia Travel Association
PBDC	Pacific Basin Development Council
PIDP	Pacific Islands Development Programme
PIM	Pacific Islands Monthly (Magazine)
POSB	Post Office Savings Bank
PRTDP	Pacific Regional Tourism Development Programme
SPC	South Pacific Commission
STA	Secondary Tourism Activities
TCSP	Tourism Council of the South Pacific
TIM	School of Travel Industry Management, Hawaii
THC	Tourist Hotel Corporation
UNDP	United Nations Development Programme
WTO	World Travel Organisation

Glossary

## Cook Islands:

- |           |                          |
|-----------|--------------------------|
| Ariki     | - High Chief             |
| Mataiapo  | - Chief of major lineage |
| Rangatira | - Chief of minor lineage |

## Fiji:

- |                      |                               |
|----------------------|-------------------------------|
| Kere kere            | - personal "loans" or favours |
| Bose Levu Vakaturaqa | - Great Council of Chiefs     |
| Tokatoka<br>families | - subclan made up of related  |
| Tui Viti             | - King of Fiji                |
| Mataqali             | - extended family             |
| Vanua                | - Confederation               |
| Yavusa               | - Tribe                       |

## Western Samoa:

- |       |              |
|-------|--------------|
| Matai | - High Chief |
|-------|--------------|

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TE MANAKO

Kua akakite mai te tupuna  
E ara, arataki i te iti tangata  
E ora, e kimi i te kite e te tika  
Kia manuia te enua  
Kia manuia te iti tangata  
Kia toa te vainetini, e kia maroiroi

Palmerston North, 1990

**ABSTRACT**

This thesis provides an understanding of the dynamics and internal structure of the Cook Islands and Fiji tourism industries and analyses the role of indigenous entrepreneurs in the development of these industries. The role of government in tourism development is reviewed and tourism policies are evaluated.

The basic assumption is that the main objective of tourism development is to provide maximum benefits to the resident population of these Pacific Island countries. Tourism, therefore, must be developed in a rational, balanced manner, taking into account four key factors: the economic, social, cultural and political factors. These are presented in a model (in Chapter 12), which was developed in this study, for tourism and indigenous entrepreneurship development for small island states. The model emphasises that there is a dynamic, interactive relationship amongst these four key factors. The model suggests that if tourism and indigenous business development are to be successful, they must developed in harmony with the four key factors.

Overall, the study found that tourism policies were quite well developed, however, in several instances the implementation of these policies were found to be lacking. For example, while the policies dealing with employment generation were found to be adequate, there is still a shortage of indigenous people in managerial positions in the tourism industry.

In other instances, it was found that tourism policies had not been adequate. For example, both the Cook Islands and Fiji have not developed adequate policies to deal with foreign exchange leakages. Suggestions are made for more reliable data collection and analysis of relevant statistics and surveys to more accurately determine the extent of foreign exchange leakages. Other important economic issues reviewed are tourism's contribution to GDP, and improved linkages with other economic sectors. The formulation and implementation of important social, environmental and cultural policies for tourism development are also recommended. Policies dealing with rura/urban drift and a more equitable distribution of the economic benefits of tourism are suggested in order to ensure the maintenance of political stability in these two countries.

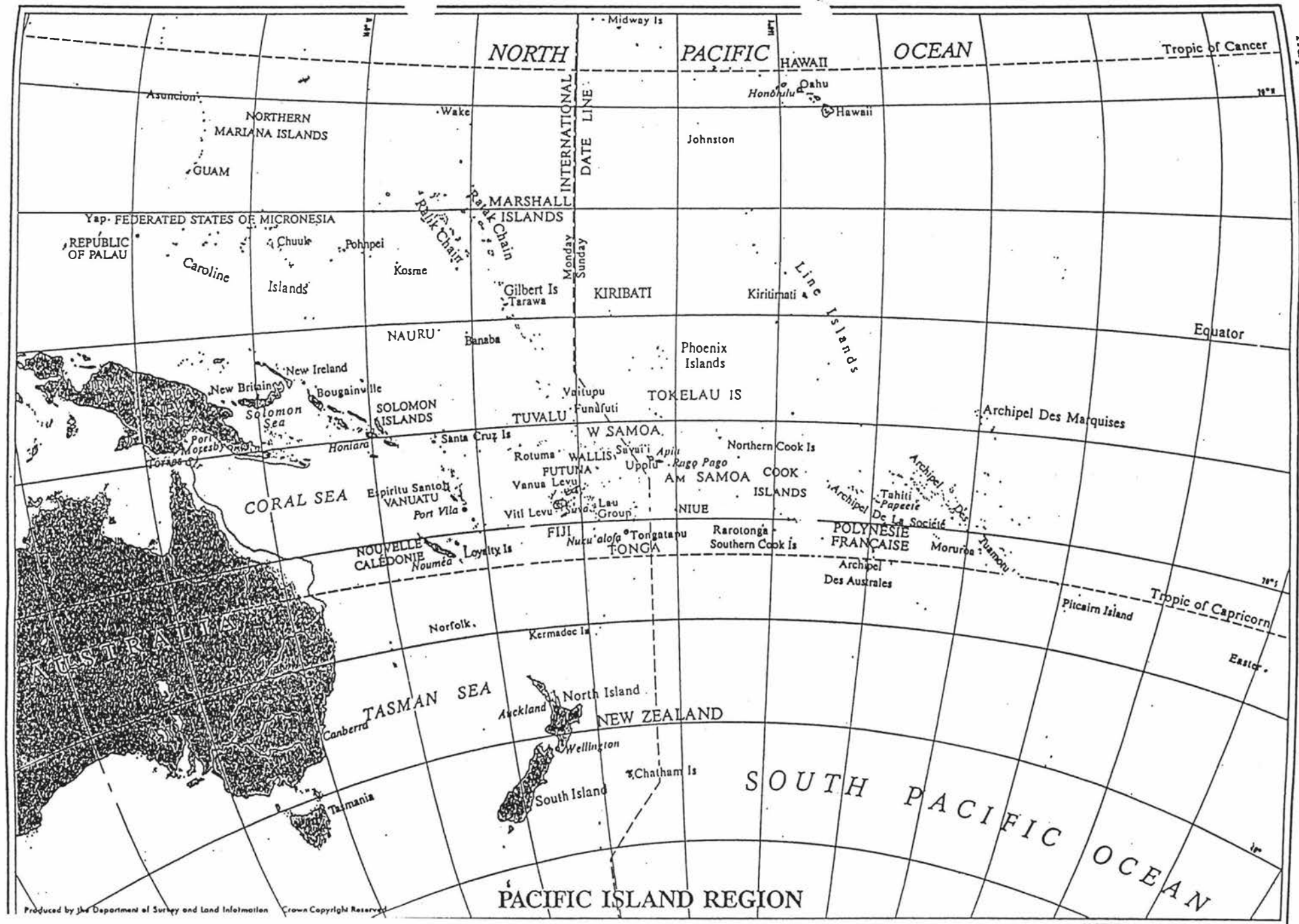
Opportunities for indigenous entrepreneurs in the tourism industry were identified and discussed. A profile of indigenous Pacific entrepreneurs is developed. The role of women entrepreneurs in economic development is given special focus, and an analysis of the production of traditional handicrafts in the Cook Islands and Fiji is presented as an example of secondary tourism activities available to indigenous entrepreneurs.

The study also reviews and evaluates government structures and policies which support and encourage indigenous entrepreneurs. The role of the Cook Islands Development Bank and Fiji Development Bank is reviewed to determine whether their policies are successfully encouraging indigenous entrepreneurs. In the case of the Cook Islands, the CIDB has been reasonably successful in stimulating economic growth in the private sector and encouraging indigenous entrepreneurs. In the Fiji case, however, while the FDB has been successful in stimulating economic growth, the growth of the number of indigenous Fijians in business has been minimal.

The study recommends, among other things, the establishment of a regional centre for business which could provide a data resource base, conduct business training programmes and provide international coordination of regional business development.

The conclusion provides policy alternatives and recommendations for action programmes which will promote the growth of indigenous entrepreneurs and tourism.

Map 1. The Pacific Islands



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## **PART I**

### **CHAPTER 1    INTRODUCTION: TOURISM ISSUES AND INDIGENOUS ENTREPRENEURSHIP**

#### **A    Introduction**

Since the mid-1960s international tourism has grown to become one of the world's largest industries, exceeding all other commodities in trade (Fletcher, 1989). Tourism has reached major proportions in the world's economy and is now a major source of foreign exchange for both developed countries (e.g. England, Australia, New Zealand, Switzerland, Italy and Spain), and developing countries (Mexico, Philippines, Sri Lanka, the Pacific Islands, etc.). Estimates indicate that tourism in 1987 resulted in 355 million international tourists who spent US\$150 billion, representing an increase of 17% over 1986 (Fletcher, 1989). International tourism is one of the fastest growing industries in the world and is the "third largest export industry after oil and oil products, and the automobile industry" (World Tourism Organisation, 1988).

While substantial growth in international pleasure travel was concentrated in North America and Western Europe during the 1950s and 1960s, the 1970s was a period of substantial growth in the Asia and Pacific region. By 1985 this region had an annual growth rate of 11.2 percent, the highest growth rate in the world (Table 1.1). East Asia had the highest growth rate (7.2%), while Australia and New Zealand had the second highest rate (5.8%), and the South and Central Pacific (the Pacific Islands) had a low rate of growth rate of 2.7% (Table 1.2).

Table 1.1

## WORLD TRAVEL TRENDS

	Arrivals (000)			Annual Growth (%)	
	1975	1980	1985	1975-85	1980-85
Africa	4,654	6,413	8,000	5.6	4.5
North America	29,360	35,376	33,491	1.3	-1.1
So. & Cen. America <sup>a</sup>	13,603	18,270	20,009	3.0	1.8
East Asia & Pacific	7,804	19,981	34,000	15.9	11.2
Europe	153,859	195,966	220,000	3.6	2.3
Middle East	3,520	5,821	7,000	7.1	3.8
South Asia	<u>1,557</u>	<u>2,280</u>	<u>2,500</u>	4.8	1.9
World Total	214,357	284,107	325,000	4.2	2.7

<sup>a</sup> includes the Carribean

Sources: World Tourism Organisation, *Tourism Compendium*, 1985.  
School of Travel Industry Management, University of Hawaii, 1987.

TABLE 1.2

## GROWTH OF TRAVEL TO ASIA AND THE PACIFIC 1975 TO 1985

	ARRIVALS (000)		ANNUAL GROWTH (%)		
	1975	1980	1985	1975-85	1980-85
East Asia	4,009	6,629	9,387	8.9	7.2
South Asia	897	2,102	1,828	7.4	-2.7
Southeast Asia	4,401	6,885	8,074	6.3	3.2
South & Central Pacific*	683	937	1,070	4.6	2.7
Australia & New Zealand	894	1,370	1,819	7.4	5.8
Total*	10,883	17,923	22,178	7.4	4.3

\* Excluding Hawaii from Region and Total.

Source: Pacific Asia Travel Association, Annual Statistical Reports 1975-1985

Tourism is an industry that can attract foreign capital, earn foreign exchange, create needed employment, and be implemented in a relatively short period of time.

Tourism is recognised worldwide as an economic and social force of major proportions.

For developing countries, tourism is a feasible and desirable form of economic development because the resources which attract tourists and support tourism are usually available. These countries often have unique cultural attractions, scenic resources, historical attractions, culturally interesting and attractive people, unique wildlife and other natural resources. In addition, there is usually a good labour supply seeking employment. The construction of tourist accommodation such as hotels, motels, recreation areas and the infrastructure necessary to support these developments -- roads, airports, public utilities, parks etc. -- bring added benefits to the local community.

Because of its ability to earn foreign exchange and create employment, tourism is regarded in many developing countries as a panacea for their economic problems. This is especially true in Asia where investment in tourism has grown rapidly and tourists are arriving in record numbers (Pye, 1983). As a result, the problem of tourism linkages and leakages has become a major issue in Asia. Tourism leakages are caused when foreign exchange is used by a country to pay for goods and services from overseas. This is one of the costs of tourism development and should be minimised. Tourism linkages occur when development of the tourism industry spreads through other sectors of the economy, such as the agricultural, manufacturing and services sectors. By strengthening tourism linkages, the whole economy benefits. A classic example of this problem has been Japanese tourists, who fly on Japanese airlines, stay at Japanese-owned hotels, eat at Japanese restaurants, and take

day tours with Japanese-owned travel companies.

The repatriation of profits to Japan from these activities reduces the benefits of tourism to the host economy and this is causing complaints from policy makers in Asian countries. This is also a problem for the Hawaiian tourism industry. However, it has been demonstrated (in Asia) that as an economy develops, the tourist sector becomes increasingly integrated into the domestic economy and the degree of leakage is proportionately reduced. (Pye, 1983)

In the Pacific Islands region, where natural resources are limited -- except for an abundance of beautiful beaches, good weather and interesting cultures -- tourism is actively promoted, since it is a source of needed revenue for the development of their economies. However, governments of these Pacific Island countries are becoming increasingly aware that tourism must be planned and controlled through appropriate tourism development policies and strategies if desirable cultural values and natural environmental conditions (which are often the main tourist attractions) are to be maintained.

There are 22 countries and territories in the Pacific Island region (Appendix I). These countries vary in population size from 3.126 million people (Papua New Guinea) to 100 people (Pitcairn Island). The majority of the islands are now independent or self-governing; however a few territories remain. The number of visitors to each country ranges from 189,000 to Fiji in 1987, to 600 visitors to Tuvalu (Table 1.3).

The main sources of visitors to South Pacific countries are the U.S.A. (26.6%), Australia (21.9), Europe (15.2% including U.K.), and New Zealand (10.5%), (Table 1.3).

Table1.3

**TOURIST ARRIVALS TO SOUTH PACIFIC ISLAND COUNTRIES  
1987 ('000)**

Country of Residence	American Samoa	Cook Islands	Fiji	Kiri-bati	PNG	Solomon Islands	Tahiti	Tonga	Vanuatu	Western Samoa	Total No.
Australia	0.7	5.0	65.4	0.4	17.5	5.0	8.5	2.9	6.6	4.6	116.5
New Zealand	2.5	11.6	16.2	0.2	1.4	1.5	4.2	4.1	1.5	11.3	55.7
U.S.A	7.3	2.9	47.0	0.1	4.2	1.2	68.8	4.2	0.7	5.3	141.7
Canada	0.3	2.3	16.80	0.4	0	3.9	0.3		0	0.4	24.3
Japan	0.1	0	5.5	0.1	1.9	0.5	3.9	0.4	1.6	0	13.9
U.K.	0.2	0	8.5	0.2	2.1	0.9	3.7	0.7	0.3	0.3	16.9
Other Europe	0.9	5.3	14.7	0.1	2.1	0.3	37.4(4)	1.1	0.3	1.9	64.0
Pacific Isl.	1.5	1.3	11.2	2.1	1.4	1.1	0.4	1.0	1.3	3.1	24.3
Oth. Countries W.Samoa (specific)	23.8	3.3(2)	2.1	Nauru: 1.3	1.3	PNG: 2.4	N.C: 1.1	Fiji: 1.0	N.C:	A. Samoa: 17.7	52.7
Other Countries	1.2	0.5	4.5	0.3	3.8	0.9	7.7(5)	1.5	1.2	1.1	22.8
<b>TOTAL</b>	38.5	32.1	189.9	5.6	34.8	12.6	140.8	17.3	14.5	45.5	533.5(4)
<b>Growth Rates 1983-87</b>	---	13%	0%	2%	2%	3%	7%	5%	-15%	6%	3%(1)

0 Means very limited number of tourist arrivals

--- Information not available

1) Estimates

2) Cook Islands residents in New Zealand

Source: Tourism Council of the South Pacific, Air Transport - Tourism Linkages Study, 1988

3) Total includes tourist visitor arrivals to Tuvalu

4) Includes 21,200 from France

5) Includes 3,950 from South America and about 1,500 from Hawaii

In some Pacific Island countries tourism is already the leading industry, providing a high proportion of employment and making an important contribution to the country's foreign exchange. These countries are Fiji, French Polynesia, Vanuatu, Guam, Northern Marianas, New Caledonia, and the Cook Islands. In other countries tourism is a small but developing industry with potential for growth and a definite interest by government and the private sector for further development. These countries include Papua New Guinea, Solomon Islands, Tonga, Western Samoa and Palau. Even in the smaller island states, although resources and potential are more limited, there is still a need for, and some interest in, developing tourism.

These include Kiribati, Tuvalu, Niue, Nauru, the Federated States of Micronesia, the Marshall Islands and American Samoa.

Tourism will have an increasingly important role in most of these countries and territories over the next several decades. While this promise of continued growth in the industry is optimistic, the vulnerability of the countries in this region will also increase because of global economic trends and the smallness of most of the Pacific Island tourism industries.

The main issue that confronts all governments in the Pacific is how to develop tourism. Some prefer "controlled" tourism while others prefer faster development, but there is no doubt that most countries want to develop their tourism sector while recognising the need to maintain their cultural and environmental integrity.

Although most island countries want to develop tourism, the majority of the island leaders are wary of tourism and recognise it as a threat to their traditional cultures.

They fear loss of traditions and traditional values, loss of traditional language, and changing attitudes toward traditional structures. Leaders face the dilemma of the need for development without imposing major changes to the existing tribal structures. They want their people to benefit from direct involvement in the cash economy, but do not want their people to develop an individual identity, thereby reducing their commitment to the family and community.

These same leaders talk about their belief in democratic political principles, but do not want their authority in the existing traditionally hierarchical and undemocratic political structures challenged or undermined by the individual's need to succeed economically. In some countries (for example, Fiji and Western Samoa) the individual's right to exercise basic human rights (for instance the right to vote) is restricted by the leaders' need to maintain traditional political structures. In some cases this is changing (Western Samoa), but in others it is becoming more entrenched (Fiji).

While some of these changes can be attributed to the development of tourism, many changes (and the problems associated with them) are caused by national development in general.

Tourism development is affected by the traditional land tenure systems that exist in most Pacific Island countries. Communal "ownership" of land (whereby a whole village or tribe can own the land) provides a constraint on development.

Because of the importance of the tourism industry and the smallness of the local economies, the impacts of tourism are more pronounced than other forms of economic development. Similarly, the impacts and potential influence on social and political issues are much more pronounced.

Although tourism brings in foreign exchange and stimulates employment opportunities in many Pacific Island countries, some academics and island leaders argue that it has been at the expense of individual pride, cultural values and traditional occupations. Advocates of tourism development point out that for countries faced with development problems and very limited resources and alternatives, tourism provides an opportunity for generating foreign exchange. Tourism does indeed create employment and stimulates small scale industries and entrepreneurial opportunities for indigenous peoples (Rajotte, 1980).

Another major issue that governments must face is how to develop strategies to ensure that the indigenous population participates fully in the business sector of the country's economy. Failure to achieve this can have disastrous consequences. This was recently demonstrated in Fiji, one of the countries under consideration in this thesis, where an indigenous Fijian led military coup d'etat took control of the democratically elected government in 1987 to ensure that the economic and political interests of indigenous Fijians were protected (Dean, 1988). Although some racial issues were involved in the overthrow of the Indian controlled government, the lack of participation of indigenous Fijians in business, and the over-representation of Indians in this sector, contributed to a perception by Fijians that they were being "left behind" and disadvantaged by the system.

However, few scholars have investigated the extent to which tourism has contributed to the growth of indigenous business. Tourism has provided opportunities for business development in both primary activities (for example hotels, motels, tour operators, transportation) and secondary activities (such as game/sport fishing, boat operations, handicrafts, hiking & trekking, land and sea transportation, music/entertainment, agricultural production). However, indigenous entrepreneurs are more frequently found in the secondary tourism activities.

One of the features of indigenous entrepreneurs in the tourism industry is that these activities take place in the rural areas, thus providing cash income to rural people and slowing down the rural/urban drift.

Some of the major problems and constraints these indigenous entrepreneurs face include lack of management skills and business experience, under-capitalisation, the inability to control personal or communal commitments, and the ineffectiveness of government policies.

Tourism has provided entrepreneurial opportunities in several ways. One major opportunity for Pacific Islanders is the sale of handicrafts to tourists. A study of the economic options and activities of itinerant handicraft sellers in Tonga indicated that over-population and land shortages severely restricted participation in traditional occupations such as agricultural production. As a result, many Tongans have turned to selling handicrafts to tourists as an alternative means of generating cash income. Handicraft production and sale presents an opportunity for small business with low costs for the producer, and provides some freedom to participate in other socio-economic and village activities (Kirch, 1982).

Tourism may also be making important contributions to the maintenance and development of the islands' material culture by providing markets for their indigenous art and crafts. Traditionally made handicrafts were previously produced only for ceremonial and religious functions. But now that these functions have disappeared, through the introduction of western religions and lifestyles, most of these goods are no longer produced for their original functions (with the exception of some ceremonial exchanges that are still maintained). Instead they are now being produced by indigenous entrepreneurs to earn cash income.

By providing this market, tourism may in fact be playing an important role in cultural preservation along with its obvious economic benefits.

The expansion of tourism industries in the Pacific Islands has also generated opportunities for other small indigenous businesses to develop which did not exist before. This has led to a new group of indigenous entrepreneurs who produce goods and provide services for the tourism market. Where tourism is not well developed, indigenous business is not well developed. In most of those countries where tourism is a major industry, one finds several examples of indigenous entrepreneurs.

Fiji seems to be the exception. Although Fiji has a large and well developed tourism industry, there appears to be a lack of indigenous entrepreneurs. While the reasons for this are complex, the most obvious reason is that the ethnic Fiji Indians, with their Asian background and work ethics, have monopolised the entrepreneurial environment for many years. However, this is beginning to change.

## **B Government Support for Tourism**

Tourism is an industry that is self-generating. In its simplest form, a person or persons visit a place, like it and stay for a period of time, spending money to pay for essential services such as food, accommodation and transportation. At this level there is no need for any formal institutional structures or organisation. In some parts of the world this level of tourism still exists, but in most areas tourism has developed to a more complex level, bringing a need for organisation and a role for government.

Governments are concerned with the organisation and operation of the tourism industry for economic, social, cultural and political reasons. Governments have a responsibility to provide a safe environment for visitors and to assist them if difficulties arise.

In addition, governments are concerned with economic development and the provision of a certain standard of living for residents. Often tourism development is viewed by governments as a vehicle for providing residents with better transportation (air service, roads, shipping service), essential infrastructure (water supply, roads, sewerage management, electricity), and better social services (improved health facilities and educational facilities and opportunities).

### C. Objectives of the Study

The objectives of this study are:

1. To provide an understanding of the dynamics and internal structure of the Cook Islands and Fiji tourism industries;
2. To determine to what extent tourism provides opportunities for the development of indigenous entrepreneurs;
3. To review and compare the role of indigenous entrepreneurs in the tourism industry with a special focus on women entrepreneurs and production of traditional arts and crafts in the Cook Islands and Fiji;
4. To review the development of tourism in these two countries;

5. To assess and evaluate the role of government in encouraging and promoting the development of indigenous entrepreneurs and tourism;
6. To provide policy alternatives and options for the growth of indigenous entrepreneurship in tourism and for women entrepreneurs.

D. **Method of Analysis**

The analysis and evaluation methods used in this thesis have the dual purposes of making a contribution to theory, and suggestions for the development and implementation of action-oriented policies.

This research employs structural and functional methods of analysis to determine the effectiveness of tourism policies and organisations, and policies designed to stimulate or promote more indigenous participation in business in the two Pacific Island countries. A basic assumption is that tourism development makes demands on the economic, the social and political environment and the resources of a country which may compete with other industries for scarce resources (Taal, 1982). In turn, government tourism policies are influenced by political, economic and social factors.

In this study a model is formulated for tourism development and indigenous entrepreneurship strategies for small island states (see Chapter 12). This model is presented as a means by which policy makers in developing small island states can guide, analyse and monitor the development of their tourism industry, particularly in the light of promoting indigenous participation in small business development. In this particular study, policies regarding the development of tourism and the encouragement of indigenous entrepreneurship are assessed using the model, and suggestions for improved policies are presented.

## **E Sources of Data**

Several research methods were used in the process of data gathering. These included analysis of official documents and statistical records, interviews with key decision makers, and observation of the tourism industry and government departments.

This is a comparative study of tourism and indigenous entrepreneurship in two countries in the Pacific Islands region: the Cook Islands and Fiji. These countries have been chosen because they can be considered culturally representative of the Polynesian and Melanesian regions.

However, the two countries differ. The Cook Islands are an example of a small, self-governing state with very limited resources, except for its environment and its people, where the tourism industry is the most important sector of its economy in terms of employment and revenue generation.

Fiji, on the other hand, is a large (by Pacific standards) country with a diversity of resources and industries. Tourism makes an important contribution to the national economy. However, until 1987 tourism only accounted for approximately 12-13% of Gross Domestic Product (GDP). Likewise, employment provided by the tourist industry must be seen in the context of a more diverse economy.

### 1) Review of official documents and statistical records

The main sources of information for this thesis are official documents and statistical records. The strategy adopted was to examine all available official documents and reports containing policies regarding the development of tourism in the Cook Islands and Fiji.

The content of these policies -- especially those related to tourism investment and the encouragement of indigenous entrepreneurship -- were analysed in terms of their effectiveness.

Case studies, government policies on tourist accommodation, foreign aid, incentive and investment policies, marketing and promotion policies, personnel training, and regulation and control policies were analysed in terms of the structures that were created and the functions they perform.

In addition, statistical records and annual reports of relevant organisations involved with the growth and development of the tourism industry were reviewed. The statistical records included statistics on tourist visitor arrivals, tourism expenditure patterns, regional distribution of tourists, tourist accommodation investment, government expenditure on tourism promotion and development, foreign exchange earnings, employment, and training and education.

## 2) Interviews with Key Decision-Makers

Key decision-makers in the government departments, the tourism industry and the academic community were interviewed.

They were asked questions regarding their opinions on the effectiveness of certain policies. Individuals from both the public and private sector were helpful in their critical analysis of policies and structures.

## 3) Personal Observation

As a researcher of tourism development in the Pacific Islands over the last decade, I have observed the development of tourism in both the Cook Islands and Fiji for a considerable period of time.

As an indigenous Cook Islander, I have literally grown up with the tourism industry, monitoring its development since it began. In addition, I spent several months in Rarotonga in 1985, 1986, 1987, and 1989 collecting data for this thesis. I presented a paper and participated in the first ever Cook Islands Tourism Forum held in December 1988 where tourism development and policies were debated.

After spending a year living in Suva, I was able to gain an in-depth understanding of the country, the complex issues Fiji is facing in national development, and the tourism industry. I was fortunate to be working in the Secretariat of the Tourism Council of the South Pacific, a regional inter-governmental organisation concerned with the promotion and development of tourism based in Suva. It is made up of government representatives from 12 member Pacific Island countries. Both the Cook Islands and Fiji are members.

## **F Definition of Concepts**

### **Structure**

Structure can be defined as the way in which the component parts of a complex whole are interrelated (Garmonsway, 1979, p.718). When applied in this context, the structure of the tourism industry is a system which is made up of many component parts.

### **Function**

Function can be defined as a natural activity, occupation, or purpose (Ibid, p.314). It is the result or consequence of certain actions. The effects of policies can be regarded as functions because they have observable consequences.

## System

A system is a group of objects, a methodically arranged set of ideas, principles, methods or procedures which are related, or interacting so as to form a unity (Ibid, p.736). Another view is: "A system may be defined as a set of elements standing in interrelation among themselves and with the environments" (Von Bertalanffy, 1972).

The tourism industry is a system of inter-related activities. Consider, for example, the way in which the accommodation sector, tour operators, transport companies etc. together form a whole.

## Policy

A policy is a course of action to guide and determine a government or organisation's activities in order to achieve stated goals or objectives. A policy is a guide to decision-makers and gives direction to plans and planners (Ibid, p.559).

## Development

Development can be defined as a process of change toward an objective. It involves the utilisation of human, physical and financial resources in order to achieve qualitative change (Taal, 1982).

## Tourism

Simply put, tourism is the industry which provides for the needs and wants of travellers. Tourism can also be defined as:

A socio-economic and cultural activity including leisure and recreation that involves the travel of people from one place to another for a temporary stay to satisfy various travel needs, including interest and pleasure (Garmonsway, 1979).

### Tourist

A tourist can be defined as a sightseer, usually a middle-class person, who travels the world in search of experience. A tourist can also be called a visitor. The World Tourism Organisation defines a visitor as:

Any person visiting a country other than that in which he has his usual place of residence for any reasons other than following of an occupation remunerated from within the country visited (World Tourism Organisation, 1987).

However, countries are often not able to determine whether a visitor fits this definition because the information is not available to them. The normal practice, therefore, is to simply count the number of tourist "arrivals" and "departures".

In Fiji the definitions of visitor categories are:

- 1) A visitor is a person, other than a Fijian citizen, permit holder or exempted person, who usually stays for at least 24 hours in Fiji, who stays overnight in accommodation within Fiji (Fiji Government, 1978).
- 2) Cruise ship passengers are defined as those persons who arrive and depart on the same ship and use the vessel's accommodation during the duration of their stay in Fiji. This category also includes through passengers by sea on scheduled liner services.

The Cook Islands defines a visitor as:

"Any person visiting the Cook Island for the purpose of a holiday, business, sport, visiting friends and relations, staying at least one night, and for any other reason except persons taking up permanent domicile and persons accompanied by their families taking up a position of employment within the Cook Islands" (Cook Islands Tourist Authority, 1988).

### Tourism Studies

Tourism studies can be defined as:

"The study of man away from his usual habitat, of the industry which responds to his needs, and of the impacts that both he and the industry have on the hosts' socio-cultural, economic and physical environments" (Jafari, 1977).

Tourism studies is multi-disciplinary, and covers such disciplines as economics, law, sociology, psychology, geography, and anthropology.

### Tourism Systems

A tourism system includes three elements: human, geographical, and industrial. The human element must include a person or persons "engaging in touristic behaviour, engaging in tourism" (Leiper, 1989).

Three kinds of geographical elements are found in a whole tourism system :

- the traveller generating region or the tourist's home region;
- the transit route or intermediate places through which tourists must travel; and
- the tourist destination region, or the place the traveller chooses to visit (Ibid, p.34-35).

The third element is the travel and tourism industry, or the collection of business firms and organisations that make up the industry (Ibid, p.35).

This includes:

- national and regional tourism organisations;
- tour operators, tour wholesalers and travel agents;
- accommodation operators (such as motels, hotels and other accommodation for tourists);
- transportation companies, for example most airlines, some bus companies, railways and shipping lines providing transportation for tourists;
- tourist attractions, such as restaurants and theme parks, museums, and other kinds of organisations involved in attracting tourists.

### Indigenous Entrepreneur

An indigenous entrepreneur can be defined as those business entrepreneurs where the majority ownership and control of the business is held by indigenous Pacific Islanders, i.e. those whose ancestors were indigenous inhabitants of any island in Polynesia, Melanesia, or Micronesia. In some parts of the Pacific these (for instance the Cook Islands) these indigenous entrepreneurs may be of combined ethnicity, having some ancestors from countries other than the Pacific Islands.

In some countries (e.g. Fiji) the definition is modified by the fact that Fijian society perceives people of mixed ancestry to be non-indigenous. For the purpose of this thesis, the definition does not refer to businesses owned by other ethnic groups (such as Indians in Fiji, New Zealanders in the Cook Islands) and other foreign companies that are registered locally (Hailey, 1987).

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This chapter has introduced the important issues that Pacific Islands governments are faced with when dealing with tourism and indigenous entrepreneurship. The objectives of the study, method of analysis, sources of data and definition of concepts have been presented to set the course for discussion.

For most Pacific Islands countries, the most important objective of tourism development is to provide maximum benefits to the resident populations of each country. In order to ensure that the benefits of tourism are distributed primarily to the local community, island governments are striving to ensure that tourism is developed in a rational, balanced manner, taking into account the economic, social, cultural and political factors. This study presents an analysis of the dynamics and internal structure of the Cook Islands and Fiji tourism industries, and applies the concept of the development of indigenous entrepreneurs in the private sector to the tourism industries of these two countries.

In addition, Pacific Island governments have recognised the need to develop the indigenous private sector through the promotion of indigenous entrepreneurs. The thesis is structured in four parts. The first part is designed to introduce the concepts and issues (Chapter 1), present a summary of the tourist industry in the Pacific Islands regional context (Chapter 2), and review entrepreneurship theory (Chapter 3). This section sets the parameters for discussion and analysis.

The second part presents an analysis of the Cook islands tourism industry (Chapter 5) and indigenous entrepreneurs (Chapter 6), and existing governmental support structures (Chapter 7). As this is a comparative analysis, Part III provides similar analysis of the Fiji tourism industry, entrepreneurs and governmental support systems (Chapters 8, 9, 10, 11).

These sections provide an in-depth understanding of tourism development and indigenous entrepreneurship issues in the Cook Islands and Fiji in the 1990's, and the national structures that have been developed to deal with them.

The final section (Part IV) provides a discussion and comparative analysis of indigenous entrepreneurship and tourism development in the Cook Islands and Fiji, taking into account the relevant economic, social, cultural and political factors (Chapter 12). The final chapter (13) evaluates government policies and makes recommendations for development of tourism and indigenous entrepreneurs in the Cook Islands and Fiji.

## **CHAPTER 2    THE TOURISM INDUSTRY IN THE PACIFIC ISLANDS**

### **CONTEXT**

In order to fully understand tourism development in the two countries under consideration (the Cook Islands and Fiji), it is necessary to understand the tourism industry in the South Pacific region. The tourism industries throughout the South Pacific are inter-dependent to a large degree. These islands are linked together through geography, colonial history, air transportation systems, joint marketing and promotion efforts (the concept of the "South Seas" or "South Pacific" are more marketable in the enormous markets of Europe and North America), and cooperative research, education and training.

It is therefore necessary to consider the South Pacific tourism environment, tourism policies and national structures, regional and international tourism organisations, tourist accommodation capacity, air transport systems, and tourism marketing, education and research. These regional and international resources can provide important inputs into national tourism development in the South Pacific and are somewhat under utilised.

#### **A    The Tourism Environment**

The structure of the tourism industry and the tourism environment in the developing countries of the Pacific Islands follows much the same structure that is found in developed parts of the world. An academic believes that it is more accurate to call the industry the "travel and tourism industry" (Leiper, 1989a). The industry can be viewed as a system, a collection of parts that make up a whole.

One analysis suggests that the tourism industry develops through three stages: "discovery, local response and initiative, and institutionalisation" (Noronha, 1979). The first stage occurs when adventurous travellers "discover" a new area. However, a tourism industry does not evolve until the second stage, when people in that area start providing services for the increasing number of visitors. By the third stage, facilities and services have been established and a travel and tourism industry is on its way.

The travel and tourism industry can be divided into several sectors. Sector analysis by main function can be used, although there is some overlap. Leiper uses a seven sector analysis (1989a, p46-47).

1. The Coordinating Sector.

This includes governmental national tourism organisations (NTO's), regional tourism associations (RTO's) and industry associations. This sector improves coordination of all sectors of the industry in order to benefit a specific destination.

2. The Marketing Sector.

This includes retail and wholesale travel agents, airlines' sales offices, and the promotional functions of NTO's and RTO's.

The main activities of this sector are the promotion, advertising, and publicity efforts in the tourism generating markets.

3. The Carrier Sector.

These are the transportation companies, including airlines, shipping companies, bus and coachlines, car rental companies and railways.

4. The Accommodation Sector.

This includes hotels, resorts, motels, camping parks, and hostels.

5. The Tour Operator Sector.

This section consists of companies who assemble packaged or inclusive tours which include, at the minimum, transportation and accommodation, but which can include tours, entertainment, meals etc.

6. The Attractions Sector.

Businesses which specialise in leisure activities comprised this sector. These include theme parks, sporting and cultural events and facilities, entertainment, and other attractions.

7. The Miscellaneous Sector.

This includes Duty free shops, souvenir and clothing stores, restaurants, banking facilities (such as travellers cheques), to name a few.

This sectoral analysis of the travel and tourism industry can also be applied to the Pacific Islands. In order to further understand the Pacific Island industry, it is necessary to functionally and structurally analyse the industry.

From 1976 to 1985, visitors to the Pacific area, including the Asian countries on the Pacific rim, increased from approximately 11 million to 22 million annual arrivals (School of Travel Industry Management, 1987). Of this total, however, the Pacific Island destinations in the region accounted for less than 5 per cent, or just over one million arrivals in 1985.

In 1987 the 12 member countries of the Tourism Council of the South Pacific (TCSP), which are all located in the South Pacific, received only 0.1 per cent of the total world tourist arrivals, (533,000 international tourist arrivals) or 2 per cent of East Asia and the Pacific tourist arrivals (Tourism Council of the South Pacific, 1988).

It is projected that travel to Asia and the Pacific will exceed 28 million visitor arrivals by 1990, and if the Pacific Island region can maintain its current market share, total arrivals could reach 1.3 million in 1990 (Ibid.). This uneven distribution of travel to the island countries in the region and low growth rates are a result of geographic isolation, long distances from the major source markets, inadequate (or in some cases non-existent) air services and hotel accommodation, and small promotional and marketing budgets. This trend is expected to continue, however some destinations will develop at a higher rate. The more developed destinations are Guam, Fiji, the Northern Marianas and Tahiti.

While the Pacific Islands have similar tourism products, they compete with each other for a share of the same tourism source markets. These markets are Australia, New Zealand, Japan, the United States, Canada, the United Kingdom, Western Europe, and Asia. In 1985, 92 percent of Japanese arrivals to the region went to Guam and the Northern Marianas, while over 95 percent of French visitors travelled to either Tahiti or New Caledonia, thus creating an imbalance in outbound markets (Ibid).

Visitors from the developed countries find the Pacific Islands an attractive place to visit for several reasons. These are:

1. An unpolluted ocean and beach environment where visitors can enjoy water sports, swimming and sunning;

2. An unpolluted, safe, land environment where visitors can enjoy sightseeing, restaurants, shopping, and pleasant hotel accommodation;
3. A warm, pleasant, year-round, tropical climate;
4. Warm, friendly, helpful people representing different and interesting island cultures;
5. Close proximity to source markets, for example the proximity of Guam and Northern Marianas to Japan, and the closeness of Fiji to Australia and New Zealand.

The profile of visitors to the islands differs for each island group. For instance, the Japanese visitors to Guam are young (61% are in their 20s), and 50% are women, despite the fact that women make up only 34% of the Japanese outbound market.

In contrast, the major Australian market segments for Fiji are families, honeymooners, unadventurous travellers and first time travellers.

The main benefit to the local community that is attribute to tourism is the important contribution tourism makes to the economies of several South Pacific Island countries. In addition to the two countries under consideration in this thesis (which will be analysed in succeeding chapters), tourism is making a significant contribution to national economies through the generation of foreign exchange.

An indication of this economic contribution is the foreign generated in several South Pacific destinations such as French Polynesia (US\$146 million in 1988), New Caledonia (US\$65 million in 1988), Tonga (\$9 million in 1987), Vanuatu (US\$14 million in 1986), and Papua New Guinea (US\$17 million in 1987) (World Tourism Organisation, 1988).

## **B Tourism Policies and National Structures**

Governments in the Pacific Islands have only recently begun to consider tourism as an important sector in national economic development. Most government leaders have expressed the need for governments to take a more active leadership role to ensure that tourism will promote economic development and growth, while fully considering the social, cultural, and environmental concerns of the local people.

The relatively short history of tourism development in the Pacific Islands indicates that most island countries share common needs and problems.

These include:

- Clear and consistent government policies on tourism;
- Improved air services;
- Appropriate education and training programmes;
- Awareness of major tourism generating markets;
- Tourism product development and improvement;
- Investment incentives;

- Establishment of improved data bases;
- Utilisation of international and regional aid organisations;
- Minimisation of economic leakages.

Most governments in the Pacific Island region have established organisations, structures and policies to administer tourism through national development plans and National Tourism Organisations (NTOs).

Some governments in the region have developed separate specific tourism development plans, although many countries simply include tourism in their overall national development plans. Increasingly, there is a need to prepare specific tourism development plans, if national tourism goals and objectives are to be achieved. For example, Fiji was the first Pacific Island country to develop a Tourism Masterplan (which was funded by the United Nations Development Programme) in 1975. This is still the blueprint for tourism development in Fiji, although recently another Tourism Masterplan (funded by the Asian Development Bank) was completed. The Cook Islands, on the other hand, have not yet developed a tourism masterplan, although it has defined some objectives and strategies.

The NTOs in the Pacific Islands vary in terms of structure and functions, depending on the level of tourism development in each country. Because of the smallness of some tourism industries and the subsequent lack of financial or human resources, regional cooperation in tourism development is seen as one alternative in dealing with some of the problems of development. A review of regional approaches to tourism development is covered in a later section.

Several factors have influenced the structure of the NTO in the Pacific Islands countries. These include:

- The scale of tourism. For most countries the scale of tourism is small.

The larger industries are found in Guam, Fiji, Northern Marianas and Tahiti;

- The low priority assigned to tourism by government. In most countries tourism lacks recognition as a single, important industry and must compete with other sectors which are perceived as having higher priority. Many governments do not perceive tourism as a major foreign currency earner and tend to expect the private sector to take the lead;

- A lack of tourism policies and systematic tourism developments plans. Most Pacific Island countries have not defined and established clear tourism development objectives;

- Insufficient supply of expertise. There is a shortage of personnel with adequate knowledge and experience in the structure, characteristics, and requirements of the tourism industry to provide the administrative control and direction for development.

There are two basic structures for NTOs in the Pacific Islands:

NTOs which are part of the country's central administration. These NTOs formulate tourist policy, supervise and control the tourism sector, and assume responsibility for promotion and marketing;

NTOs which are statutory bodies and have separate legal personalities and have financial and administrative independence. These organisations are linked to central government through a ministry, semi-governmental or governmental boards.

Some of these organisations have private sector participation, for example the Fiji Visitors Bureau.

The functions of NTOs varies from country to country. While most NTOs do not cover all of the following functions, they are usually responsible for at least some of them. These functions are:

- Research, statistics and planning. Activities include collection and analysis of visitor statistics, and the formulation of national tourism development plans and programmes;
- Inventory of tourism resources. Activities include compiling an inventory of natural and cultural resources, select priority areas for tourism development, formulating environmental protection policies and policies to protect, encourage and promote traditional handicrafts and culture;
- Development of tourism facilities. Activities include the creating and administering national investment funds to finance the development of tourism facilities, encouraging private sector investment in tourism and creating and managing public enterprises (e.g. hotels, travel agencies, transport companies);

- Human resource development. Activities include determining human resource requirements, organising vocational training courses and seminars, and the establishing and managing hotel and tourism schools;
- Tourism marketing and promotion. Activities include the promoting domestic and foreign tourism, the establishing tourist information offices abroad, and the organising tourist reception services;
- Regulation and supervision of tourist enterprises, tourism trade associations and tourist professions. Activities include regulating and supervising the hotel and catering industry, travel agents, tour operators, and tour guides;
- Facilitation of visitor arrivals. Activities include developing policies to amend and simplify entry and exit formalities;
- International cooperation. Activities include participation in international meetings, the activities of international organisations and international negotiations on tourism matters.

### **C Regional and International Tourism Organisations**

There are several regional and international tourism organisations which have developed programmes and strategies dealing with tourism development in the Pacific Islands. These are:

United Nations Development Programme (UNDP)/World Tourism Organisation (WTO)

International Labour Organisation (ILO)

Pacific Asia Travel Association (PATA)

Pacific Islands Development Programme (PIDP), East West Centre

Pacific Basin Development Council (PBDC)

Tourism Council of the South Pacific (TCSP)

United Nations Development Programme/World Tourism Organisation  
(UNDP/WTO)

The UNDP/WTO regional office is based in Suva, Fiji. WTO's Regional Tourism Development Planning and Training programme covers 13 Pacific Island countries. The current project, which runs from 1987 to 1991, provides technical assistance, training, and financial assistance for:

- Further development of hotel, catering and tourism training departments in national vocational schools. The WTO training component provides sectoral missions to help identify training needs, organises seminars and workshops, provides training publications, and provides training consultants;
- Improvement of management skills and financial viability of small and medium accommodation establishments;
- Training of NTO officials;

- Increased public awareness of tourism;
- Increased regional coordination.

#### International Labour Organisation (ILO)

ILO programmes are designed to help Pacific countries achieve full employment, raise living standards and promote cooperation between workers and employers. One of its primary activities is the development of human resources through training. The ILO provides substantial technical assistance for tourism training in the Pacific, especially the Hotel and Catering School at the Fiji Institute of Technology.

#### Pacific Asia Travel Association (PATA)

PATA is essentially a tourism marketing organisation which assists its members in promoting and marketing tourism destinations in the Pacific and Asia region. PATA was established in 1951 and is headquartered in San Francisco, with a South Pacific Regional Office in Sydney. PATA has over 2,000 members, including governments, hoteliers, tour operators, travel agents, cruise and airline companies and other tourism related organisations. It also provides its members with research, development, communications, education and training programmes. Although its main focus of activity is the Asian countries, more attention has recently been paid to the Pacific Islands.

#### Pacific Islands Development Programme (PIDP)

PIDP, which is a special programme within the East West Centre (an educational and research institution funded by the U.S. Federal Government), is based in Honolulu, Hawaii. In 1987 PIDP initiated a project under its Multinational Corporations Programme with the following broad objectives:

- The development and assessment of policy and strategy options which will facilitate tourist sector growth within the socio-economic context of the Pacific Islands;
- The development of a comprehensive data base which will provide governments with tools and information to assist in planning future tourism development.

PIDP provides consultancy funds to the School of Travel Industry Management (TIM) of the University of Hawaii to carry out research studies on tourism development in the Pacific Islands.

#### Pacific Basin Development Council (PBDC)

PBDC was established in Hawaii (1980) as a non-profit corporation to foster a regional economic development strategy for the U.S. Pacific Islands territories. PBDC serves as a joint agency for the 4 governments of American Samoa, Guam, Hawaii and the Commonwealth of the Northern Marianas. The objectives of the PBDC include:

- To identify and assess the economic and social development needs of the Pacific Islands, with special attention directed to the member entities, to examine various regional development strategies and to articulate the views of the region to the public and private sectors.

PBDC has conducted studies on manpower development in tourism, provided technical assistance to the Micronesia Regional Tourism Council, and supported tourism related training projects.

## Tourism Council of the South Pacific

The TCSP was established as a regional governmental organisation in 1988, although it was previously operating as a voluntary regional association of national tourism organisations. Its current members are the governments of American Samoa, Cook Islands, Fiji, Kiribati, Niue, Papua New Guinea, Solomon Islands, Tahiti, Tonga, Tuvalu, Vanuatu and Western Samoa.

The main objectives of TCSP are to:

- promote and develop tourism in the region;
- establish a regional organisation for tourism research, development and promotion.

TCSP is based in Suva, Fiji, and its main source of funding is the Pacific Regional Tourism Development Programme (PRTDP), funded by the European Development Fund of the EEC under the Lome Convention. These grants amounted to ECU 3.2 million for Phase I (1986-1988), and ECU 7.4 million for Phase II (1989-1992). However, these funds cover only the 8 (Asia/Carribbean/Pacific) ACP countries who are signatories to the Lome Convention. These countries are: Fiji, Kiribati, Papua New Guinea, Solomon Islands, Tonga, Tuvalu, Vanuatu and Western Samoa. Other member countries must seek additional funds to enable them to participate in TCSP programmes. The principal components of the EEC/TCSP project are:

- Technical assistance to the TCSP and establishment of a permanent secretariat;
- Establishment of a modern research, information and data base;
- Training and development of human resources in tourism and tourism training institutions;

- Development of awareness of tourism developments in the region;
- Development of a regional tourism marketing and promotion programme;
- Provision of regional tourism surveys and pilot projects on tourism development linkages.

#### **D Tourist Accommodation Capacity**

The countries of the Pacific offer a wide variety of tourist accommodation facilities. These range from large, international, full service hotels and resorts to self-catering facilities and budget type accommodation. Table 2.1 shows the range of tourist accommodation available.

The total room capacity for the South Pacific TCSP countries is under 12,000 rooms; Fiji and Tahiti account for a large share of these rooms. In addition there are only 25 large hotels with a capacity of over 100 rooms in the region.

#### **E The South Pacific Air Transport System**

The provision of adequate air transportation is of vital concern to all Pacific Island countries, especially those who view the development of tourism as an important part of their economies. Apart from two countries (Fiji and Tonga) who have a substantial number of cruise ship visitors, all Pacific Island countries are dependent on visitors who arrive by air. The level of air service provided to these island destinations depends on several factors, including the level of demand for tourism to that destination, the degree of competition from other destinations, and the aviation bilateral agreements between the destination country and countries who are the major tourism source markets.

TABLE 2.1

## TOURIST ACCOMMODATION CAPACITY IN THE SOUTH PACIFIC 1987 (TCSP COUNTRIES)

COUNTRY	NO OF ROOMS	HOTELS WITH MORE THAN 100 ROOMS		%	NO. OF TOURIST NIGHTS (000)
		HOTEL ROOMS			
American Samoa	214	1	184	86	N.A.
Cook Islands	676	2	324	48	N.A.
Fiji	4,271	10	1,962	46	1,576
Kiribati	70	0	0	0	22*
Niue	28	0	0	0	N.A.
Papua New Guinea	1,595	2	363	23	595*
Solomon Islands	313	1	101	32	141
Tahiti	2,888	6	1,224	43	N.A.
Tonga	410	0	0	0	220
Tuvalu	7	0	0	0	*3
Vanuatu	620	2	290	47	148
Western Samoa	371	1	123	31	369
<b>TOTAL</b>	<b>11,462</b>	<b>25</b>	<b>4,571</b>	<b>40</b>	

\* Estimates

N.A. Not available

**Source:** Tourism Council of the South Pacific, Air Transport  
- Tourism Linkages Study, 1988.

Air service to Pacific island countries includes international services (between the country and other countries within and outside the Pacific region), regional services (between the country and other Pacific countries), as well as domestic air services within an island country.

Few direct air services to major source markets (except for Australia and New Zealand) are available to the Pacific Islands, which makes them dependent on connecting services, often resulting in higher fares and longer transit times. The principal international airlines servicing the South Pacific are:

- Air New Zealand (with services to Cook Islands, Western Samoa, Tonga, and Fiji);
- Qantas (with services to Fiji and Tahiti);
- Air Niugini (with services from Papua New Guinea to Sydney, Brisbane, Solomon Islands);
- Air Pacific (with services from Fiji to Brisbane, Sydney, Melbourne, Auckland, Vanuatu, Solomon Islands, Tonga, Western Samoa);
- Canadian International (with services to Fiji and Auckland);
- UTA (the French airline) with services between France, Tahiti and New Caledonia;
- Polynesian Airlines (with service from W. Samoa to Tonga, Auckland, and Sydney); and
- Hawaiian Airlines (with services from Honolulu to American Samoa, Western Samoa, Tonga, the Cook Islands, Tahiti and Auckland).

There is no major U.S. carrier providing service to the South Pacific Islands.

In the North Pacific, the main international carriers are:

- Continental Airlines and Air Micronesia (with services from Honolulu to Majuro, Truk, Ponape, Northern Marianas, Guam and Papua New Guinea);
- Japan Airlines (with services from Tokyo and Osaka to Guam and Northern Marianas); and
- Hawaiian Airlines (with services from Honolulu to Guam).

Figures 2.1 - 2.4 show the current seat availability between Australia, New Zealand, Japan, and North America and the Pacific Islands.

Air traffic flows in the region (Figure 2.5) show the annual number of seats available between most of the South Pacific Island countries.

The absence of air service with a major U.S. airline puts a severe constraint on the ability of the Pacific Islands countries to market and service the important North American market. Most countries look to North America as a major growth market, but the major airlines servicing the Australia/New Zealand and North America markets (trans-Pacific services) are either over-flying the islands, or are through flights not dedicated to the Pacific Islands. There is no longer a commercial or technological need for intermediate stops. As a result, growth rates for air passenger traffic to the Pacific will be lower for the Pacific Islands than for other areas of the Asia Pacific region (School of Travel Industry Management, 1987). This makes it difficult to promote the Pacific Islands in North America.

Another constraint on air service is the fact that air fares to the Pacific Islands are higher than other regions.

Fig 2.1

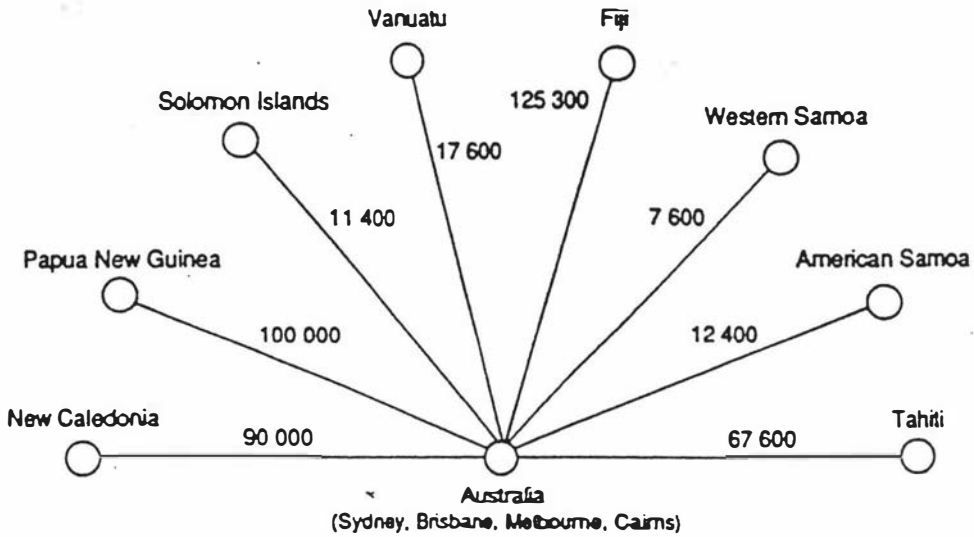
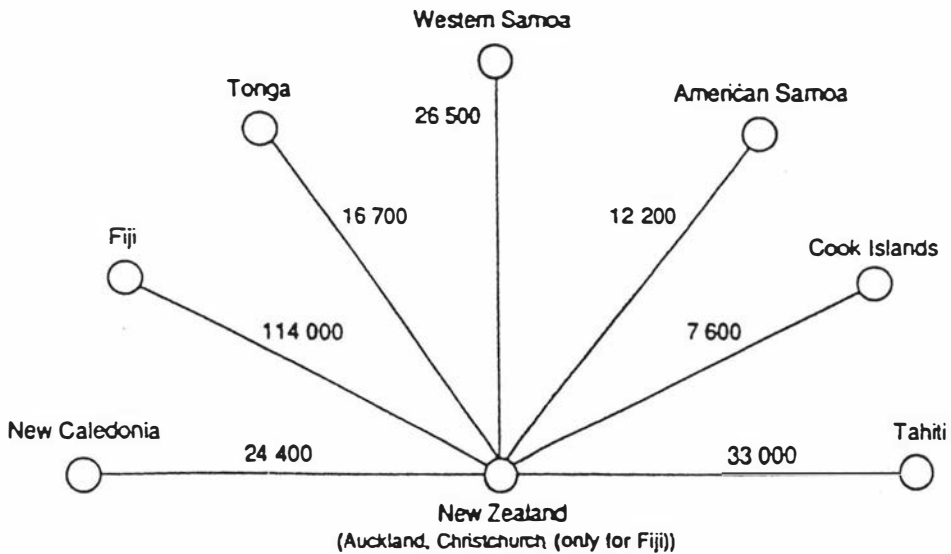
Seat availability between Australia and the South Pacific in each direction, 1988

Fig 2.2

Seat availability between New Zealand and the South Pacific in each direction, 1988

Source: Tourism Council of the South Pacific, Air-Transport-Tourism Linkages Study, 1988

Fig 2.3

**Seat availability between Japan and the South Pacific in each direction, 1988**

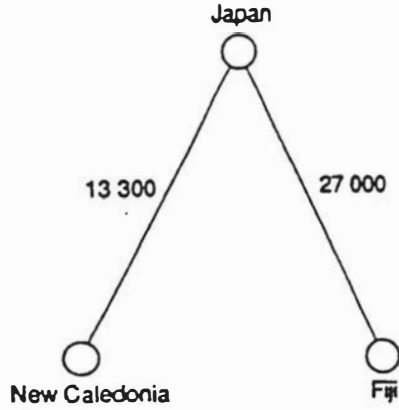
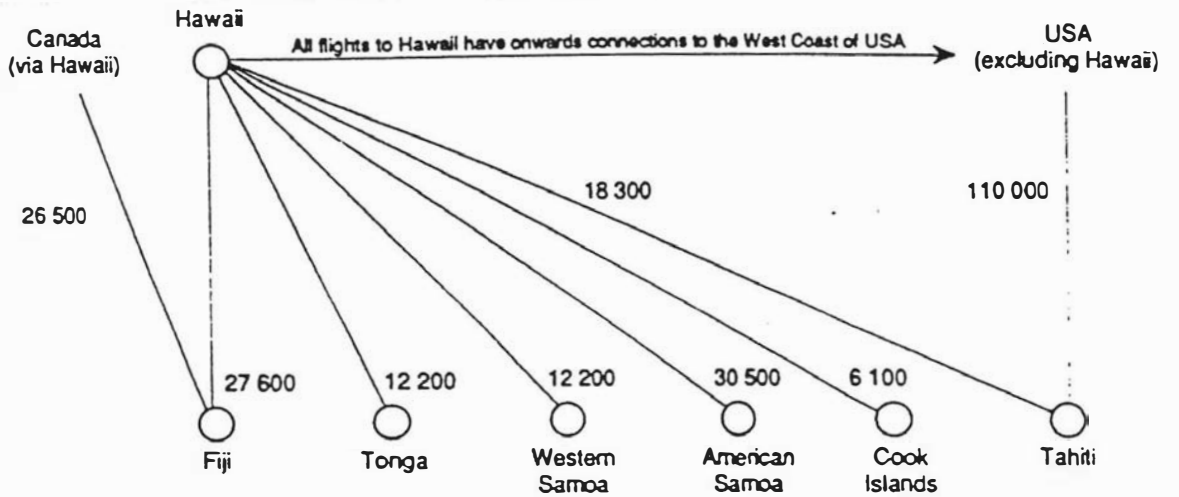


Fig 2.4

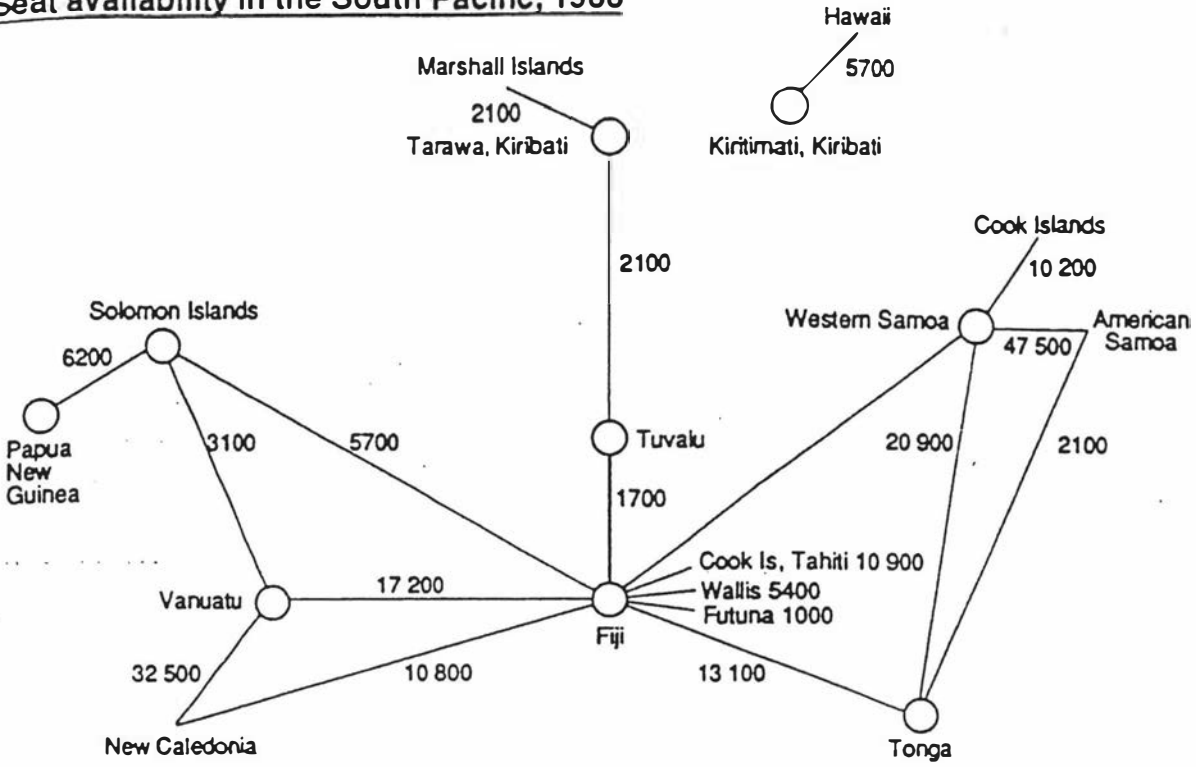
**Seat availability between North America and the South Pacific in each direction, 1988**



Source: Tourism Council of the South Pacific, Air-Transport-Tourism Linkages Study, 1988

Fig 2.5

**Seat availability in the South Pacific, 1988**



The figures show the number of seats in each direction

Source: Tourism Council of the South Pacific, Air-Transport-Tourism Linkages Study, 1988

The lowest air fares offered for travel between the Pacific Rim (Australia, New Zealand, North America and Japan) countries and the Pacific Islands region are generally considerably higher than charter fares available to other world tourist areas. Advanced purchase fares between Fiji and the U.S. are the one exception (Tourism Council of the South Pacific, 1988). These high fares make it more difficult to attract growing numbers of tourists.

The technological development of aircraft (e.g. the B747 and DC10) have made non-stop trans-Pacific flights possible. The B747-400, which will soon be available to Pacific carriers, has a maximum range of over 8,000 miles at full payload. This will tend to add to the overflying trend already established. Table 2.2 lists the types of aircraft operating in the South Pacific.

Another constraint on the provision of better air service to the islands is the current worldwide shortage of aircraft available for sale or lease to the airlines. As a result of this shortage, aircraft are being utilised on the most profitable routes, which are not necessarily the Pacific Island routes. This leads to infrequent air service, which often leaves and arrives at the destination late at night.

International aviation rights between Pacific Island countries are covered by the bilateral agreements between the destination country and the countries with major tourism markets. These bilateral agreements define the framework under which international aviation will operate between the two countries, and may also address service beyond, to other countries. These bilateral aviation agreements establish rights for the operation of commercial air services and cover routes, determine rates and fares, frequencies, capacities, number of carriers, tariffs and user charges, and basic rights for operation. There are five of these basic rights, known as "freedoms". These are:

TABLE 2.2

## TYPES OF AIRCRAFT BEING OPERATED IN THE SOUTH PACIFIC

Aircraft Type	Code	Normal Seat Configuration			
		First	Business	Economy	Total
<b>JET AIRCRAFT</b>					
Boeing 747-200	747	0	24	391	415
MD DC10-30	D10	12	34	209	255
Airbus A300	AB3	0	30	203	233
MDDC8	D83	14	14	221	235
OR	D83	0	12	192	204
Boeing 767	767	0	24	185	209
Airbus A310-300	310	0	12	179	191
Boeing 727-200	727	0	8	138	146
Boeing 737-300	733	0	N/A	N/A	111
Boeing 737-200	737	0	0	110	110
Caravelle	CRV	0	0	60	60
<b>TURBO-PROP AIRCRAFT</b>					
DHC-7 (Dash 7)	DH7	0	0	42	42
ATR 42	ATR	0	0	42-46	42-46
BAe 748	HS7	0	0	40	40
DHC-8 (Dash 8)	DH8	0	0	36	36
CASA 212	CS2	0	0	24	24
Bandeirante	EMB	0	0	20	20
DHC-6 (Twin Otter)	DHT	0	0	18-20	18-20
<b>PISTON ENGINED AIRCRAFT</b>					
	DHH	0	0	15-16	15-16
De Havilland Heron	BNT	0	0	15-16	15-16
BN Trislander	CSQ	0	0	10-12	10-12
Queen Air	BNI	0	0	9-10	9-10
BN Islander	CN4	0	0	9	9
Cessna 404	NAV	0	0	8	8
Piper Navajo	BEB	0	0	5	5
Beechcraft Baron	AZT	0	0	4	4
Piper Aztec	C17	0	0	3	3
Cesna 172	C15	0	0	2	2
Cesna 152					

**Source:** Tourism Council of the South Pacific, Air Transport  
- Tourism Linkages Study, 1988

1. The right of a commercial airline to overfly the territory of another country;
2. The right of a commercial airline to land in another country for the purposes of refueling, aircraft repair, or an emergency, without providing commercial service;
3. The right of a commercial airline to carry fare-paying passengers from the home country to a second country;
4. The right of a commercial airline to carry fare-paying passengers from another country to the home country;
5. The right of a commercial airline to carry fare-paying passengers to and from a third country as part of the service between the home country and a second country.

Most Pacific Island countries grant first and second freedom rights, while third and fourth freedom rights are restricted to the routes specified in the agreement. Fifth freedom rights allow a carrier to develop a more viable service (because traffic to the Pacific Islands is low) by servicing a third country. Problems may then arise when traffic to the third (non-Pacific Island) increases to the extent that the Pacific Islands may eventually be bypassed. "Historically, the developed nations of the world have enjoyed an advantage in negotiating favourable terms in their bilateral international agreements, and this continues today" (Tourism Council of the South Pacific, 1988 p.50). These restrictive provisions will undoubtedly be difficult to overcome in the short-term, but progress is possible over the longer term.

## Tourism Marketing and Promotion

Most NTOs in the Pacific Islands have now developed their own national marketing and promotional strategies to generate more visitor arrivals to their destinations. Some are better developed than others (for instance Fiji and Tahiti) while the smaller countries with smaller industries have minimal marketing plans.

It is now recognised that perhaps a more effective approach to tourism marketing and promotion is a regional programme. The TCSP has developed a comprehensive regional tourism marketing strategy and promotion programme. This is not designed to replace national programmes, but is intended to further strengthen national marketing plans. The regional marketing programme includes:

- Production of 12 documentary-type films for television screening. These comprise 10 national films of 25 minutes each, one regional documentary film (55 minutes) and one regional promotional film (15 minutes);
- Production of a range of high quality marketing publications including a travel manual providing vital facts about the Pacific Islands, a tourist map, 4 regional posters, 4 brochures (covering diving, sport fishing, adventure tours and nature tours) and a press kit. These marketing tools are used to promote the Pacific Islands at international trade fairs;
- Coordination of the "South Pacific Village", a regional exhibition stand organised by TCSP at four major international travel industry trade fairs each year. These fairs are ITB in Berlin, International Travel Exhibition (ITIX) in Chicago, the Sydney Holiday and Travel Show, and the London Travel Mart.

In addition to the TCSP marketing programme, PATA provides assistance to its member countries in marketing and promoting their destinations. PATA itself sponsors an annual PATA Travel Mart which involves most Pacific Island countries.

## **G Tourism Education and Training**

Human resource development for the tourism industry is a critical issue for the Pacific Islands. The shortage of trained personnel in all sectors and at all levels of the tourism industry is one of the major constraints for tourism development in almost all of the Pacific Islands. In most countries, higher paying, management level positions in the industry are held by expatriates. Indigenous Pacific Islanders are usually employed in the lower paying positions because local residents often lack the qualifications to participate in tourism careers (School of Travel Industry Management, 1987). In order to increase the participation of local residents at all levels in the tourism industry, there is a critical need to develop comprehensive human resource plans for each country. This requires close coordination between the governments or NTOs and the private sector. Training needs for each country must be identified and opportunities be presented to local residents to acquire the training. Several Pacific Islands share some common training needs, such as :

- Entry level training for lower skilled jobs such as housekeeping, maintenance, food preparation;
- Skills upgrading at all levels for those already employed in the industry;
- Mid-management level education and training for supervisory level personnel within hotels, tour operations, catering etc.;
- Advanced management level training for specialised training in tourism to benefit employees from the private sector and government through executive development seminars, conferences, courses/programs. These are usually available at training institutions overseas;

- Training for NTO staff and government officials involved in policy making;
- Training in business skills. Such programmes focus on the entrepreneur and provide practical advice for owners and potential owners of small scale tourism businesses such as hotels/motels, restaurants, tour operations and retail shops;
- Public awareness programmes for residents.

Tourism education and training in the region is covered by some national institutions and several regional organisations. Most of these are non-degree programmes. In addition, several institutions in the Pacific rim countries (e.g. Australia, New Zealand and Hawaii) offer degree programmes to Pacific Islanders. The following is a selected number of these programmes and their locations.

#### 1. Fiji

- The Hotel and Catering School at the Fiji Institute of Technology offers a Diploma which prepares students for lower management positions. The programme was designed in partnership with the industry and provides compulsory periods of industry employment. The School also offers waiter training, basic commercial cookery, and basic housemaid training.
- The Fiji National Training Council (FNTC) offers tourism programmes including housemaid training, a food service course and food production. These are short term courses (5 to 50 days) designed to upgrade skills for employees with some experience in the industry.

- The Tourism Council of the South Pacific (TCSP), based in Fiji, offers basic training in front office management, housekeeping, and food and beverage service. These 2 month courses are provided on request by the member country and are conducted in-country, jointly sponsored by government and the industry.
- University of the South Pacific. Although the USP does not offer any specific courses in tourism, there are plans underway to develop a diploma course in tourism which is expected to be implemented in 1990. This is being developed in cooperation with TCSP.

## 2. Cook Islands

The Cook Islands do not have an established tourism training institution although short term courses in bartending, food and beverage service, housekeeping, and front office management have been conducted from time to time through the recently established Hospitality Training Board.

## 3. Papua New Guinea

Lae Technical College in Papua New Guinea offers a certificate course in Hotel and Catering Administration for middle management employees.

## 4. School of Travel Industry Management (TIM), University of Hawaii

The TIM School offers undergraduate and graduate degree programmes and certified professional training programmes. Although these courses are provided primarily for the Hawaiian tourism industry, they are also available to Pacific Islanders. These are:

- Bachelor of Business Administration (BBA) with an emphasis in one of three areas; Tourism Management, Hotel and Restaurant Management or Transportation Management. Since 1988, TIM also offers a Master of Professional Studies (MPS) in Travel Industry Management.
- The Professional Programme in Tourism Studies (PPTS) provides one year of study in areas of tourism development and management. This is designed to assist developing countries with immediate needs for policy level managers or teachers.
- The Executive Development Institute for Tourism (EDIT) is a five week summer programme providing intensive training in areas such as tourism management information systems, strategic marketing, research and tourism advertising and promotion, and cultural heritage. Since 1979, over 45 Pacific Islanders from NTOs have completed the EDIT programme.
- Hawaii International Hotel Institute (HIHI) offers one week courses designed to upgrade and develop new skills of current employees in the hotel and restaurant sector (School of Travel Industry Management, 1987).
- University of Hawaii Community Colleges offer a variety of vocational tourism training programmes in hotel operations or food service. The focus of these 2 year programmes is primarily for entry level positions.
- Hawaii Pacific College (HPC) offers a Bachelor of Science in Management degree with a major in Travel Industry Management.

5. Australia

Four year tourism-related degree programmes are available at the Footscray Institute of Technology, James Cook University. Also, the government sponsored Technical and Further Education (TAFE) programme offers a number of vocational certificate courses.

6. New Zealand

Massey University in Palmerston North has both an undergraduate and graduate tourism programme within the Faculty of Business Studies Graduate Studies Programme.

Within the undergraduate programme, courses are offered in tourism law, tourism systems, hospitality management, tourism management, national and regional tourism development, travel management, and tourism management information systems.

In addition, Lincoln University's Department of Parks, Recreation and Tourism offers a bachelors degree centering on tourism, and Otago University has a Graduate diploma in tourism.

Also the Central Institute of Technology's School of Hotel and Tourism Administration provides technical training for food and beverage managers, front-of-house, travel agency and housekeeping.

7. Other

Several regional and international organisations also provide training programmes.

The Pacific Asia Travel Association offers broad-based programmes dealing with current issues and trends for people already employed in the industry at management level. These cover a wide range of subjects including marketing, strategic management, human resource development, microcomputer workshops, heritage conservation, and various others.

The World Tourism Organisation (WTO), in conjunction with the United Nations Development programme, (UNDP) also conducts training activities in hotel, and catering, management, education of NTO officials, and tourism awareness programmes.

## **H Tourism Research and Statistics**

Regional tourism research in the region is provided by several institutions and organisations including UNDP/WTO, PATA, PIDP, PBDC, and TCSP. National tourism statistics are collected by each NTO, which are then passed on to several regional organisations including PATA and TCSP.

The TCSP project is going to establish a computerised regional tourism database. To achieve this a central network computer system has been established at the TCSP Secretariat in Suva. The TCSP is providing personal computers to the individual NTOs of the 8 ACP countries, including standardised software packages. TCSP will also provide training of the NTO staff in operation of the computers and software packages. Telefax machines have also been provided to these countries to improve communication between the Secretariat and its members.

Standardisation of tourism arrival statistics has been initiated through agreement on a standardised arrival card at a regional conference sponsored by TCSP on tourism statistics held in 1988. After each country has introduced the new arrival card, this should facilitate regional analysis of data.

Additionally, improved statistical information has been generated through visitor surveys in Tonga, Western Samoa, the Solomon Islands, Papua New Guinea Vanuatu, and the Cook Islands. Tourism plant inventories, hotel capacity and occupancy, and employment surveys have also been initiated.

In this chapter, the tourism environment has been categorised in seven sectors for analysis. An analysis of regional visitor markets and visitor attractions was also presented. The common needs and problems of the tourism industry in the South Pacific region were identified, and tourism policies and the role of national tourism organisations (NTOs) were discussed. In addition, the roles of regional and international organisations dealing with tourism in the Pacific Islands were identified.

The South Pacific air transport system, which is a critical factor in tourism development in the region, was analysed to demonstrate the dependency of the two countries under consideration in this thesis on external factors. Both the Cook Islands and Fiji are at the mercy of decisions made by management boards of foreign airlines, whose decisions are based on purely economic factors, with little consideration of the needs of the local people of tourism industries.

Finally, an analysis of regional efforts to cooperatively market these South Pacific destinations and provide tourism research and training was provided.

### **CHAPTER 3    REVIEW OF ENTREPRENEURSHIP THEORY**

In order to understand indigenous entrepreneurship development in the Pacific Islands, it is necessary to first review traditional Pacific Island economies and parts of the western model of general entrepreneurship theory. Although some aspects of the western models of entrepreneurship are not relevant or applicable to Pacific Island entrepreneurs, there are several aspects that do apply. The psychological factors in entrepreneurship development, which are a relevant example, are reviewed in the beginning part of this chapter.

Entrepreneurship opportunities in the tourism industry are then considered, along with a review of indigenous entrepreneurship in the Pacific Islands. The latter part of the chapter focuses on developing a profile of a Pacific entrepreneur and Pacific women entrepreneurs.

#### **A    Traditional Pacific Island Economies**

Traditional Pacific economic systems were socialist, paternalistic societies, with an emphasis on the importance of the group (i.e. extended family) and the community as a whole. The traditional economies of most islands were based on exploitation of the land and the sea.

Although land is the greatest resource of these islands, land was not regarded by traditional societies as a capital good, and there was no conception of the sale of land or its produce. Raw materials for every need were derived from the land and some from the sea. Most food (breadfruit, taro, bananas, plantains and seafood) was gathered, but not generally cultivated, therefore relatively large amounts of and were required to sustain a family.

In pre-contact society in the Cook Islands, there was little trading (Crocombe, 1946 p19) and therefore little incentive to produce more than was necessary for subsistence, gifts and tribute. In Fiji, at least in the latter part of the 18th century, there was considerable trading between the coastal and inland areas, and even between Fiji and Tonga.

In traditional Pacific societies, land and society were intricately interwoven. Membership in a clan or tribe brought with it rights and responsibilities to the land. Land rights were held by social groups, not individuals.

No rank title and no descent group was conceivable apart from the lands associated with it and no material good could be acquired other than from the land or the sea. (Crocombe, 1964 p.20)

Members of the descent group were obliged to supply produce for marriages, funerals and other important events. These rights obligations supported and maintained social relations.

After contact with the west, Pacific Island economies began to change from a socialist economy to the more individualistic one capitalistic economy of the western countries with whom they came into contact. Island people (especially leaders) realised the need to acquire cash in order to acquire the goods imported by western traders. They therefore started to produce a surplus of food in order to trade with visiting ships. This enabled them to purchase imported knives, nails, tools, cloth, and other desired items. Gradually, Pacific Island peoples became part of the cash economy, learning to adapt to a new capitalistic way of life.

Some Pacific societies adapted to the western capitalistic economy more readily and successfully than others. In the case of the Cook Islands and Western Samoa, participation by indigenous entrepreneurs in commerce has been reasonably successful. In contrast with this success is the case of Fiji (and other Pacific Islands), where successful indigenous entrepreneurship has been minimal (Fairbairn, 1988, p.4). Since the early trading days after contact with the west, when Fijian chiefs traded with westerners, it is apparent that the numbers of entrepreneurial indigenous Fijians and their levels of success have declined.

Previous studies such as those by Belshaw (1964), Finney (1973, 1987) Epstein (1968), Watters (1969), Bollard (1984), Lamont (1983), and Fairbairn (1988), suggest that there are two main constraints on entrepreneurial development. These are limited experience and technical know-how, and weak motivation. Lack of motivation is a problem related to the continued existence of value systems that are rooted in traditional cultures.

In addition, in highly hierarchical societies such as Fiji, lack of social mobility also serves to suppress aspiring entrepreneurs from expanding their horizons and breaking away from the norm.

However, the economic history of some Pacific Island countries shows that entrepreneurial activities were indeed very much alive during pre-contact times. For example, in the Gazelle Peninsula of Papua New Guinea, Epstein (1968, p29) found evidence of regional markets that thrived during pre-contact times and a form of "primitive capitalism" in operation that was characterised by concepts of ownership of resources, employment, profit, and accumulation of wealth. She found that an extensive trading network had been established through which "inland natives produced a surplus of taro and other food crops which they sold to coastal Tolai and in turn brought fish, saltwater, wildfowl as well as lime" (Epstein, 1968, p22).

Between 1827 and the advent of permanent trading stores, the people of Rarotonga had been introduced to barter and sale under conditions that inhibited the development of economic individualism. Subsequently, the missionaries encouraged the chiefs to organise the planting of cash crops as lineage or village projects, although the production of subsistence crops by extended family groups continued (Gilson, 1980 p.54). Through this organised production of cash crops (such as pigs, poultry, fruit, vegetables, coconut oil, coffee and cotton), the chiefs organised and controlled the marketing functions. In the Cook Islands during the 1860's (40 years after initial contact), a highly developed system of entrepreneurship emerged under the leadership of a group of "chiefly entrepreneurs" (Ibid., p.54).

The chiefs actually operated schooners which traded throughout the Cook Islands, Tahiti and even New Zealand. These entrepreneurial activities continued until annexation in 1900 when the new Zealand administration took away the trading powers of the chiefs.

A similar scenario is found in Tahiti where, according to Finney (1971, p.18), trade between Tahiti and the outside world during the early 19th century was dominated by a few leading chiefs. As in the Cook Islands, these "trader chiefs" used their chiefly prerogatives to control all commercial relations with Europeans. However, this period of entrepreneurial endeavor ended in the early 1840's due to the French takeover and discouragement by missionaries.

This control of commercial activities by the chiefs enhanced their prestige and social status through business success. Other examples of entrepreneurial performance in Papua New Guinea resulting from contact with Europeans, and the consequent introduction of the cash economy are provided by other scholars such as Epstein (1968), Finney (1973) and Salisbury (1970).

However, after colonial governments were established, there was little encouragement of indigenous entrepreneurs until the 1960s and 1970s when moves for political independence required more economic independence. With a capitalist economy firmly in place (including the entrenchment of multinational corporations who exploited the region's natural and commercial resources), Pacific Islanders have been expected to successfully develop the private sector in order to achieve economic independence. There is no turning back. Capitalism is a firmly established part of the way of life of Pacific Islanders in the 20th century. It is also an appropriate economic system for these islands. The only question is how can the majority of Pacific Islanders successfully benefit from this system? At least one of the answers is through private sector development and encouragement of indigenous entrepreneurs.

## **B Entrepreneurship - Nature and Scope**

Entrepreneurship is now recognised both in the developed and developing countries as an essential resource in the development process.

Most entrepreneurship theory to date has been developed in a Euro-centric, western model. The "fathers" of entrepreneurship theory (McClelland, Winter, Schumpeter, Bromley, Hagen, Hoselitz, Baumol, Knight and Kilby) focused on entrepreneurship in developed western societies. Within this context, McClelland (1961) identified some of the psychological factors in entrepreneurship development.

## Psychological Factors in Entrepreneurship Development

### - Achieved vs. ascribed status.

Rapidly growing economies provide more opportunities for individuals to achieve status, while an individual's ascribed status (usually through birth) is more common in slowly developing societies. McClelland viewed the supply of entrepreneurs as being motivated by the need of an individual to achieve, or Achievement. This need is associated with a personality that places high value on success, personal initiative, curiosity and a rational and practical approach to problem solving. Environmental factors, such as childhood experiences, religion, culture, and education, play an important part in promoting entrepreneurship. Success in business is an important sector where highly motivated people with a need for achievement can excel. In places where the environment for entrepreneurs is conducive, the supply of entrepreneurs will be high (McClelland and Winter, 1970).

### - Anti-traditionalism and social mobility.

The entrepreneurial individual is more willing to break with institutions of an earlier period and accept social and technical innovations. The individual is a person who challenges the established order and is a self-promoter of his or her own career.

### - Universalism vs. particularism.

This is a situation where a code of laws has developed which apply equally to all individuals regardless of who they are in particular. Individuals do not enjoy special rights or privileges due to their status in life or by birth. All individuals are "equal before the law" (Ibid. p.17a).

- Specificity of rôle relationships.

Modern society is characterised by stressing contracts rather than status. Individuals provide a limited service in exchange for money, as for example in the doctor/patient relationship. Traditional societies are often characterised by diffuse networks of relationships with each other which are not functionally specific. There are no clear specific objectives expected from each side.

- Collectivity vs. self orientation.

Self orientation is based on the hypothesis that selfish motives are necessary for success and material needs are emphasised over other concerns. This motivation is more common in rapidly developing economies. In more traditional societies the collective good is valued above personal, individual interests. Peer pressure, social obligations or public opinion forces the individual into line.

- Optimism.

There must exist a belief in progress, an optimistic attitude toward the future.

- Innovation.

The entrepreneur is often an innovator of new ideas, thus providing opportunities for new combinations of factors of production and distribution. The innovative entrepreneur is at the heart of economic development (Schumpeter, 1934 p. 93), introducing new goods, opening new markets, exploiting new technologies and improving methods of production. Often the innovation phase of a major initiative is short-lived and the entrepreneur must become a manager.

According to Schumpeter, the entrepreneur was the driving force in economic growth through his innovative activities. The factor that determines the level of entrepreneurial activity relates to certain psychological influences, including the will to found a private empire, the will to conquer and the sheer satisfaction derived from achievement (Ibid).

Entrepreneurial behaviour includes risk taking, energetic and novel activity, assuming individual responsibility, and accepting the results of the individual's actions. Entrepreneurs must also have long range planning, management, and organisational abilities. The entrepreneur recognises market opportunities and takes command over scarce resources (Kilby, 1971).

Although most theorists view an entrepreneur as an individual, several recent theorists have attempted to broaden the concept. With business becoming increasingly complex, some of the entrepreneurial functions such as risk-taking and innovation can be performed by a hierarchy of individuals, rather than a single individual (Harbison, 1961).

Nafziger perceives the family as the entrepreneur where basic decisions affecting the enterprise are made within the family or clusters of families rather than the individual (Nafziger, 1984). Frequently, a single member plays a dominant part in the decision making. This concept has some relevance to entrepreneurship in the Pacific Islands.

### **C A PACIFIC MODEL OF ENTREPRENEURSHIP**

The development of a model of entrepreneurship for the South Pacific Islands is based on several factors:

First, while some of the psychological factors for western entrepreneurs can be applied to a development model of entrepreneurship theory for Pacific Island entrepreneurs, there are other considerations.

Pacific societies are traditional, communal societies where the interests of the individual are secondary to the common interest of the social group. This cultural concept of sharing inevitably comes into conflict with the individual entrepreneur's need to achieve and succeed in business. The Pacific entrepreneur faces the dilemma of communal and tribal systems (with their associated values) versus individual achievement.

Although the individual must possess the need to achieve, this achievement must benefit not only the individual, but must also provide benefits for the extended family and the larger community. The individual Pacific entrepreneur must be prepared to assume the added burden of taking social risks in addition to financial risks. The individual must be prepared to turn down requests for financial assistance from family and members of the community, and risk social ostracism and alienation for "breaking" with tradition.

Second, there are differences in entrepreneurial characteristics in the Pacific depending on cultural backgrounds. For example, in Melanesia, where traditional access to power is based on an individual's motivation and ability to amass resources and assume leadership roles, entrepreneurs are more widespread. This social and economic mobility provides a more acceptable environment for the development of indigenous entrepreneurs. For example, Finney (1988) found that the rapid increase of indigenous entrepreneurs in Goroka during the 1960s through to the 1980s could be explained by an innate sense of entrepreneurship by the Gorokans. He claims that the Gorokans were culturally pre-adapted for entrepreneurship (Finney, 1988 p.185).

The crucial ingredient, however, has been the entrepreneurial bent of the Gorokan people themselves because they have actively sought out opportunities and have mobilised whatever resources they could muster to take advantage of those opportunities (Finney, 1988 p.165)

In these Melanesian societies (for example the Goroka and Tolai people of Papua New Guinea), where traditional social systems emphasise this achieved status, certain cultural groups have displayed this pre-disposition toward entrepreneurial activity. These societies have readily adapted to the business opportunities offered by the modern cash economy. They are strongly achievement oriented and view business success as a means of attaining upward mobility and individual prestige which bestows "big-man" status upon the individual in the eyes of the community. Because of their commercial success and leadership, these "big men" have converted their economic success to political success. In Goroka, most of the first elected officials were also prominent businessmen (Finney, 1988 p.185). Other relevant studies include Finney (1972, 1973, 1987) and Epstein (1968).

In comparison, in parts of the Polynesia where traditional cultural values remain intact, these values can act as constraints on entrepreneurial development. The chiefly hierarchy, who attained their position of power through descent maintained control over the individual and the tribe. In Polynesian society, therefore, entrepreneurial development was historically headed mostly by chiefs, and individual "commoners" were not encouraged to develop entrepreneurial skills. To some extent (and in some parts of Polynesia more than others) this is still having a negative impact on the development of indigenous entrepreneurs.

In these Polynesian societies, these negative attitudes of the conservative traditional leadership and lack of official encouragement of entrepreneurs were found to be deterrent to the supply of indigenous entrepreneurs. Watter's (1969) study of some of the few successful Fijian entrepreneurs in Fiji indicated that individuals have turned to entrepreneurial activity as an outlet for frustrations over traditional authority, and as a means of gaining power, prestige, and self-expression.

These "social deviants" (a term developed by Hagen, 1962) were entrepreneurs who continued to observe, use and manipulate traditional institutions to achieve their economic goals (Belshaw, 1964).

- In Pacific Island countries with mixed ethnic populations (which covers most countries), the association between entrepreneurial success and race and the adoption of European values has significant implications. Finney's (1971) study of Tahitian entrepreneurs found that persons of half-European ancestry or "demis" account for between 10 and 15 per cent of the Tahitian population and have become prominent in business. This pattern was also evident in the Cook Islands (Fairbairn, 1988).

Bearing these features in mind, it is clear that a new approach to the development of indigenous microenterprise entrepreneurship is required. For instance in the Euro-centric model of entrepreneurship, the entrepreneur is viewed as an individual. In the developing countries of the Pacific, the entrepreneurial unit can be a group, (for instance a solidarity group), or a family unit. There is a need for people in developing countries to move from a subsistence to a cash economy. The concept of subsistence entrepreneurship is to develop economic activity while maintaining a unique and preferred way of life. Unlike the western entrepreneur, this informal sector entrepreneur may not view the maximisation of profit as the primary motivation for success.

### The Informal Sector and Microenterprises:

The informal sector in the Pacific Islands is made up of those people who are economically active in the sector which lacks formal recognition and government support for their entrepreneurial efforts. These are the producers of agricultural products such as fruits and vegetables, the weavers and carvers who create the handicrafts for sales, small clothing enterprises that make T-shirts and pareus, and people who provide cooked food and services for sale.

These "micro-enterprises" are important because they stimulate the economy and provide much needed jobs for women, the uneducated, youth and the poor.

Because this informal sector is important in the Pacific Islands context, a closer review of these micro-enterprises and their access to credit is necessary.

By the year 2000, the labour force in developing countries is expected to reach 2,000 million people. The agricultural sector of these countries will supply only about 8 percent of the necessary jobs for these people, while the balance must earn a living in non-farm activities in rural areas, or seek employment in the urban sector (Stearns, 1988).

In both rural and urban areas, much economic activity will be developed in the "informal sector", which supplies jobs, incomes, products, and services to a large segment of the population. The informal sector is the only sector of the economy (whether government or private) that can create jobs rapidly and at such low cost. By supporting the micro-enterprises that make up the informal sector, policy makers can effectively contribute to a more equitable distribution of income, reaching the poor.

In addition, women frequently own and manage these microenterprises (often providing the sole source of income for households). Informal sector enterprise development therefore improves the economic status of women.

The informal sector refers to the portion of the economy "composed of people working in very small businesses who lack formal government recognition, registrations, and support for their enterprises, have no access to commercial sources of credit, earn low incomes and have no employment security" (Ibid, p.18). The informal sector is composed of people who have created their own jobs.

For example, the informal sector entrepreneurs make furniture, shoes, tiles, candy, sew clothes, cook and bake, repair bicycles, wash cars, shine shoes, and sell and make specialty items, souvenirs, arts and crafts, and foods. These informal sector activities employ from 30 per cent to 70 per cent of the labour force in the developing world.

In the case of developing countries, entrepreneurial development in the small and medium sectors of the economy has become crucial to national development. The informal sector is the largest and often the fastest-growing part of the private sector in developing countries. These microenterprises are important for three main reasons:

- They will generate the majority of the 120,000 jobs per day that will be required in the developing world between now and the year 2000;
- They will provide a large percentage of the jobs needed for women, recent immigrants from rural areas, the uneducated, youth and the very poor;

- Informal sector microenterprises represent the most economical mix of capital, labour and energy in a poor society (ACCION International/Calmeadow Foundation, 1988). Informal economies are durable, pervasive and flexible.

It has been argued that accepted economic theory leaves out many crucial real-world elements. Understanding of the informal economy is inadequate and the existence of informal economies requires "new ways of thinking about conventional economic indicators such as gross national product, productivity, and income distribution" (Miller, 1987, p.23). One dimension of economic policy is the emphasis on entrepreneurship, which attempts to expand small-scale entrepreneurs so that they can become mainstream entrepreneurs (Ibid).

The informal sector is also usually made up of the indigenous people in developing countries. Despite the variation in size, type of business and degree of sophistication, informal sector businesses share several characteristics:

- Small scale: people working in the informal sector often work alone or with unpaid family members;
- Labour intensity: with few workers, there is little division of labour. Production is often manual and equipment is simple and hand-made;
- Minimal capital inputs: total investment in informal business ranges from a few dollars to approximately one thousand dollars for simple equipment and working capital;
- Local market: informal sector businesses are specifically oriented to the local market (Ibid p.3).

Traditionally, the poor have had no access to credit institutions. Banks have argued that if collateral cannot be provided then there is no basis for lending. One banker argued that financial credit for self-employment should "be recognized as a human right that plays a critical role in attaining all other human rights" (Yunus, 1987, p.73). He points out that in reality, credit plays a more powerful economic, social and political role than economists have admitted. He views credit as a powerful weapon that creates entitlement to resources and power. Self-employment, supported by credit, provides more potential for improving the asset base of the individual than wage employment. (Dr. Yunus is Chief Executive of Grameen Bank in Bangladesh which operates in 7,000 villages.) Financial institutions must provide credit to the poor, particularly to poor women. At the Grameen Bank in Bangladesh, 74 per cent of their borrowers are women.

Today, the development of microenterprises and indigenous business is looked upon favourably by developing countries because it provides employment, generates cash income, and stimulates the economy.

The expansion of the indigenous business sector encourages the redistribution of wealth, and therefore power throughout the community (Bromley, 1985 p.349). Entrepreneurs also develop unique skills in management, marketing, and bookkeeping which in turn become an asset to the community. It can be argued that expansion of indigenous business can lead to greater social cohesion, especially in countries where the majority of the inhabitants are indigenous.

Having recognised the importance of the growing informal sector, one response has been the development of microenterprise development programmes. Some objectives of these microenterprise development programmes are:

- to increase incomes and standards of living of the programme participants;
- to decrease underemployment and create new jobs;
- to reach a large number of poor informal sector microentrepreneurs;
- to be a financially sustainable programme, potentially self-sufficient or even profitable.

One reason why development of indigenous entrepreneurial enterprise is important for national development is that entrepreneurs open up avenues for faster economic growth, with little or no investment by government. Second, entrepreneurial enterprises contribute financially to national development through payment of taxes. Third, entrepreneurial enterprises facilitate the creation of larger employment opportunities which are locally (not foreign) controlled.

When there is a downturn in the economy, these local businesses are less likely to relocate to other countries, thereby leaving a large employment problem.

In some Pacific Island countries, the encouragement of indigenous business also has political and social, cultural, and racial considerations. In countries where the majority (or a significant portion) of the population are not indigenous, one can expect that the development and encouragement of small business would not be a high priority. An example of this is Fiji, where the Fiji-Indian population has dominated the commercial sector for many years. One estimate is that Fijians control only 3 per cent of Fiji's corporate activity. Since the two military coup d'etats in Fiji in 1987, the indigenous Fijian community has called on government to strongly support indigenous Fijians in business. The lack of participation of ethnic Fijians in the economic life in Fiji has been cited as one of the major reasons for the military coups in Fiji (Dean, 1988).

Even in developed economies, renewed interest in entrepreneurship has occurred because of the employment generating significance of local enterprises. For example, in the United States, funds are being used to train young people for self-employment, to develop entrepreneurs, and to strengthen opportunities for local enterprises in meeting community needs and creating the multiplier effect of enhanced local employment, earnings and capital formation (Hailey, 1987).

In New Zealand, the Government set up the Pacific Island Employment Development (PIED) Scheme in 1985 to develop a strong economic base for the Pacific Island communities in New Zealand. The aim of this scheme is to promote viable, unsubsidised employment opportunities among Pacific Islands communities in New Zealand. To date the government has granted over \$7.1 million to the scheme.

It is administered by the Ministry of Pacific Island Affairs which has offices in Wellington and Auckland. People of Pacific Islands origin make up 3.91 per cent of the total New Zealand population (127,725 people) and it is projected that by 1991 this group will grow to 167,700. The geographic distribution of these Pacific Islanders within New Zealand is Auckland (64.2 per cent), Wellington (16.1 per cent), Christchurch (3.3 per cent), Tokoroa (2.1 per cent), and 14.3 per cent spread over the rest of the country.

The PIED scheme provides several forms of assistance. Under the Business Assistance programme, the scheme provides business loans to assist Pacific Islanders who are already in business to expand or consolidate their businesses at lower interest rates than are available commercially (approximately 10 per cent in 1989). It also provides loans to Pacific Islanders wanting to start up new businesses, although only 20 per cent of the total funds are committed to this purpose. The loans range from NZ\$20,00 to NZ\$250,000.

Associated with this Business Assistance programme is a Business Skills development programme. This is a three-level business workshop programme which enables Pacific Island people to learn the basics of entering into small business, developing a business plan, and specialist topics related to business matters.

The PIED scheme also funds training schemes, through the Auckland Technical Institute (mostly in welding, computer aided draughting, and engineering skills) and the Pacific Island Administration and Computer Training School in Auckland.

Another programme is the Pacific Islands Public Service Management Development Programme. This is a four-tier programme aimed at improving management skills among Pacific Island people in the public service, which is conducted in association with the State Services Commission. In addition, the Pacific Islands Business Studies Scholarship programme has been established at Massey University, which offers five scholarships a year to Pacific Island students wishing to study for a Bachelor of Business Studies degree. These programmes are the first to be offered to Pacific Islanders to train them in business development skills.

Researchers have found that economic changes are often the most important factors affecting social change (Finney, 1965). In French Polynesia, Tahitian entrepreneurs were found to be active in the local economy along with many European and Chinese businessmen. Most economic researchers of entrepreneurship base their findings on the assumption that the supply of entrepreneurs or of entrepreneurial services is highly elastic, and that a lack of entrepreneurship is attributable to failures in the economic environment.

The demand for entrepreneurial services generated by the economic environment is the most important factor, if that environment is favourable, then a vigorous entrepreneurial sector will develop. On the other hand, if the economic climate is unfavourable, then entrepreneurs will not be as active. From this perspective entrepreneurs are not the prime movers of the economy, but respond to favourable conditions in the economic environment.

Other social scientists claim that factors affecting the supply of entrepreneurial individuals, not the demand, are the most important. Most of these theorists tend to either ignore economic factors or to consider them of secondary importance. Others believe that the economic environment is not crucial to the success of entrepreneurs (McClelland, 1961).

They contend that sufficiently motivated entrepreneurs can and will overcome severe economic barriers, although they admitted that the economic environment was of some importance (McClelland & Winter, 1969).

One of the important factors which inhibits the development of indigenous entrepreneurs is foreign business interests and investment in the island countries. Most Pacific Island governments actively seek foreign investment by providing incentives and concessions, which in most cases are not available to indigenous business. "The policy of encouraging foreign investors at the expense of local entrepreneurs may have long-term consequences on the development options of the Pacific Islands" (Hailey, 1987 p.14). Most island economies rely heavily on this foreign investment, making it almost impossible for indigenous businesses to compete with these large foreign companies because of their large size and extensive resources. Along with foreign investment comes expatriate management.

Before most Pacific Islands achieved independence, the commercial sector of the economies was dominated by large, multinational trading corporations which controlled each of the countries' important resources. For instance, in Fiji the Australian Colonial Sugar Refining Company (CSR) controlled the local sugar industry and Western Mining (an Australian company) controlled Fiji's gold production. In the Solomon Islands the largest copra plantations were partly owned by Unilever. The fishing industry in most countries was dominated by the Japanese, Korean and Americans. Some of these multinational companies are still active in the Pacific (such as Burns Philp and W.R. Carpenters) even after independence, while others have more recently become established.

Foreign aid is also seen by some researchers to be a constraint on indigenous business development. Frequently the aid donor country insists that projects funded by them must give contracts to companies from the donor country. As a consequence one finds Japanese, Australian and New Zealand construction companies implementing projects funded by those countries. Building supplies, furniture, and other materials are imported from these foreign countries thereby providing business opportunities there, when the supplies and materials are available in the Pacific. "International aid agencies have consequently been allowed to play an increasingly important role in policy formulation in the region" (Knapman, 1986, p.150).

#### **D Entrepreneurship In Tourism**

In order to explore the opportunities available to entrepreneurs in the tourism industry in the Pacific Islands, it is necessary to consider some of the social and economic factors associated with tourism development in the islands.

### Social Factors Associated with Tourism:

There are several social factors that must be considered when dealing with tourism development in the South Pacific. There are land tenure and the loss of land for agriculture and harvesting of materials for traditional handicrafts; the impact of tourism on the environment; the impact of tourism on social organisation and residents attitudes; and the effects of tourism on crime rates.

The impact of traditional land tenure systems in the Pacific Islands on economic development activities (for example intensive agriculture), has been the focus of several studies. Crocombe (1964) found in the Cook islands that there has been a general decline in agricultural production from 1906 to 1959. One of the causes for the decline was that the increased population used most of the land for subsistence crops and there was insufficient land left for commercial crops (Crocombe, 1964 p.138). The introduced Land Court system of awarding succession orders to title in sections of land, with an ever increasing number of "owners" in the land, has meant that there is no structure for leadership or organisation of the owners of each section. The result was "frequency apathy and neglect of land" (Ibid., p.140).

The impact of tourism on land tenure in the South Pacific Islands has been mixed. In some cases the impact has been beneficial because tourism has enabled development to take place on land that is not necessarily suited to other forms of economic activity such as agriculture. In other cases, tourism development, especially on the foreshore, has meant the alienation of land and a subsequent loss of access to fishing rights.

Similarly, tourism development can interfere with access to materials used for traditional handicrafts such as pandanus leaves used for weaving and native trees used for wood carving.

In most countries in the South Pacific, tourism development (mostly in the form of hotels, motels and tourist attractions) has taken place on land which has been leased for that specific purpose. This has occurred because there are no societies in Oceania that can be said to allow persons to hold a fee simple estate interests in land (Lundsgaarde, 1974 p.270), with the exception of some land that was alienated during the colonial period. In the two countries covered in this study (the Cook Islands and Fiji), tourism development on land leased from traditional landowners has provided a source of cash income for the owners.

Tourism's impact on the environment is an issue that had received considerable attention in recent years. It is recognised that the environment is probably the most important input into tourism (especially in the South Pacific) and therefore maintenance of the environment is essential to further tourism growth. In some places degradation could result, and in certain areas has already brought about a decline in the growth of tourism. On the other hand, in a number of places tourism has helped to improve the environment (OECD, 1980 p.8). In each tourist destination there are environmental assets which should be preserved, despite their potential for tourism exploitation. These might be the conservation of valuable ecosystems and landscapes, unique sites of traditional value, or monuments.

Environmental costs can also contribute to social costs. Another social cost of tourism development occurs when that development causes a negative impact on residents' attitudes towards visitors leading to a social disruption and even violence. Some important studies of the impact of tourism development on residents' attitudes in the Pacific were conducted in the 1970s (Pryor, 1981). The important outcome of these studies was the need to monitor tourism development to ensure that negative community attitudes do not develop.

The whole issue of the impact of tourism on crime rates has become a major concern, especially in some areas where tourism development has been of major proportions. For instance in Hawaii, some attention has been focused on the increase in the rate of crimes such as burglaries and rape. Similarly, this is increasingly becoming a concern in the Cook Islands and Fiji where the tourism industries are growing and where crime rates are increasing. Although tourism development cannot be totally responsible for the increase in crime in these countries, it has certainly been a contributing factor. One of the problems is that the consumption and the behaviour patterns displayed by tourists (who are on holiday) are envied by the indigenous people, who are expected to cater to the visitor's holiday needs.

### Economic Factors

There are several economic factors associated with tourism which also warrant discussion. These are the multiplier effect of tourist spending, generation of foreign exchange and leakages, employment generation, and contribution to Gross Domestic Product (GDP).

The multiplier effect of tourist spending has been one of the recognised benefits of tourism development. An example of this concept is where a dollar is spent in a hotel on accommodation or food which pays a local person's wages. This person then spends money in a local store, and the local store will buy produce from a local farmer. This tourism multiplier is most effective in an economy where leakages of foreign exchange are not excessive.

Another economic issue associated with tourism is the amount of foreign exchange is actually retained in the country. In many instances, although a significant amount of foreign exchange is generated, much of it is used to import foreign goods and services.

This is known as "leakage". The magnitude of the leakages can be minimised by developing inter-sectoral linkages within the local economy. This can be achieved by monitoring the structure of ownership and control in the tourist industry to reduce foreign ownership; by ensuring a reliable local supply of agricultural products (including food, vegetables, flowers, timber etc.) to be used by the tourism industry; and by the manufacture and sales of handicrafts and other locally manufactured items.

In the Cook Islands, where there is a greater degree of local ownership of tourism facilities and activities, the degree of leakages is less than in Fiji (estimated to be 55 per cent for the Cook Islands and 57 percent for Fiji). What is not often discussed in the Pacific Islands, is whether the bulk of the economic benefits of the tourist dollar which stay within the islands goes to an elite group, or whether it is evenly distributed amongst the majority of the population.

In the Cook Islands, where traditional hierarchical chiefly structures are somewhat dissipated and the authority of the chiefs over an individual's financial resources is almost non-existent, the economic benefits are more evenly distributed. As a result, there is also more development of individual entrepreneurial skills with much more success.

In Fiji, where the traditional chiefly hierarchy is quite intact, the financial benefits of tourism development are retained by an elite group of chiefs. The head of the mataqali usually signs the lease for tourism development on behalf of the clan. He (they are more often than not men) acts on behalf of the beneficiaries who are presumably the whole clan. However, in practice, the financial benefits of lease rental incomes are made solely at the discretion of the chief.

Given the existing political structure in Fiji and the entrenchment of the position of the high chiefs in the political structure through the newly promulgated Constitution, this situation is unlikely to change in the near future. This is one of the most serious limitations to indigenous entrepreneurship in Fiji today.

The politics of indigenous participation in entrepreneurial development are quite complex. Because the chiefly hierarchy is so entrenched and individual initiative is therefore suppressed, there is very little incentive for the individual to develop business activities. One Fijian informant (Fasiu Jone, 1989) indicated that this was probably the biggest deterrent to indigenous entrepreneurial development in the tourism industry in Fiji. An individual is discouraged from using his resources for entrepreneurial development because if he succeeds, the chief (and his extended family) can make demands on him for a share of his financial rewards. Most untitled individuals (or "commoners") choose the easy option of not attempting to take the risk of establishing a business.

Employment generation is one of the main justifications for establishing a tourism industry. The main concern is that the local people benefit from the jobs created, not only in terms of the type and level of job opportunities created, but also in terms of acceptable levels of pay and opportunities for training.

Another economic issue associated with tourism is its contribution to Gross Domestic Product (GDP). Tourist expenditures and investment in tourist-related plant equipment make a significant contribution to GDP by increased tax revenues. An indirect effect results from "flow ons" whereby direct suppliers purchase inputs from other local firms, creating the "multiplier effect".

An induced effect occurs when the local firms and their employees spend their increased incomes on local goods and services. However, as in the "multiplier" effect, the overall effect of tourism's contribution to GDP is reduced by economic leakages overseas.

### **Entrepreneurial Opportunities in Tourism**

The tourism industry provides unique opportunities for entrepreneurship in all parts of the world. In developing countries especially, these opportunities for indigenous people to start their own businesses are most important to national economic development. Pacific Island governments are becoming increasingly aware that tourism is an important sector where indigenous people can participate in the cash economy by providing goods and services for tourists.

Although populations in developing countries have consistently depended on government to provide employment and social services, it is becoming increasingly difficult for governments to continue to be responsible for providing these services. The high cost of providing social services (which inevitably leads to increases in taxes), the acknowledged inability of government to operate businesses efficiently, and the push by government to stimulate the private sector to take over these important functions, are some of the reasons why governments are trying to rid themselves of functions that can better be handled by the private sector.

In the 1980s there has been a general trend and popular philosophy worldwide to "privatise" or "corporatise" many of the services that governments have traditionally provided. Even in developed countries, for instance the United States, the United Kingdom and New Zealand, privatisation is viewed as the best way to provide services at the lowest cost. These governments have adopted a policy of "the user (of the service) pays".

Governments have privatised such services as electricity and water authorities, post offices, national airlines, national hotel chains, and even educational institutions and hospitals. However, control of these vital services is usually maintained by government. Governments have formed corporations and created statutory bodies which own and operate these services. The main rationale for privatisation is that it leads to mobilisation of more resources and allows more efficient use of resources, which enables faster economic growth. The essential achievement of equitable development is a reduction of poverty. Privatisation will generally increase equity in the sense of narrowing gaps in income and access (Berg, 1988), but some measures will hurt the poor (for example removal of subsidisation of public transportation and food subsidies) unless innovative approaches are adopted.

This concept of governments promoting businesses filters down to the private sector, and some of these services (such as rubbish collection and waste disposal) are even turned over to the private sector to run as a profit-making venture. Although privatisation is a relatively new philosophy in the Pacific Islands and few countries have actually privatised government services (with the exception of American Samoa and Guam), governments in the region are beginning to realise the importance of encouraging the private sector to develop. In promoting and supporting indigenous business development, governments can also expect the additional benefits of reducing their financial burdens (which can mean reduced taxes, or at least no increase in taxes) and gaining more political support from the indigenous population.

There are numerous opportunities for indigenous entrepreneurs in the tourism industry. Because of the general lack of capital available to indigenous entrepreneurs for tourism development, lack of business and tourism development skills and experience, and shortage of the entrepreneurs' own money to invest, most of these tourism opportunities are in the "Secondary Tourism Sector", or STS.

The "secondary tourism sector" (STS) can be defined as that sector which provides small-scale, localised tourist activities, such as village-style accommodation and restaurants, transport, and specialised tours. These activities are usually rural based, require low levels of capital investment, and are usually owned and operated by the indigenous people.

Depending on the island country, its size, location, and level of tourism development, these activities in the STS can include:

- Hiking and trekking tours. Services can include indigenous guides, camping, overnight stays in simple accommodation, and the provision of meals and entertainment;
- Village guest houses or accommodation units;
- Village restaurants and other food services;
- Transportation, such as tourist mini-buses, rental motor bikes, bicycles, horse riding, sailing, and canoe riding;
- Handicraft production and sales;
- Music and entertainment;
- Agriculture/tourism related opportunities, i.e. the provision of produce for hotels and restaurants, tropical flowers for hotels and restaurants, and potted plants nurseries.

## **E Indigenous Entrepreneurship In the Pacific Islands**

The issue of indigenous entrepreneurship and business development in the Pacific Islands is a phenomenon that has recently come to the attention of policy makers. Previously, policy makers viewed the indigenous business sector as being outside their realm of responsibility and believed that this sector could and would develop independently of government attention. More recently policy makers have come to realise that without some encouragement, the indigenous business sector develops at a slow pace, and will not provide the growth in business and employment that will enhance national economic development.

Records made by early explorers of the Pacific indicate that indigenous entrepreneurs existed in traditional Pacific Island societies before the arrival of westerners.

Indigenous business in the Pacific Islands can be defined as those business ventures where the majority ownership and control is held by indigenous Pacific Islanders, i.e. those whose ancestors were indigenous inhabitants of any island in Melanesia, Micronesia or Polynesia. It does not refer to businesses owned by other ethnic groups living in the country (such as Indians in Fiji, New Zealanders in the Cook Islands) and other foreign companies that are registered locally (Hailey, 1986).

These accounts note the vigorous trade in fruits, vegetables, pigs, fish chickens and other supplies needed by the explorers and early settlers. Profit was measured both in terms of prestige or social benefits, as well as commercial gain. The medium of exchange was through barter, currency equivalents for example shells, teeth, feathers and stones (Hailey, 1986), or the establishment of intangible reciprocal debts that could be called on at some future time (Carroll 1986).

After the arrival of western settlers, western concepts of commerce and entrepreneurship were introduced. Business became synonymous with Europeans and most Pacific Islanders came to believe that only westerners could become entrepreneurs (Hailey, 1986). Those who dared to become businessmen were often regarded as social outcasts, or some of kind of deviant.

It was not until after the Pacific Islands countries became independent or self-governing (Fiji became independent from Britain in 1970 and the Cook Islands gained self-government from New Zealand in 1965) that people began to realise that they could actively participate in the private sector. Each country established a local Chamber of Commerce and some indigenous entrepreneurs became members, although the majority still haven't joined these professional associations.

The potential of indigenous entrepreneurship is at the forefront of current development thinking. Strengthening indigenous entrepreneurship is necessary in order to enable island people to contribute to national growth. Indigenous business will help balance the economy, promote greater self-reliance and strengthen national identity and cohesion (Fairbairn, 1988).

Most literature on indigenous entrepreneurship in the Pacific Islands is therefore quite recent, and earlier literature on the subject is limited. Among these earlier studies is work on entrepreneurs in French Polynesia (Finney, B, 1965) and Papua New Guinea (Ibid., 1968,1969,1971,1973).

Finney (1973) investigated theories of entrepreneurial supply, looking at how cultural and social patterns might affect the emergence and development of entrepreneurship. In particular he explored the relationship between status-mobility systems and entrepreneurial development in Papua New Guinea.

It is generally accepted, that in most Melanesian societies, social status was traditionally achieved through personal accomplishment in warfare, wealth production and exchange or ritual, and not acquired on the basis of birth. One could become a "Big man" by one's own actions. This suggested that a social situation extremely conducive to entrepreneurship should be found in Papua New Guinea (a Melanesian country) because of the tradition of personal achievement. However, it is clear that examples of vigorous entrepreneurial growth are not common. Finney argued that power -- that is, political leadership, status or prestige -- is the ultimate goal of ambitious persons who place importance on achieved status. An achieved status-mobility system, coupled with the individual need for achievement, often leads to entrepreneurial development. He found that in Goroka, power motivation and achievement motivation may be critical factors in the emergence of entrepreneurs in societies with a high degree of achieved status-mobility.

Finney based his study on Goroka (in the Highlands of Papua New Guinea) where he found that the rapid emergence of entrepreneurs among the Gorokans could not be explained by their social system alone.

Melanesian societies, with their preference for individual achievement, are somewhat more conditioned to the development of individual entrepreneurs than in a social system such as the hierarchical Polynesian societies. He found that although the traditional social system of Melanesian societies which favoured individual achievement was an important factor in the development of entrepreneurs, an extremely favourable economic environment was also important. The development of coffee plantations and the opportunity for indigenous Gorokans to participate in this economic activity provided a favourable milieu for entrepreneurs.

Although this favourable environment existed in Goroka, it was an unusual circumstance in Papua New Guinea (at that time) and explained why the Gorokans did not remain economically stagnant, which was the case for most indigenous groups in Papua New Guinea at that time.

Since 1983 there has been a growing interest by researchers and scholars in indigenous entrepreneurship. One finds studies by P Carroll (1984) in Western Samoa; J.S. Carroll (1986) in the Marshall Islands; C.R. Croulet and L. Sio (1986) in Western Samoa; J. Hailey in Tuvalu (1982) and Fiji (1986); J. Lamont in Tonga (1983) and Vanuatu 1983; J. Rizer in the Solomon Islands (1984); M. Tawake in Fiji (1983) and M.T. Trebilcock in Papua New Guinea (1983).

These studies sponsored by the Pacific Islands Development Program (PIDP) of the East West Centre in Hawaii have made an important and up-dated contribution to entrepreneurship theory in the Pacific Islands. The insights presented in the PIDP studies (which covered the Cook Islands, Fiji, Marshall Islands, Papua New Guinea, Solomon Islands, Tonga, and Western Somoa) help provide a more complete understanding of the process of indigenous entrepreneurship in the Pacific Island Region.

Earlier pioneering studies in this area by social anthropologists such as Finney and Epstein have provided valuable insights into Pacific Islands entrepreneurship in the 1960s and 1970s. Later studies by economists (Bollard, 1984 and Lamont, 1983) added to this body of knowledge.

However, the more recent PIDP studies provide more detailed and current information that can be used for formulating policy. The studies were designed to identify and analyse the various socio-economic factors contributing to the success or failure of indigenous business ventures in the region.

The project, which began in 1984, analysed each Pacific Islands country in terms of the nature of indigenous entrepreneurship; alternative forms of business organisations and arrangements; the extent of government support programs; and policy proposals designed to stimulate indigenous entrepreneurship (Fairbairn, 1988 p.11).

Generally speaking, these studies confirm the earlier findings of Finney in Papua New Guinea, where he was presented with the unique research opportunity of re-visiting Goroka twenty years later. Finney's earlier observations on the differences between entrepreneurship in Melanesian and Polynesian cultural contexts were largely re-validated by his analysis of Gorokan entrepreneurs in the 1980s. Similarly, the studies of Fiji (Hailey, 1988) and Tonga (Ritterbush, 1988) confirmed negative effects of traditional hierarchies in ascribed status societies on indigenous entrepreneurship development.

However, in other parts of Polynesia, especially the Cook Islands and Western Samoa, the studies provided evidence of a different scenario. The studies found that even though Western Samoa (and to a lesser extent the Cook Island) had maintained their traditional cultural values and systems, indigenous entrepreneurs were doing well.

Participation by indigenous entrepreneurs in the commercial life of the Cook Islands and Western Samoa, for example, has been fairly extensive and reasonably successful (Fairbairn, 1988 p.4).

However, in many Pacific Island countries, the indigenous business sector is poorly developed at this time. The private sector is still dominated by multinational companies which are active in most major industries such as manufacturing, mining, forestry, banking, tourism and trading.

However, the exceptions to this are the Cook Islands and Western Samoa, where the private sector development has increased. Indigenous business development is needed as a balance between the local people and the non-indigenous multinationals.

In some Pacific countries, there is a growing dissatisfaction with the domination of the private sector by multinationals and other non-indigenous groups (e.g. Indians in Fiji, Chinese and French in Tahiti, and Chinese in the Solomon Islands).

Small businesses in the Pacific islands tend to be family oriented and are usually located in rural areas. The failure rate has been high, although in some countries (for example Cook Islands and Western Samoa) indigenous entrepreneurs have done well. This is contrasted with Fiji, French Polynesia and New Caledonia where indigenous entrepreneurship is at an "abysmally low level of development" (Fairbairn, 1988 p.4).

"The leading objectives are to reduce power (and sometimes political influence) of the foreign corporations, to reverse any apparent trend toward the erection of neo-colonial economic structures, to expand the opportunities for indigenous people to participate in the development process and to achieve a more equitable distribution of income, and generally to foster a pattern of development that is conducive to social and political stability, and in consequence economic maturity" (Fairbairn, 1988 p. 9-10).

## **F Profile of a Pacific Entrepreneur**

Based on the studies of indigenous business which were sponsored by the Pacific Islands Development Programme of the East West Centre in Hawaii (which covered the Cook Islands, Fiji, the Marshall Islands, Papua New Guinea, the Solomon Islands, Tonga, and Western Samoa), the studies cited above, and personal observations of business development in the Pacific, it is now possible to develop a profile of an indigenous Pacific Island entrepreneur.

The indigenous entrepreneur is typically a male, over 35 years old, who operates as a sole trader and has run his business for less than five years. Most businesses are in the retail, transport or small-scale agriculture sector. These are ventures which are relatively easy to establish with little capital, minimal skills, and yet capable of generating a quick return.

Many of the small businesses in the Pacific are run by entrepreneurs who have a multi-ethnic background, normally a mix with Chinese or Europeans. Some of these entrepreneurs maintain strong religious convictions.

On the average, the indigenous entrepreneur is better educated than the population at large, usually having completed some secondary school education. Most have had previous work experience, received some technical training, and have been overseas to work, for training, or on extended leave (Fairbairn, 1988).

Instead of applying to banks for financing, most entrepreneurs use money from their own or their family's resources to establish their business. Most businesses are therefore under-capitalised and profits are low.

Many businesses just break even, or are run at a loss, but continue to operate for social reasons or status in the community (Hailey, 1987). They often survive by subsidies from wages of a spouse or family member, or from food crops grown on family lands.

In summary, small business is marked by the limited business experience of the owners, lack of resources, under-capitalisation, and low profits. But business is an attractive alternative for many Pacific Islanders and entrepreneurs continue to survive and increase in numbers.

### **G Pacific Women Entrepreneurs**

Although at present most Pacific Island entrepreneurs are male, there is evidence there will be more entrepreneurial women in the future, for the Pacific Islands are likely to follow the trend in other parts of the world where women are increasingly becoming owners and operators of businesses.

For example, in New Zealand, by 1988, 26,000 women had established, maintained and profited from their own start-up ventures (Welsh, 1988). By 1986, statistics indicated that women proprietors working full time with employees had increased steadily (from 4,691 in 1981 to 25,404 in 1986) while male proprietors with employees has remained relatively constant (62,231 in 1981 to 83,928). This indicates a growth of women proprietors of 3 per cent, while male proprietors increased by only 0.3 per cent (Ibid).

The trend in the United States is even more significant, where there are now over 3 million women proprietors, and it is predicted that by 1995 women will make up half of all start-up businesses in the United States.

With more women starting up businesses throughout the world, each national economy will be stimulated, more jobs will be created, and the multiplier effects of mobilising another 50 per cent of the population will have a significant impact on national development.

Historically speaking, most women in the Pacific Islands have played a secondary role in employment and income generation. Pacific-wide, (with minor exceptions) women make up only 24 per cent of paid labour (Hailey, 1987). Of these women, most are employed in menial positions in government, the business sector and the tourism industry.

While more and more women in the Pacific Islands are becoming active in the cash economy, in all countries, women continue to make an important economic contribution through unpaid work. While there is a need to promote a wider range of economic activities for women, the existing contribution of women to the economy must be recognised. As in other parts of the world, Pacific Island women are actively contributing to the economy through subsistence agriculture, the gathering of seafood, domestic duties in the home and other forms of unpaid work. Women have always been economically active in their roles as wives and mothers, and as major subsistence producers.

What is needed now is the expansion of opportunities to enable women to make choices and select from a wider range of employment opportunities.

Even when women do choose to pursue paid employment, there is a need to measure and monitor the effects of this "extra work" on women's life styles and health. If these impacts are not monitored, women could find that they are subjected to extra stress which may lead to degradation in health, and therefore adversely affect national economic development.

This emphasis on expanding the choices available to women, rather than adding another role to the existing range of roles, could help to alleviate the burden on women.

Another strategy which may contribute to reducing the pressures on women is to create an awareness amongst men of the need for support professionally and in the duties at home. Assistance from husbands in child rearing and other domestic duties would also help to lighten the burden on women. The acceptance of women as entrepreneurs by men and the more conservative sectors of society would also help to reduce the stress on women entrepreneurs.

Only a small percentage of administrative and management positions are held by women in both the public and private sectors. For example, in the Cook Islands there is only one government department head who is a woman (since 1990) and in Fiji there is only one woman head of department. Traditionally, the economic role of women has been limited to income generation projects, growing food crops to feed the family, and participation in community projects (Pryor, 1986). In most Pacific Island communities (especially in Fiji and to a lesser extent the Cook Islands) women are constrained by the traditional view of the role of women as housewives and mothers. In order to succeed in any other role, including business and the public service, women must break with tradition and be willing to deal with the consequences.

However, despite the traditional perception by most Pacific Island women that they are secondary to men in a male-dominated society (socially, politically and economically), and despite the constraints women face in establishing themselves in business, some women have succeeded.

There are several reasons why more women are starting up businesses. One major factor is the changing nature of the Pacific Islands and world economy. For example, the shift in emphasis from agriculture to the service sector in the Cook Islands economy has created an "entrepreneurial" economy. As the service sector has increased in the Cook Islands (and to a lesser extent Fiji), it has become the fastest growing employment sector. While employment opportunities for women in the agricultural sector were limited to labouring in the family plantations, the service industry has provided more attractive and lucrative opportunities for women.

But why do women choose the individual, risky, and often lonely alternative of setting up their own businesses? Studies indicate that some women choose this path because they need the money, some because they seek economic independence, and others make the choice because they perceive a profitable opportunity and seize it.

#### The need for money

For some women, starting a business means economic survival and survival of the family and marriage. For other women the need for money means the maintenance of a certain standard of living.

#### Need for Independence

In the business context, independence means the ability to make decisions without requiring the approval of superiors. For women, (because most bosses are male) it also means independence from men.

In a study of women entrepreneurs in the United States, Hisrich & Bruch (1986), found that 28 per cent of the women surveyed who mentioned independence as their motivation for starting up a business had previously been employed. For the widows and ex-housewives who had not been employed before, independence was not a motive.

### Seizing an Opportunity

In the same study, 30 per cent of the women entrepreneurs claimed that they started up in business when they became aware of a commercial opportunity waiting to be grasped. This opportunity became the trigger that initiated an entrepreneurial career.

In a study of business women in New Zealand, Welsh (1988) found that these business women shared several common factors. These were family ranking, marital status, and educational background.

### Family Rank

The survey of New Zealand business women indicated that the first born or eldest female in a family is more likely to start a business. This confirms the findings of Henning and Hackman who studied women enrolled in the MBA program at Harvard Business School in the United States in 1963-64 and found that 20 out of 25 women were first-born children. The study also revealed that the eldest child had a closer affinity to her father, who was usually also self-employed. Most of these women were from middle or upper class families.

### Marital Status

The majority of women (57 per cent) with a turnover of one million dollars or more were either single or divorced. These women believed that they had to make personal sacrifices in order to achieve success.

Those women who were married stated that being married provided a good support base (both emotional and financial). They were married to men employed in professional or technical occupations and stated that their spouse was generally supportive and provided encouragement.

### Educational Background

The study found that only a small proportion of women earning more than one million dollars had tertiary degrees (14 per cent), however this is expected to change as there has been an increase in the numbers of women taking business degrees and the business world has become increasingly competitive. In businesses with turnover under a million dollars, there was a higher percentage of women with degrees (23 per cent). Most women had little formal education and relied on their previous working experience (64 per cent).

Some ingredients required for success have been ranked as: hard work, tenacity, motivation, good skills with people, leadership, good business management, integrity, guts, good health, common sense, and good luck (Hertz, 1986).

In the past, the importance of the role of individual women entrepreneurs in the Pacific Islands has not been paid sufficient attention by government policy makers, or by researchers. In addition, the special needs (in terms of business advice, financing, marketing, training and research) of this important group have not been assessed. The few exceptions are Hailey (1987), Pryor (1986) and Ritterbush (1986).

Although successful Pacific businesswomen share some common characteristics with businessmen, other characteristics are unique. The common characteristics are:

- they come from families with a history of dominant women, either independent, strong-willed mothers or sisters;
- they are better educated than their contemporaries;
- they have the ability to persevere and deal with business details, often under difficult and frustrating conditions;
- they are determined to succeed and are committed to hard work;
- they have the ability to break through the traditional sex biases and cultural constraints of Pacific societies;
- they possess an outgoing personality and the ability to maintain good customer relations;
- they acknowledge the importance of assistance from husbands/partners in giving advice, checking accounts, and arranging finance. They also recognise the positive encouragement and support of their families;
- they have travelled overseas and have therefore been exposed to new business ideas and opportunities than those women who have not travelled much.

Examples of successful Pacific Island women in business can be found throughout Polynesia and Melanesia.

In the Cook Islands, many women have established small businesses in the retail sector, providing goods for tourists and small village stores selling basic food items and household supplies. There are several unique factors which contribute to the success of these small businesses which are owned and operated by women:

- land is usually owned by the family and is therefore free;
- investment costs in building a small store are usually low, and some financial assistance has been available from the Cook Islands Development Bank;
- the stores are often located in or near the family home. This enables women to operate the business while taking care of the home and children. Business hours are flexible and other family members are often available to assist;
- the profits from the business provide a supplementary (but important) income for the family, as the husband is frequently employed elsewhere (often in government).

In addition to these small business operations, there are Pacific Island women in most countries who have been very successful in larger business ventures. Again in the Cook Islands, several women have businesses which cater to tourists. In one family there are four sisters who run two of the largest handicraft/gift shops, while two other sisters run a clothing/gift shop. Other examples are women who own clothing stores (some specialising in tourist wear such as T shirts), rental car agencies, restaurants/bars, and even motels.

In Tonga, a former nurse who was squeezed out of the health department because her doctor husband became head of the department, now runs the successful bus service on Tongatapu. She also operates a successful hotel, restaurant and nightclub.

An example of a successful business woman in Fiji is the managing director of the chain of Hot Bread Kitchens, the most popular and successful bakeries in Fiji. These efficient, open-plan bakeries are found throughout Fiji, and she has recently expanded through franchising arrangements and partnership agreements to Waianae, Hawaii and the Solomon Islands.

In Papua New Guinea, a woman in Goroka (Eastern Highlands) found herself in a situation where she had to learn how to manage the busy service station which she inherited on the death of her husband. Apart from not knowing much about owning and managing a business, she had to fight off claims to the business assets from her husband's brothers. Despite all these problems, she persisted and now has a profitable business (Finney, 1987).

Only 16 per cent of the businesses in Tonga sampled by the PIDP study were owned exclusively by women, however three-quarters of the businesses surveyed stated that the wife acted as a business partner and assisted in operations, management and marketing. Less than 20 per cent of the women had received any specific business training or had even finished secondary school. Probably the most important characteristic of a Tongan woman entrepreneur was the ability of women to persevere and deal with essential business details under difficult conditions (Ritterbush, 1986, p.78).

In a study of entrepreneurs in the Cook Islands, approximately 32 per cent of the sample were women, indicating that women in the Cook Islands are more active in the business sector (Fairbairn, 1988).

In Fiji, the majority of the women in the PIDP survey were younger (most under 40 years) and found they had alienated themselves from their traditional social role by going into business. They were perceived by some (by Fijian men and traditional leaders) as social deviants.

In addition, the economic power they achieved through their success often meant that they became a threat to the social structure of traditionally male dominated societies (Hailey, 1987).

However, women in business are still the minority, and attention must be paid to the special needs and challenges that confront them.

### **Challenges, Needs and Constraints**

While Pacific women share the same business obstacles that men face, some problems are unique to their status as women in business. These include demands of family and community commitments, responsibility for maintaining cultural traditions, lack of confidence in their abilities (aggravated by their secondary legal status), lack of training, and the problem of obtaining financing for business.

Women are primarily responsible for family and community commitments, for running the household efficiently, providing meals, and organising child care and children's activities. In addition, they are expected to contribute to community projects, both financially and organisationally. These activities are often not recognised by men as being of value or important.

Women are also responsible for maintaining many of the cultural traditions of Pacific societies, such as weaving skills for handicrafts, the maintenance of traditional song, dance and art, and ensuring the survival of the vernacular language and handing down of traditional folklore.

Some basic changes in parental attitudes toward the role of women are necessary. In order for women to succeed, it is essential that they be brought up the way men are: success-oriented, goal-oriented, and with the understanding that it is important to achieve something in their lifetime. Learning institutions and attitudes within the family unit must change to create an environment that encourages women to learn finance, focus on careers, and expect to provide their own source of financial support.

Most Pacific Island women lack confidence in their abilities, especially business acumen. Consequently they overlook or downplay their abilities, reluctant to raise their image above the norm. Some of this lack of confidence is due to constant ridicule by men (and women), lack of vision of the society's leaders, and lack of networks and role models of other women. In most countries the "old boy" network does not exist for women.

Until recently Pacific Island women entrepreneurs found themselves in the lonely position of managing businesses without support from their colleagues. As only a few women owned and operated their own businesses, there were not many women colleagues with whom they could consult or confide. The development of support networks in the future are essential for business women in order to allow them to achieve success in their business ventures. These support networks need to be developed at both the national and regional levels.

This lack of confidence is especially detrimental when women seek finance for their business. Often bankers (who are mostly men) have preconceptions about Pacific women which lead to a reluctance to extend credit to these women. These preconceptions are often based on superficial images of Polynesian beauty and sexuality, and the role of women as wives and mothers, with little business training or know-how.

Because of this lack of faith in women, many women are asked to include their husbands as co-signatories to a loan. "Similarly, government officials and development planners have made only token gestures to encourage women's enterprise and overcome their constraints" (Hailey, 1987, p.46). This lack of respect for business women from employees and business associates often means that women must prove that they can perform efficiently, effectively, and often better than their male counterparts.

Although all entrepreneurs face some start-up problems when establishing a new business operation, the major problems facing women entrepreneurs are difficulty in obtaining credit, a weak collateral position, lack of guidance, counselling, business training, and lack of experience in financial planning.

In most Pacific societies, women have little political power and are grossly under-represented in the civil service and the political arena. For example, in the Cook Islands, there are no women in parliament or cabinet (and, except for a few months in 1983) there have been no women elected to the parliament for over 20 years. The situation in the public service is equally disappointing. Until 1990 there was not one government department headed by a woman.

Similarly, in Fiji, historically few women have been elected to Parliament. The current Interim Government has two women in Cabinet for the first time. An indigenous Fijian woman is Minister of Womens' and Cultural Development, and the other is an Indian woman who is Minister of Indian Affairs. However, this is an appointed, not an elected government.

Women therefore have limited power to influence the legislative process or judiciary. In some Pacific societies there is blatant discrimination against women, and these women do not enjoy full legal rights. For instance, in Tonga women are denied the right to lease or inherit land (thus prohibiting women using land as collateral for a loan), and Fijian women do not enjoy full citizenship status.

Another constraint is the lack of relevant training for women in business skills. Business training courses are rare in the Pacific and do not specifically address the special needs of women. In addition, when these training opportunities are available, they are more often than not given to men.

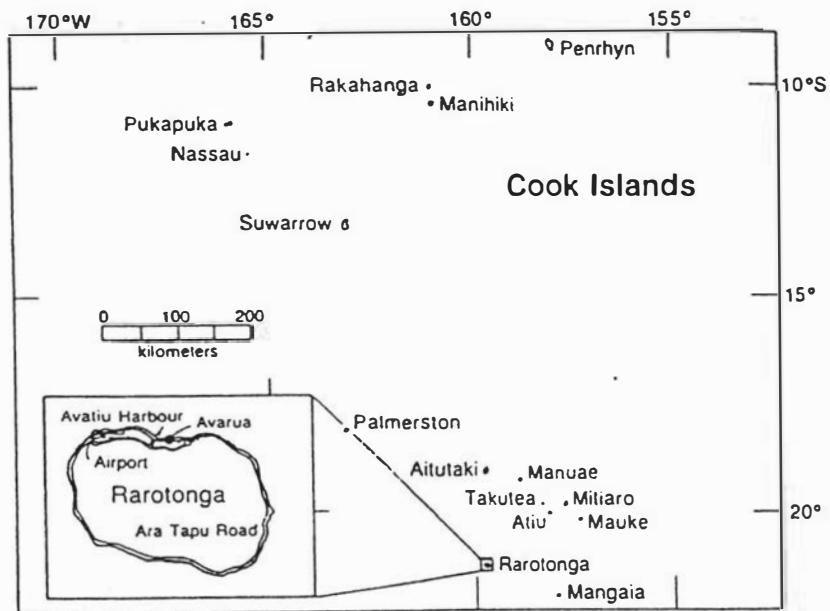
All these factors contribute to a situation where women, to some extent, have been disadvantaged in their efforts to become entrepreneurs. It is often the sheer will and determination of Pacific women that enables them to succeed in their efforts to become successful in business, in order to contribute more to the social and economic development of their families and their country.

This chapter has reviewed traditional Pacific Island economies and some aspects of western entrepreneurship theory. Indigenous entrepreneurship in the Pacific Islands was also reviewed and a Pacific model of entrepreneurship developed. Entrepreneurship opportunities in the tourism sector were then identified. The last part of this chapter was dedicated to an analysis of women entrepreneurs in the Pacific Islands.

Having set the stage with an in-depth review of issues associated with tourism and indigenous entrepreneurship, it is now timely to analyse the development of tourism and indigenous entrepreneurs in two Pacific Island countries. The two countries selected for this study are the Cook Islands and Fiji.

Both countries will be analysed in terms of their historical background and tourism development, the economy the emergence of indigenous entrepreneurs, and a review of existing government structures designed to support indigenous entrepreneurial development.

Map 2. The Cook Islands



## **PART III**

### **CHAPTER 4 THE COOK ISLANDS: HISTORICAL BACKGROUND AND TOURISM DEVELOPMENT**

#### **A Background**

The Cook Islands is unique because of its size, isolation, close political and economic ties with New Zealand, the underlying Polynesian culture, and the way in which the government has adopted a policy of "controlled" tourism development. As a result of the importance of tourism in the economy, the Cook Islands provides an excellent example of tourism development in a micro state.

The fifteen islands of the Cook Islands group cover only 234 square kilometres of land and are spread over 1,000,000 square kilometres of ocean. The capital of the Cook Islands is at Avarua, on Rarotonga and other islands in the southern group are Aitutaki, Mangaia, Atiu, Mauke, Mitiaro, Takutea and Manuae. These are primarily high volcanic islands with lush vegetation.

The northern group islands include Pukapuka, Nassau, Manihiki, Pakahanga, Penrhyn, Suvarrow and Palmerston and are all low lying coral atolls with coconut trees as the primary vegetation.

The Cook Islands has a problem of extreme fragmentation, with a small population distributed over a number of widely dispersed islands. (Connell 1983).

Cook Islanders are Polynesians known as Cook Island Maoris and the main language is Cook Island Maori, although English is also spoken.

## **B Background**

The Cook Islands was among the last of the Polynesian Islands to be permanently settled. According to genealogies and archaeological evidence, Rarotonga was settled about AD 1,100 with settlers from Raiatea in French Polynesia, with a later wave of settlers led by Tangi'ia from Tahiti and Karika from Manu'a in Samoa about AD 1250. Some of the northern atolls were settled as recently as the 13th Century. (Hayes 1983, Carroll 1983).

Various estimates of the population at the time of European contact in the 18th and early 19th century indicate a total population ranging from 14,760 to 19,410 which is close to the present level. (Hayes 1983). As in other parts of the Pacific, the period following contact was critical for the Cook Islands because the population decreased dramatically as a result of disease and sterility, warfare, labour recruitment and general social disruption. (Curson 1973:p.103).

Prior to western contact the population lived in dispersed hamlets but missionaries encouraged the concentration of population near churches. (Hayes 1983). The trade that was developing also led to movement of people to the port areas. By 1854, the Avarua district had approximately 31 per cent of Rarotonga's population and by the end of the century, this proportion had reached almost 45 per cent. (Curson 1973).

Labour recruiters took workers for plantations, diving and domestic work in Tahiti, for sugar fields in Hawaii, the phosphate deposits of various islands and for plantations of Peru (Maude 1981) and California.

Between 1830 and 1900 the cumulative effect of these influences had resulted in a dramatic population decline especially in Rarotonga and Penrhyn. By 1900, both islands had lost between 70 per cent and 80 per cent of their original population. (Hayes 1983). The population of the Cook Islands, which was 17,900 in 1980, has been declining as many Cook Islanders leave to live in New Zealand. Although the local labour force is declining because of migration, one of the most important issues of development is creating more jobs and income-earning opportunities, especially in the private sector. (Connell 1983). Employment in the agriculture and fisheries sectors has fallen steadily since the 1960s and there is a shortage of agricultural labour through migration. Planners are concerned with employment of school-leavers to minimize out-migration which means a loss of important human resources and a slow decline in the absolute population size. Policy planners are therefore concerned with slowing or reversing international migration and are formulating policies which will provide the basic needs, raise living standards and generate employment.

The size of the labour force has experienced fluctuations during the decade 1971 to 1981. In 1986, the total labour force was 1,145. Three hundred and sixty-six were unemployed, giving a low rate of unemployment of 5.6 per cent for the whole country. (Table 4.3). Most of the unemployed were persons from the outer islands seeking work in Rarotonga, whereas on Rarotonga itself, only 151 persons were unemployed in 1986.

The employment figures in Table 4.2 indicate that employment in the agriculture and fishing industries declined from 29.9 per cent in 1981 to 16.5 per cent in 1986. However in the same period wholesale, retail, hotels and restaurants sector employment increased by 4.5 per cent to 16.8 per cent of total employment.

TABLE 4.1

**COOK ISLANDS  
NUMERICAL AND PERCENTAGE DISTRIBUTION OF  
THE RESIDENT POPULATION BY AGE FOR CENSUS  
PERIODS 1971 TO 1986**

Age Group	Population				Percentage			
	1971	1976	1981	1986	1971	1976	1981	1986
0-14	10,996	9,013	7,497	6,330	51.1	50.1	43.5	38.5
15-64	9,635	8,287	8,980	9,359	45.2	46.0	52.1	56.9
65 +	692	703	750	766	3.3	3.9	4.4	4.6
TOTAL	21,323	18,003	17,227	16,445	100.0	100.0	100.0	100.0

TABLE 4.2

**COOK ISLANDS :  
COMPOSITION OF EMPLOYMENT BY MAJOR INDUSTRIES (%)**

	1971	1976	1981	1986
Agriculture & Fisheries	22.7	21.8	29.2	16.5
Manufacturing, Construction and Quarrying	20.9	14.9	12.4	14.0
Electricity and Water	1.2	1.5	2.4	2.5
Transport and Communication	9.0	8.1	10.0	9.4
Wholesale and Retail Trade	7.5	9.2	12.3	16.8
Other Services	32.4	33.5	29.3	33.3
Not Classified		3.8	4.3	1.9

TABLE 4.3

**COOK ISLANDS  
EMPLOYMENT STATUS OF THE LABOUR FORCE (%)**

	1971	1976	1981	1986
Unemployed	6.2	3.3	4.6	5.6
Employed	93.8	96.7	95.4	94.4
Labour Force (Total Number)	6,270	5,113	5,810	6,511

The "other services" category which includes finance, insurance and business services, and community, social and personal services totalled 33.3 per cent, and increase of 4 per cent from 1981 data. Some of these persons employed would be in tourism-related activities.

There has been an overall decline in agricultural production during the past decade, and in Rarotonga, the agricultural work-force has decreased by over fifty per cent. Tourism has provided the biggest opportunity for employment, and the continued emigration to New Zealand has provided a rather unique employment situation. Demographic projection indicate that the population will remain relatively stable, with a total of 17,296 forecase of 1992 and a tota labour force of 6,918.

Current employment trends and projections indicate that the Cook Islands is almost at full employment, and that any increase in tourism (or other industries) will require recruitment of labour from outside the country. The figures also indicate that the small but active entrepreneurial business sector is making a significant contribution to full employment in the Cook Islands.

### **C History and Political Development**

The political structure of traditional Rarotongan society was closely connected with land tenure, and this still affects modern politics. Rarotonga, the main island, was divided into three districts: Te-au-o-Tonga, Takitumu and Puaikura.

Each district operated as a separate "state" and there was no central authority governing the whole island, although they joined together on some ceremonial occasions. (Gilson 1980, p.6). Each district was governed by a hierarchy of chiefs as illustrated below.

### **HIERARCHY OF CHIEFS ON RAROTONGA**

TITLE GROUP	DESCENT
Ariki (High Chief)	Vaka (tribe)
Mataiapo (Chief of Major lineage)	Ngati (Major Lineage)
Rangatira, Komono (Chief of Minor Lineage)	Ngati (Minor Lineage)

Lineages were bilateral descent groups with descent being claimed through both father and mother. However chiefly titles were passed through the senior male where possible, land rights were inherited primarily through the father and resident was commonly with the husband's community. Women could not hold titles and were not ritually equal to men. (Gilson, 1980 p.8).

Although James Cook discovered Aitutaki, Mangaia, Atiu and Mauke in the 1770s, (that is how the islands came to be named after him) the mutineers aboard the Bounty discovered Rarotonga in 1789.

Two missionaries of the London Missionary Society (LMS) from the Society Islands were the first foreigners to reside in the Cook Islands (at Aitutaki) in 1821. Others spread to Rarotonga and other islands in 1823. The missionaries worked initially with the ariki to convert them to Christianity, resulting in early mission involvement in political activities.

In return the ariki supported the establishment of missions by granting land in each district, organizing people for religious instruction, and assisting in the erection of houses and chapels. The missionaries convinced the ariki to adopt new moral principles and new laws with an assurance that this would bring political stability. In 1827 the Reverend John Williams presented a code of new laws to the ariki and these were adopted. The importance of the church in the legal system lay in the fact that Christianity and politics were as intricately related as the "civil policy and sanguinary idolatry" had been in pre-mission days. (Gilson 1980:29)

By 1840, with the mission firmly established, commercial activities with traders under the control of the ariki had begun, again reinforcing the political power of the ariki. Until 1874, no attempt had been made to establish a central government on Rarotonga. By this time the missionaries had succeeded in altering the custom on succession to allow a woman to hold chiefly titles. Makea Takau (also known as Queen Makea), the local chief of the new port town of Avarua, was enforcing the laws of a loose confederation of chiefs. This pattern of the local chief of the area which became the port town thus becoming recognized as a "national" leader was widespread in the Pacific.

After 1874, the influence of the missionaries declined while the traders gained prominence. As a result of French interest and pressure by traders (who were mainly English and New Zealanders), a British Protectorate over the six largest islands was declared on 27 September, 1888. This led to the appointment of a British Resident, Frederick Moss, who was nevertheless appointed and paid for by New Zealand. Moss had to work closely with the ariki to persuade them to implement his projects. In 1890 the British Resident convinced the ariki to form a General Council of provisional Rarotongan legislature.

Its members were the three ariki, three district judges (who were chosen by the ariki), three mataiapo (nominally chosen by the people but in practice largely determined by the ariki) and one European (elected).

The following year Moss set up a Federal Government of the Cook Islands, with a Parliament with chiefly representatives from the islands of the southern Cook Group.

The Federal Parliament made appropriations to the individual island councils who were responsible for the government services of their respective islands. "Queen" Makea was Head of Government. A bicameral legislature was instituted in 1893. The Federal Parliament did not have much meaning to the average person, especially as it did not have Federal police powers. Nevertheless, this Federation is regarded by many as the beginning of Cook Islands national identity.

During the decade of Federal government, production and commerce expanded, political influence of the missions was considerably reduced. The districts of Rarotonga and the other island governments were unified for the first time, and perhaps most significant of all, many Western political principles were accepted. By 1900, however, the New Zealand government, the leading chiefs and also many commoners were dissatisfied with it.

The years 1900 to 1965 were a period of colonial politics for the Cook Islands. With increased interest in the Cook Islands by France, New Zealand's Prime Minister - Richard J. Seddon, visited the Cook Islands in 1900. As a result, the leaders of the southern group islands addressed a petition to the Governor of New Zealand which stated:

We, the Arikis of Rarotonga, together with Ngamaru Ariki, who represents the three islands of Atiu, Mauke and Mitiaro, being assembled in Council, do hereby petition His Excellency the Governor of New Zealand to annex the islands of Rarotonga, Atiu, Mauke and Mitiaro to the British Empire. (New Zealand Parliamentary Debates, 1899, Gilson, 1980, 1980 p.101).

The deeds of cession of these islands were signed by those ariki on 8 and 9 October, 1900. In Aitutaki, where the people believed they had become part of the British Empire in 1891, sovereignty was formally proclaimed. Thus, five islands of the Southern Group (excluding Mangaia) became incorporated into New Zealand, which was a British colony at that time. All other islands were formally incorporated shortly thereafter. The Cook Islands Act of 1915 passed by the New Zealand Parliament consolidated the laws governing the Cook Islands which were governed by a New Zealand appointed Resident Commissioner. A Legislative Council was set up in 1946, then a Legislative Assembly in 1957.

The Cook Islands became self-governing in association with New Zealand in 1965 with a new Constitution and the establishment of a House of Ariki (chiefs). Under this arrangement, the Cook Islands are internally self-governing with New Zealand responsible for external affairs and defence. Cook Islanders are New Zealand citizens with right to access to New Zealand and locally produced goods have free and unrestricted access to the New Zealand market.

#### D. The Economy

The Cook Islands economy is limited in terms of land area, geographic isolation, a decreasing population, and access to better employment opportunities overseas.

The Cook Islands Government has adopted an overall macroeconomic strategy of reinforcing economic development in order that overall objectives can be achieved. The Cook Islands Government Development Budget for 1986-1987 was NZ\$16,884,000. (Table 4.4) The estimated source and application of funds for the year ending 31 March 1990 indicates government revenues of \$47,349,900, with New Zealand budgetary aid at \$8,925,000, giving a total budget of \$56,274,900. (Table 4.5)

The Cook Islands are dependent on foreign assistance and loans, and New Zealand is the largest single contributor to the country. The Cook Islands have a unique relationship with New Zealand through historical ties. The Cook Islands use New Zealand currency and receive regular foreign aid grants. In addition to New Zealand's contribution of budgetary aid, development assistance to specific projects is also given. This amounted to nearly \$4 million in 1989/90. (Table 4.6) However, the annual commitment of the New Zealand government is expected to decrease in the future, while the Australian contribution (and that of other countries) is expected to increase. Current government policy is to diversify aid sources and to phase out New Zealand budgetary support over a 20 year period. Other major sources of aid funds are Australia, Canada, West Germany, the United States, the Netherlands, and United Nations Development Programme (UNDP). (Table 4.6)

The total aid contributions received by the Cook Islands in 1987 were \$15,696,300, including New Zealand's contribution of \$13,760,000 (Table 4.7). While foreign aid to the Cook Islands has increased from over \$12 million in 1982 to over \$15 million in 1987, it has decreased as a proportion of GDP from 39 per cent in 1982 to 21 per cent in 1987. (Table 4.8) This indicates a stronger economy, with a higher proportion of revenues being generated from internal resources.

**TABLE 4.4: COOK ISLANDS DEVELOPMENT BUDGET (NZ\$'000)**

<b>External only CATEGORY</b>	<b>1985/86</b>	<b>1986/87</b>	<b>1987/88</b>
Agriculture	2,034.7	3,041.0	740.9
Marine Resource	155.5	630.5	114.5
Trade & Industry	3,166.4	3,422.2	2,704.5
Monetary Operations**	1,863.3	716.0	
Water Supply & Sewage***	544.0	629.1	191.0
Energy	435.1	692.0	2.0
Post & Telecom.	576.0	523.7	
Education	1,484.9	1,674.3	855.2
Health	197.1	880.3	452.2
Administration	2,147.0	2,847.0	2,008.2
Community & Welfare	421.4	534.6	12.6
Tourism	454.0	452.5	29.7
Others	480.2	441.0	3,934.8
<b>TOTAL</b>	<b>13,959.6</b>	<b>16,884.2</b>	<b>11,075.6</b>

\* Includes T&I, and Transport

\*\* Under heading of "Finance" in Budget Publication

\*\*\* Less sewage & Drainage

TABLE 4.5

**COOK ISLANDS GOVERNMENT  
FUNDS STATEMENT**

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STATEMENT OF THE ESTIMATED SOURCE AND APPLICATION  
OF FUNDS FOR THE YEAR ENDING 31 MARCH 1990

<u>SOURCE OF FUNDS</u>			
TAXATION	:	Income	9,700,000
	:	Levies	6,500,000
	:	Turnover	
8,603,700			
	:	Welfare	1,875,000
	:	Company	
<u>1,200,000</u>			
TOTAL TAXATION			27,878,700
OTHER	:	Numismatic	545,000
	:	Philatelic	
360,000			
	:	Post Office	
2,023,700			
	:	Monetary Board	1,440,000
	:	Departure Tax	740,000
	:	Other Government	
	:	Receipts	<u>2,233,000</u>
TOTAL OTHER REVENUE			7,341,700
TRADING OPERATIONS			12,129,500
TOTAL INTERNAL FUNDING			47,349,900
NEW ZEALAND BUDGETARY AID			8,925,000
			<u>56,274,900</u>
 <u>APPLICATION OF FUNDS</u>			
STATUTORY			3,146,400
ANNUAL APPROPRIATION NON TRADING			41,724,500
TRADING OPERATIONS			11,404,000
			<u>56,274,900</u>

---

**Source:** Estimates of the Expenditure and Revenue of the Government of the Cook Islands, year ending 31 March 1990.

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**TABLE 4.6****COOKS ISLANDS PROJECTS RECEIVING  
NEW ZEALAND DEVELOPMENT ASSISTANCE 1989/90**


---

Agriculture Development Programme	30,000
Totokoitu Research Station	210,000
Kia Orana Foods Loan Repayment	50,000
Aitutaki Crop Diversification	36,000
Forestry	130,000
Education study awards	450,000
Upgrading Rarotonga Electric Generator	1,320,000
Avarua Town Power Supply	70,000
Medical Assistance	40,000
Avatiu Harbour Expansion	400,000
Budgetary Support	9,000,000
Cook Islands Development Bank	250,000
Rarotongan Hotel Loan	502,834
Outer Islands development	90,000
Supplementation Scheme	850,000
Short-term Technical Assistance	50,000
Total	\$13,478,000

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**Source:** Programme Profiles, N.Z. Bilateral Assistance Programme, Ministry of External Relations and Trade, N.Z. Government, 1989.

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TABLE 4.7

**COOK ISLANDS GOVERNMENT:  
Aid Contributions By Agency (NZ\$'000)**

DONOR	83	84	85	86	87	TOTAL
NZBAP	11350	12471	13340	13342	13760.0	82563.0
ADAB	1159	971	1354	2089	1562.0	8852.0
Canada	92	89	110	97	11.7	496.7
German FRG	282	32	39	40	56.0	731.0
Netherlands		55	56		220.0	345.0
UNDP	525	336	278	479.6	32.8	4157.4
Norwegian/SPEC		146		140	-	286.0
SPC	40	40	61	39.9	-	300.9
US Aid		146	67		34.9	247.9
UNICEF	66	27	23	3.5	-	150.5
UNFPA		271	107	18.5	-	396.5
IHAP		349	158	391	2	900.0
ADB			2753	-	2753.0	
WHO			9	708.8	-	717.8
PEDP			81		16.9	97.9
	13,514	14,878	18,435	17,405.3	15,696.3	102,995.6

**Source:** Second Development Plan (1988-1992), Ministry of Planning  
Economic Development, Cook Islands Government, 1988.

TABLE 4.8

**COOK ISLANDS:  
Foreign Aid as a Proportion of GDP**

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Year	Foreign Aid (NZ\$'000)	As proportion of GDP % (Current Prices)
1982	12,654.0	39.1
1983	13,514.0	37.8
1984	14,878.0	33.9
1985	18,435.0	35.0
1986	17,404.3	27.2
1987	15,696.3	21.0

---

Source: Second Development Plan (1988-1992), Ministry of Planning and Economic Development, Cook Islands Government 1988.

---

New Zealand's official development assistance programme is managed by the Development Assistance Division (DAD) of the Ministry of External Relations and Trade. In 1988, the total disbursement of official development assistance (140,436 million) was estimated at 0.27 per cent of New Zealand's gross national product. Project assistance forms the bulk of New Zealand's bilateral cooperation.

New Zealand provided development assistance for 16 projects in the Cook Islands in 1989/90. (Table 4.6)

The Cook Islands Economy has been included in a proposed model for South Pacific Islands economies identified as a "MIRAB" economy or society with unique characteristics (Watters, 1987 p32). The term MIRAB stands for migration, remittances, overseas aid, and bureaucracy. These four characteristics interact to provide a better understanding of several South Pacific societies (others include Niue, Tokelau, Kiribati, and Tuvalu).

The migration of Cook Islanders to metropolitan countries (mainly New Zealand and Australia) has resulted in over half the Cook Islands population resident overseas. This leads to remittances being sent back to families in the Cook Islands in order to perpetuate kinship ties. In addition to these characteristics is the dependence of the Cook Islands on overseas aid, mostly from New Zealand, but with increasing source diversification. The last component of a MIRAB society is the bureaucracy. The public service in the Cook islands (as well as other South Pacific countries including New Zealand)" shows many signs of serving itself, as well as developing various new characteristics and functions" (Ibid., p.43).

Although these factors still apply, the Cook Islands economy is changing. For instance, remittances from overseas actually decreased in 1984 but have more or less remained at a constant level since. In addition, dependence on overseas aid is decreasing and stimulation of the economy through tourism development (and other related services) and offshore banking is increasing.

Unlike the other countries included in this MIRAB model, economic growth from sources other than aid and remittances in the Cook Islands has been significant in the 1980s.

Between 1982 and 1986, the Cook Islands economy grew in real terms by more than 36 per cent, equivalent to an average annual growth rate of about 8 per cent. With this economic growth and a population which is declining steadily at more than 1 per cent per year (mostly through out-migration), per capita GDP increased on average by more than 9 per cent per year (Cook Islands Statistics Office and Asian Development Bank, 1990 p.10). For the period 1982 to 1986, the economic sector which contributed most to the annual growth of the gross domestic product (GDP) in real terms was the services sector. On average, the services sector accounted for the bulk of annual change of GDP --- on average about 5.8 per cent of the total 8.2 per cent average annual growth of GDP (ibid., p.11). The wholesale and retail trade, restaurants and hotels accounted for 1.4 per cent of the average annual growth of GDP, reflecting a strong growth in tourist-related activities. Other sub-sectors contributing to this growth were public sector employment and offshore banking services. The Asian Development Bank sponsored report remarked that:

The prospects for continued strength in the Cook Islands economy appeared to lie most strongly with the tourism sector, with its extensive government support, very active promotion, and the continued upgrading of tourist facilities (Cook Islands Statistics Office and Asian Development Bank, 1990 p.12).

The Cook Islands economy is dominated by the tourism industry. Rarotonga (the largest island) has developed from a basically agricultural economy in the 1960s to a tourism economy in the 1970s and 1980s. Since the late 1970s tourism has grown to become the leading sector of the economy in terms of employment and foreign exchange earnings. Tourist arrivals have shown a growth from less than 10,000 in 1976, to over 32,000 in 1987. (Table 4.9) Over the same period, the supply of tourist accommodation has grown from 108 rooms to 649 rooms. (Table 4.9) Revenues generated by tourism have grown from \$24.4 million in 1985 to \$29.7 million in 1988. (Table 4.10) Tourism is the principal force for economic growth in the Cook Islands economy. It is also the largest export industry, and provides more employment opportunities than any other single industry. Though linkage effects are moderate, the impact of tourism can be realised by the emergence of private enterprises and other related activities which rely to a large extent on tourism. (Government of the Cook Islands, 1988).

Government's main role in tourism development has been to promote investment opportunities in the private sector. Efforts to capture the tourist dollar were concentrated on the expansion of local food production, development of quality handicrafts, and the promotion of cultural entertainment groups. Local participation in motel ownership is also encouraged. (Ibid.)

The economic realities of the Cook Islands indicate that there is a very limited range of development options available. Given the constraints of a small isolated economy, there is a need to diversify economic development.

**TABLE 4.9**  
**TOURIST ARRIVALS AND TOURIST ACCOMMODATION**  
**IN THE COOK ISLANDS 1976-1987**

YEAR	'000 TOURIST ARRIVALS	% CHANGE OVER PREVIOUS YEAR	NO. OF TOURIST ACCOMMODATION ROOMS	%CHANGE OVER PREVIOUS YEAR
1976	9.9	8.6	108	4.8
1977	14.6	47.3	211	95.4
1978	17.0	16.6	262	24.2
1979	19.7	16.0	309	17.9
1980	21.1	6.7	331	7.1
1981	18.6	-11.7	343	3.6
1982	17.5	-6.2	349	1.7
1983	19.8	13.4	354	1.4
1984	25.6	29.2	413	16.7
1985	28.8	12.5	490	18.6
1986	31.2	8.6	546	11.4
1987	32.1	2.8	649	18.9
Average annual % change 1976-1987		11.3		17.7

Source: Cook Islands Tourist Authority

**TABLE 4.10**  
**COOK ISLANDS:**  
**Projected Visitor Arrivals, Tourist Receipts**

YEAR	Visitors (000's)	Receipts (000's)
1985	28.8 actual	24.4
1986	31.2 actual	26.5
1987	32.1 actual	27.2
1988	35.3	29.7
1989	38.8	32.9
1990	42.6	36.2
1991	46.8	39.7
1992	51.5	43.6

Source: Cook Islands Tourist Authority

Therefore, service-based industries such as tourism, tax-havens and off-shore banking facilities, and the expansion of the retail and wholesale trade sector, have provided new opportunities for economic development for the Cook Islands.

Off-shore banking facilities were established in the Cook Islands in 1981. The legislation (Offshore Banking Act 1981) enabled the Cook Islands to establish itself as an international financial centre. The Act is administered by the Cook Islands Monetary Board and provides for the establishment and regulation of off-shore banking in the Cook Islands. Foreign banks operating under the Act do not pay income or other taxes earned on their international transactions. These transactions may include borrowing and lending activities in international markets, taking advantage of time zone differences and foreign exchange fluctuations. They may also include the management of trusts and holding companies, and acting as intermediaries for loans made between countries.

Similar arrangements have been made in respect of foreign insurance companies under the Off-shore Insurance Act 1981/82.

Tax haven facilities have also been developed in addition to off-shore banking. An International Companies Act was passed in early 1982 allowing for the establishment and regulation of off-shore international companies.

Companies registered under this act do not pay taxes but are not entitled to establish an office or permanent presence in the country. They are entitled to act through a Trust Company, established under the Trustee

Companies Act 1982. Any company with ownership in New Zealand or the Cook Islands is not permitted to register under this Act.

Revenue to government from off-shore banking fees and licences has grown to \$1.4 million in 1987, and it is expected that revenues will increase substantially in the future. However, competition from other recently established off-shore banking centres (for example, Western Samoa), and legislation passed by the New Zealand and Australian governments restricting the use of off-shore banking facilities by New Zealand and Australian companies may lead to a slowing down of these activities.

There are now five Trust Companies in operation in the Cook Islands and to date there are 1,600 international companies registered. This figure was expected to exceed 2,000 by 1990.

Agriculture also provides exports of fruits and vegetables to New Zealand, supplemented by some light manufactured clothing exports, copra and pearl shell. Total exports amounted to over \$7.9 million in 1988.

Cook Islanders are citizens of New Zealand and can freely migrate there for employment and education. Consequently, over 31,000 Cook Islanders, making up over 25 per cent of the Pacific Island population now live permanently in New Zealand, providing a strong system of kinship with relatives in the islands. Many of these Cook Islanders remit money back to relatives, thus providing an important source of income. These remittances have always been substantial and have shown an increase from \$1.9 million in 1983 to over \$2.5 million in 1986. (Table 4.11)

---

**TABLE 4.11****COOK ISLANDS:  
Money Order Transactions (NZ\$'000)  
Indicating Overseas Remittances**

---

1983	1,955
1984	1,784
1985	1,905
1986	2,553

---

Source: Second Development Plan (1988-1992), Ministry of Planning and Economic Development, Cook Islands Government, 1988.

---

Another important source of revenue and foreign exchange is bilateral fishing agreements. This amounted to \$824,576 for the period 1983 to 1987. In addition, the export of mother of pearl shells for the period 1976-1987 was valued at \$3.5 million. (Ibid.)

Imports from New Zealand (the Cook Islands main trading partner and market) in 1987 totalled close to \$28 million, while exports to New Zealand totalled \$7.5 million in the same year. (Ministry of External Relations and Trade, 1988) The country had a trade deficit of over \$51 million by 1989. (Table 4.12)

National income levels are high by developing country standards. Gross domestic product (GDP) at current prices grew from \$32.3 million in 1982 to \$63.9 million in 1986, and was estimated at over \$74.8 million in 1987. (Commonwealth Secretariat, 1989)

Tax revenues totalled \$13.46 million in 1987, and were estimated to be \$17.52 million in 1988. This includes revenues from income tax, company tax, turnover tax (a consumer tax established in 1981, now set at 10 per cent), welfare tax, stamp duty and TAB tax. (Table 4.13) Another important source of finance, customs revenues, totalled \$5.35 million in 1986. (Table 4.14)

Since 1983 the construction industry has grown from less than \$2 million in 1983 to just under \$8 million in 1986. (Figure 4.1) The largest growth was in 1986, when the construction industry was stimulated by a large increase in commercial property investment, increasing from \$1.42 million in 1985 to \$6.24 million. This represents an increase of over 300 per cent. The two years 1986 and 1987 were significant for the construction industry, in that it was the first time that commercial property construction exceeded the value of residential construction.

TABLE 4.12

**COOK ISLANDS:  
Foreign Trade Deficit DP 2 Period (NZ\$'000)**

---

	1988	1989	1990	1991	1992
Imports	56,491	60,324	64,157	67,990	71,824
Exports	7,971	8,557	9,144	9,730	10,314
Deficit	48,520	51,767	55,013	58,260	61,513

---

**Source:** Cook Islands Government, 1988.

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TABLE 4.13

**COOK ISLANDS:  
Tax Revenues  
1978 - 1983 (31 March)  
(NZ'000)**

	1983	1984	1985	1986	1987	Est 1988
Income Tax	2966.9	3405.8	3940.9	4686.1	7158.1	9150
Company Tax	394	495.2	419	570.1	844.5	750
Turnover Tax	2013.6	2198.5	2582.9	3338.5	3552.8	5729.9
Welfare Tax			425.6	1335.9	1879.2	1806
Stamp Duty	45.8	7.6	12.2	31.4	23.5	20
Tab Tax	.9	.2	4.9	3.7	7.9	70
	5421.2	6107.3	7385.5	9965.7	13466	17525.9

**NOTES**

- 1978 TO 1980 - Company Tax included in Income Tax - A 25% tax surcharge was imposed on 1978 Tax rates and this boosted collection in 1978, 1979 and to a lesser extent 1980.
- 1981 - Turnover Tax (4%) introduced from 1.9.1980.
- 1983 - Stamp Duty Revenue boosted by sale of a substantial business.
- 1985 - Welfare Tax (2%) introduced from 1.10.1984 in addition to turnover tax. Personal income tax rates reduced simultaneously.
- 1987 - Income Tax Revenue boosted by \$.806m collection from non-recurring source.
- 1988 - Income Tax Revenue estimated boosted by \$3m. Collection from non-recurring source Income Tax Rates reduced from 1.10.1987. Turnover and Welfare Tax combined 1.4.1985. Rate increased to 10% from 1.10.1987.

**Source:** Cook Islands Government, 1988.

TABLE 4.14

**COOK ISLANDS:  
Custom Revenue  
1978 - 1986  
(NZ'000)**

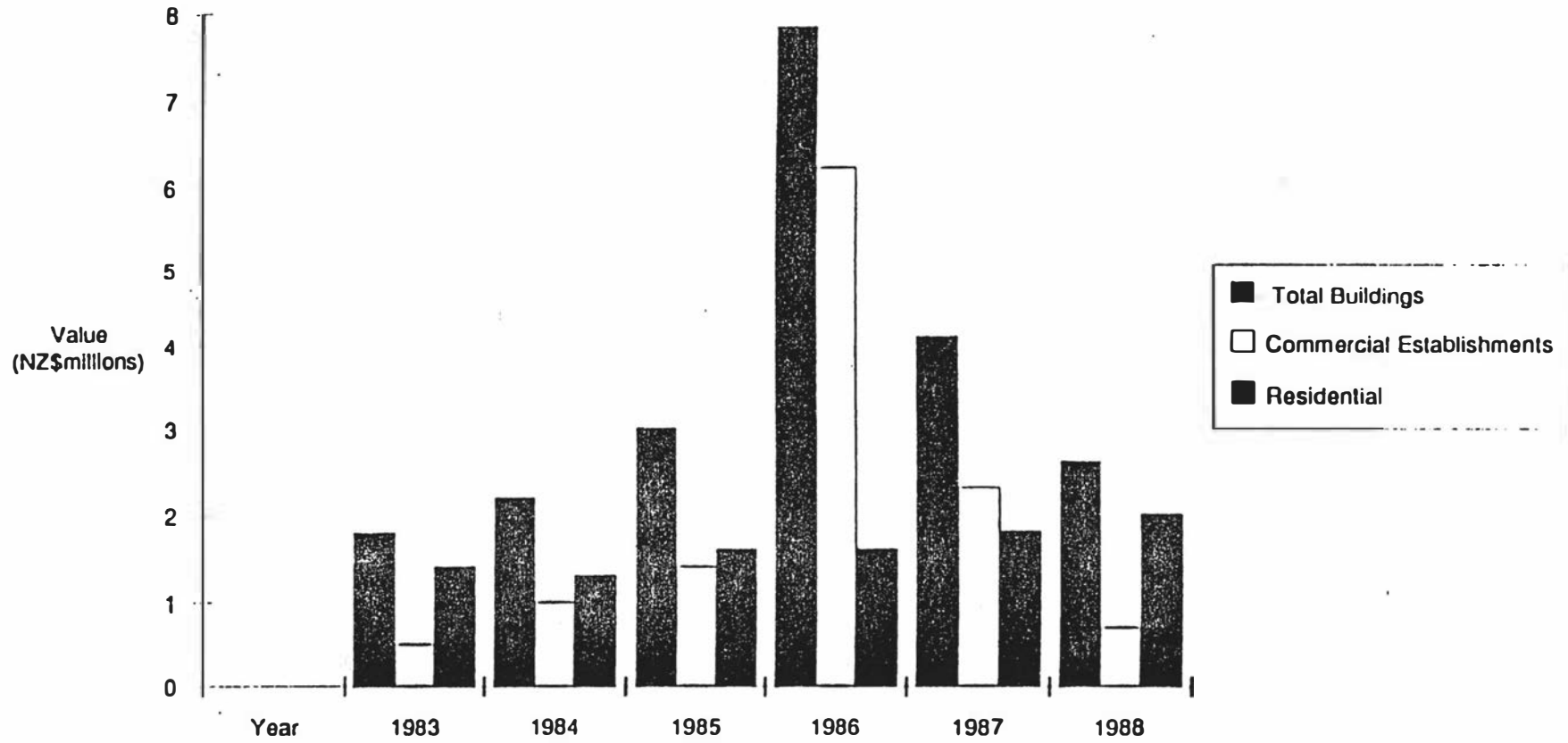
	1981	1982	1983	1984	1985	1986
Import Duty	587.5	570.4	589.4	928.1	945.1	1,327.9
Import Levy	2,111.9	2,032.1	2,188.1	2,562.6	3,000.9	3,937.6
Misc Sales (forms etc)	.3	3.5	2.9	2.9	10.3	2.8
Fees (warehouse)	11.5	2.6	1.3	.7	1.9	7.4
Used Tax	55.3	69.1	89.1	93.1	32.3	
Private Imports Tax					10.3	23.1
Overtime	18.6	31.6	8.9	18.9	31.9	53.9
*Overseas exchange Fees	45.7	1.8				

\*The collection of this fee was transferred to TLT

- (1) A special account was created for duty/levy payable on Laurel Motor cars in financial year ending March 1986 and not included in above figure. Total amount \$450,800
- (2) Use Tax was introduced during 1980/81 financial year and this was repeated and replaced by the Private Imports Tax Act 1984

Source: Cook Islands Government, 1988.

Fig 4.1 COOK ISLANDS BUILDING INDUSTRY 1983 to 1988



This can be attributed in large part to the growth of the financial and tourism industries in the Cook Islands over the last decade. These industries have contributed significantly to the expansion of the commercial sector and will continue to play a major role in the development of the commercial sector in future.

It is clear from this review of the Cook Islands economy that although the Cook Islands are dependent on foreign aid, the government has reduced this dependency from 39 per cent in 1982 to 21 per cent in 1987. This has been possible by promoting economic growth in the tourism, off-shore banking, marine resources; agriculture, and trade sectors of the economy. As a result, revenues from income and turnover taxes and customs revenues have increased. However, in the future, foreign aid will continue to play a significant role in the Cook Islands development process, bearing in mind inflationary factors in a growing economy heavily reliant on imports. Despite increases in domestic sources of income, mainly generated through taxes and customs revenues, there is a need for an increase in the level of foreign aid sought to maintain its continual contribution at between 21.4 per cent to 23.2 per cent of GDP. Total foreign aid is estimated at \$18.6 million in 1988, and is expected to grow to approximately \$37 million in 1992. (Table 4.17)

TABLE 4.17

**COOK ISLANDS:  
Financing of the Economy Current Prices (NZ\$'000)**

	<b>GNP</b>	<b>Local</b>	<b>Foreign Aid</b>	<b>Dev' FI. Ratio</b>
1988	86813.28	22572.0	18615.8	47.4
1989	100963.85	24415.0	22078.3	46.0
1990	117420.96	28238.0	26184.9	46.3
1991	136560.57	32616.0	31055.3	46.6
1992	158819.95	37671.0	36831.6	46.9

**Source:** Second Development Plan (1988-1992), Ministry of Planning & Economic Development, Cook Islands Government, 1988.

**CHAPTER 5    DEVELOPMENT OF THE COOK ISLANDS**  
**TOURISM INDUSTRY**

This chapter presents a review of the development of the Cook Islands tourism industry. Important issues that are considered here are the role of government, tourism development plans and strategies, visitor arrivals and marketing, air service, the Cook Islands accommodation industry, tourism employment, and tourism education and training.

**A    Tourism Development and the Role of Government**

Tourism is now the most important sector in the Cook Islands economy, surpassing agricultural production, with earnings of \$27.2 million in 1987. The second biggest industry in the Cook Islands is offshore banking with revenues to the Cook Islands of over \$1.14 million in 1987.

Tourism is, however, a relatively young industry. Until the 1970s, transportation to the islands was by sea only and was slow and unreliable. Ocean cruises were the only form of tourism, with cruise ships anchoring off Rarotonga. The harbour and port facilities were inadequate for large ships to berth in the harbour. Cook Islands cultural groups and business people would travel by small boat to meet the cruise ships offshore and entertain and trade with tourists for 4 to 5 hours, once a month. Although the tourists did not go ashore, income from these short visits still made a significant contribution to the economy.

It was not until the Rarotonga International Airport (financed and built by the New Zealand government) was opened in 1974 that the Cook Islands began to seriously develop tourism. The first and only major international standard hotel, the Rarotongan was opened in 1977. The original shareholding in the Resort was split three ways with Air New Zealand owning one third, the Cook Islands Government owning one third, and the New Zealand Government (through the Tourist Hotel Corporation or THC) owning one third.

The THC also operated the hotel for the first ten years. By 1980, both Air New Zealand and THC had sold their shares to the Cook Islands Government, who sold one third to several tour operators -- three wholesalers from New Zealand and one from California.

The pattern of tourism development in the Cook Islands indicates that most tourist accommodation and activities are found on Rarotonga, with some development in Aitutaki, and limited development on Atiu, Mauke and Mangaia. There is no accommodation development in the Northern Group, no scheduled air service, and transportation is inadequate for tourists. However, Government has adopted a policy of wider distribution of tourism development and benefits to the islands beyond Rarotonga.

The Cook Islands Government has taken an active role in tourism development since the 1970s. The government initiated the development of the tourist industry in the Cook Islands with the passing of the Tourist Authority Act in 1968 (amended in 1976 and 1989). The main objective is "to encourage the development of and administer the tourist industry". This Act established the Cook Islands Tourist Authority (CITA), which is administered by the Tourist Authority Board, whose members are appointed by the Minister of Tourism.

The functions of CITA (as amended by the Tourist Authority Amendment Act of 1989) are:

- To promote and encourage the tourist industry in the Cook Islands and to promote and increase tourist and other traffic from overseas and within the Cook Islands;
- To promote the establishment of hotels and all other forms of accommodation for tourist and public purposes;
- To provide services and amenities for tourists and the public and to promote such service and amenities;
- To regulate and control the use and development of scenic attractions and recreational facilities in the Cook Islands;
- To hold such inquiries and gather such information as will enable it to determine the requirements of tourists and public as to the provision of services of all kinds and other amenities on premises licensed pursuant to this Act;
- To conduct enquiries into any matters at the request or with the approval of the Minister and to make recommendations to the Minister in respect thereof (Cook Islands Government, 1968).

The original Act included licensing, regulation and control of hotels, accommodation premises, restaurants and tourist and public accommodation of all kinds, but this function was removed by the 1989 Amendment. A separate General Licensing Authority is being established to deal with licensing of premises and development of standards for accommodation, restaurants, and transportation.

The Second Development Plan (1988-1992) of the Cook Islands Government summarises tourism development objectives in the following policy statement:

Tourism shall continue to be developed at a moderate rate and in keeping with the objectives of controlled and balanced tourism, to optimise the local economic benefits and ensure its widespread distribution within the society and among the islands, while also ensuring the conservation of the natural environment and enhancing it. The Cook Islands' culture and traditions will be maintained and reinforced (Cook Islands Government, 1988, p.33).

The objectives of tourism development during this period are:

- to achieve an annual growth rate of between 10 to 15 per cent per annum;
- to expand tourist facilities in line with the growth in visitor arrivals and changes in tourist preferences;
- to maximise local participation in the tourist industry as a means of spreading the benefits of tourism;
- to minimise the leakages to imports from income derived from the tourist industry, by stimulating the involvement of Cook Islanders in producing import substitutes;
- to maintain and improve our physical and cultural environment through the restoration of historical sites and beautification programmes;
- to participate in joint regional efforts to promote tourism; and
- to identify and assess the tourism potential (and aspirations) of the outer islands (Ibid, p.34).

The 1968 Act also established the trading arm of CITA - the Rapae Motel on Aitutaki and the Banana Court Night Club in Rarotonga, both government owned. CITA also earned revenues from profits made by the two trading operations and licence fees on accommodation and restaurant facilities. However, these trading operations were also removed from CITA in 1989.

The costs of tourism to the Cook Islands Government include the annual grant to CITA (which totalled \$819,200 in 1988/89, but which started out at a modest \$80,000 in 1976/77), the costs of the two trading operations, and general infrastructure costs (Table 5.1). In comparison, Government spent nearly 6.7 per cent (\$740,900) of its total development budget on agriculture in 1987/88, and only .3 per cent on tourism (\$29,700) in the same year. The tourism budget for 1989/1990 is estimated at \$1,104,700 (Table 5.2 and 5.3).

Tourism costs to government also include general infrastructure development, including water, transport, roads, telecommunications, power and sewage. Most of the cost of improving these services has been covered through budgetary assistance from New Zealand, but it is clear that although tourism benefits from these developments, the island community as a whole also benefits. It is fortunate that these major costs are covered by external aid, which means that Government does not have to raise the money through local taxes.

The Government receives revenues from tourism in the form of taxes levied on the tourist sector, the suppliers, and the tourists themselves. Tourism provides tax revenues through departure and accommodation taxes which are direct taxes, but what is often overlooked are the indirect tax revenues.

A survey of the Cook Islands government revenue from taxes estimated that approximately "20 percent of total Government taxation revenue is generated either directly or indirectly by the tourist industry" (Milne, 1985, p.73). In addition, "approximately 20 per cent of revenue from duties and levies is obtained directly or indirectly through tourism" (Ibid, p.73)

An analysis of the government revenue generation multiplier in the Cook Islands indicated that the average hotel guest generates approximately \$32 of government revenue per day, while the average motel guest generates \$17 per day (Ibid)

Like most other small countries and states, the Cook Islands is linked with the international tourist system, and the industry has features which are important to the industry but which lie beyond its control. Three of these main features are:

**TABLE 5.1 COOK ISLANDS TOURIST AUTHORITY  
SUMMARY OF ESTIMATES**

	1984/85	1985/86	1986/87	1987/88	1988/89
<b><u>EXPENDITURE</u></b>					
Administration	93,500	88,000	130,339	155,200	150,200
Marketing	351,300	374,900	495,793	691,500	71,600
Public Relations	14,500	15,900	21,255	39,000	41,700
Development/ Training	34,100	38,800	51,694	77,400	93,600
<b>TOTAL</b>	<b>493,400</b>	<b>517,600</b>	<b>699,001</b>	<b>963,100</b>	<b>957,100</b>
<b><u>REVENUE</u></b>					
License fees	900	3,100	3,840	3,700	1,400
Sundry	2,500	-	-	-	-
Government					
Grant	433,700	454,40	630,111	862,200	819,200
<b>TOTAL</b>	<b>437,100</b>	<b>457,500</b>	<b>633,951</b>	<b>865,900</b>	<b>820,600</b>
<b>SOURCE: Cook Islands Tourist Authority, 1988.</b>					

**Table 5.2: COOK ISLANDS DEVELOPMENT BUDGET (NZ\$'000)**

CATEGORY	1984/85	1985/86	1986/87	1987/88
Agriculture	1,762.7	2,034.7	3,041.0	740.9
Marine Resource	116.8	155.5	630.5	114.5
Trade & Industry	2,398.3	3,166.4	3,422.2	2,704.5
Monetary Operations**	792.0	1,863.3	716.0	
Water Supply Sewage****	636.6	544.0	629.1	191.0
Energy	166.1	435.1	692.0	2.0
Post & Telecom	357.5	576.0	523.7	
Housing				
Education	1,442.9	1,484.9	1,674.3	855.2
Health	101.0	197.1	880.3	452.2
Administration	2,043.0	2,147.0	2,847.0	2,008.2
Community & Welfare	171.7	421.4	534.6	12.6
Tourism	433.6	454.0	452.5	29.7
Others	989.6	480.2	441.0	3,934.8
<b>TOTAL</b>	<b>11,391.8</b>	<b>13,959.6</b>	<b>16,884.2</b>	<b>11,075.6</b>

\* Includes T&I, and Transport

\*\* Under heading of "Finance in Budget Publication

\*\*\* Less sewage & Drainage

**Source:** Cook Islands Government, 1988.

Table 5.3: DISTRIBUTION OF DEVELOPMENT BUDGET

SECTOR	1984/85	1985/86	1986/87	1987/88
Agriculture	15.5	14.6	18.0	6.7
Marine Resources	1.0	1.1	3.7	1.0
Trade & Industry	21.1	22.7	20.3	24.4
Monetary Option	7.0	13.4	4.2	
Water Supply Sewage	5.6	3.9	3.7	1.7
Energy	1.5	3.1	4.1	.3
Post & Telecom	3.1	4.1	3.1	
Housing				
Education	12.5	10.6	9.9	7.7
Health	.9	1.4	5.2	4.1
Administration	17.9	15.4	16.9	18.1
Community & Welfare Youth, Sport & Culture	1.5	3.0	3.2	.1
Tourism	3.8	3.3	5.1	.3
Others	8.7	3.4	2.6	35.5
<b>TOTAL</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

\*Less than 0.1 percentage point

\*\*Inconsistencies in totals due to rounding

**SOURCE:** Cook Islands Government, 1988.

1. marketing of the Cook Islands as a tourist destination;
2. overseas transportation companies, especially airlines, to carry visitors to the islands; and
3. the economic conditions in the countries which provide the tourists (source markets).

One study concluded that "the New Zealand Government, along with New Zealand based corporations and enterprises, have basic control over the viability of the Cook Islands industry" (Milne, 1985, p.180). Further, the researcher stated that to a large degree the demand and supply of tourism services emanates from New Zealand, and the type of product sold is largely determined by New Zealand based corporations. "In reality, the historical ties which have led to an economic dependence upon New Zealand, are not being broken, but instead are fostered by the growth of tourism" (Milne, 1985, p.80).

In addition, the Cook Islands has a unique relationship with New Zealand through historical ties. The New Zealand Government provides the major source of financial aid to the Cook Islands; Cook Islanders are citizens of New Zealand and can migrate there for employment and education. Many Cook Islanders now live permanently in New Zealand, providing a strong system of kinship. These Cook Islanders remit money back to relatives in the Cook Islands, thus providing an important source of income. The Cook Islands also share a common currency with New Zealand.

Air New Zealand has a virtual monopoly over the Cook Islands air sector and controls the most profitable services between New Zealand and Rarotonga. In addition, the marketing and promotion of the Cook Islands is controlled by a small group of New Zealand based tour wholesalers and Air New Zealand.

New Zealand fiscal policy (especially the international value of the New Zealand dollar) has an important impact on the promotion of Cook Islands tourism.

## **B Tourism Development Plans and Strategies**

Several development plans and strategies for the tourist industry in the Cook Islands have been produced over the last 25 years. The earliest plan (Cook, 1969) made an assessment of tourism's impact on the Cook Island economy. In 1970, Environmental Research Ltd was commissioned to analyse the tourism potential of the Cook Islands.<sup>1</sup> A preliminary market survey of Cook Island tourism was completed (Le Fevre, 1974) and the first analysis of tourism employment and social impact assessment was carried out in 1977 and 1978 (Pryor, 1981).

Between 1976 and 1978 the Government commissioned another study of the industry, with the main objective of improving facilities and attractions.

The first Cook Islands Development Plan (1982-1985) stated that the objectives of tourism development were:

- to achieve an annual growth rate of 20 per cent in the number of visitors to the Cook Islands;
- to expand tourist facilities in line with the growth in visitor arrivals and changes in tourist preferences. This includes encouragement for the development of tourist facilities in the Outer Islands;
- to maximise local participation in the tourist industry as a means towards spreading the benefits from tourism;

1. The report was commissioned jointly by the Cook Islands Government, Air New Zealand, Campbell & Ehrenfried Co. Ltd, Fletcher Construction Co. Ltd, and the R.S Wilson Syndicate.

- to minimise the leaking away into imports of income derived from the tourist industry through stimulating the involvement of Cook Islanders and through import substitution;
- to maintain and improve our physical and cultural environment through the restoration of historical sites and beautification programmes;
- to participate in joint regional efforts to promote tourism; and
- to identify and assess the tourism potential (and aspirations) of the Outer Islands.

Under the cultural objectives, the plan specifically states that the development of tourism will "exploit the opportunities offered to rekindle and perpetuate our traditional skills, arts and organisations."

It is clear that these objectives do not differ significantly from the current objectives as presented in the Second Development Plan for the Cook Islands.

A tourism development strategy for the Cook Islands was also commissioned by the Government which resulted in a joint report United Nations Development Programme/World Tourism Organisation prepared by Edward Inskeep (1984). Another recent analysis of the economic impact of tourism in the Cook Islands was carried out by Simon Milne in 1985.

### Tourist Expenditure

Gross tourism receipts for the Cook Islands have been estimated at \$26.5 million in 1986, and \$32.9 million in 1989. This indicates that tourism is making a substantial contribution to the national economy. Tourism expenditure is projected to reach \$43.6 million by 1992 (Table 5.5). These are estimates based on the 1985 actual expenditure of \$85 a day (which was a conservative estimate) with no allowances for inflation (Milne, 1985).

**Table 5.4: Cook Islands Tourist Arrivals and Tourist Accommodation in the Cook Islands 1976 - 1987**

YEAR	'000 TOURIST	%CHANGE OVER PREVIOUS YEAR ROOMS	NO OF TOURIST ACCOMMODATION YEAR	% CHANGE OVER PREVIOUS YEAR
1976	9.9	8.6	108	4.8
1977	14.6	47.3	211	95.4
1978	17.0	16.6	262	24.2
1979	19.7	16.0	309	17.9
1980	21.1	6.7	331	7.1
1981	18.6	-11.7	343	3.6
1982	17.5	-6.2	349	1.7
1983	19.8	13.4	354	1.4
1984	25.6	29.2	413	16.7
1985	28.8	12.5	490	18.6
1986	31.2	8.6	546	11.4
1987	32.1	2.8	649	18.9
Average annual % change 1976 - 1987		11.3		17.7

**SOURCE:** Cook Islands Tourist Authority, 1988.

**Table 5.5: Cook Islands Projected Visitor Arrivals, Tourist Receipts**

YEAR	Visitors (000's)	Receipts (000's)
1985	28.8 actual	24.4
1986	31.2 actual	26.5
1987	32.1 actual	27.2
1988	35.3	29.7
1989	38.8	32.9
1990	42.6	36.2
1991	46.8	39.7
1992	51.5	43.6

**Source:** Cook Islands Tourist Authority, 1988.

By using the multiplier model, Milne found that the average tourist spent their money in such a way that only 40 cents in every dollar became local income. Milne estimated that the \$16 million injected into the economy by tourist spending in 1985 generated \$6.9 million in local incomes. Tourist expenditure also generated approximately 1,300 jobs within the economy, with 650 of these within the tourist sector. However, the jobs created were mostly unskilled, often part-time, and the majority of these employees were Cook Island women. As in 1979, 80 per cent of non-Cook Islanders working in the tourist sector were in managerial or supervisory positions while over 90 per cent of Cook Island Maoris were non-managerial employees (Pryor, 1981).

### **C. Visitor Arrivals**

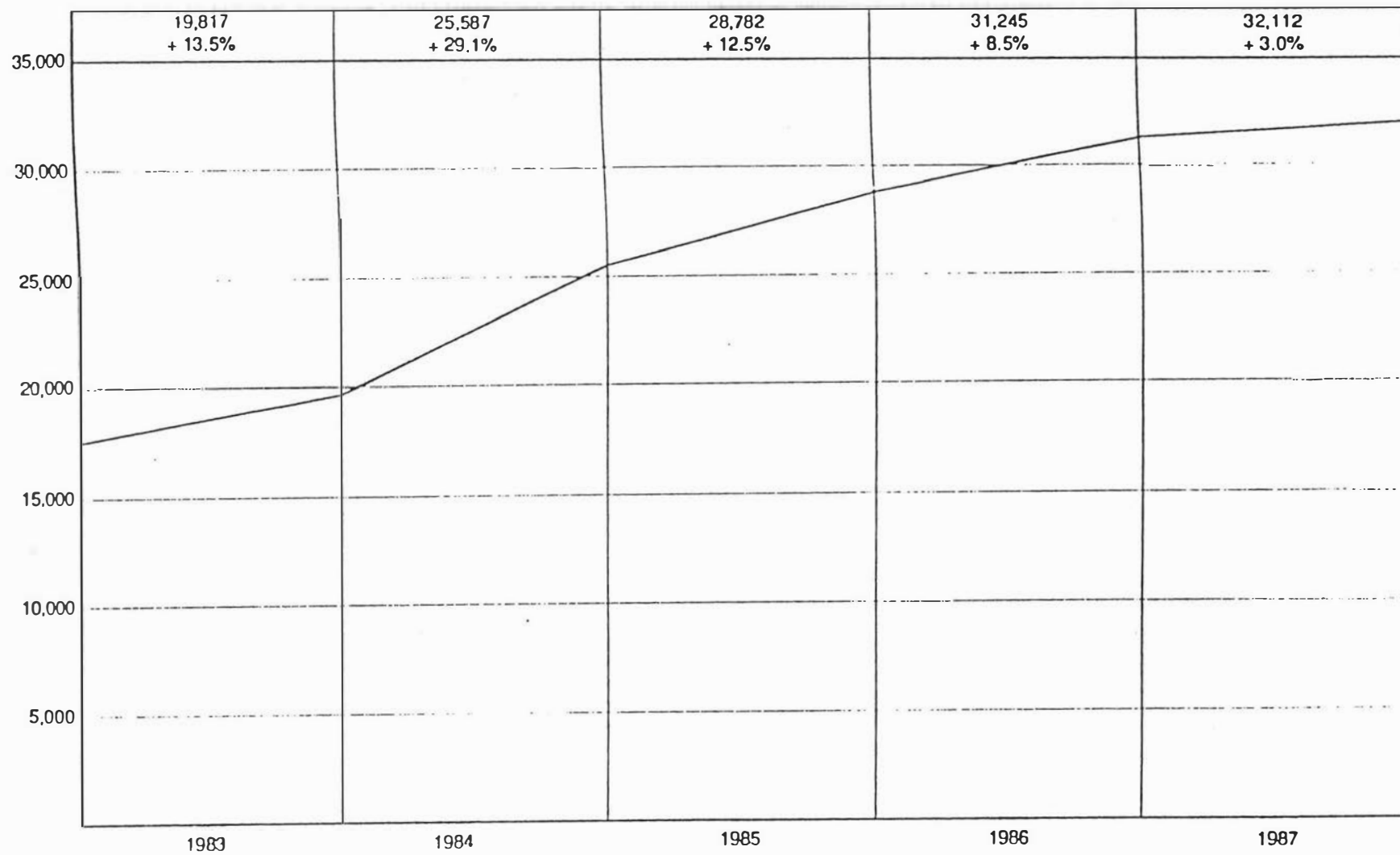
Over 21,000 visitors arrived in 1980, but in 1981 only 17,464 arrived because of reduced international air services. In 1983 the number increased to 19,817, and in 1984 to 25,587. By 1985 visitor levels had reached almost 29,000 and by 1987, visitor arrivals to the Cook Islands totalled 32,112 (Figure 5.1).

New Zealanders make up most of the visitors (45%) with Australians (11%), Canadians (13%), Americans (10%), Europeans and others (12%) making up the remainder (1983 Figures).

Although the Cook Islands Development Plan (1982-85) projected a 20 per cent rate of growth in tourist arrivals, experts disagreed. One consultant estimated that the "desirable and achievable annual growth rate of tourist arrivals to the Cook Islands during the 1980s is assumed to be between 10-15 per cent or an average of 12.5 per cent annually" (Inskeep, 1984 p3). Actual arrival figures show the lower growth rate to be more accurate.

Figure 5.1

### Total Visitor Arrivals 1983-1987



If this growth rate continues, it could mean a doubling of tourist arrivals by the end of the decade.

These visitors will mostly be residents of New Zealand (approximately one third), with Australia, Canada/USA and Western Europe accounting for the remainder. The New Zealand market is expected to continue being an important market, although clearly it is declining as a percentage of total arrivals. The other markets have a greater growth potential. In particular, Australia and North America can be actively promoted to provide the major proportion of future tourism growth, as long as adequate air services are available.

The current length of stay of visitors to the Cook Islands is 7 days. The average tourist visiting the islands spent approximately \$78 per day, with the average hotel guest spending \$104 while the average motel guest spent only \$53 (Milne 1985).

Those tourists who stayed in hotels spent their money in establishments which tended to have few linkages with the local economy, and were owned by overseas concerns. Hotel guests as a whole generated less income and employment per dollar spent than motel guests who tended to spend their money in a wider range of smaller, locally owned establishments (Milne 1985).

### Marketing

The tourism marketing objectives for the Cook Islands are to facilitate growth and development of the tourism sector, maximise employment and income generation, and increase foreign exchange earnings, while maintaining traditional cultural values and the quality of the environment (Cook Islands Tourist Authority, 1988). Based on these objectives, the marketing plan for CITA will:

- develop new potential markets in North America and Western Europe;
- plan for a balanced seasonal flow of visitors during the Southern hemisphere trough periods by increasing the Northern hemisphere flow of visitors;
- sustain and further penetrate the important major markets of New Zealand and Australia;
- improve the utilisation rate and overall profitability of the tourism plant;
- establish representation offices in North America and Western Europe;
- increase the level of representation in the New Zealand market.

To successfully position the Cook Islands in the target market, its unique selling points need to be promoted. Some of these are:

- a visitor experience based on a relaxed lifestyle;
- exuberant folk dancing and music;
- generous, fun loving spirit of friendly Cook Islanders;
- an unspoilt environment;
- a variety of visitor accommodation.

A recent survey of visitors' perceptions of the Cook Islands as a tourist destination was conducted by the Market Research Officer of CITA (Gideon, 1989). The purpose of the study was to determine tourists' perceptions of the Cook Islands as a means of measuring the effectiveness of CITA's advertising of the destination. The survey determined that visitors surveyed on departure enjoyed visiting the Cook Islands because of the following attributes:

- beautiful natural scenery
- friendly indigenous people
- slow pace
- warm, sunny weather
- folk dancing
- beaches

Thirty-five per cent of all visitors were influenced by friends and relatives to visit the Cook Islands (thus reinforcing the importance of word mouth advertising), and 33 per cent were influenced by a travel agent (especially the Europeans). Visitor satisfaction was high, with 67 per cent indicating that they would visit again, while another 28 per cent stated they "might" return.

The tourism product mix for the Cook Islands has been identified as:

- beach resort holidays
- family holidays
- honeymoon travel
- veteran travel
- touring and sightseeing travel
- diving/snorkeling/fishing and other water sports
- sports visits
- incentive groups
- conferences/meetings
- culture tours
- adventure/nature tours

CITA's promotional activities include:

- participation at major travel shows, trade seminars and workshops in target markets;
- coordination of travel agents educational on-site visits from target markets;
- coordination of media educational visits from target markets to generate editorial publicity in trade and consumer publications;
- facilitation of visits by wholesalers in target markets for on-site inspection and/or contract completion;
- coordination of a tourism conference which will involve buyers from target markets;
- implementation of an effective advertising campaign with the private sector in New Zealand and Australia.

Marketing representation in Australia, New Zealand and Hong Kong has been appointed.

A large proportion of marketing and promotion of the Cook Islands is controlled by a small group of New Zealand based tour wholesalers, and Air New Zealand, with some marketing by Air Rarotonga. Also, New Zealand fiscal policy (especially the international value of the New Zealand dollar) has an important impact on the international market.

#### D. Air Service

The aviation agreement signed by the New Zealand and Cook Island Governments in 1969 provided for the upgrading and extension of the existing airport. The New Zealand Government agreed to build an international airport on Rarotonga in exchange for its investment of \$18 million, ownership and control of the airport, and control of air rights to, from and through the Cook Islands (Milne, 1985, p.93). This restricted the Cook Islands Government's ability to negotiate with other airlines for service. However, in 1986, after much negotiation, the ownership and control of the international airport was transferred to the Cook Islands Government for a price of \$15 million. The Cook Islands Government also assumed all responsibility for operations. This has made it possible for the Cook Islands Government to negotiate directly with foreign airlines (such as Polynesian Airlines, Hawaiian Airlines, Ansett Airlines and others) and led to the establishment of the Cook Islands International Airline (CIIA).

Air transportation to the Cook Islands is, and always has been, monopolised by Air New Zealand. Since the Rarotonga International Airport opened in 1974, and until 1987, Air New Zealand had a virtual monopoly over the Cook Islands air sector and controlled the most profitable service, the route between New Zealand and Rarotonga. In 1986, the Cook Islands Government established an airline called Cook Islands International in an effort to break the monopoly of Air New Zealand on the Rarotonga/Auckland route. The airline is partly owned by the Cook Islands Government, with Ansett as majority shareholder and operator.

Another objective was to penetrate the Australian market by providing direct non-stop service from Sydney to Rarotonga. Although the objective was sound, the national carrier was unable to penetrate the market because it did not have the marketing system to promote the destination. The airline operated a weekly service between Rarotonga and Auckland, using a B727 leased from Polynesian Airlines of Western Samoa, an airline which is also operated by Ansett, and a weekly flight from Sydney to Rarotonga. Cook Islands International was unable to sustain the direct flight from Sydney, and is now reduced to buying seats on Polynesian Airline's weekly flight from Rarotonga, via Apia (Western Samoa) to Sydney. The contract with Ansett expired in 1988, and now Cook Islands International's only activity is the seat purchase arrangement on the Sydney route.

In August 1988 the rights to the Rarotonga/Auckland route were given to Air Rarotonga, a locally based, private airline which leases a DC8 aircraft from Hawaiian Airlines. The Government hopes that by this new arrangement, the Cook Islands will be able to improve the service for the U.S. tourist market. The new service is scheduled in connection with Hawaiian Airlines' own service from Honolulu to Rarotonga, allowing stop-over holidays in the Cook Islands, en route to Auckland.

Air New Zealand now operates two B747 flights a week from Auckland to Rarotonga and one B737 per week on the Coral route Auckland/Nadi/Rarotonga/Papeete/Nadi/Auckland. In addition, since July 1987 Hawaiian Airlines has provided a weekly service to Rarotonga from Honolulu. Polynesian Airlines operates two flights a week (Apia/Rarotonga/Papeete/Rarotonga/Apia) (Table 5.6).

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Table 5.6      **FLIGHTS (AIR SERVICE) TO RAROTONGA INT'L  
AIRPORT 1978 and 1989**

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	1978	1989
From Fiji	54	52
From Tahiti	52	104
From New Zealand	161	208
From Apia	-	52
From Honolulu	-	52
<b>TOTAL</b>	<b>267</b>	<b>468</b>

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SOURCE: Various airline schedules, 1989.

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Other airlines which have expressed an interest in providing service to the Cook Islands are limited by the fact that in order to operate efficiently and profitably, they also require landing rights in Auckland. However, Air New Zealand, by putting pressure on the New Zealand government, have been able to restrict the granting of landing rights in Auckland.

The dominance of Air New Zealand in the future is likely to continue. The vital air service sector is still the Auckland/Rarotonga service and this route is treated as a domestic service by Air New Zealand. The viability of the Cook Islands tourist industry is therefore still very much dependent on corporate decisions made by Air New Zealand, and ultimately the New Zealand Government.

#### **E. Accommodation Industry**

There are a total of 649 rooms for tourist accommodation in the Cook Islands, including hotels, motels and guesthouses. With a total of 236,885 room nights offered in 1987, 172,475 room nights were utilised, giving an estimated occupancy rate of 72.8 per cent (Table 5.7).

As the type of tourist accommodation is important in any analysis of the benefits of tourism, it is important to understand the definitions and differences in type of accommodation in the Cook Islands as defined by the Cook Islands Tourist Authority Board (Table 5.8).

The "Rarotongan Hotel" (151 rooms), as mentioned earlier in this chapter, was initially built and owned by a joint venture between the New Zealand Government (Tourist Hotel Corporation), the Cook Islands Government and Air New Zealand.

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**Table 5.7: Cook Islands Rooms and Occupancy Rates 1983 - 1987**

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<b>Year</b>	<b>No. of Rooms</b>	<b>Room Nights Offered</b>	<b>Room Nights Utilised</b>	<b>Room Occupancy Rate</b>
1983	354	129,210	70,161	54.3
1984	413	150,745	99,793	66.2
1985	490	178,850	119,292	66.7
1986	546	199,290	137,310	68.9
1987	649	236,885	172,475	72.8

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**Source:** CITA Statistics

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**Table 5.8 Cook Islands Accommodation Terminology**

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Motel	-	Accommodation facility which provides individual guest rooms which are "self-contained", i.e. with kitchen facilities of a stove, sink and refrigerator, but without an on-site restaurant and bar.
Guest House	-	Accommodation facility which provides guest rooms, usually in a private house, with shared common bathing and toilet facilities and meals served on a pre-arranged communal basis.
Hostel	-	Accommodation facility which provides dormitory style sleeping rooms which share common lounge, bathing and toilet facilities; meals may be served on a communal or cafeteria basis.
Lodge	-	Accommodation facility which provides individual guest rooms and a restaurant (or dining room with pre-arranged communal meal service) in an architecturally unusual type building or special kind of environmental setting.
Cottage Hotel	-	A hotel which provides guest rooms in the form of individual or duplex cottages, e.g. Rapae Hotel.

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**Source:** Cook Islands Tourist Authority, 1988.

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In 1982, the New Zealand Government transferred major ownership of the Rarotonga Hotel to the Cook Islands Government which then formed a partnership with American and New Zealand tourist companies. The Cook Islands Government was forced to buy the hotel to prevent the collapse of the tourist industry. A loan of \$5,885,000 was obtained from the New Zealand Government, carrying a 7 per cent quarterly payment of \$120,000 from July 1983 for a period of 28 years. In 1985 40 per cent of the hotel and management contracts were held by overseas tour wholesalers. The Cook Islands Government repaid \$360,000 on the loan in 1983/84 and \$408,000 in 1984/85 (Milne, 1985). Now, the New Zealand Government, through its Overseas Development Assistance programme, provides funds for interest repayments on the Rarotongan Hotel Loan of \$502,834 annually.

For the year 1984/85 approximately 35 per cent of total tourist expenditure in the Cook Islands flowed into the hotel and it provided approximately 55 per cent of all accommodation related employment (Milne, 1985). Until 1984 the hotel was losing money, then in 1985 it broke even. The Rarotonga Hotel has continued to face difficulties but still manages to break even. In 1990 management contracted with Sheraton Hotels to provide management consulting services. This has improved operations and occupancy and, presumably, profitability.

There are four other hotel resorts on Rarotonga (other than the Rarotongan Resort Hotel): the Edgewater Resort (173 rooms), Tamure Resort (35 rooms), Pacific Resort (32 rooms) Manuia Beach Hotel (20 rooms) and Moana Sands (12 rooms), giving a total of 411 hotel rooms. The remaining tourist accommodation on Rarotonga comprises 19 accommodation properties, ranging in size from 4 rooms to 20 rooms. The Cook Islands tourism industry now has a total room count of 689 rooms (Table 6.3).

In 1988 the Government signed a loan guarantee agreement with the Italian Government to build a new 200 room resort hotel on Rarotonga. By 1989 the new Government announced that Sheraton Hotels had agreed to operate the new hotel. The Government's financial projections indicate that the turnover will be sufficient to repay the Italian bank loan of \$47 million over 5 years, commencing with the first year of operation. The loan has a term of 10 years, and the Government owned corporation ECIL is the developer. Construction of the hotel is to commence in 1990, with completion scheduled for 1992.

On Aitutaki (the most popular neighbour island) there are two hotels (Aitutaki Resort, 25 rooms and Rapae Cottage Hotel, 12 rooms), and four guest houses ranging from 4 to 8 rooms, giving a total of 62 rooms on Aitutaki. Two other islands (Atiu and Mauke) have minimal tourist accommodation with 3 rooms on Atiu and 6 rooms on Mauke.

Prices for hotel accommodation range from \$58.00/day (Tamure Resort) to \$130/day (Rarotongan Hotel) for a single. Prices for motel accommodation range from \$15/day to \$65/day.

There is some confusion and ambiguity about the terminology applied to various types of accommodation, both internationally and in the Cook Islands. Because there is not yet an internationally standardized accommodation terminology, each country needs to establish its own definitions based on generally accepted local and international usage. It is suggested that the Tourist Authority adopt standard accommodation terminology for application in the Cook Islands (Table 5.8).

### **Future Accommodation Needs**

It has been estimated that as the tourist markets for the Cook Islands become more diversified, attracting greater numbers of Australians, Canadians, Americans and Western Europeans, these markets require medium to high quality hotel type accommodation which offer full hotel facilities and services.

A consultant to the Government has indicated that there is a need for a 50 room Downtown Hotel in Avarua. This hotel should be of international standard with full facilities including meeting and conference facilities (United Nations Development Project, World Tourism Organisation, 1988).

Another 100 room beach resort hotel of international standard with a full range of resort facilities and services was recommended against any further new motel development because of the already large number of small-scale motels on Rarotonga (Ibid.).

However, this strategy of encouraging higher-spending tourists who demand international class facilities and infrastructure has been questioned (Milne, 1985).

Milne argues that although this type of tourist will generate nearly 40% more income and employment in absolute terms than their lower spending counterparts (those who stay in motels), they spend their money in different ways, thus reducing the degree of local participation in the benefits derived from tourism. The main example is the packaged tour, which is designed by overseas wholesalers, promoted by them, sold by them so that a large percentage of the benefit is retained overseas. Repatriation of profits (from foreign owned hotels), purchases of goods and services from overseas and access to overseas loan sources all lead to the larger (foreign owned) firms having high leakage levels and few linkages to the local economy. <sup>2</sup>

However, the present Government strategy (of encouraging higher paying tourists) will also maximise Government revenue generated by tourists, both in Government's trading and non-trading functions.

Government has two main tourism objectives which appear to be contradictory: the maximisation of gross tourist revenues appears to be incompatible with the objective of maximisation of local participation (and therefore benefits) in the tourism industry.

#### **F. Tourism Employment**

In a survey of tourism employment in Rarotonga in 1979, results showed that tourism provided direct employment for a total of 464 persons on a full-time basis and 26 on a part-time basis. Of the total full-time employees, 183 (or 39%) were women (Pryor, 1981).

<sup>2</sup> This is a problem worldwide. In the Pacific, the developed tourism areas such as Hawaii and Fiji also face this problem.

The results also showed that ethnic background or nationality was a very important factor in job distribution in hotels in Fiji (Samy, 1972), Tahiti (Robineau, 1974) and the Cook Islands (Pryor, 1981). Non-nationals usually held the higher skills and better paying positions while nationals were employed in the unskilled, lower paying positions.

Salaries also reflected a disparity. The salaries of non-nationals (who were hired on a New Zealand salary scale which is higher than the Cook Islands scale) ranged from \$5,000 to \$14,000. while Cook Islanders salaries ranged from \$1,352 to \$5,720. This has changed in recent years as the number of expatriates has been reduced and the salaries of Cook Islanders has increased. By 1985 the hotel and motel sector employed 308 persons. The average annual salary in these sectors was \$10,409 (Cook Islands Quarterly statistical Bulletin Third Quarter, 1985).

Tourism is making an important contribution to employment, and is the largest industry in the Cook Islands today. By 1988 there were approximately 600 people employed in hotels, motels, resorts, restaurants and bars. Of these, over 200 are employed at the Rarotongan Resort and 240 in the other hotels and motels. Expatriates employed in the industry numbered 44, or 7 per cent of the hotel catering workforce. Some of these expatriates had undertaken some professional training, while others had previous experience in hotels and tourism (United Nations Development Program/World tourism Organisation, 1988). The UNDP consultant found that the level of proficiency in English was generally high in the Cook Islands. Another major factor affecting the long term professional development of staff is the easy access Cook Islanders have to New Zealand employment opportunities.

The tourism industry provides significant employment opportunities, both directly and indirectly. Few statistics are available on indirect employment, but the production of handicrafts is one sector which is important. The biggest employer of handicraft workers is the Women's Development Center. The majority of these workers are part-time, working on their handicrafts at home to earn a cash income, while running a family and household.

The informal sector is generally considered to be that sector of the developing nation's economy in which individuals, often with their family, engage in the provision of a variety of goods, services and manufacturing activities (Wu, 1982). In the tourism-related informal sector in the Pacific Islands, this sector comprises the producers and sellers of handicrafts and souvenirs; people who sell drinks, cooked and fresh food to tourists; those who offer their services as guides; those who provide private transportation for a leisurely tour, and others.

The indigenous people who are engaged in these activities are entrepreneurs who are successfully engaged in income generating projects but are "invisible" participants in the national economy.

#### Tourism Education and Training

The Ministry of Education of the Cook Islands Government has developed a curriculum for the study of hospitality services in the upper fifth form and was set to implement the programme in 1989. This will assist in increasing the skill level of new entrants to the tourism industry, and will also give an opportunity for exploring career opportunities.

However, there has been little provision for the training of persons already employed in the industry. In order to improve this situation, the Hospitality Industry Training Board was established in 1987 and a Training Coordinator was appointed by CITA in 1988. Since then, several training programmes have been implemented, including basic training for bartenders, front desk receptionists, housekeeping, and food and beverage. There is a great need for more training throughout the tourism industry.

An understanding of the development of the Cook Islands tourism industry has been presented in this chapter. Chapter 6, provides an analysis of the development of indigenous entrepreneurs in the Cook Islands and indigenous entrepreneurs in the tourism sector. Indigenous entrepreneurs in the handicraft sector, the role of the Women's Development Centre, and a private handicraft enterprise are given special attention. This is presented to demonstrate one sector which is successfully presenting entrepreneurial opportunities, and where opportunities can be expanded.

## **CHAPTER 6   COOK ISLANDS ENTREPRENEURS**

### **A   Introduction**

In some respects, entrepreneurship is a tradition in the Cook Islands. Indigenous people have been actively developing the private sector at least since contact with the western world in the 1820s. During the 1860s the leading entrepreneurs were a group of "chiefly entrepreneurs" (Gilson, 1980,p.54) who gained control of the export trade with visiting whalers. These chiefs sold visiting ships such products as pigs, poultry, fruit and vegetables. They organised production in their lineages, controlled the marketing of the products, and even operated schooners which traded throughout the group, with Tahiti and New Zealand.

When New Zealand annexed the islands in 1901, entrepreneurship declined. What was a thriving private sector virtually disappeared after annexation and the imposition of colonial rule. The colonial administration introduced a highly centralised system of government and administration which eroded the powers of the traditional ariki system. "Among other things, the chiefs were stripped of their powers to organise production and their marketing functions were annulled or made subject to control of local New Zealand administrators. As a consequence, production along family lines ceased, as did the operation of indigenous-owned trading schooners" (Fairbairn, 1987,p.11). From 1901 until the mid-1930s indigenous entrepreneurship suffered from the effects of an official policy that emphasized welfare programs rather than economic development. The administration focused on developing tomato and citrus export industries for the New Zealand market, while neglecting other sectors.

However, during this same period, several foreign-owned enterprises established businesses in Rarotonga. This included individuals from New Zealand and other western countries, and branches of major multinational corporations. Even today multinationals dominate such key economic sectors as banking, insurance, accounting, transport, telecommunications, oil distribution and contracting (Maiava,1983).

### ***Policy***

The Cook Islands government now has a positive approach to foreign investment, promoting a favourable climate. The Government also is committed to increasing the participation of Cook Islanders in the development of the private sector. The Government is especially promoting joint ventures between Cook Islanders and foreign investors. The Investment Code established under the provisions of the Development Investment Act sets out certain requirements and restrictions to control the inflow of foreign investment. Under one provision (Reserved Investment Areas), certain investment opportunities are reserved primarily for local investors, or enterprises predominantly owned by local investors (with two-thirds or more local ownership and control). The idea behind these restrictions "is not to discourage foreign investment, but to rationalise the development of the different parts of the economy and to ensure that unrestricted or unnecessary competition from abroad does not discourage local investment" (Cook Islands Investment Code, 1977).

Any foreign enterprise can carry on business in the Cook Islands after registration under the Development Investment Act of 1977. This registration procedure is handled by the Cook Islands Monetary Board. Under the Investment Code any enterprise with at least 67 per cent local equity qualifies as a local enterprise, and can register under the Development Investment Act.

The tourism industry is an example of Government encouragement to local investors to take over from foreign counterparts. The Government has actively encouraged local business to participate in tourism development through advisory services, financial assistance and educational programs. "With such efforts, the tourist industry has now reached a stage where, increasingly, the locals are looking at ways to reap some of the benefits" (Maiava, 1983).

The Government has established off-shore banking facilities to attract international finance. This facility has increased the level of foreign capital but has not necessarily resulted in increased on-shore investment.

One of the characteristics of investment in the Cook Islands is the right to remit earnings and expatriate capital overseas. This is guaranteed under the Development Investment Act and is partly because the Cook Islands uses New Zealand currency.

The majority of commercial and industrial activity is concentrated on Rarotonga. This is due mainly to better telecommunication facilities and its developed harbour and airport.

A Business Development Fund, which was established in 1984, is currently being administered by the Department of Trade, Labour and Transport (TLT). This fund was initiated by the Chamber of Commerce, which began to levy businesses to assist the tourist industry. This is one example of the private sector and government cooperating and establishing a programme to help support the tourist industry.

The Fund provided for 75% of the proceeds raised to be designated to a consortium comprising the Tourist Authority, Air New Zealand and the Chamber of Commerce to promote the tourist industry through advertising campaigns overseas. The balance (25%) was retained by TLT and directed towards assisting business ventures that require assistance. Unfortunately, because of disagreement, this joint venture approach to marketing was abandoned in 1987.

### ***Cook Islands Entrepreneurs***

A survey of indigenous entrepreneurs on the main island of Rarotonga gathered data on entrepreneurial characteristics, reasons for going into business, operational problems and constraints, success factors, and available government support designed to overcome existing problems (Fairbairn, 1988). Fairbairn's analysis of indigenous entrepreneurship in the Cook Islands is the main source for these findings.

Although the sample of businesses interviewed was small (only 28), some patterns emerged. First, most of the businesses were family operations, where ownership was held by the entrepreneurs and their families. Most businesses had been established by the present owners, having been in existence from 1 to 10 years, indicating an acceleration in entrepreneurship development in recent years.

Second, most entrepreneurs were ethnically mixed. 17 were Maori-Europeans, 8 were Maori, and 2 were local residents married to Cook Island Maoris. While it is significant that the Rarotongan entrepreneurs were predominantly of mixed Maori-European ancestry, this ethnic mix is prevalent in Rarotongan society as a whole, and is therefore not unusual. This prevalence of mixed ancestry of indigenous entrepreneurs is also a significant factor in other parts of the Pacific, such as Tahiti and Fiji.

One can raise the question as to why this characteristic of mixed ethnicity is important in some Pacific Island countries. One reason may be that the values and cultural attitudes of the non-indigenous parent may be more competitive and capitalistic (for instance the Chinese, Indians, or Europeans), and the entrepreneur is exposed to these values at an early age. Entrepreneurs often were raised in families where a parent was also in business, thus providing a role model and even some early childhood business experience. Also, the non-indigenous parent may have had a stronger sense of the need for education of their children, providing more guidance on career opportunities and providing more ambition and incentive to succeed.

Third, a significant number of businesses were in the tourism industry, or tourism-related businesses (at least 11, including motel/hotels, crafts and clothing, restaurant/bar, and transportation) (Table 6.1).

Most businesses were established with small amounts of capital. Several business were set up with only a few hundred dollars, and in more recently established enterprises, \$5-6,000 was sufficient capital. Most businesses (17) were established with the owners/family's savings, without the need for outside funds (Table 6.2). The fact that the local capital market is small, and the reluctance on the part of entrepreneurs to approach existing financial institutions explained the reliance on owners' savings for business establishment. In the few cases where loans were required, most were obtained from the commercial bank, in modest amounts averaging \$10,000. In this sample there were not many loans from the Cook Islands Development Bank.

Table 6.1

**Indigenous Entrepreneurship in Rarotonga:  
Survey Sample by Industry 1988**

Type of Industry	Number in Sample	%
Accommodation (motel/hotel)	2	7
Restaurant/bar	2	7
Manufacturing	2	7
Crafts and Clothing	3	11
Transportation	4	14
Technical & other professional services	5	18
Construction	2	7
Retail shops	5	18
Agriculture	3	11
<b>Total</b>	<b>28</b>	<b>100</b>

**Note:** Manufacturing comprises soft drinks and clothing; transportation is mainly taxi service and tour companies, technical and other professional services include activities such as secretarial services, panel beaters, welding/steelwork, and motor repair; agriculture refers mainly to commercial farming for export.

**Source:** Fairbairn, T.J. Islands Entrepreneurs: Problems and Performances in the Pacific, 1988.

**Table 6.2****Sources of Finance for Establishing and Purchasing  
Businesses in the Cook Islands 1988**


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Owner's/manager's savings	17
OS and CBL	7
OS and CIDBL	2
OS and CBL and CIDBL	1
OS and other loans	1
<hr/>	
Total	28

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**OS** = Owner's savings**CBL** = Commercial bank loan**CIDBL** - Cook Islands Development Bank loan**Source:** Fairbairn, T.J. Island Entrepreneurs: Problems and Performances in the Pacific, 1988.

The survey found that the Rarotongan entrepreneurs are good at keeping business records. They are more advanced than small business owners in other parts of the Pacific (for example in Western Samoa, Croulet and Sio 1986'p.59).

This may be because they are better educated, many have extensive overseas experience (often in New Zealand), and they are required to pay turnover tax every month which requires keeping business records. The Rarotongan entrepreneurs were well educated -- nine of them had attended a university (usually in New Zealand), five had attended a technical college, nine had attended secondary school and only five had an education limited to primary school. Many Rarotongan entrepreneurs use the services of private accountants for keeping business records and for obtaining advice on business operations.(Fairbairn, 1988, p.63).

Overseas experience was a significant factor for all entrepreneurs interviewed. All except one of them had worked or studied overseas. It has been recognised in other parts of the Pacific (Epstein, 1968) that this travel experience can play a vital role in the development of indigenous entrepreneurs by expanding narrow economic horizons, making potential entrepreneurs more aware of new business opportunities, and stimulating more diversified patterns of business activity.

Unlike other parts of the Pacific region, women play a significant role in business in the Cook Islands. Nine of the 28 entrepreneurs interviewed in this survey were women. They were mostly involved in the services sector: retail stores, restaurants, handicrafts and motels.

### ***Problems Experienced by Cook Islands Entrepreneurs***

Most entrepreneurs indicated that they experienced transportation problems, especially in the tourism, commercial agriculture, and the trade sectors. They indicated that shipping services were unreliable and infrequent.

Insufficient frequency of air transportation and the high cost of air freight were considered problems that needed to be addressed. They also indicated that domestic bus transportation needed improvement.

Most entrepreneurs (19) stated that they had capital shortage problems. Many wanted to expand their facilities and needed more funds to do so. Several respondents were dissatisfied with the services provided by the the Cook Islands Development Bank and the commercial bank, claiming these institutions were too restrictive in their loan policies, charged high interest rates and neglected small business people (Fairbairn, 1988, p.69).

The majority of these entrepreneurs (18) perceived that government was not providing adequate support for their businesses. They specifically mentioned the high price of electricity, a tax system that is too complex, high levies on vehicles and other major imported items, the failure of government to control competitive imports, weak marketing organisations and lack of adequate training facilities. The lack of training facilities for servicing the tourism sector was specifically mentioned.

The Rarotongan entrepreneurs surveyed did not find that family obligations and community pressures were onerous or a serious impediment to their business. It appears they had found ways of successfully dealing with these socio-cultural pressures.

The survey also covered two of the neighbouring islands -- Aitutaki and Atiu. The business characteristics and entrepreneurial patterns in Aitutaki and Atiu conformed quite closely to those in Rarotonga. The characteristics include similar ownership structures, motivation for starting a business, reliance on owners' savings in the establishment stage, and extensive overseas travel of the individuals, which gave them business experience.

Poor access to financial loans through the commercial bank and Cook Islands Development Bank was identified as a major problem by these entrepreneurs. Business people expressed a need for the banks to improve their outreach service to better serve the needs of the people of the outer islands.

## **B Indigenous Entrepreneurs in the Tourism Sector**

Although there are many Cook Islands entrepreneurs in the tourism industry, there is a need to carefully analyse the ownership of the major tourism plant and services.

### ***Ownership of Tourism Accommodation and Services***

The Cook Islands tourist industry can be divided into the primary and secondary tourist sectors for the purpose of this analysis. The primary sector includes accommodation (hotels and motels) and air transport, while the secondary sector is made up of restaurants, land transport, apparel, handicrafts, tour operators and duty-free stores.

There are four main categories of ownership:

- Overseas owned enterprises (expatriate ownership/control);
- Local ownership/control;
- Expatriate with Cook Islands permanent residency, generally married to a local person;

- Local, government owned.

In 1985 Milne, (p.110) found that "the prime initiators of tourism development in the Cook Islands were overseas and local European interests which are tied into the international tourism sector far more effectively than their Cook Island Maori counterparts". He found that these entrepreneurs have significant expertise in the tourist industry while the owners of Cook Island Maori enterprises, (because of their smaller scale) have limited access to finance, and have little knowledge of the more intimate workings of the tourist industry or training.

According to one definition, the expatriate sectors can be said to be the "periphery dominant capitalist sectors, while the Cook Island Maori owners make up 'periphery marginal' sectors". (Britton, 1982). Britton found that dominance by enterprises with foreign participation was already in existence in 1979. Since that time it appears that foreign influence in the accommodation and tour operators' sectors has increased. "Foreign enterprises have maintained their dominance in most sectors, while the Cook Islands Maori sector remains the smallest of the three ownership categories" (Milne, 1985, p.11).

The accommodation sector has the highest levels of foreign ownership and involvement. In 1989, four of the six largest resort hotels (the Tamure Resort, Manuia Beach Hotel, Edgewater Resort Hotel, and Pacific Resort Hotel) were all wholly foreign owned. The Rarotongan Hotel and Aitutaki Resort are owned by the Cook Islands Government and foreign investors. The Rapae Motel (on Aitutaki) is wholly owned by the Cook Islands Government. Out of a total of 15 motels, six were also owned by foreigners.

The balance of the motels are either wholly or partially owned by local Cook Islanders (See Table 6.3). It is clear that Expatriates control medium size, and up-market motels, while Cook Islanders own the smaller accommodation.

### C. INDIGENOUS ENTREPRENEURS IN THE HANDICRAFT SECTOR

Traditional arts and crafts, like traditional dance and song, are important factors for tourism development. In addition, the revival and maintenance of these cultural patterns are important factors in maintaining cultural integrity in small island cultures like the Cook islands. These characteristics help to make one tourist destination different to another. It is essentially the unique cultures that make tourists choose one destination over another, especially in the Pacific Islands. Also the sale of these handicrafts is an important source of cash for many people in the outer islands and, in Rarotonga, especially for the women who make many of the handicrafts. Some men are employed as carvers and make reproductions of traditional carved items, but handicraft sales are important as a source of income for women.

Some researchers in tourism (e.g Britton, 1982) find that the secondary tourism sectors, for instance handicraft vendors and gift shops, are good avenues to promote employment and income generation for indigenous people, for these businesses are usually not dominated by large firms. The production of handicrafts has the dual role of not only providing employment and therefore income for producers (who are all indigenous people), but also preserving the art and traditions associated with production. In addition, handicraft production is mostly carried out in the rural areas, thus providing much needed income for rural people.

Table 6.3 Ownership of Tourist Accommodation Cook Islands 1988

Tourist Accommodation	Number of Rooms	Ownership/Control
<b>Hotels</b>		
Aitutaki Lagoon Hotel	25	Local, Cook Islands Government
Edgewater Resort	173	Expatriate
Tamure Resort	35	Expatriate
Manuia Beach Hotel	20	Expatriate
Pacific Resort	32	Expatriate
Rarotongan Resort Hotel	151	Local, Cook Islands Government
Total	436	
<b>Motels</b>		
Ariana Bungalows	8	Expatriate
Kii Kii	20	Local
Lagoon Lodges	14	Local/(P)
Little Polynesian	9	Local
Muri Beachcomber	12	Expatriate
Palm Grove	6	Local
Paradise Inn	16	Expatriate
Puaikura Reef Lodges	12	Expatriate
Raina Beach Apartments	4	Local/(P)
Rarotongan Sunset	20	Expatriate
Sunrise Beach Motel	6	Local
Moana Sands	12	Expatriate/Local
Aitutaki Lodges	6	Local/(P)
Atiu Motel**	3	Local/(P)
Rapae Cottage Hotel*	12	Local, Cook Islands Government
Total	158	
<b>Budget/Back Packer</b>		
Are-Renga	20	Local
Airport	6	Local
Arorangi Lodges	8	Local
Dive Rarotonga Hostel	9	(P)
Matareka Heights	5	
Local		
Tiare Village	10	Expatriate
Whitesands Motel	6	Local
Mauke Lodge***	2	Local/P
Tiare Holiday Cottage***	4	Local
Tiare Maori*	7	local
Tom's Cottage*	8	Local
Josie's Lodge*	6	Local
Aitutaki Guesthouse*	4	Local
Total	95	

\* Located on Aitutaki

\*\* Located in Atiu

\*\*\* Located in Mauke

**Ownership:** Expatriate = Total foreign ownership/control  
 Local = Total local ownership/control  
 (P) = Expatriate with Cook Islands permanent residency, usually married to a local person  
 Sources CITA Field Survey

Table 6.4

**Ownership of Tourism Facilities  
(Other than Accommodation)  
Cook Islands 1988**

	Joint Venture (Majority Foreign Owned)	100% Cook Islanders*
Transportation and Tour Companies	4	8
Gift Shops	-	4
Duty-Free Shops	1	2
Tourism Clothing (Apparel)	-	10
Restaurants/Bars	10	11
<b>Total</b>	<b>15</b>	<b>35</b>

\* Includes Permanent Residents  
Sources: Field Survey

Many of the handicrafts sold in Rarotonga are actually made in the other islands, especially Manihiki, Rakahanga, Tongareva (mostly rito mats, hats and baskets) Atiu, Mitiaro, Mauke and Mangaia (mostly woven pandanus baskets, shell necklaces) and are shipped to Rarotonga for sales.

There are also groups of immigrants from the neighbour islands who are resident in Rarotonga who produce handicrafts. For many of these people, especially the women from the Northern Group who weave the popular Cook Island hats and baskets, handicraft production is their only source of cash income. These immigrants migrate to Rarotonga with little more than their weaving skills. As they have no access to land and do not have the educational skills to successfully compete for good government jobs, they must utilize these skills to make a living.

While many of these women weave only part time while they take care of families, some find that they can make quite a good living. It is estimated that one master weaver in particular makes an annual income of more than \$9,600, which is substantial when government workers make an average of \$6,000 a year (Ingram-Pryor, 1987). However, it is getting more difficult to get women to make handicrafts, as many women want a government job because it has more prestige. In many cases they are probably not aware that they can make more money using their weaving skills, rather than working for the government. Although the inventory of traditional arts and crafts in the Cook Islands shows a rich variety of forms, the handicrafts being reproduced today are more limited. The most popular items for the tourist market are the finely woven white coconut (rito) hats, fans and handbags, pandanus baskets, carved replicas of Cook Island staff gods (or Tangaroa) made in various sizes. Wooden bowls, wooden seats, headrests, food pounders, fishhooks and slit gongs (or tokere) are also made, but have less market appeal for tourists.

Wooden seats no'onanag were made in all the Cook Islands except in Mangaia and were used by chiefs as a mark of rank. They were made out of one piece of wood, usually tamanu and consisted of a curved seat with four curved legs with feet. They are being produced today in very limited quantities, mainly because suitable wood is not available.

Tapa, or bark cloth (known in the Cook Islands as aute or anga) was traditionally made from paper mulberry. Today, tapa making skills in the Cook Islands have practically died out. There are a few women in Atiu who still have the skills, and a handful in Rarotonga who have trained themselves in the art, but production is virtually nonexistent. It is a mystery why tapa should disappear so completely in the Cook Islands when it is currently produced and used in great quantities in Samoa, Fiji and Tonga. One possible explanation is that in Samoa, Fiji and Tonga tapa is still used extensively in the traditional ceremonies of the culture (such as weddings, funerals, etc.). This is not the case anymore in the Cook Islands. As tapa no longer serves a cultural function, the art and skills have disappeared.

### ***Women's Development Centre***

A large volume of handicraft sales is made through the Women's Development Centre. It is Government-owned and subsidised, and operates on a non-profit basis. All income from sales goes to the producers who are mostly part-time workers, and live on the outer islands.

The Womens' Development Centre was established in 1981 and is administered by the Department of Internal Affairs. It is managed by a committee made up of the Secretary of Internal Affairs, the Senior Women's Development Officer, the Director of Community Development and the chief Administration Officer in the outer islands.

The Government provides a grant of approximately \$20,000 which covers salaries for two women travel to the outer islands (for buying and quality control), and other operating expenses (Table 6.5) The Government also provides retail space in front of the Banana Court bar (which is operated by the CITA) at no charge.

The Women's Development Officer works closely with women's groups in the neighbouring islands advising them on what products they should produce for the tourism market and on quality control. Gross sales revenues have increased from \$13,923 in 1981 to \$50,981 in 1985. Net revenues for 1981 were \$7,178 and increased to \$11,642 in 1985 (Table 6. 6).

These figures do not include salaries, rent, and utilities, which are covered by government grant. It was estimated that the handicraft sector provided employment for approximately 100 people in 1985. Most of these jobs were part-time jobs (71%) and mostly for women (85%) (Milne, 1985).

The Women's Development Centre provides a place where women can sell their handicrafts, receive immediate cash for their goods, and get advice on marketing and quality control. The Centre is also providing a valuable source of income for Cook Island women, and provides the tourists with unique handicrafts to take back with them as souvenirs and gifts.

The production of handicrafts for sale to tourists helps spread the economic benefits of tourism to the indigenous people, especially those in the rural sector. Milne (1985) found that the labour intensive nature of the smaller (handicraft) operations, and their heavy reliance on locally purchased materials, led to this sub-sector having the highest RIG (regional income generation co-efficient) of any sub-sector within the Cook Islands economy.

TABLE 6.5

BUDGET FOR WOMEN'S DEVELOPMENT CENTRE  
MINISTRY OF INTERNAL AFFAIRS  
COOK ISLANDS GOVERNMENT

	1985/86	1986/87
Personnel	13,600	17,800
Travel, transportation, communication	2,100	1,500
Maintenance (property & equipment)	100	200
Materials, supplies & Services	3,400	900
Other Operating expenses (promotion)	-	100
2 wage workers	-	6,448
Grants, contributions & subsidies	100	-
Total	\$26,948	19,300

Source: Estimates of the Expenditure & Revenue of Government of the Cook Islands, Department of internal Affairs

**TABLE 6.6**  
**HANDICRAFT SALES AND PURCHASES**  
**WOMEN'S DEVELOPMENT CENTRE**  
**COOK ISLANDS**

Year	Sales	Purchases	Net
1981*	\$13,923	6,744	7,178
1982	35,118	30,432	4,686
1983	53,073	45,011	8,061
1984	73,046	69,188	3,858
1985**	62,624	50,981	11,642
1986	72,000	60,000	12,000
1987	45,000	36,000	9,000

\* Start up Revolving Fund in 1981 was \$2,000

\*\* Figures until August only. High sales due to regional Mini-Games event.

**Source:** Women's Development Centre  
 Department of Internal Affairs,  
 Government of the Cook Islands

The handicraft sector is another sector distinguished by different generational capacities among the establishments that comprise it. Both large and small operations have relatively high RIGs when compared with other sectors. However, the small operations have a far greater ability to generate both local income and employment out of tourist expenditure than do their larger counterparts (Ibid.).

### ***Profile of a Private Handicraft Enterprise***

Island Craft, the oldest handicraft store, is privately owned by a family who have been producing items for sale even before there was a tourism industry. Founded in 1945 by the present owners' parents, it was not a big business until after the opening of the international airport in 1974. It is presently owned equally by a husband and wife team who have now been in the business for over 25 years. The wife runs the retail part of the business, while the husband manages the handicraft production factory. It is totally self-financed and the value of the original investment was only \$200 when the wife's father established the business in 1945. Current sales now approximate \$250,000 a year.

Island craft operates its own production factory and employs approximately 15 men who carve the wood items. Island Craft has revived many forms of traditional art, including replicas of religious figures, staff gods, wooden bowls and several different types of traditionally inspired shell necklaces.

Island Craft Ltd is the largest commercial handicraft operation which combines manufacturing and retail services. Although this production is less labour intensive because the carving factory is highly mechanized, Island Craft is locally owned, therefore profits remain within the country.

Reasons for the success of Island Craft are:

- A good retail location in the centre of town with an established reputation;
- A good relationship between the manufacturing and retailing sections of the enterprise; and
- A good control over financial affairs through financial advisory services from a private accounting firm (Field Survey 1985).

Tourism is now providing a good market for traditional handicrafts in the Cook Islands. The real challenge will be whether producers can keep up with the demand, making high quality, attractive items, and whether they will be able to obtain the raw materials needed to produce them.

While production of Cook Islands handicrafts is quite good, it may be useful to review the traditional art of the Cook Islands to identify some forms that are not being produced but for which there could be a place in the tourism market.

### ***Constraints on Handicraft Industry***

There are several constraints encountered by the handicraft sector. Transportation problems include inadequate cargo space for exporting goods, inadequate harbor facilities for cruise ships, and insufficient flights. Social and cultural obligations also are a constraint on the business. There is a lack of skilled workers and personnel, especially trained wood carvers.

According to handicraft entrepreneurs, Government could help more by waiving levies, and providing more incentives for manufacturing.

The supply of indigenous materials needed for the fabrication of handicrafts is a serious problem on Rarotonga. Already most of the materials used for weaving and carving are being imported from the outer islands. Some of the wood used for carvings is even imported from New Zealand. One reason for this is that these materials, such as pandanus, are not looked upon as a cash crop by the people or the government Agriculture Department. Producers are relying on existing stocks and are not replanting the needed trees.

**CHAPTER 7: GOVERNMENTAL SUPPORT FOR PRIVATE  
SECTOR DEVELOPMENT AND COOK ISLANDS  
ENTREPRENEURS**

This chapter reviews governmental support for private sector development and Cook islands entrepreneurs. It explains the role of the Cook islands Monetary Board, and presents an in-depth analysis of the Cook Islands Development Bank (CIDB) which is the development financing institution in the Cook islands. This is important because the CIDB has provided most of the funds to entrepreneurs in the Cook Islands and has contributed to the stimulation of economic growth in the private sector.

**Introduction**

Since 1978 the Cook Islands Government has played a crucial role in promoting the growth of the private sector, including small-scale indigenous enterprises. This support includes the provision of basic infrastructure development, such as water, power, roads, airstrips, telephones and other forms of communication.

Key initiatives in private sector development include the establishment of the Cook Islands Development Bank as a source of development finance; legislation providing for a variety of investment incentives and related forms of assistance; and efforts to strengthen training. In addition the taxation system was revised to produce an attractive fiscal climate for the business community.

## Investment Incentives

The Development Investment Act (1977) and the accompanying Investment Code are important investment incentives.

The purposes of the Act are as follows:

- (a) to promote, foster, and assist the establishment of business activities and enterprises generally in the Cook Islands;
- (b) to facilitate the channeling of investment into those fields of business activities that will make the best use of resources, consistent with national development and investment policies;
- (c) to regulate and control the direction, extent, and scope of foreign investment;
- (d) To facilitate the participation of local persons in investment and in the ownership, management, and control of foreign enterprises;
- (e) to identify activities and enterprises that will achieve these purposes.

The Investment Code provides the general criteria by which enterprises will be evaluated and the priorities attached by government to investment in particular areas. The code outlines guidelines which include encouragement of the creation of desirable new enterprises owned or controlled by Cook Islanders (Cook Islands Maoris and permanent residents).

Specific enterprises and activities listed in the Code as being eligible for incentives and concessions include:

- commercial manufacturing and processing of local handicrafts and artifacts;
- the establishment of new, or the expansion of, existing tourist support facilities, especially quality restaurants and night clubs, fishing and cruise charters, and other speciality visitor facilities, provided these have first been approved by the CITA.

The incentives and concessions that are available are:

- tariff protection;
- import duty and levy concessions on capital items and raw materials;
- tax incentives: full or partial concessions for up to five years; recruitment of skilled local persons domiciled overseas of 120 per cent allowable expenditure; and costs of counterpart training up to 200 per cent of direct cost of training;
- depreciation allowances on commercial, agricultural, livestock and fishing projects, and other approved projects;
- residence permits free of charge for up to three years for key personnel of an approved enterprise; and
- approval of leases for approved enterprises.

Applications for the concessions or incentives are made through the Monetary Board which was established in 1981 under the Cook Islands Monetary Board Act. The Board's major function is to evaluate applications for incentives offered by the Investment Act for final approval by cabinet. The Monetary Board is a central body which controls financial activities in the Cook Islands.

Under the Development Investment Act of 1977, all foreign enterprises who wish to carry on business activities in the Cook Islands are required to register with this Board. The current Board's membership includes all seven cabinet ministers plus the secretary of the Monetary Board and Cabinet, giving a total of nine members.

The Monetary Board has developed a set of Policy Directives. The Directives concerning indigenous entrepreneurs and tourism are:

- That the sale of shares or businesses for both foreign enterprises and local enterprises are to be advertised in the local newspaper to ensure Cook Islanders are given the opportunity to participate in foreign businesses.
- In any sale of business which holds deeds of leases, there must be a consideration of at least 1 per cent to benefit landowners.
- Landowners must also benefit (in addition to ground rentals) with at least 1 per cent per annum of gross turnover.
- That foreign enterprises are to be advised that government considers it desirable for local participation in foreign ventures to be a minimum of one third of total shares.
- That Development Company Taxes of 5 per cent would be granted to the following categories of companies: agriculture related, manufacturing, tourism, exports and Trust companies.

The Monetary Board has an annual expenditure of \$180,360 (estimate for 1990), and has revenues totalling \$1.440 million (1990). (Table 7.1) Revenues to the Board were made up of \$49,100 in fees and \$1,384,100 in licences in 1988/89. The licence revenues were collected from the approximately 2,000 international companies registered under the Off shore Banking and Insurance Acts.

### **COOK ISLANDS DEVELOPMENT BANK**

The Cook Islands Development Bank Act of 1978 (amended in 1980 and 1984) took over the operations of the former National Development Corporation. The Act specifies that:

The Bank shall be a body corporate with perpetual succession and a common seal and shall be capable of acquiring, holding, and disposing of real and personal property, suing and being sued and, subject to the provisions of this Act, of doing and suffering all such other acts and things as body corporates may lawfully do and suffer (Cook Islands Development Bank Act, 1978, Section 3 [2]).

The Bank was established with an authorised share capital of \$4 million, divided into four hundred shares each having a par value of \$10,000, and owned by the Cook Islands Government. Authorised capital was further increased to \$10 million in accordance with the Act in October 1986. Total paid up capital to the financial year ending 31 March 1989 was \$4,231,994.

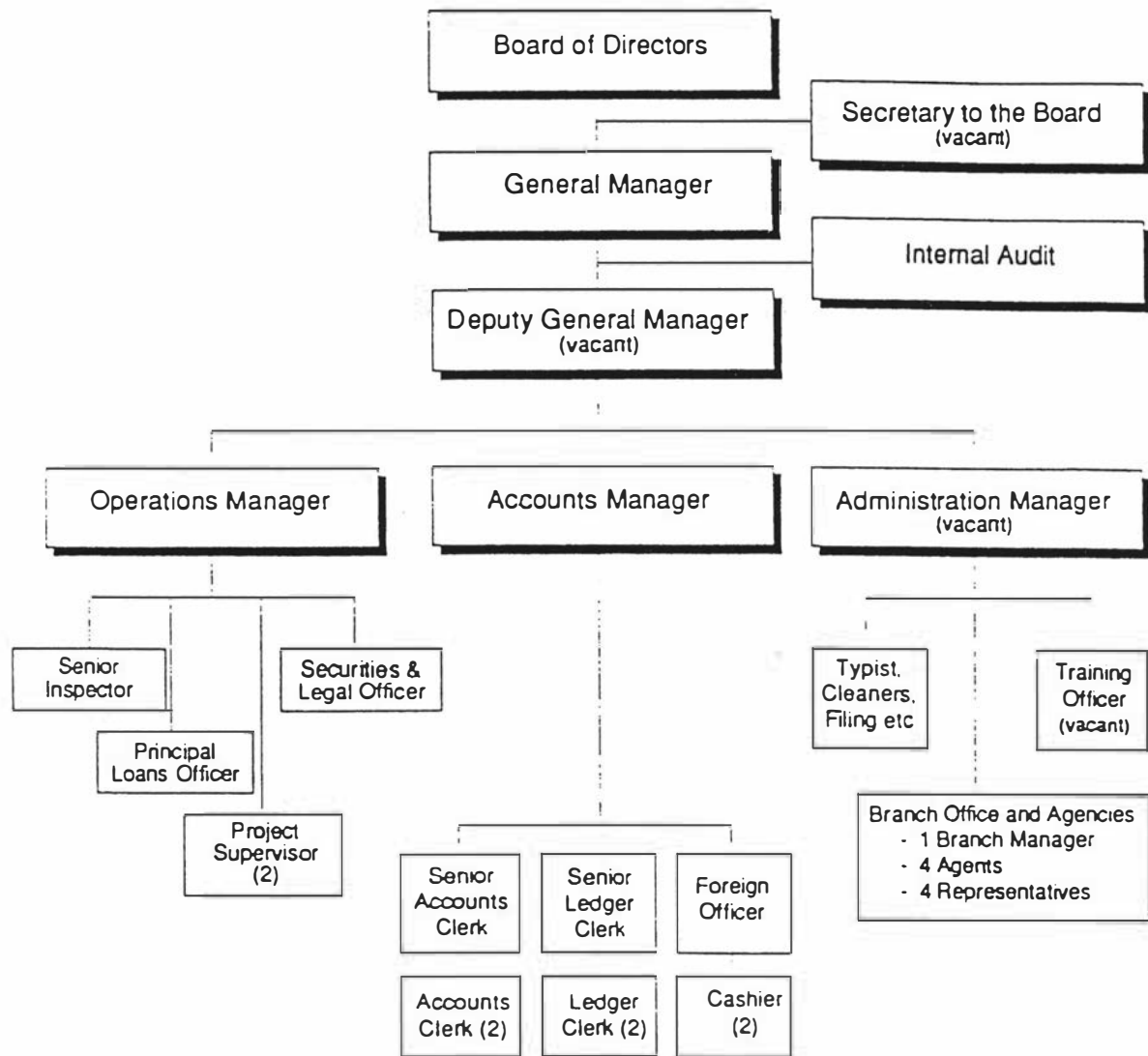
TABLE 7.1

**COOK ISLANDS MONETARY BOARD  
ESTIMATE FOR 1990**

	<u>1989-90</u> <u>ESTIMATE</u>	<u>1988-89</u> <u>VOTED</u>	<u>EXPENDED</u>
<b>EXPENDITURE:</b>			
PERSONNEL	101,560	71,200	41,800
Salaries	93,760		
Wages	5,500		
Allowances	2,300		
TRAVEL TRANSPORT & COMMUNICATION	4,400	2,900	1,900
Inter Island Travel	900		
Communications	3,500		
MAINTENANCE OF PROPERTY & EQUIPMENT	20,100	5,500	4,700
Equipment, Tools, etc.	600		
Motor Vehicles	1,700		
Rental of Property & Equipment	17,800		
MATERIALS SUPPLIES & SERVICES	14,650	9,100	8,700
Printing	3,500		
Electricity	6,000		
Stores and Consumables	4,150		
Catering	1,000		
OTHER OPERATING EXPENDITURE	2,550	3,000	6,300
Advertising & Broadcasting	100		
Subscriptions	2,450		
CAPITAL	37,100	0	23,000
Plant and Equipment	32,400		
Furniture and Fittings	1,000		
Office Equipment	3,700		
<b><u>TOTAL EXPENDITURE:</u></b>	<b>180,360</b>	<b>91,700</b>	<b>86,400</b>
<b><u>REVENUE</u></b>	<b><u>ESTIMATE</u></b>	<b><u>ESTIMATE</u></b>	<b><u>ACTUAL</u></b>
Fees - Miscellaneous	40,000		49,100
Licences	1,400,000	994,800	1,384,100
<b><u>TOTAL REVENUE:</u></b>	<b>1,440,000</b>	<b>994,800</b>	<b>1,433,200</b>

Source: Cook Islands Government, Treasury Department, Ministry of Finance, 1989.

Figure 7.1  
**Cook Islands Development Bank**  
 Organisation Structure (at 31 December 1988)



Staff Summary as at 31 December 1988

	Establishment	Positions Filled	Vacancies
Management	5	3	2
Professional Staff	21	14	7
Support Staff	8	4	4
Agents/Representatives	8	8	-
	42	29	13

The CIDB is headed by a General Manager with a seven person Board of Directors appointed by the Minister of Finance. The General Manager is assisted by an Operations Manager (responsible for lending activities) and an Accounts Manager (responsible for the Bank's accounting systems). There is also an Administration Manager who is responsible for administrative services, giving a total full time staff in Rarotonga of twenty-one (Figure 7.1). In most of the outer islands there are agents who handle loan procedures and process loan applications. The islands of the Southern Group are visited regularly by staff from Rarotonga, however, the Northern Group islands are handicapped by infrequent air and sea transport.

The function of CIDB is to encourage the economic development of the Cook Islands by providing concessional finance and advice to priority sectors---the agricultural, commercial and industrial sectors.

The Bank provides a channel for concessional finance from government and international agencies to sectors and projects that are considered to be economically important for the development of the Cook Islands economy. Sometimes these projects are not able to attract finance from the commercial banking sector and government is prepared to finance them on concessional terms because of their wider economic benefits (Crocombe, 1990). Although the CIDB's loan portfolio is largely made up of low-income housing and short term loans for agriculture, it also includes the tourism sector. The commercial banks also service tourism developments. However, CIDB's interest rates are lower and/or terms and conditions are more favourable. Loans in excess of \$5,000 must be approved by the Board; however, the General Manager is authorised to approve loans under \$5,000.

The activities of CIBD expanded in 1980 to include operations of the Housing Corporation by providing finance for housing purposes.

In December 1986 the Bank further extended its services to a Bureau de Change operation at Rarotonga International Airport and at the Bank itself. Since CIBD's establishment, it has made four equity investments. Although the CIBD Act provides for an active role in project development and project promotion, these activities have not been a significant part of CIBD's operations which have been mainly restricted to the provision of loans.

The CIBD is funded by the Cook Islands Government, New Zealand Government, and Australian International Development Aid Bureau, and borrows from the Westpac Bank (\$1 million), the Post Office Savings Bank (POSB), the New Zealand Development Finance Corporation (now in receivership) and the Asian Development Bank (ADB).

Some insurance companies have provided investment funds for CIBD. CIBD also operates savings accounts for clients and takes in investment funds for short and medium terms. In addition, CIBD's internal cashflow provides an increasing major funding source for lending.

A loan from the Cook Islands Post Office Savings Bank was secured in May 1988 to assist with the financing of the new CIBD office building on Rarotonga. The loan is secured by a first mortgage over the CIBD office building. The building project cost over \$2 million and is the largest single project undertaken by the Bank. The building is rented out to a variety of commercial clients including the ANZ Bank and National Insurance Company. The CIBD itself is still housed in a government building.

The Cook Islands became a member of the Asian Development Bank (ADB) in 1976 and in 1982 obtained a US\$1.5 million line of credit for use by CIDB to finance lending activities. A second line of credit for \$2 million is currently being negotiated.

Table 7.2 shows the funding requirements and possible funding sources for the period 1988 to 1990. Table 7.3 shows sources of funds for CIDB for the years 1985 to 1988.

The principal objective of the first ADB loan to CIDB was the provision of financial resources to CIDB for on-lending to projects with developmental features.

This objective has been achieved with an acceptable level of success. The ADB loan project's secondary objective was the provision of support for the establishment of CIDB as an effective and viable development finance institution. However, it is clear that this objective has not been met. Over the first line of credit period, the CIDB has not significantly advanced its institutional capabilities (Asian Development Bank, 1990).

The new US\$2 million second line of credit with ADB is expected to be approved before the end of 1990. If this line of credit is made available, there will be funds available for on-lending purposes only --- not for refinancing purposes. As a condition to receiving the new line of credit, the ADB is requiring that the CIDB undergo a programme of institutional strengthening. The CIDB has recently introduced a computerised system of accounting which will enable submittal of quarterly reports to ADB on a timely basis.

Another specified condition is that the Bank is to work toward becoming a self-sufficient, viable entity with a view to making profits.

TABLE 7.2

**COOK ISLANDS DEVELOPMENT BANK:  
Funding Requirements and Possible Funding sources 1988 to 1990  
(NZ'000)**

	1987/88	1988/89	1989/90
<b>PROJECTED LENDING:</b>			
Agriculture, Industry & Commerce	1,980	2,449	3,030
Housing	878	922	1,060
Operating Deficits	-	-	-
<b>Total Funding Required</b>	<b>2,858</b>	<b>3,371</b>	<b>4,090</b>
<b>ANTICIPATED AND CONFIRMED FUNDS:</b>			
Cashflow	990	1,138	1,310
NBNZ Ltd Credit Line	67	67	67
ADB Credit Line	500	1,500	1,500
Cook Islands Government	250	250	250
<b>Total Available Funds</b>	<b>1,807</b>	<b>2,995</b>	<b>3,127</b>
<b>Projected shortfalls</b>	<b>1,051</b>	<b>416</b>	<b>963</b>
<b>Source:</b> Cook Islands Government, Ministry of Planning and Economic Development, 1988.			

TABLE 7.3

**COOK ISLANDS DEVELOPMENT BANK:  
Sources of funds 1985-86 - 1987-88 (NZ\$'000)**

SOURCE BY SECTOR	1985/86	1986/87	1987/88
Agriculture, Industry & Commerce			
- Government of the Cook Islands	7	100	100
- New Zealand Government	220		
- Australian Development Aid Bureau			
- ADB Line of Credit	606	186	309
- Insurance Companies	20		
- Cashflow - development	652	952	950
- commercial	832		
<b>Sector Totals</b>	<b>1505</b>	<b>2070</b>	<b>1359</b>
Housing			
- Government of the Cook Islands	150	150	
- National Bank Line of Credit		133	
- ADB Line of Credit	260	79	28
- Cashflow - development	535	645	732
- commercial		1248	
<b>Sector Totals</b>	<b>795</b>	<b>2122</b>	<b>1043</b>
<b>OVERALL TOTALS</b>	<b>2300</b>	<b>4192</b>	<b>2402</b>

**Source:** Cook Islands Government, Ministry of Planning and Economic Development, 1988.

In September 1986 the CIBD successfully negotiated a US\$1.0 million Line of Credit facility with the Development Finance Corporation (DFC) of New Zealand for further assistance towards its lending activities.

In the past the Bank has offered long-term loans to meet working capital needs in agriculture; long term loans for the purchase of fixed assets and equity ownership in commerce and industry; and long term loans for the construction, extension, completion or renovation of houses.

At the present time the CIBD no longer provides funds for new housing development, but will offer loans to existing housing clients only to renovate or extend their homes.

The Bank is in the process of establishing a more balanced portfolio with a ratio of 40 per cent for agriculture, 40 per cent for commercial and industrial purposes, and 20 per cent for tourism development.

In order to improve the quality of its loan portfolio, the CIBD also plans to set up a business advisory service to assist clients in various aspects of business development, including marketing advice. The Bank is seeking technical assistance from ADB for this service.

### ***Sectoral Distribution of Loans***

Of the \$1,178,294 total loans approved in 1984-85, \$849,372 was given to the industrial and commercial sector, covering 24 loans (Table 7.4). Of this figure, the tourism industry received the largest amount (\$608,924), spread over 9 loans.

**TABLE 7.4**  
**COOK ISLANDS DEVELOPMENT BANK**  
**NON HOUSING LOAN APPROVALS BY INDUSTRY GROUP/TYPE**

**A: LENDING TO AGRICULTURE & FISHING:**

	1986/1987		1985/1986		1984/1985	
	No.	Amount	No.	Amount	No.	Amount
Market Gardening	64	205,332	53	198,612	32	89,200
Copra	-	-	37	129,254	32	87,273
Fishing	47	131,824	20	81,307	20	67,230
Pearl Shells	7	15,544	-	-	3	14,685
Citrus (SSA)	-	-	19	29,389	1	1,400
Bananas	-	-	-	-	82	15,444
Orcharding	-	-	-	-	1	500
Pineapples	-	-	6	13,080	18	5,190
Starch	-	-	-	-	-	-
Livestock	-	-	-	-	3	48,000
<b>Total</b>	<b>118</b>	<b>352,700</b>	<b>135</b>	<b>451,642</b>	<b>191</b>	<b>328,922</b>

**B: LENDING TO INDUSTRY & COMMERCE**

Tourism	5	148,500	13	244,309	9	608,924
Transportation	7	83,954	1	244,309	5	49,487
Other Services	-	-	1	13,000	2	26,990
Commercial Operations	33	386,622	8	44,545	6	116,991
Industrial Operations	-	-	4	44,840	2	46,980
<b>Total</b>	<b>45</b>	<b>619,076</b>	<b>27</b>	<b>361,194</b>	<b>24</b>	<b>849,372</b>

**TOTAL OF A & B** 163 971,776 162 812,836 215 1,178 m\*

**Note:** \* million

**Source:** Cook Islands Development Bank, 1989.

Of the \$971,776 total loans approved in 1986/87, the total given to the commercial and industrial sector had been reduced to \$619,076, covering 45 loans. Tourism received only \$148,500, spread over 5 loans (Table 7.4)

With the continued growth in tourism, by 1989 the commerce sector (principally tourism projects) was the largest recipient of loan proceeds with 41.1 per cent, or \$616,000. This was followed by agriculture projects receiving 27.0 per cent, housing projects 19.2 per cent and the industry and service sectors a total of 12.7 per cent (Asian Development Bank, 1989).

### ***Size Distribution of Loans***

Loans were fairly evenly distributed between large and small with 25.4 per cent going to loans over \$50,000 and 17.4 per cent to loans of less than \$2,500. Loans of over \$5,000 accounted for 61.9 per cent of the loan and 11 loans were above the \$20,000 free-limit. There are a large number of small borrowers in CIDB's portfolio, with 204 of the 342 loans under \$2,500. Most of these small loans were for agriculture projects.

### ***Geographic and other Distribution Criteria:***

While projects on the main island of Rarotonga received 64 per cent of the loan proceeds, 13 per cent was received by Aitutaki, with the remaining 23 per cent distributed over the other 11 islands (Table 7.5 and 7.6). This geographic distribution adequately meets the ADB project's objective of promoting the development of the outer islands. New projects (as opposed to expansion projects) utilised 45.0 per cent of the loans.

TABLE 7.5

**COOK ISLANDS DEVELOPMENT BANK**  
A Comparison of Amount of Loans by Location

	1985/86		1986/87		1987/88	
	NO.	%	NO.	%	NO.	%
Raro/tonga	52	32.1	87	2.7	87	64.00
Aitutaki	44	27.2	35	21.2	18	13.20
Mangaia	8	4.9	3	1.8	5	3.70
Atiu	1	.6	1	.6	6	4.4
Mauke	22	13.6	9	5.5	2	1.5
Mitiaro	0	0	7	4.2	4	2.9
Penrhyn	16	9.8	6	3.6	2	1.5
Raka/hanga	5	3.1	4	2.4	1	.7
Manahiki	4	2.5	4	2.4	3	2.2
Nassau/Pukapuka	10	6.2	9	5.5	7	5.1
Palmer/ston	0	0	0	0	1	.7
<b>TOTAL</b>	<b>162</b>	<b>100.0</b>	<b>165</b>	<b>100.0</b>	<b>136</b>	<b>100.0</b>

**Source:** Cook Islands Government, Ministry of Planning and Economic Development, 1988.

**TABLE 7.6**  
**COOK ISLANDS DEVELOPMENT BANK**  
**Comparison of Amount of Loans by Location (NZ\$'000)**

	1985/86		1986/87		1987/88	
	AMT	%	AMT	%	AMT	%
Rarotonga	291.0	35.8	736.6	75.8	1176.8	89.80
Aitu	357.3	40.0	159.1	16.4	58.2	4.40
Mangaia	17.1	2.1	5.5	.6	23.1	1.8
Atiu	.3		0	.6	0.6	5.4
Mauke	26.6		3.3	10.4	1.06	5.4
Mitiaro	0	0	5.9	.6	2.8	.2
Penrhyn	63.3	7.8	10.6	1.1	5.7	.4
Rakahanga	20.7	2.5	11.8	1.2	3.6	.3
Manihiki/Nassa	14.4	1.8	2.7	6.3	5.2	.4
Pukapuka	21.8	2.7	28.2	3.0	23.5	1.8
Palmerston	0	0	0	0	1.8	.1
<b>TOTAL</b>	<b>812.5</b>	<b>100.0</b>	<b>971.4</b>	<b>100.0</b>	<b>1310.7</b>	<b>100.0</b>

**Source:** Cook Islands Government, Ministry of Planning and Economic Development, 1988.

This proportion is unusually high for the South Pacific, and reflects the new tourism investment that has taken place in the Cook Islands during the 1980s.

Most of the loans had maturities of over five years, accounting for 75.3 per cent of the utilisation. This distribution meets the project's objective of providing term finance for production investment.

The interest rates currently charged for commercial/industrial projects in Rarotonga is 11-13 per cent, which is lower than the commercial rate (Table 7.7). Apart from 1982/83 when the CIDB made an operating profit (\$6,714), the Bank has shown an annual operating loss which reached a high of \$461,738 in 1984/85 and was \$181,695 in 1986/87 (Table 7.8).

### ***Repayment Status of Loans***

Of the total CIDB financing of \$2.9 million disbursed to loans of \$5,000 or more between the beginning of 1983 and January 1988, \$0.8 million (28 per cent) had been repaid. This low recovery rate shows substantial rescheduling of loan repayments. At least 10 of the 52 loans had been rescheduled. However, due to the inadequacy of the CIDB's accounting system and lack of accurate loan files, the extent of the rescheduling was not clear.

The actual arrears situation for the loan portfolio by December 1988 was relatively good, with only nine of the 52 loans in arrears and only four with arrears of over 12 months. One project, the Akitua Development Company (now Aitutaki Lagoon Hotel), accounted for \$108,000 of the total arrears of \$146,000. This project, which is a resort project on Aitutaki, had incurred extensive cyclone damage in 1987 and had encountered a dispute with local land-owners.

TABLE 7.7

**COOK ISLANDS DEVELOPMENT BANK**  
Interest Rates Charged (1988)

Sector	Location	Rates (%p.a)
Commercial/Industrial /Services	Outer Islands	10-12
	Rarotonga	11-13
Agriculture (includes Agro-Outer Islands Industry)		9
Full time operations	Rarotonga	10
Part time operations	Outer Islands	10
	Rarotonga	11
	Rarotonga	3
<b>Managed Funds:</b>		
Housing		
-Low Cost	Rarotonga	9
-Low cost	Outer Islands	8
-Standard	Rarotonga	13
-Standard	Outer Islands	12

**Source:** Cook Islands Government, Ministry of Planning and Economic Development, 1988.

TABLE 7.8

**COOK ISLANDS DEVELOPMENT BANK**  
Annual Operating Loss 1981-1987 (NZ\$)

Years

1981/82	25,068
1982/83	6,714*
1983/84	14,294
1984/85	461,738
1985/86	6,742
1986/87	181,695

\* Operating Profit

**Source:** Cook Islands Government, Ministry of Planning and Economic Development, 1988

The total assets of the Bank have increased steadily from \$5,520,000 on 31 March 1986, to \$9,192,000 on 31 March 1988, and to \$10,215,790 on 31 March 1989 (Cook Islands Development Bank, 1989).

The increasing arrears, unprofitable operations, and shortfalls in Government's reimbursement of CIBD's losses had adversely affected CIBD's liquidity to the extent that the Bank ceased approving new loans after October 1987. Thus, the Bank was no longer performing its developmental functions. The liquidity situation was further compounded by the decision to construct an office building worth \$2.2 million with financing from CIBD cashflow of \$1.07 million, \$627,000 from the Cook Islands Government, and Loan Financing of \$500,000.

The new three-storey CIBD building in downtown Avarua has now been completed, and CIBD has rented the total floor space to several businesses including the ANZ Bank, National Insurance, Stars Travel, the Monetary Board and several retail stores.

In the 1987/1988 period, 208 loan applications with financing totalling \$2.1 million were approved. This amount was 17 per cent below the previous year. During the same period, 67 per cent of the new loans were for projects in Rarotonga.

During the 1988/89 financial year, total portfolio decreased to \$7.1 million from its previous year level of \$8.3 million, indicating a decrease of 14 per cent. The loans are distributed to the following sectors:

Housing	66.7 per cent
Agriculture	5.1 per cent

Industrial/Commercial	27.8 per cent
Other	.4 per cent

The 1988/89 CIDB Annual Report reported a net profit for the year of \$274,933. This is the first time in its 10 year history that the Bank has shown a positive operating result.

This turnaround was a result of a vigorous effort to follow-up on arrears, together with positive support provided by the Government. An agreement was reached whereby Government agreed to:

- purchase in full the Bank's total investment in, and loans to, the Aitutaki Resort Hotel Ltd (now Aitutaki Lagoon Hotel) and
- reimburse the Bank's accumulated losses as at 31 March 1988.

In return the Bank agreed to apply the proceeds of the above transactions towards the reduction of its obligations to Government in respect of the Asian Development Bank line of credit.

### ***Management and Organisational Structure***

The composition of the Board of Directors has changed completely since 1981 when the first Board was appointed. This unusually high turnover was caused by two changes of Government during the period. This turnover of Directors "raises the prospect that official interference within CIDB's operations may have occurred and provides a strong indication that the Government has not provided a high priority to the maintenance of a sound commercial condition within CIDB" (Asian Development Bank, p.7, 1989).

Senior management has also suffered from disruptions over the last 8 years. New Zealand aid provided two expatriates as General Manager until 1987 when the last of these departed. A Cook Islander with a banking background was appointed. Unfortunately however he died soon after taking up the position. Since then a senior CIDB staff member with appropriate training and experience has been serving as General Manager. At the present time 13 positions within the bank are vacant, including the key management positions of Deputy General Manager, Administration Manager and Training Officer (Figure 7.1).

### ***Relationship with the Government***

The Government exercises general control over CIDB through the following provisions:

- The Government may, from time to time, give CIDB in writing such general directions as it thinks fit as to the policy to be followed by CIDB in the exercise of the functions of powers of CIDB;
- All directors of CIDB are appointed by the Government;
- CIDB shall submit to the Government within three months after the end of each financial year, a report on CIDB's operations, including an annual statement of its accounts for the year.

Although the ADB concedes that the Act provides for suitable autonomy for CIDB in its operations, "some aspects of the relationship between CIDB and the Government during recent years indicate that an appropriate level of autonomy may not have been maintained" (Asian Development Bank, 1989, p.8.). The construction of a \$2.2 million CIDB building was financed mostly from CIDB's cash flow, which detracted significantly from the resources that CIDB had available for lending purposes. The political decision made at the time to fund the building "may have unduly influenced the CIDB to make an investment decision that was not in the best interests of achieving CIDB's primary objectives" (Ibid., p.8).

### ***Lending Policies***

The CIDB issued its lending policies in March 1987. Section C deals with the activities of the Bank which provide the following:

- Financial assistance in the form of loans, equity investments and guarantees and, when appropriate and funds permit, refinancing, into forestry, fishing, manufacturing and processing, engineering, construction, transportation, power, tourism, commerce and service industry activities;
- Advisory and referral services;
- Identification and promotion of investment opportunities.
- Assistance in locating and placing local and foreign investments.

The Bank gives priority, both in terms of the availability of funds and in terms of lending, to projects in the following sectors:

- housing
- fishing
- tourism
- manufacturing
- agricultural activities

CIDB has developed certain criteria when considering loan applications.

These criteria are:

- CIDB only supports projects which are economically viable, technically feasible and financially sound.
- CIDB support is only available to developmental projects which contain one or more of the following features:
  - (a) Direct contribution by the project to the economic growth of the Cook Islands as measured by the project's local value added content;
  - (b) export earnings or substitution of imports;
  - (c) number of employment opportunities created;
  - (d) use of indigenous raw materials;
  - (e) location of the project in an area requiring development;
  - (f) the training and expertise which will be imparted to Cook Islands residents;

- (g) local ownership and management of the project, including the purchase of all, or the controlling part of, any existing project which would otherwise pass to foreign ownership;
- (h) ecological and environmental benefits;
- (i) provision or upgrading of housing.

In terms of eligibility for CIDB support, the policy states that:

"The CIDB will only lend to projects that are not owned and controlled by Cook Islanders on the basis that the CIDB lending to total borrowing by the project may not exceed the ratio of local equity to total equity of the concern. (Cook Islands Development Bank, 1989, p.9).

For example, this means that if a project has only 30 per cent local ownership or equity, the total amount loaned cannot exceed 30 per cent.

The policy further states that within these limitations:

- (a) Assistance is available to companies, partnerships and private individuals for new projects and for the expansion and improvement of existing projects in the areas of agricultural and commercial development.
- (b) Assistance is available to private individuals or families only for the construction of new houses and for the expansion and modernisation of existing homes.

While the CIDB has granted loans to several hotel and motel operations, restaurants, transportation companies and other tourism-related enterprises, it would appear that in the late 1980s it is experiencing a difficult period. A recent downturn in the economy and the drop-off in tourism arrivals have contributed to the inability of borrowers to make loan payments on time. Until this situation improves in the 1990s, it appears unlikely that the Bank will grant any more significant loans for tourism purposes.

In 1981 the CIDB provided a loan to the Aitutaki Lagoon Hotel on the island of Aitutaki. As mentioned earlier in this chapter, this luxury 25 room resort was unable to meet its loan payments and by 1985 the Bank was forced to take over majority ownership.

This continued until 1989 when the Cook Islands Government agreed to purchase the resort from the Bank. The Government is now in the process of selling the hotel to an Australian company, Randall Pacific.

### ***Advisory Services***

Part of the CIDB's activities is to provide Advisory Services. The Bank provides free assistance to persons inquiring about the bank's lending facilities, other sources of money (for example PIIDS) and general guidance in all lending sectors.

The Bank also provides certain services on a charge basis. The normal charge out rate for all services is \$10 per hour. Charges for training courses are based on a cost plus a small margin basis. Although these services cover all aspects of the bank's activities (e.g. housing loans), only those pertinent to the industrial and commercial sectors will be dealt with here. These include:

- accounting for small businesses who are unable to afford public accountants. These are usually existing clients;
- assistance to applicants for commercial loans to formulate their projects, costs, cash flows, etc. so that the standard of such applications from the smaller borrower is up to standard;
- production and sale of manuals on various aspects of business;
- organisation of training courses on business issues, especially those where the Bank has expertise;
- coordination of other business courses where the Bank does not have the expertise.

### ***Other Domestic Financial Institutions***

The Cook Islands Post Office Savings Bank (POSB) provides savings facilities through post offices throughout the Cook Islands. The outer islands were previously serviced only by the POSB until the two commercial banks extended services to some of the outer islands. A good portion of the POSB's business is receiving remittances from overseas through postal orders from relatives who have emigrated to New Zealand and Australia. The POSB has not provided lending services in the past, but has recently established a loans division to provide small personal loans for its customers. The POSB deposits a large proportion of its funds with the CIDB and the commercial banks.

The Westpac Banking Corporation established a branch office on Rarotonga in 1988, buying out the European Pacific Banking Corporation which previously serviced the Cook Islands. Westpac has also set up agencies in Rarotonga and some of the outer islands.

In addition, the ANZ Bank established a branch office on Rarotonga in 1988, and set up agencies in the outer islands, providing competition (for the first time in Cook Islands banking history) and improved services for bank customers in the Cook Islands.

Both these Australian banks operate throughout the South Pacific and are experienced in the unique requirements of banking in small Pacific Island countries. The expansion of their agency networks is expected to dramatically improve the level of banking services provided in all the islands (Crocombe, 1990).

Several law firms provide trust fund facilities whereby they receive deposits from clients and invest these funds either locally or in New Zealand at higher interest rates than the commercial banks provide. Some accountants also provide financing services for hire purchase consumer loans.

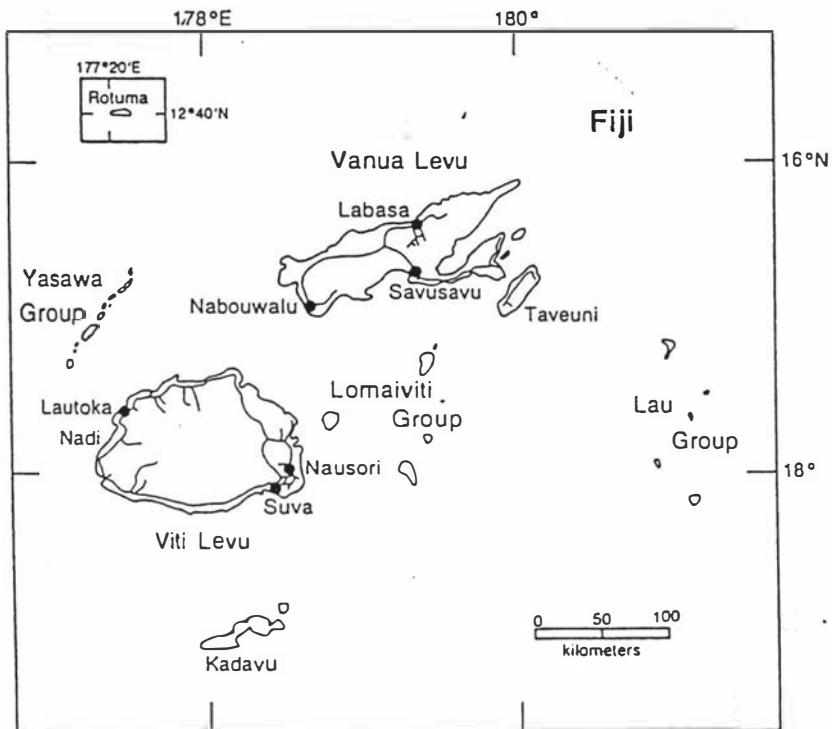
There is no national superannuation scheme operating in the Cook Islands. It has been suggested that such a scheme could be implemented by CIDB, along the lines of the National Provident Fund of Fiji (Crocombe, 1990). There are two major insurance companies operating in the Cook Islands, however, they invest most of their insurance premiums in New Zealand.

The role of the Cook Islands Development Bank has been crucial to the development of indigenous entrepreneurs in the Cook Islands by providing development financing to locals.

In addition, the availability of commercial banking services has attributed to tremendous growth in the private sector in the Cook Islands over the last 20 years. Prior to the establishment of the first commercial bank in the Cook Islands in the late 1960s (initially this was a branch of the National Bank of New Zealand which sold out to European Pacific Banking Corporation in the early 1980s), commercial banking was not available in the Cook Islands. Some larger enterprises enjoyed banking services in New Zealand, but the majority of the population was limited to savings only through the Post Office Savings Bank, which then was a branch of the New Zealand POSB.

It has been suggested that the CIDB and the POSB should be merged to provide a local retail deposit base to complement the CIDB's loan services. (Crocombe, 1990). At the present time the government-owned POSB accepts deposits at 3 per cent, deposits these funds at Westpac and receives 6 per cent, and Westpac then lends funds to the CIDB at 11.5 per cent. By merging CIDB and POSB, the government would be able both to provide loan services and accept deposits. The merger would also save replication of administration costs, and improve banking services in the outer islands. It has been estimated that this merger could add as much as \$7 million in locally sourced funds over three years (Crocombe, 1990).

Map 3. Fiji



## **PART III**

### **CHAPTER 8    FIJI: POLITICAL AND ECONOMIC DEVELOPMENT**

In Part II of this thesis the relationship between the tourism industry and indigenous entrepreneurship in the Cook Islands was analysed. In Part III, the Fiji tourism industry and Fijian indigenous entrepreneurship are subjected to similar analysis.

#### **A Introduction and Background:**

The purpose of this chapter is to review the demographic situation in Fiji, provide some historical background on Fiji, and review political and economic development in the country.

Of all the different island countries and territories in the Pacific, Fiji is perhaps the most interesting from the point of view of the role of indigenous business and tourism in national development.

First, it is the second largest country in the region (after Papua New Guinea) and a former British Crown Colony which became independent in 1970. Second, it has a large Indian population (approximately 49%) which was originally brought in as indentured labourers to work in the sugar plantations. The third reason is that in 1987 Fiji experienced major political, economic and social problems with two coup d'états in one year. This is the first time any Pacific Island country has experienced a military takeover of its government.

Although the reasons for the coups are complex, one important reason was the lack of involvement of Fijians in the economic sector, another was racial differences.

In 1874 Fiji was ceded to Britain and the British administrators encouraged plantation agriculture. Between 1879 and 1916 Indians were brought to Fiji as indentured labourers to work in the sugar plantations. By the 1960s, descendants of these Indian indentured labourers made up 50 per cent of the population, the largest single ethnic group in Fiji.

Since Independence from the United Kingdom in 1970, Fiji politics have been dominated by the Alliance Party who had maintained control of the government for 17 years, except for a brief period. In April 1987, through a general election for the first time in Fiji history, a government dominated by Indians (with a Fijian, Dr. Timoci Bavadra, as leader of the newly formed Labour Party) won the majority of seats in the Parliament. On May 14, 1987, the Fijian dominated army declared a military takeover and took control of the government.

After establishing an Interim Government, which attempted to draft a new constitution, the military again were dissatisfied with the way things were developing, and staged yet another coup in October 1987. The impact of these two coups was devastating economically. An immediate impact was the drastic fall-off in tourist arrivals in a year which was predicted to surpass all previous expectations.

From a record high of 257,800 visitor arrivals in 1986, the number of visitors in 1987 plummeted to 190,000, a 26 percent decrease on the previous year. The figures would certainly have been worse, however, had the government and the tourism industry not pulled together and structured special packages at very low rates which were promoted in Australia and New Zealand to entice visitors back to Fiji.

The country of Fiji is made up of more than 300 islands in the South Pacific with a total land area of 18,736 square kilometres. The two largest islands are Viti Levu and Vanua Levu which also have the most population and have the main centres of commercial activity. The capital of Fiji is Suva on Viti Levu, but Nadi, Sigatoka, and Lautoka are the most important tourist towns, and are all situated on the western side of Viti Levu where the climate is drier, sunnier, and more reliable for tourism. Most of the islands are small and scattered, creating communication and transportation difficulties.

### **B Population, Labour Force and Employment:**

Fiji has a relatively high population growth (2.0 percent in 1986). It has grown from 259,638 in 1946 to 715,375 in 1986. (Cole et al, 1988, p.17) (Table 8.1 and 8.2).

Fiji's population is multi-racial. In 1986 49 per cent of the population were of Indian descent, 46 per cent were of Fijian ethnic origin, and 5 per cent were Part Europeans, Europeans, Chinese and other Pacific Islanders (Ibid.) (Table 8.3). Approximately 41 per cent of ethnic Indians are urban dwellers, while 67 per cent of ethnic Fijians live in rural villages, some in isolated areas remote from government facilities and services (Table 8.4).

Since independence in 1970, emigration has been a major factor in limiting population growth. Departing ethnic Indians outnumber the number of departing ethnic Fijians. Ethnic Indians have higher levels of education and skills than Fijians and have been accepted as immigrants in Canada, the United States, New Zealand and Australia. This process of Indian emigration has accelerated since the coups of 1987.

Table 8.1

## FIJI: POPULATION GROWTH, 1936-86 (per cent)

Census	Average annual growth rate		
	Total population	Ethnic Fijian	Ethnic Indian
1936-46	2.7	-	-
1946-46	2.9	-	-
1956-66	3.2	-	-
1966-76	2.1	2.5	2.0
1976-86	2.0	2.4	1.7

Source: Census Office, Bulletin No. 20, Suva, 1987

Table 8.2

## THE POPULATION OF FIJI, 1946-86

Census date	Total number
02.10.46	259,638
26.09.56	345,737
12.09.66	476,727
13.09.76	588,068
31.08.86	715,375

Sources: Census Office, Bulletin No.20, Suva, 1987.  
Rodney V. cole & Helen Hughes, The Fiji Economy May 1987, ANU, 1988.

**Table 8.3**  
**FIJI'S POPULATION BY ETHNIC ORIGIN, 1901-86**

Ethnic origin	1901 Census		1946 Census		1966 Census		1986 Census	
	000	%	000	%	000	%	000	%
Fijian	94	78	118	45	202	42	329	46
Indian	17	14	120	46	241	51	349	49
Other	9	8	22	9	34	7	37	5
<b>Total</b>	<b>120</b>	<b>100</b>	<b>260</b>	<b>100</b>	<b>477</b>	<b>100</b>	<b>715</b>	<b>100</b>

**Source:** Bureau of Statistics, Current Economic Statistics, Suva, January 1988:3

**Table 8.4**

**FIJI: GEOGRAPHIC DISTRIBUTION OF POPULATION, 1976 and 1986**

Ethnic origin	Urban		Rural		Total	
	1976	1986	1976	1986	1976	1986
<b>Fijians</b>						
Number	79,314	107,780	180,618	221,525	259,932	329,305
Per Cent	3.5	32.7	69.5	67.3	100.0	100.0
<b>Indians</b>						
Number	115,632	144,533	177,264	204,141	292,896	348,704
Per Cent	39.5	41.4	60.6	58.6	100.0	100.0
<b>Other</b>						
Number	23,549	24,712	11,691	12,654	35,420	37,366
Per Cent	66.8	66.1	33.2	33.9	100.0	100.0
<b>Total</b>						
Number	218,495	277,025	369,350	438,350	588,068	715,375
Per Cent	37.2	38.7	62.8	61.3	100.0	100.0

**Source:** Bureau of Statistics, Current Economic Statistics, Suva, January 1988:5

The existence of two ethnic groups equal in numbers has been evident since the early 1940s. This situation, where the Fijians are indigenous and the Indians are descendants of indentured immigrants and traders, has been a major cause of tension. This tension "has been exacerbated by the maintenance of two distinct cultures with separation in education, occupation, employment and social structure, as well as in religion. There has been virtually no intermarriage" (Cole et al, 1988, p.21).a

Fiji's labour force was approximately 240,000 in 1986, indicating a work participation rate of 34 per cent. Ethnic Indians worked mainly in the private sector, dominating the "own account worker" category (Table 8.5). Ethnic Fijians dominate the "unpaid family workers" category and the public sector (especially the armed forces). Most of the higher levels of the civilian public service are held by ethnic Fijians, while the managerial positions are held mainly by Indians. The percentage of ethnic Fijians in paid employment (39%) is much smaller than that of ethnic Indians (53%) (Table 8.6). The service sector (which includes tourism and government) accounts for two-thirds of all paid employment (Table 8.7).

### **C History and Political Development:**

In order to understand the political and economic situation in Fiji in the 1980s, it is necessary to understand Fiji's early history and political development.

Although Fiji is considered to be the transitional area between the cultural sub-regions of Polynesia and Melanesia, traditional Fijian society was organised on social and political lines with many of the characteristics found throughout Polynesia. Social organisation is hierarchical, with chiefly elites ruling the population.

Table 8.5

**FIJI: ECONOMICALLY ACTIVE POPULATION BY EMPLOYMENT STATUS, 1986 (Per Cent)**

Total		Ethnic Fijians	Ethnic Indians
Own account work	33.6	29.7	39.9
Employees	42.2	34.1	48.0
Public sector	(15.8)	(16.1)	(14.9)
Private sector	(26.4)	(18.0)	(33.1)
Unpaid family worker	16.3	28.3	4.1
Unemployed	7.5	7.6	7.6
Not stated	0.4	0.3	0.4
Total	100.0	100.0	100.0
Total number	241,160	113,904	113,464

Source: Census Office, Bulletin No.20, Suva, 1987:14

Table 8.6

**FIJI: PAID EMPLOYMENT BY ETHNIC ORIGIN, 1986**

	Per Cent	
Ethnic Fijians	29,286	39
Ethnic Indians	40,098	53
Others	6,336	8
Total	75,720	100

Source: Bureau of Statistics, Annual Employment Survey, Suva, December 1987:6.

Table 8.7

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**FIJI: PAID EMPLOYMENT BY INDUSTRY, 1976-86**


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	Average annual Percentage distribution		growth	
	1976	1981	1986	1976-86
Agriculture	3.7	3.1	2.9	-1.2
Industry	31.9	30.9	30.2	0.1
Services	64.3	66.0	66.9	1.7
Total	100.0	100.0	100.0	
Total Number	70,174	81,082	79,854	1.1

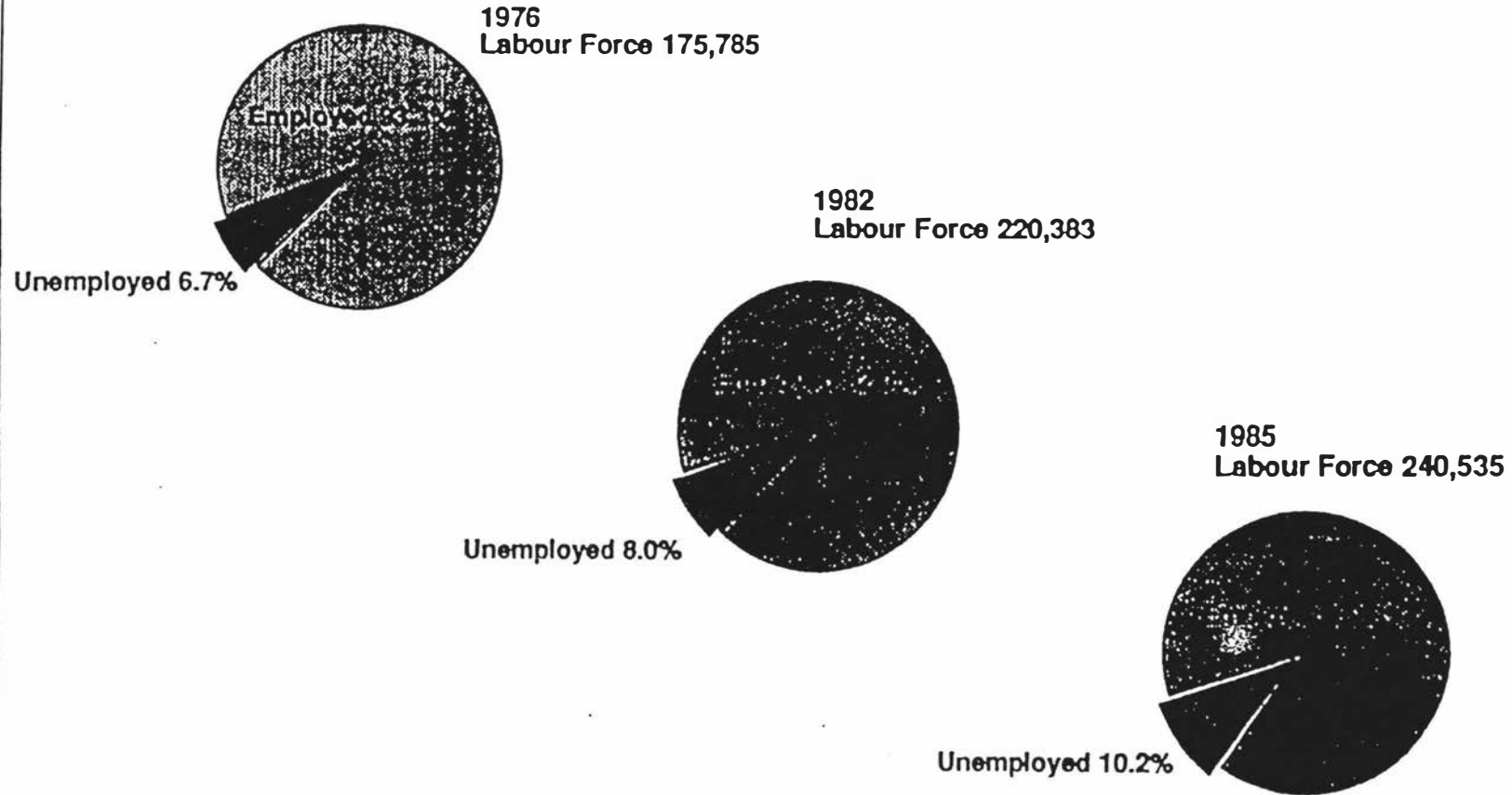
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**Source:** Bureau of Statistics, Current Economic Statistics, Suva, January 1988:75

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Figure 8.1

# Fiji: Employment



Unlike other Melanesian societies, rank was determined by ancestry, with chiefly families claiming descent from major founding families. However, as in other parts of Polynesia, descent alone was not sufficient to ensure leadership. Candidates for leadership had to be descendants of chiefly lines, but their ability to lead was also a significant determinant. The chiefs had great personal power, even "the most arbitrary and ruthless powers, based on club law" (Howe 1984:p.256).

No eastern tyrants can rule with more absolute terror than the Chiefs do here; and few people are more thoroughly enslaved and trampled than are these islanders" (Lawry, 1888 p.48).

The chiefs demonstrated this power through demands for tribute and, in many cases, human sacrifices.

The basis for Fijian village life was the tokatoka or subclan, made up of related families. These were members of a large unit or clan called the mataqali. Several of these mataqali made up the yavusa or tribe. The mataqali often had specialised functions such as advisers to the tribal chief, priests or warriors. Over the years the yavusa sometimes merged or joined with others forming vanua or confederations (Howe 1984). At the time of western contact, Fiji was divided into approximately 7 vanua, but no one chief was dominant over all. These seven main vanua or confederations were Rewa, Verata and Bau (all in southeastern Viti Levu) Lakeba in the Lau Group (which was often controlled by Tongans); and Cakaudrove, Macuata and Bua on Vanua Levu (Howe, 1984).

Although Tasman, Cook and Bligh all sighted Fiji, they found it to be a dangerous place and spent little time there. Sustained European contact took place during the sandalwood trade from 1804 to 1810, centering around the western coast of Vanua Levu. Following the short-lived sandalwood trade, trade in beche-de-mer from 1820 to 1850 had a greater social and economic impact on Fiji. The Beche-de-mer trade was superceded by the establishment of cotton plantations in the 1850s.

Traders greatly changed the nature of Fijian politics by introducing large quantities of firearms. Howe (1984) states that approximately 10,000 firearms were taken into Fiji from 1828 to 1850. The small island of Bau (which is immediately off Viti Levu's eastern coast) became dominant over the eastern half of Fiji. This was partly due to the influence of a beachcomber named Savage who introduced the use of firearms. Bauans gained more political and economic advantage by also dominating trade. The traditional leaders "who had already established themselves in positions of power were thereby able to attract white men to support them and so consolidate their influence" (Howe 1964 p.259).

By 1840 a Bauan chief named Cakobau had become the most powerful chief of Fiji and his dominance lasted for the next fifty years. Cakobau has been described as cruel, arrogant, and devious. He was also described as a person who lusted after power and would not hesitate to go to war to achieve that power. His major victories over Rewa in 1844 and influence over other areas prompted Cakobau to designate himself "Tui Viti" -- King of Fiji.

Europeans first settled in Levuka on Ovalau, the old capital of Fiji. Most of these men were traders and interpreters who had taken Fijian wives. In 1840 there were approximately 15 Europeans on Ovalau and their friendly relationships with Cakobau began to deteriorate.

His relations with foreigners came to a head in 1846 when an American commercial agent's (Williams) house and store burned down.

Goods were stolen and Williams held Cakobau responsible for the Fijians' behaviour. By 1855 this incident, plus others involving American ships and property, led to American claims totalling \$43,000. Cakobau was taken aboard a US warship "and on threat of abduction signed a promissory document which gave him two years to pay" (Howe 1984 p.265).

Cakobau was faced with increasing problems from both the foreigners who held him responsible for all their problems, and from all the constantly warring yavusa. It appeared Cakobau would face defeat at the hand of his enemies, but missionaries preaching Christianity and a Tongan chief named Ma'afu provided opportunities for him to recover power and prestige.

Christianity first became established in the Lau islands where the Tui Nayau (Chief of Lakeba) finally converted in 1849. Ma'afu was appointed governor of the Tongans in Fiji by the imperialist Tongan King, Taufa'ahau, who had embraced the Wesleyan religion and wanted to extend the political boundaries of Tonga to include the islands of Fiji. Ma'afu promoted Christianity and protected Tongan interests in Fiji. When Cakobau had further troubles with the Rewa people, Taufa'ahau and Ma'afu joined forces with Cakobau (with a combined Fijian/Tongan army of over three thousand warriors) to crush the Rewa people in 1855. This victory re-established Cakobau's authority, although he then ruled in an alliance with Ma'afu, a foreigner. Cakobau became a Christian and encouraged his people to do the same.

The Fijians continued to have difficulties with American traders, so in an effort to solve these problems, Cakobau offered to cede Fiji to Britain in 1858, through the British consul W.T. Pritchard. He proposed that the British pay the \$45,000 debt to the Americans. However, in 1862 Britain declined the offer. By the 1870s the European population in Fiji was over 2000.

Tension over land sales increased and "much land was bought and sold fraudulently" (Howe, 1984 p.274). Fijians did not want to work on the plantations so labourers were imported from the Western Pacific. By 1869 over 1600 labourers had been imported to Fiji, mostly from the New Hebrides, now known as Vanuatu.

The problems with foreigners led to a need for a central government. The British Consul suggested a central government made up of a confederation of the chiefs of Bau, Rewa, Lakeba, Bua, Cakaudrove, Macuata and Nadi in 1865 with Cakobau as president. All the chiefs at first agreed, but chiefly rivalry led to a collapse in 1867 when Ma'afu lost a bid for the presidency.

By 1870 the number of Europeans increased to almost three thousand, with many of them living in the crowded town of Levuka. In 1870 severe hurricanes destroyed crops and the cotton boom collapsed causing widespread economic ruin, mostly for Europeans. This intensified the problems and led to an acute need for a central government.

In 1871 a central government was "proclaimed" at Levuka with Cakobau as King. "The announcement of the government's formation was initially seen in Levuka as something of a coup d'etat by the more noted and self interested men of affairs" (Howe, 1984 p.272). Initially most settlers opposed the government, but later supported it, as did many Fijian chiefs, including Ma'afu.

Cakobau's cabinet, which made most of the decisions, was made up of Europeans only. A Legislative Assembly was established, elected by adult European males (Howe, 1984 276). A Privy Council made up of the governors, plus a high chief from each of the provinces, became the Native House.

The government's popularity rapidly declined, leading to a threat of civil war between Europeans and Fijians. Cakobau again offered Fiji to Britain in 1873 in an effort to avoid civil war. In 1874 Fiji was annexed by Britain as a Crown Colony "to restore order, to provide effective government and to protect Fijian interests against the more rampant demands of some British nationals" (Howe 1984:p.277).

The Colonial Government dealt with Fijians through a separate Fijian administration, which was a separate department of government. Fiji was divided into 12 provinces, conforming closely to the traditional vanua boundaries (Table 8.8).

Beginning in 1879, the Colonial government imported indentured Indian labourers. Beginning in 1879, to provide labour for the sugar plantations owned by British settlers. The Fijians refused to work in the cane fields so for the next 30 years, 60,000 Indians were brought in.

Fijians were not able to vote until 1963. Prior to that time the Fijian members of the Legislative Council were nominated by the Governor from a list of names submitted by the Council of Chiefs.

At a Fiji Constitutional Conference held in London in 1965, the government structure changed to provide for 36 elected members of the Legislative Council. The members were elected as follows:

Table 8.8

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**STRUCTURE OF FIJIAN ADMINISTRATION**  
**1874 TO 1967**

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Secretary for Fijian Affairs  
(also member of Executive & Legislative Councils  
and Chairman of FAB)

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graph TD; A[Secretary for Fijian Affairs  
(also member of Executive & Legislative Councils  
and Chairman of FAB)] --- B[Fijian Affairs Board (FAB)  
( 5 members of Legislative Council)];
```

Fijian Affairs Board (FAB)  
( 5 members of Legislative Council)

---

Source: Lasaqa, 1984

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Fijians (elected)	11
Universal suffrage	9
Council of Chiefs	2
Indians	9
General Electors	7
	—
Total	38

The election of 1966, the first under the new Constitution, also marked the beginning of party politics in Fiji. The Alliance Party (which won the election of 1966 with 27 of the 36 seats) is made up of three bodies: the Fijian Association, Indian Alliance and the General Electors Association. It has been led by Ratu Sir Kamises Mara since its inception. The opposing National Federal Party (NFP) was established as a result of a sugar dispute in the 1960s and is dominated by Indians. More recently the NFP joined with other non-Indian groups to form the Labour Party, which was established in 1986 and is currently led by another Fijian, Dr. Timoci Bavadra.

By 1967 a ministerial system was introduced. The NFP boycotted the Legislative Council, demanding a common roll system of election instead of communal voting. This dispute led to a by-election in 1968.

At another Constitutional Conference (again held in London) in May 1970, a new structure emerged. The House of Representatives was re-structured to have 52 members elected as follows:

	<u>Communal Roll</u>	<u>National Roll</u>
Fijian	12	10
Indian	12	10
General	3	5

Fiji became independent of the United Kingdom on 10 October, 1970. In the first general elections after Independence (1972) the Alliance Party won the election with a majority of 33 out of 52 seats.

The 1970 Constitutional Conference also approved the establishment of an Upper House, the Senate, with 22 members to be appointed as follows:

- Eight nominated by the Council of Chiefs
- Seven nominated by the Prime Minister
- Six nominated by the Leader of the Opposition
- One nominated by the Rotuma Council

The Constitution also provided that a majority comprising three-quarters of the members of each house must be in attendance before amendments can be made to several important ordinances -- the Fijian Affairs, Native Land Trust, Agricultural Landlord and Tenants ordinances, and some other acts. In addition, if any amendment of any of these acts affects Fijian land and custom, the approval of the eight senators nominated by the Council of Chiefs was also required.

Some Fijians, who were dissatisfied with the slow economic progress of ethnic Fijians, formed the Fijian Nationalist Party in 1974. Their representative moved a motion for the expulsion of Indians from Fiji which was unsuccessful, but which indicated the racist sentiment that was already threatening to upset the multi-racial society. In the General Election in March 1977, with a split Fijian vote and loss of Indian votes, the Alliance Party lost the election by two seats to the National Federation Party (NFP). However, due to a leadership crisis, the NFP was unable to form a government and the Governor-General appointed Ratu Sir Kamisese Mara, Leader of the Alliance Party, as Prime Minister. Trying to govern with the minority in the House proved to be impossible. After the defeat of a confidence motion introduced by the government, new elections were held in mid-September. As a result, the Alliance Party was returned to power with 36 out of the 52 seats in the House of Representatives.

The Alliance Party was re-elected again in 1982, but over the next four years lost a lot of its support, especially amongst the young, untitled and mostly educated ethnic Fijians. In 1986 the new Labour Party was established, led by Dr. Timoci Bavadra, an ethnic Fijian and medical doctor who was formerly head of the Public Service Union. In 1987 the Labour Party formed a coalition with the NFP, and on 11 April of that year the Labour/NFP coalition took the government, thus ending 17 years of political dominance by the Alliance Party.

However, Dr. Bavadra's term as Prime Minister was brief, for on 14 May 1987, the Fiji Army, led by Colonel Sitiveni Rabuka, arrested all members of the Government in Parliament Buildings in a military coup d'état, thus changing the course of Fiji history and thrusting Fiji into economic and political turmoil.

Colonel Rabuka planned and carried out the bloodless military coup believing that the removal of the month-old Coalition Government was necessary "for the survival of the Fijian race. As simple as that" (Dean, 1988, p.11). He also believed that his role as the coup leader was a "mission that God has given me" (Ibid., p.11). The May 14 coup had been staged to restore control of the country to the indigenous Fijians. Rabuka stated "Everyone is welcome to come and live here as our guest, as long as the Fijians run the nation" (Ibid., p.14). The coup objectives were:

- Fijian control of the Parliament; and
- drafting of a new Constitution to protect the interests of the indigenous Fijians.

Although Rabuka was successful in carrying out the coup, he underestimated the resistance of the then Governor-General of Fiji, Ratu Sir Penaia Ganilau, who refused to recognise the military regime. Rabuka also underestimated the difficulty of achieving legality, world recognition and respect for a government "put in place at the point of a gun" (Ibid., p.13). Colonel Rabuka appointed a Council of Ministers to run the country, and three days later finally persuaded the Governor-General to swear him in as Head of the Council of Ministers.

Over the next four months the Governor-General, Colonel Rabuka (representing the Army), the deposed Coalition Government and the Alliance Party spent many hours in constitutional and political manoeuvring and wrangling. By September it appeared that some agreement had been reached on a caretaker Government shared by the two main political groups -- the Coalition and the Alliance -- as an interim measure on the road back to normalcy.

Rabuka "claimed he was not kept informed of the development of this new proposal, and executed a second military take-over of Fiji" (Ibid., p.15). On 25 September, the Royal Fiji Military Forces reasserted their authority and Rabuka appointed an Executive Council of Ministers to run the country. On 1 October 1989, Colonel Rabuka announced that Fiji's 1970 Constitution had been revoked and that he was now Head of State.

It was becoming increasingly clear to Rabuka that Fiji could not remain within the Commonwealth. On 7 October, 1989, he declared Fiji a Republic, realising it was "the only way he could legitimise the military's authority in Fiji, and retain control of the situation" (Ibid., p.16).

Ratu Sir Penaia Ganilau resigned as Governor-General on 16 October. On 5 December 1989, he became President of the new Republic, when Brigadier Rabuka handed the government over to a civilian administration. The veteran Fijian leader and statesman, Ratu Sir Kamisese Mara was again appointed Prime Minister, and an Interim Government made up of 21 cabinet ministers was appointed to run the country. He continues to serve in that role, and until January 1990, Major General Rabuka held a ministerial portfolio of Minister of Home Affairs, which included internal security, defence and immigration. Ratu Mara stated that he would serve as Prime Minister for 2 years, during which time he would put Fiji on the road to economic recovery. He also stated that he would introduce a new Constitution that would enable elections to be held and democracy to be restored. He said he would retire from politics after two years.

However, by December 1989 it was agreed that Ratu Mara would continue to lead the country and Major General Rabuka chose to give up his ministerial portfolio and return to the barracks to head up the Fijian Army.

In November 1988 the Interim Government presented a new Draft Constitution to the country which provides for a Parliament made up of a President and a House of Representatives with a minimum of 67 or a maximum of 71 members. Of those, 59 are elected members and the balance are appointed. The elected members are to be elected from four separate racially based rolls as follows:

Fijians	28 members
Indians	22 members
Rotumans	1 member
General Electors	8 members

The most severe criticism of the Draft Constitution is that parliamentary representation is racist and undemocratic. The President will be appointed by the Bose Levu Vakaturaga, who are appointed by the government and who have extraordinary constitutional powers under the new Constitution.

Critics argue that some constituencies are over-represented, while others are grossly under-represented. They state that the net result is that voters representing only 17.4 per cent of the population may elect 39 per cent (23) of the elected members, while voters representing 82.6 per cent of the population may elect only 61 per cent (36) of the elected members. They argue that, as a result of the traditional chiefly system which determines where a person votes, and the increasing urban drift, the urban Fijian provinces will be the most seriously under-represented. The province of Vanua Levu and the Eastern province (which includes Lau, Lomaiviti and Kadavu) are over-represented (Bavadra, 1989, p.13).

Another criticism of the Draft Constitution is that under the rule of law, which normally establishes a paramount standard for governing, there is provision for "exceptions" (Section 17), which in effect nullify the rule of law. In addition, although the Draft Constitution recognises the fundamental rights and freedoms of the individual, it prescribes that "Fiji shall be a sovereign Republic and shall uphold the teachings of the Lord Jesus Christ" (Section 3[b]), thus discriminating against the non-Christian population.

Although many hearings on the Draft Constitution have been held all over the country with mixed responses, it has not been adopted. Some have called for a constitutional convention to consider and discuss a new constitution. At a recent economic summit conference in Suva, the Prime Minister has indicated that Government will defer adoption of the Constitution, pointing out that other countries (such as New Zealand and the United Kingdom) do not have Constitutions. Also at the summit, the Prime Minister was asked to continue to serve in that role in the future. For the time being, the consensus of opinion is that Fiji is a political powder keg and that the Interim Government should continue in its governing role for a few more years with no attempt to hold General Elections or adopt a new Constitution.

#### **D The Economy**

Fiji is fortunate to have a wide range of natural resources and a diversified economy.

Fiji's economy has been based mainly on agriculture, with major production of sugar, timber, fish, and rice, and smaller production of coconuts, cocoa, ginger, tropical fruits, dairy products, meat and poultry. The 1986 census indicates that agriculture absorbed 44 per cent of the economically active population, although a large proportion of these were engaged in subsistence farming.

However, in the mid-1980s tourism grew substantially to overtake sugar as the country's main foreign exchange earner, with gross tourism receipts of \$161 million in 1984. (Fiji's Ninth Development Plan 1986-1990, 1985). In addition, Fiji has significant mineral resources with gold and silver exported from the Emperor Gold Mine in Vatukoula.

Although the military coups of 1987 de-stabilised Fiji's economy, swift government action minimised the impact, and by mid-1989 it was clear that Fiji was well on the road to economic recovery. The Ministry of Trade and Commerce has implemented a tax free zone system which has stimulated a growing garment manufacturing industry and other new industries. Sugar and gold production are increasing, and tourists are again returning to Fiji.

### ***Manufacturing***

The Interim Government offers several advantages to investors to locate their investment in manufacturing enterprises in Fiji and these are administered by the Fiji Trade and Investment Board (FTIB). These incentives include:

- Preferential access to Australian and New Zealand markets under the SPARTECA trade agreement (between Australia, New Zealand and the South Pacific Forum Island countries); access to European markets under the Lome Agreement and to the United States, Canada and Japanese markets under the GSP Agreement;
- Easy repatriation of capital and profits;
- A labour force which is english speaking, low-cost, adaptable and productive.

## *Gold*

The Emperor Gold Mine at Vatukoula is the only major mining activity in Fiji. It produces gold and some silver. During the early 1980s gold production grew at an average annual rate of 18 percent. In 1983 management of the mine was transferred to Australian Western Mining Corporation (Fiji Ltd), which took a 20 per cent ownership in the mines. This change in management has led to a substantial increase in gold production.

Gold production grew from 1,426 kgs in 1982 (with a total value of FOB \$F15.6 million) to 2,899 kgs in 1986, with a total value of FOB \$38.6 million (Table 8.9).

## *Sugar*

Sugar has been the backbone of the economy of Fiji, and the main objective of the industry is to achieve an annual sugar production target of between 550,000 to 600,000 tonnes (Central Planning Office, Fiji Government, 1985). Sugar production has been steadily increasing although there have been some bad years. By 1986 sugar production had reached an all-time high of over 500,000 tonnes, with an export value of \$US120 million. While production fell in 1987 to 400,000 tonnes, export earnings were valued at US\$150 million (Figure 8.2). The Fiji Sugar Corporation is embarking on a capital development programme which will cost \$F130 million over the next five years and will increase FSC's production capacity to 600,000 tonnes a year. A world survey of mill performance recently ranked Fiji as 6th out of the top 10 of the world's 60 sugar-producing countries. Fiji is ranked as a highly efficient sugar producer (PIM, July 1989).

Table 8.9

## GOLD PRODUCTION IN FIJI 1982-1986

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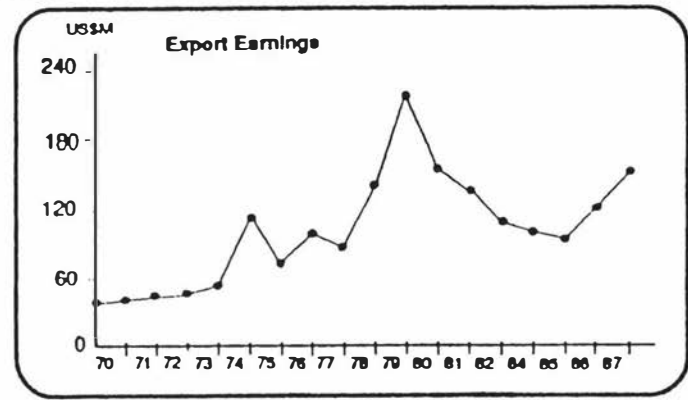
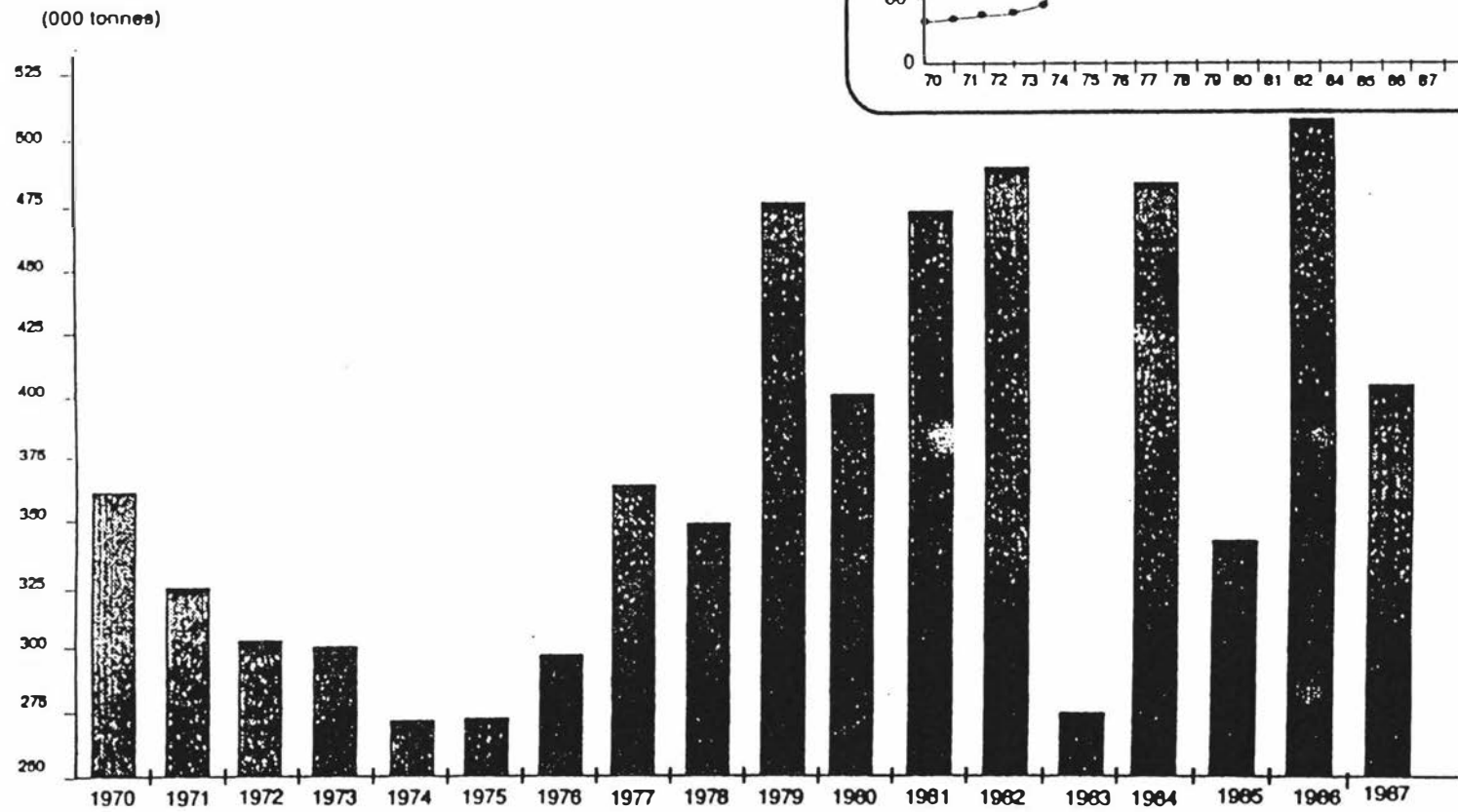
Year	Quantity (kg)	Value FOB \$F
1982	1426	15.6 million
1983	1237	16.9
1984	1650	20.5
1985	1863	21.8
1986	2899	38.6

---

**Source:** Bureau of Statistics, Current Economic Statistics, Suva, Fiji, 1987, p.39.

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Figure 8.2  
Fiji: Sugar production



Employment in the sugar industry was 43,146 in 1986 and is projected to reach 45,546 by 1990 (Ibid., p. 49).

### ***Tourism***

Tourism is estimated to have generated \$F180.6 million in foreign exchange in 1988, which was 24 per cent more than the 1987 earnings. After inflation, this was a real increase of 10.8 per cent (PIM, July 1989, Bureau of Statistics). A more in-depth look at the tourism industry is presented in the next chapter.

### ***Timber***

Timber production is based partly on the exploitation of hardwood forests in Viti Levu and Vanua Levu. In addition, the Fiji Pine Commission has planted some 45,000 hectares of pine since 1976. Exploitation began in 1987 with the establishment of a multi-million dollar wood processing plant. The plant produces woodchips, poles, posts and sawn timber. Total sales were estimated at \$15 million, of which \$10 million were export earnings (Figure 8.3).

### ***Industrial Fisheries***

The Pacific Fishing Company (PAFCO) was originally established as a joint venture agreement with C.Itoh of Japan. However, C.Itoh has withdrawn from PAFCO, leaving the Fiji Government as the sole owner and operator. PAFCO employs approximately 300 people, processing and canning skipjack tuna. PAFCO tuna is regarded as one of the highest quality tuna in the world. Fish production provided export earnings of over US\$240 million in 1987 (Figure 8.4).

Figure 8.3

### Fiji: Timber production

(000 Cubic metres)

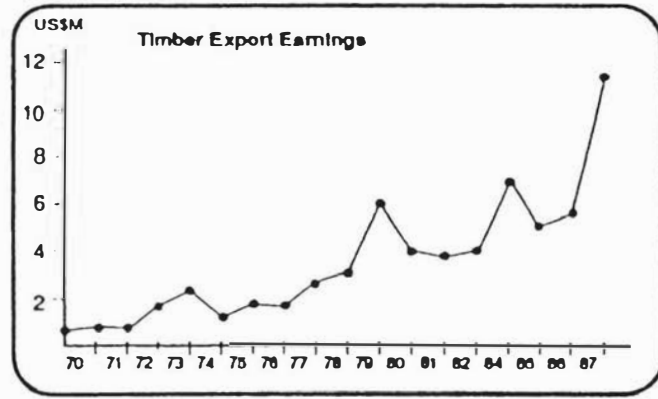
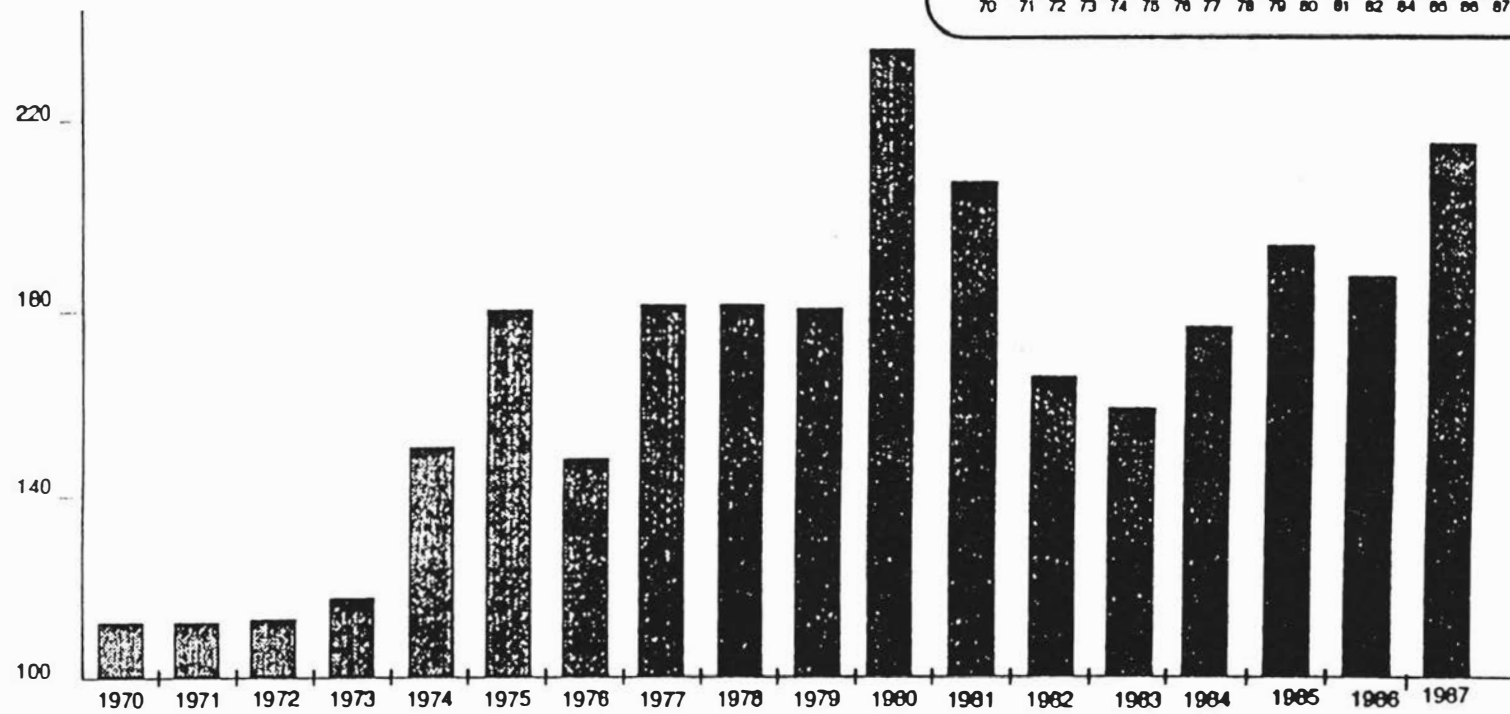
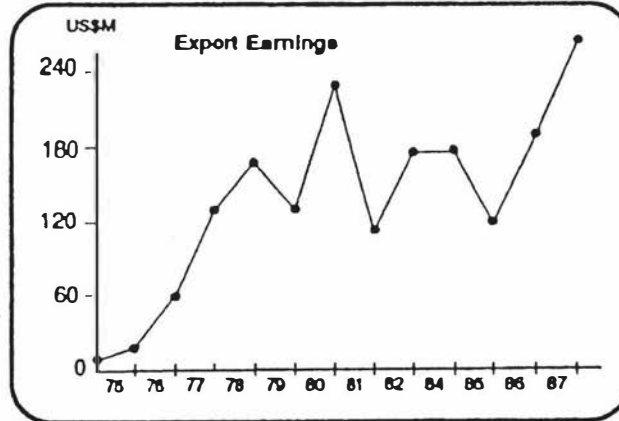
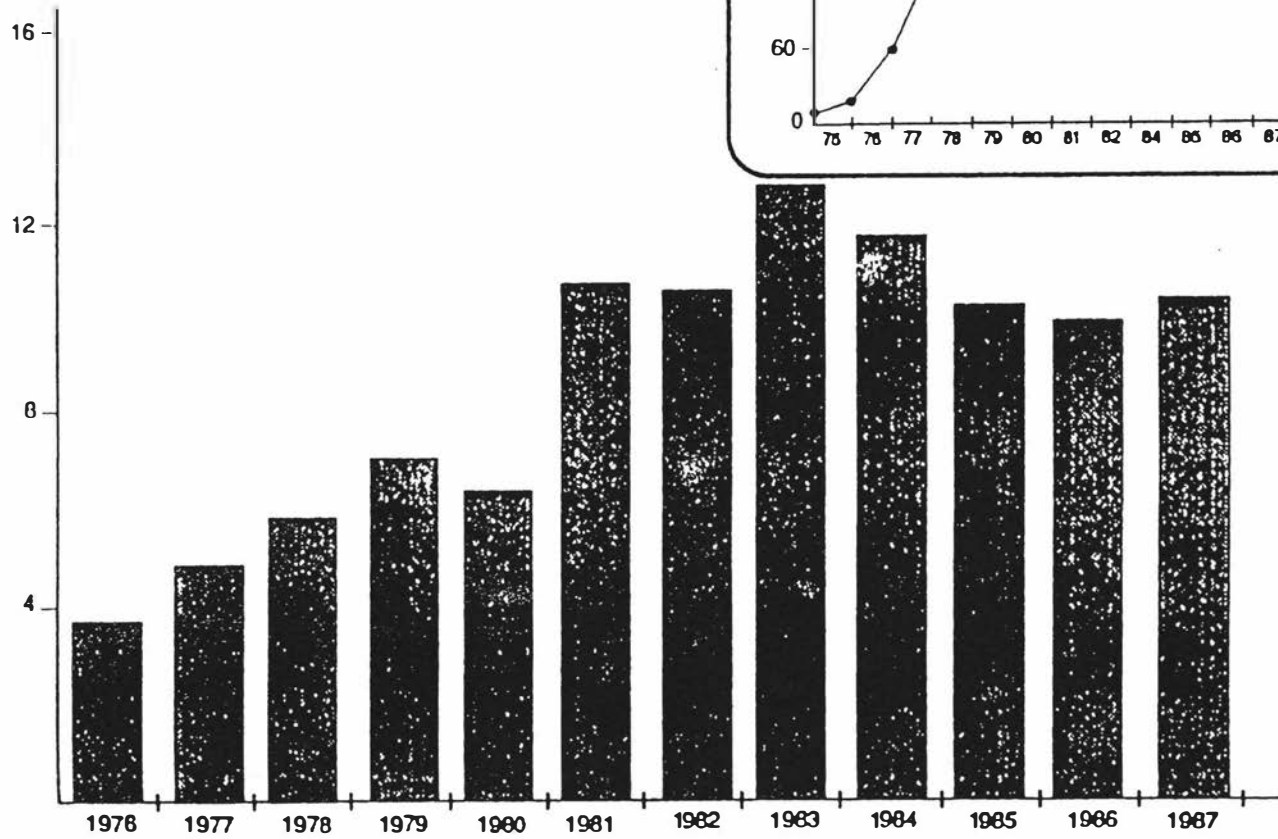


Figure 8.4

### Fiji: Fish production

(000 tonnes)



In this chapter the historical and political development of Fiji was summarised. In addition, the Fiji economy was reviewed, especially the non-tourism sectors such as manufacturing, gold, sugar, timber and commercial fisheries.

## **CHAPTER 9 DEVELOPMENT OF THE FIJI TOURISM INDUSTRY**

In Chapter 9 the development of the Fiji tourism industry is reviewed, including the role of government in tourism, government incentives for investment in the tourism industry, tourist expenditure, tourism plans and strategies, visitor arrivals and marketing, the Fiji accommodation industry, air service, tourism employment, and education and training. An understanding of these factors is important in order to analyse the role of Fijian entrepreneurs in the tourism industry.

### **A Tourism Development and the Role of Government**

The early stages of tourism development in Fiji began in the early part of the 20th century. As early as 1905 the daily newspaper carried advertisements for several hotels, such as the Ather Stone Boarding House and the Club Hotel in Suva, and the Polynesian Hotel in Levuka. (Fiji Times, 1 July 1905, Taal 1982:p.224)

By 1915 a tourist bureau had been established in Suva with some government funding (fifty pounds a year). Some funds were also provided by the private sector. In 1925 the government introduced a five per cent licence tax on all commercial enterprises to finance the Bureau (Taal,1982,p.225), and in that year the Bureau published its first handbook on Fiji for the Dunedin exhibition in New Zealand. The colonial government did not, however, give high priority to tourism as a serious economic development alternative, as transportation technology had not developed sufficiently and agriculture was the priority. All visitors at that time arrived on ships, and it was not until after World War II and the advent of jet aircraft that the face of Fiji tourism changed.

However, tourism did not become a major economic activity in Fiji until the 1960s. In Fiji's Fourth Development Plan (1960-65), tourism was given a priority as part of the economic diversification programme before independence in 1970. In 1964 the government passed the Hotel Aid Ordinance. (Fiji Government, Hotel Aid Ordinance, 1964)

This was the first Fiji government legislation designed to encourage the growth of tourist accommodation. Now known as the Hotels Aid Act, (it was revised in 1985) it has been a major factor in the establishment and development of the tourism industry. The Act incorporates two alternatives as incentives:

- (1) a Grant of Subsidy plus a special depreciation allowance (a provision which expired in December 1986 and is no longer available) ; and
- (2) an investment allowance at a level of 55% of capital expenditure (excluding land).

#### **Customs Concessions:**

Investors in major hotel and resort development projects can also negotiate customs concessions on the imported materials required for the initial establishment of the facility. The recent review of tourism development recommended that a concessionary rate be established and standardised (for example a flat 15 per cent rate) in order to add to the attractiveness of the incentives package, which will in turn simplify and standardise the provision, making promotion of the incentives package easier and more effective. (Coopers & Lybrand, 1989)

The Coopers & Lybrand study also recommended that the government amend the application of the investment allowance provision to:

- provide for investment allowances approved for extensions to be treated in the same manner as an allowance for initial construction i.e., applicable to profits from the entire facility;
- delete the current restrictions on transferability of unused allowance at the time of sale of the hotel;
- provide for hotel operators as well as hotel owners to be eligible for the allowance (to cover those situations where the operator is responsible for the provision of furniture, fittings and equipment); and
- provide for the inclusion of major refurbishment or upgrading programmes as eligible expenditure. (A definition of major as 10% of the indexed value of the initial investment cost was suggested as appropriate.)

In addition, the study recommended that additional financial incentives be made available for "local" investors in tourism, and suggested that these be provided by one of the following:

- Cash subsidies. The study recommended a seven per cent cash subsidy against approved initial capital expenditure, or a subsidy of 50 per cent of the commercial rate, against an approved borrowed sum, up to a cumulative seven per cent of the approved initial capital expenditure.

- An interest rate subsidy on commercial bank loans. This interest rate subsidy would reduce the immediate cash costs to government (and utilise some of the current liquidity in the banking sector) while still providing assistance to the investor in early project development.

The report recommended that these incentives be limited to hotel and resort developments not exceeding F\$2 million and having two thirds local equity control, and should be available in addition to the investment allowance and customs concession.

Another significant piece of tourism legislation were the Coopers & Lybrand recommendations turned into legislation during the colonial period was the Tourist Commission and Fiji Visitor's Bureau Ordinance of 1969. The purpose of this Ordinance was:

"to encourage and develop the Fijian tourist industry and traffic to, within, and beyond Fiji, taking into consideration at all times the true cultures and customs of the peoples of Fiji". (Legislative of Fiji, 1969)

The government also established the Fiji National Training Council in 1973, (Parliament of Fiji, 1973) which, among other things, established a Hotel and Catering Industry Training Board consisting of private sector and government representatives. The main function of the Board is to identify training needs, decide priorities and approve training programmes for hotel industry. Since then, the Hotel and Catering Training School has provided training for the tourism industry, funded partially by government and partially by the private sector.

### ***Ministry of Tourism***

The Ministry of Tourism, Civil Aviation and Energy within the Fiji Government was established in 1985. The role of the Ministry of Tourism is to promote the development of tourism.

When the Interim Government was established after the coups in December 1987, it identified tourism as a sector of the economy warranting priority attention. The government believed that the industry could again become one of the mainstays of Fiji's economic revival, especially in the provision of jobs and foreign exchange.

While implementing severe budget cuts in other sectors, the government allocated additional funds to tourism. These funds were used to rebuild the country's image overseas and the government sought investment finance needed for development and gave full support to the industry and the Fiji Visitors Bureau in an aggressive marketing programme.

The result was that in 1988, there was a 10 per cent growth in visitors compared with 1987. Foreign investment boomed (especially Japanese investment), and earnings from the tourism industry strengthened Fiji's foreign reserves and contributed to a growth in local consumer demand.

By 1989, the Minister was optimistic that a new wave of progress and growth was sweeping through Fiji tourism and he reaffirmed the Government's commitment to Fiji tourism. (Pickering, 1989)

### ***Fiji Visitors Bureau***

The Fiji Visitors Bureau (FVB) was established in 1960s. The FVB is the national tourism office of Fiji, responsible for maximising the economic and social benefits of tourism in Fiji. It accomplishes this by planning, developing and coordinating the marketing of Fiji as an international tourist destination.

The FVB's corporate mission is:

- to increase the number of visitors to Fiji from overseas; and
- to maximise the economic and social benefits of tourism to Fiji.

The objectives of the Fiji Visitors Bureau are:

- to increase visits to Fiji by people from other countries, promoting Fiji as both a single holiday destination and as a stop-over to or from other destinations;
  - to increase trade and consumer awareness of Fiji as a safe, desirable and enjoyable tropical holiday place to visit;
  - to coordinate, in conjunction with the Fijian travel industry, overseas promotions to widen the effectiveness of Fiji marketing;
  - to ensure Fiji's marketing operations are innovative, effective and efficient and maximise results from available resources;
  - to increase travel industry confidence and participation in the FVB's marketing activities and to increase industry cooperative contributions; and
  - to provide effective and efficient support to Fiji's tourism marketing effort.
- (Fiji Visitors Bureau, 1988)

The new Fiji Tourism Masterplan (Coopers & Lybrand, 1989) proposes more pro-active and a stronger coordinating roles in the Fiji tourism industry. The report recommended that the major responsibilities of the FVB should be:

- (a) Coordinating cooperative advertising from suppliers (e.g. tour wholesalers, airlines, plant operations);
- (b) Encouraging increased participation in cooperative advertising by suppliers;
- (c) Instituting on-going market research activities, and distributing the results to the travel industry;
- (d) Maintaining a comprehensive inventory of facilities, activities and attractions in Fiji;
- (e) Working with industry to establish internationally acceptable performance and service standards for tourism plant and activities; and
- (f) Establishing the necessary print, film and video material to support the promotional strategy (e.g. film library, print articles, photography library" and operations. (FN: Ibid. 2.9)

The report recommended that the FVB take control as the major planner and coordinator of tourism, and liaise authoritatively with airlines, tour wholesalers, tour operators and plant operators. While the FVB is perceived as the appropriate vehicle, the major problem is a lack of resources and capabilities. The FVB should maintain a clear understanding of government policy and commercial reality. This could be accomplished by realising Fiji's national tourism objectives as well as servicing the needs of the other major participants, i.e. the airlines, the tour wholesalers and the plant operators.

Marketing and promotion of Fiji as a holiday destination is handled by the FVB, which is a consortium of government and the private sector.

In 1989 the proposed budget for FVB totalled almost \$5.9 million. This is made up of a \$1.4 million operational budget which covers operations in Fiji, Australia, North America, New Zealand, Japan and Europe, in addition to marketing budgets totalling \$4.4 million for the above markets. (Fiji Visitors Bureau, 1989)

### *Tourism Expenditure*

By 1969 Fiji tourism generated \$20.6 million in gross foreign exchange, or 31 per cent of the country's total foreign exchange earnings. The tourism industry had also created 2,000 jobs in the accommodation sector, and approximately 2,000 jobs in other tourism services. (Britton, 1983)

By 1970, when Fiji became independent, tourism was already providing considerable foreign exchange and had diversified the country's export base. Tourism continuously provided a major and expanding source of foreign exchange earnings for Fiji, with a strong and growing international demand until the political crisis in May 1987. By 1986, the figure had risen to \$F185 million, however it dropped to \$F185 million in 1987. Gross tourism receipts have increased from \$F23.4 million in 1970 (compared to \$F31.8 million from sugar exports) to \$F185 million in 1986. (Table 9.1)

**TABLE 9.1**  
**ESTIMATED GROSS TOURISM RECEIPTS WITH AVERAGE**  
**VISITORS AND DAILY EXPENDITURE**

CALENDAR YEAR	EST. RECEIPTS (\$F MILLION)	AV. VISITOR (\$F)	DAILY EXP. (\$F)
1980	109.50	591.74	69.78
1981	122.00	664.93	76.87
1982	138.30	702.52	75.06
1983	135.90	731.95	80.61
1984	161.00	698.97	82.72
1985	168.70	757.01	91.10
1986	185.00	727.29	91.83

Source: Fiji Visitors Bureau

The tourism industry has been remarkably resilient, withstanding the pressures of the fuel crises, changing airline patterns (with overflying), changing economic conditions in visitor markets, fluctuating exchange rates and now two military coups. By 1987, the tourism sector offered the best opportunity to contribute towards economic growth and employment generation.

During the early 1980s, tourism accounted for approximately 12 to 13 per cent of Gross Domestic Product (GDP). Due to low linkages with the rest of the economy, as well as high import content, the tourism income multiplier was estimated at about 0.94, which was lower than the sugar multiplier (1.47). (Britton, 1983)

Approximately two thirds of the gross receipts of the tourist industry flows out of Fiji and government policy is to actively encourage an increase in the retention of the tourist dollar. (Fiji Government, 1985) The government has proposed that a study be undertaken (in conjunction with the private sector) to determine methods of strengthening the linkages between tourism and other economic sectors in order to decrease the import content of the tourism industry.

A pilot project funded and implemented by the Tourism Council of the South Pacific (TCSP) has attempted to achieve this in the area of agricultural products. Many of the fruits and vegetables used in hotel restaurants have been imported from overseas. The TCSP project has brought the agricultural producers of Fiji and the hotel chefs together to discuss availability of local products, quality control and supply. The project has produced calendar posters showing which products are in season, and which will assist the chefs in their menu planning. This is one example of strengthening linkages between economic sectors and the government wants to further encourage greater use of local agricultural produce in hotels and restaurants.

***Investment in the Tourism Industry and Government Incentives:***

Until recently, tourism investment in Fiji has been dominated by the private sector. Until 1988, the Fiji Government did not own or invest in hotel facilities, a common practice in other Pacific Island countries. However, in the Ninth Development Plan, Government became committed to playing a more active and positive role in tourism, by stimulating and facilitating increased private investment activity in tourism, and by constantly monitoring developments. Government policy stated that it planned to channel funds through the Fiji Development Bank (FDB) to be used as "seed money" for investment by local people as equity and loans in major hotel development projects. The FDB would use this allocation to borrow additional funds (within its approved guidelines) in order to create a great pool of funds for this purpose. Government was also prepared to give guarantees for the FDB to raise the additional resources. (FN: DP9 1986) In addition, the Fiji National Provident Fund resources could be made available as loans to the hotel industry, channelled through the FDB, in order to increase the amount of funding available for construction of hotels.

Unlike the traditional English speaking Australian and New Zealand tourists who have been Fiji's main customers, who are content to swim and lie in the sun, the Japanese need to be entertained and seek more activities. Fiji will have to improve services and its tourism industry to cater to the Japanese tourists.

The big question that comes to mind is "What is the role of indigenous Fijians in tourism development in view of these large, multi-million dollar investments?" This is a key issue and will be dealt with in Chapters 11 and 13.

## **B Tourism Development Plans and Strategies**

The Fiji Government plays an important role in the development of the tourism industry. Since the 1960s it has included tourism development plans and strategies in each of its 5 year national development plans. These are presented as strategies and programmes in terms of the contribution of tourism to the national economy, investment in the tourism industry, employment, education and training, accommodation and air service and aviation policy. The Fiji Government's tourism sector objectives for the DP9 period are:

- to ensure that tourism development is in harmony with the national development policies and objectives;
- to increase the use of local agricultural and other produce in hotels so as to increase tourism value-added, and to improve overall linkages with the rest of the economy;
- to promote greater local participation through providing greater opportunities to local entrepreneurs to invest in hotels and related industries, and increasing employment of local people at middle and senior management levels;
- to diversify the visitor source markets;
- to facilitate the setting up of small scale secondary activity by local entrepreneurs through provision of basic infrastructure, physical resources and credit facilities;
- to increase the level of tourism awareness among the local people and visitors to Fiji; and
- to ensure that adverse effects on local customs and cultures are avoided and the nation's cultures enhanced (Fiji Government, 1985)

During the DP9 period, government policy is to encourage the development of secondary tourist activities, such as diving and snorkelling facilities, caravan and camping parks and other related activities. These are activities that require minimal capital, managerial and technical skills, thus enabling more local entrepreneurs to participate in tourism. The government also encourages increasing the number of specialised tourist goods to service visitor shopping needs. The Japanese tourists in particular like to spend money on specialty items which they can take home as gifts.

One of the secondary tourism activities that government is targeting is the handicraft industry. The government is committed to the development of a more organised handicraft industry and recognises the importance of handicraft production in generating income and employment in the rural areas. One advantage of the handicraft industry is that the skills required to produce handicrafts, and most of the raw materials are available locally. The Government Handicraft Centre (GHC) was established in 1976 and continues to market traditional handicrafts of high quality. Further discussion of the GHC and traditional handicrafts is presented in a later chapter.

In 1988 the Interim Government commissioned Coopers & Lybrand (funded by the Asian Development Bank) to prepare a Strategic Tourism Masterplan. The final report was presented to government in February 1989, and covers tourism development in Fiji from 1989 to 1995. The national goals of the Masterplan are:

- A sustained growth in total visitor expenditure.
- Appropriate levels of local participation in all segments of the tourism sector.
- Increased contributions from the tourism sector to the national economy.

- An equitable distribution of the benefits of tourism.
- Cultural harmony for hosts and visitors.
- Appropriate environmental management.

The objectives of the plan cover marketing and promotion, transport, hotel facilities, development of secondary tourism activities, social and environmental impact assessment and institutional development. One of the objectives in the development of secondary tourism activities is to:

To provide more opportunities for local participation in the tourism sector to involve, in tourism related economic activity, communities not now associated with the sector."

The Interim Government's current 1989 projects, initiatives and policies were set out by the Minister of Tourism in June, 1989. In summary these were:

- Completion of the Tourism Master Plan.
- Extension of the investment allowance provided for under Hotel Aids Act for a further period of three years.
- Completion of the \$10 million improvement scheme for Nadi International Airport. The terminal building has been redesigned to cater for a peak traffic load of four B747s and three B767s. On a load factor of 70 per cent, the transit lounge will comfortably accommodate up to 1,650 passengers, with seating for 1,000.

Over the next two to three years, the Civil Aviation Authority will spend at least \$3.5 million on apron extensions, a new taxi-way, resurfacing of the secondary runway, expansion of cargo amenities, and an operations building.

- Launching of the 200 room, \$30 million Suva Sheraton Hotel which is being developed by the government to stimulate the construction industry and spread the benefits of tourism.
- Cabinet approval (in principle) for a scheme which will create an artificial lagoon and beach for Suva, with a large reclaimed area for residential and recreational development. This is currently at the pre-feasibility stage.
- Government support of \$2 million for the cost of infrastructure for a new resort -- Saweni Beach Resort. Two leading hotel management companies (Westin and Meridian) are interested in management contracts for hotels planned for the resort. The resort is expected to provide over 2,800 jobs in the four year construction period.
- Discussions with Shangri-La International Group (owners and operators of the Fijian and Mocambo Resorts) regarding a new resort on 900 acres of land adjacent to Natadola Beach. This will include a number of hotels, an 18 hole championship golf course and other amenities.
- Improvement of Fiji's tourism retail shopping industry.
- Implementation of a tourism awareness programme using radio programmes.

As indicated earlier, incentives for investment fall under the Hotels Aid Act and provide for an investment allowance and certain customs concessions. These incentives have previously been available only to foreign investors.

It is now recognised that additional financial incentives should be available for local investors in the tourism sector. These can be provided by way of either a cash subsidy or an interest rate subsidy on commercial bank loans. An interest rate subsidy would reduce the immediate cash costs to Government (and utilise some of the liquidity in the banking sector) while still providing assistance to the investor. However, this would be complex to administer. The report suggested that seven per cent cash subsidy against approved initial capital expenditure, or a subsidy of 50 per cent of the approved initial capital expenditure might be more appropriate. It recommended that this incentive be limited to hotel and resort developments not exceeding \$F2 million and having two thirds local equity control. This incentive should be made available in addition to the investment allowance and customs concession.

In November 1988, the Interim Government announced that it would invest in and build a 300 room, five star hotel in Suva, financed with funds from the FDB, and operated by the Sheraton Hotel chain. There was some speculation that the Government announcement of this first venture into hotel investment was designed to demonstrate the Government's confidence in tourism and hotel investment in Fiji during the post-coups period. Although this may have been part of the motivation, in fact, several new major foreign investments had already have been announced, EIE in particular.

However, this commitment by government should encourage further foreign investment in Fiji. The project will provide the first major hotel development in Suva and is scheduled to be completed in 1991.

Since 1988, the Japanese have demonstrated a keen interest in tourism investment in Fiji. Several large Japanese companies have bought major shares in several resort developments.

One Japanese firm has purchased Pacific Harbour International Resort and Golf Course, a major share in the Hyatt Regency Hotel on the Coral Coast, and yet another has invested heavily in the newly completed Sheraton Fiji Resort (300 rooms) on Denarau Island in western Viti Levu near Nadi.

However, the largest Japanese investment to date has been made by EIE International Corporation of Japan (EIE). This corporation has recently purchased the Regent Hotel (300 rooms), part of the Sheraton Fiji Resort, and most of the surrounding land (680 acres) on Denarau Island. In addition, EIE is constructing Fiji's largest, most luxurious and best appointed destination resort. EIE is a private company incorporated in Japan in 1972. It is owned and controlled by Mr Harunori Takahashi and members of his family. The corporation now controls over two dozen public and private companies and which include property development, hotels, golf courses, electronics, banking, telecommunications and pharmaceuticals. EIE investments outside of Japan include:

- Thirty per cent of Regent International Hotels, a top international hotel operator with Regent Hotels in Asia, Australasia, the U.S. and Europe.
- Ownership of Regent Hotel properties and projects in Sydney, Milan, London, New York, Bangkok, Hawaii and New Caledonia. In Fiji, EIE owns the Regent of Fiji, plus part ownership of the Sheraton Fiji Resort.
- Ownership in the Hyatt chain hotel properties in Saipan (Northern Marianas), Perth, Tahiti, Sanctuary (Australia's Gold Coast) and Sydney.

- In Tahiti EIE has recently announced it will invest \$US150 million in building 100 new rooms at the Beachcomber, renovation of the Moorea Beachcomber and the Hyatt Regency Tahara'a. The investment will be channelled through its subsidiary Tahiti Holding B.V (FN:PIM July 1989)
- Ownership of a minority shareholding in Air Pacific (Fiji;s national airline).

The new EIE Denarau resort will have five hotels (each approximately 300 rooms), 618 townhouses, condominiums and villas; a 35 acre marina, shopping areas, restaurants, cultural centre, convention and business facilities, a golf course, tennis ranch and other recreational activities. The estimated cost is \$F300 million and work has already been initiated. This project will provide over 2,000 jobs during construction and several hundred permanent jobs on completion. It will also generate numerous contracting opportunities, local purchases of goods and services and provide income generation for the traditional land owners. The island is owned by three landowning Yavusa of Narewa Village and the lease is managed by the Native Land Trust Board (NLTB).

The lease rental income from this multi-million dollar project is substantial and directly benefits the traditional landowners. When the development is completed (in approximately eight years) Denarau will be able to cater for over 5,000 visitors.

In a relatively short time, EIE has emerged as one of Fiji's most important corporate concerns. It represents a scale of development and investment never before experienced in Fiji and the region. EIE became interested in investing in Fiji in 1987, after the coups. While most investors were trying to get out of Fiji, EIE was one of the few corporations looking at new investment.

Japanese investment in Fiji tourism, and particularly the EIE investment, has opened a new era for tourism development in Fiji. It means that more and more Japanese tourists will travel to Fiji and it means that the tourism industry in Fiji will need to cater more specifically to Japanese tourists' needs. This includes better restaurants (including good Japanese restaurants), more secondary activities such as up-market shopping, more tourist attractions and activities, and people who speak the Japanese language.

### **C Visitors Arrivals and Marketing**

Fiji was the first South Pacific Island country to seriously develop tourism after World War II. By Independence in 1970, Fiji had established an accommodation inventory of nearly 2,000 rooms. A total of 110,000 overseas visitors visited Fiji in 1970, as well as approximately 42,000 cruise passengers.

Between 1970 and 1986 Fiji had a total room inventory of over 4,200 rooms capable of accommodating some 7,000 visitors per night. In 1986, visitor arrivals reached a record high at 257,800 visitors, who stayed an average 7.9 days, and contributed an estimated \$F185 million in foreign exchange.

However, as a result of the political problems in Fiji, 1987 proved to be a disastrous year for tourism. The two military coups which took place in May and September 1987 caused a severe downturn in visitor arrivals, resulting in a 26 per cent decrease in 1987 to a total of 190,000 visitors. Cruise passengers for that year fell by 25 per cent to 32,500 and total foreign exchange earnings were approximately \$F150 million. (Table 9.2) The drop in visitors can be attributed to the negative impact of the two military coups on the source markets of Australia and New Zealand, where media reports created the image that Fiji was an unsafe destination.

Despite the decline in visitors from all sources in 1987, it is clear that marketing by the FVB and international airlines in key source markets (especially Australia) has been successful in increasing visitor numbers.

The strategy for the DP9 period was to target an average annual growth rate of 11.5 per cent in visitor arrivals (400,000 visitors) with average length of stay to remain at 7 days by 1990. This strategy also implied a 6.3 per cent average annual increase in tourist receipts in 1985 dollars.

With the setback of the military coups, this target will not be attainable by 1990. However, projections for international tourism growth for Fiji indicate that by the year 2000, Fiji will receive 860,000 visitors, with an estimated \$F580 million in foreign exchange earnings. These projections are based on a growth rate of 11.5 per cent.

FVB projections of visitor arrivals indicate that 260,000 tourists will visit Fiji in 1989 (an increase of 27.4% on 1988). Forecasts also show that by 1990 Fiji will receive 290,000 visitors with estimated earnings of \$F196 million, and that by the year 2000, 860,000 visitors will visit Fiji with estimated earnings of \$F580 million.

### ***Tourism Marketing***

The FVB seeks to achieve its marketing objectives and targets by undertaking advertising, trade promotions (generally in cooperation with the Fiji travel industry) and coordinated public relations programmes to maximise opportunities to gain favourable publicity. These activities are supported by the production of tourist literature (enhanced by paid product advertising), assembly and distribution of product information, and coordination of arrangements for familiarisation visits by journalists and travel agents.

TABLE 9.2

## FIJI: TOTAL OVERSEAS VISITOR ARRIVALS

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CALENDAR YEAR	NUMBER OF ARRIVALS	%AGE CHANGE
1980	189,996	+ 0.7%
1981	189,935	- 0.0%
1982	203,640	+7.2%
1983	191,630	- 5.9%
1984	235,220	+22.8%
1985	228,190	- 3.0%
1986	257,800	+13.0%
1987	189,862	-26.4%
1988	208,155	+10.0%

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Source: Fiji Ministry of Tourism, Civil Aviation & Energy  
Fiji Visitors Bureau

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The marketing objectives of the FVB are to:

- encourage visits to Fiji by people from other countries and to maximise the economic and social benefits of international tourism;
- coordinate overseas promotion activities in cooperation with the Fiji travel industry;
- ensure Fiji's marketing operations are innovative, effective and efficient to maximise available resources;
- increase travel industry participation in the FVB's marketing activities and to increase cooperative contributions.

The FVB has a total operating budget for 1989 of \$F1.4 million, and a proposed total marketing budget of \$F4.4 million for its marketing programmes in Australia, North America, New Zealand, Japan and Europe.

### ***Market Sources***

Fiji is geographically positioned at the cross-roads of international air and sea transportation between North America and Australia and New Zealand, which provides opportunities for stop-over visitors between the north and south.

Fiji's visitors can be broadly divided into four groups:

- (1) Long staying vacation visitors from the short haul markets of Australia and New Zealand;
- (2) Shorter staying vacation visitors from the long haul markets of North America, Japan and Asia;
- (3) Longer staying vacation visitors from the long haul markets of Europe; and
- (4) Longer staying, primarily business, and stop-over visitors from the regional markets of other Pacific Islands.

During the mid-seventies, the Australia and New Zealand markets dominated Fiji tourism, with a combined share of total arrivals of 62 per cent. However, the number of New Zealand visitors decreased dramatically from a high of 26 per cent in 1975 to 8.5 per cent in 1987. There was also a marked reduction in the number of United States visitors as a result of the withdrawal of American Airlines services in the 1970s and Continental Airlines in 1987, and overflying by Qantas and Pan American. Japanese visitor arrivals to Fiji peaked in 1982 with over 18,000 visitors, but declined to 12,000 visitors in 1986. It is expected that visitors from Japan will increase as a result of a new Nadi/Tokyo/Nadi Air Pacific service which was inaugurated in October 1988. Visitors from the United Kingdom and Europe have continued to increase during the 1980s.

The Fiji Government is intent on capturing a portion of the significant Japanese market. In 1988, eight and a half million Japanese travelled overseas and this is expected to increase to 10 million in 1990.

In addition, Fiji is pursuing other Asian markets including Korea and Taiwan. Market research shows that over one million Koreans will travel overseas in 1989, with approximately 17,000 visiting Oceania (mostly Australia and New Zealand). Koreans are multi-destination tourists who would regard Fiji as an attractive stop-over. To encourage this, Air Pacific has appointed a general sales agent in Seoul and will launch a joint fare with Korean Airlines from Seoul to Tokyo to Nadi.

In 1988, over 1.6 million travelled overseas from Taiwan, with about 17,000 visiting Oceania. Air Pacific has also appointed a representative in Taipei.

***Average Length of Stay***

Australian and New Zealand visitors generally stay in Fiji longer than other visitors, with an average of 10 day visits. In comparison, visitors from North America, Europe and Japan average from four to seven days. The average length of stay for the year ended May 1988 increased to 8.83 days. (Table 9.3)

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**TABLE 9.3**  
**OVERSEAS VISITORS TO FIJI BY LENGTH OF VISIT**

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<b>CALENDAR YEAR</b>	<b>LENGTH OF VISIT (DAYS)</b>
1980	8.5
1981	8.7
1982	9.4
1983	9.1
1984	8.5
1985	8.3
1986	7.9
1987	8.4
1988	8.8

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Source: Fiji Visitors Bureau

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**Overseas Visitor-days**

The combination of number of visitors and their average length of stay enables the measurement of "visitor-days". This determines the average daily presence of visitors in Fiji and the room or bed requirement to accommodate these visitors. In 1980, total days spent by visitors to Fiji were recorded at 1.6 million, which increased to two million in 1986, but fell to 1.6 million in 1987. (Table 9.4) In 1983, over 66 per cent of total visitor-days (or bed-nights) spent in Fiji were Australian and New Zealand visitors. By 1987 this had declined to 55 per cent due to the increase in visitor flows from North America and Europe. Despite an improvement in length of visit in 1987, total visitor days declined by 700,000 or 33.4 per cent to 1.58 million. (Table 9.4)

**TABLE 9.4**  
**OVERSEAS VISITOR-DAYS SPENT IN FIJI AND**  
**AVERAGE DAILY PRESENCE**

<b>CALENDAR YEAR</b>	<b>VISITOR-DAYS (MILLIONS)</b>	<b>AV. DAILY PRESENCE</b>
1980	1.57	4,290
1981	1.59	4,356
1982	1.84	5,041
1983	1.69	4,630
1984	1.95	5,329
1985	1.85	5,068
1986	2.01	5,507
1987	1.58	4,329

**Source:** Fiji Visitors Bureau

## D Fiji Accommodation Industry

Fiji now has approximately 4,500 rooms available for visitors. Over one third of these rooms are managed and operated by the international hotel chains of Regent, Shangri-La, Hyatt, Sheraton and South Pacific Hotels Corporation (Travelodge). Most of the rooms are concentrated on the western side of Viti Levu, especially the Nadi area, the Mamanuca group of islands and the Coral Coast. (Table 9.5)

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**TABLE 9.5**  
**LOCATION OF FIJI TOURISM ACCOMMODATION 1988**

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**AREA OF ACCOMMODATION PERCENTAGE OF TOTAL ROOMS**

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Nadi area	31.3%
Mamanuca Group	11.9%
Coral Coast	21.2%
Deuba (Pacific Harbour)	3.6%
Suva	18.5%
Outer Islands	4.6%
Blue Lagoon Cruises	3.0%
Other areas	5.9%

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**Source:** Fiji Visitors Bureau, 1988

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DP9 indicates that government policy is to continue to encourage the development of additional tourism infrastructure to accommodate an increase in visitors. The recent Tourism Masterplan estimates that an additional 1,500 hotel rooms will be required by 1995. These should comprise.

1,000 premium resort rooms

200 premium city hotel rooms

200 mid-scale resort rooms

100 rooms related to special interests (e.g. diving, trekking)

Demands for small scale accommodation to cater for special interest groups in villages and outer island locations are not expected to cause a supply problem. Several current proposals for bure style accommodation in various locations are already in place. Similarly, at the middle market level, refurbishment of several hotels is currently taking place and supply will most likely be adequate. In addition the projected demand for premium city hotel rooms will be satisfied by the proposed Suva Sheraton, due for completion in 1991.

If plans for premium resorts/hotels proceed as proposed, (e.g. Denarau Island, Saweni Beach etc.) the supply of up-market accommodation should be sufficient. However, the lead time needed to convert proposals to operating realities (three-five years) means that construction must start immediately if goals are to be met by 1995.

Government policy is to continue to encourage the development of major integrated resorts as well as support the development of smaller hotels in suitable locations.

The Masterplan recommends that the Fiji Hotel Association (FHA), in conjunction with appropriate Government authorities and the industry, establish a two-tier grading system for hotels/resorts. The first system of classification should be based on the type of accommodation and facilities provided, as an aid to data collection and analysis, land use, investment planning and administration. The second classification would involve a "standards committee" who would apply an international star rating system to existing properties in each category type. This would improve standards in the industry through greater competitiveness and ensure that visitors understand what standard of accommodation they are purchasing.

## **E Air Service**

### ***International Air Service***

An international air service is probably the key factor in the development of any Pacific Island tourism industry, including Fiji. Because of remoteness and isolation from the source markets, Fiji is dependent on a reliable air service to transport visitors. Without a frequent, reliable air service, there can be no further growth in accommodation or visitors for Fiji.

Fiji's geographic location at the crossroads between north and south in the Pacific gives it a certain advantage over other Pacific Island countries. It has a well-established tourism infrastructure and enjoys an extensive air services network through its main international airport at Nadi, in western Viti Levu. As a result, Fiji has developed as a central location for both air and sea communication.

TABLE 9.6

**AIR PACIFIC SHAREHOLDERS  
(as of March 1988)**

	No. of shares (000)	%	Paid-up Capital (\$F 000)	%
Government of Fiji	20,332	77.9	10,709	65.0
Qantas Airways Ltd.	5,000	19.2	5,000	30.3
Air New Zealand Ltd.	505	1.9	505	3.1
Governments of:				
Solomon Islands	70	0.3	70	0.4
Kiribati	70	0.3	70	0.4
Tonga	70	0.3	70	0.4
Western Samoa	32	0.1	32	0.2
Nauru	23	0.1	23	0.1
<b>Total</b>	<b>26,093</b>	<b>100.0</b>	<b>16,480</b>	<b>100.0</b>

Source: Tourism Council of the South Pacific, 1988.

Fiji is currently serviced by several major international carriers: QANTAS, Air New Zealand, Canadian International, and Air Pacific. In the past, several American carriers have serviced Fiji, including Pan American in the 1960s, American Airlines in the 1970s and finally Continental Airlines in the 1980s. Since Continental airlines ceased service in 1987 (due to end to end problems), Fiji has not been serviced by an American carrier. The continued shortage of dedicated seat capacity to the west coast of the U.S. has been a source of frustration to the government and the industry. It has been a major constraint on growth. Fiji Government has been carrying out negotiations with U.S. airlines and the U.S. government to resolve the airline capacity problem from the U.S.

Air Pacific Limited (FJ) is Fiji's national airline, jointly owned by six governments and two airlines. (Table 9.6) The company was formed in 1957, originally under the name of Fiji Airways Limited. In 1971 the company was renamed "Air Pacific Limited" which reflected the intention at that time that it would become a regional airline to be owned by several Pacific Island countries. Although several island countries hold shares in Air Pacific, the Fiji Government assumed more financial and political responsibility for Air Pacific Ltd. and in 1974, the Fiji Government assumed the controlling interest.

In 1984 Fiji Government selected Qantas Airways to manage and operate Air Pacific. The management support agreement and a lease agreement for the use of B747 aircraft from the Qantas fleet were signed and are effective until March 1995. According to the 1986/87 Annual Report of Air Pacific, Qantas has agreed to "underwrite any net losses incurred by Air Pacific on its airline operations" up to 31 March 1990. However, Air Pacific has returned major profits for 1988 and 1989 (\$900,000 and \$3 million).

The objectives of Air Pacific are:

- To provide the necessary air transport and communication requirements for Fiji and its tourism industry.
- To operate on a profitable basis.
- To provide an efficient and safe airline operation.
- To provide a meaningful contribution to the Fiji economy.
- To operate:
  - International routes, i.e. Australia, New Zealand, North America and Japan;
  - Regional routes, i.e. Tonga, Samoa, Vanuatu, Solomon Islands and New Caledonia;
  - Domestic routes, i.e. Suva/Nadi, Suva/Labasa.

Currently Air Pacific operates the following types of aircraft:

1 B747-200	leased from Qantas, Australia
1 B737-200	owned by Air Pacific
2 ATR 42	owned by Air Pacific and
1 Twin Otter	leased from Fiji Air, Fiji.

The domestic routes (Suva/Nadi and Suva/Labasa) are being operated as a commuter service with both ATR42 and Twin Otter.

In the year ended 31 March 1988, a total number of 274,000 passengers were carried by Air Pacific, representing an increase of 4,000 passengers compared with 1986/87. Although the military coups in 1987 caused a dramatic decrease in the number of tourist arrivals for Fiji, Air Pacific kept its market share.

This was due to cheap incentive fares initiated between Australia and Fiji which

These aircraft are used to serve the following routes (weekly frequency):

**TABLE 9.7**

**AIR PACIFIC INTERNATIONAL ROUTES AND FREQUENCIES 1988  
(WEEKLY FREQUENCY)**

ROUTE	TYPE OF AIRCRAFT	FREQUENCY
Nadi/Sydney	B747	4
Nadi/Brisbane	B737	1
Nadi/Vila/Brisbane	B737	3
Nadi/Auckland	B747	1
Nadi/Auckland	B737	2
Honiara/Brisbane	B737	2
Nadi/Narita (Japan)	B747	1
Sydney/Tonga (via Nadi)		1
Tonga/Sydney " "		1

Source: Tourism Council of the South Pacific, 1988.

were offered in the period immediately after the coups, and the fact that Air New Zealand and Continental Airlines both stopped flying into Fiji after the coups. Air New Zealand resumed services in November 1988.

Australia remains Fiji's largest source market for visitors. Air Pacific (in conjunction with Qantas) will boost the number of seats to Fiji by approximately 12 per cent, about half a B747 a week.

### ***Domestic Airlines***

Several airlines operate services within the Fiji Islands. These include Fiji Air (PC), Sunflower Airlines (2S) and Turtle Airways.

Fiji Government has a 25 per cent shareholding in Fiji Air which operates a fleet of eight smaller aircraft out of Suva. Besides its domestic services, the airline has a contract with the Tuvalu Government to service the capital of Funafuti three times a week with a Riley Heron.

Sunflower Airlines, which is privately owned, operates a fleet of six smaller aircraft from its base in Nadi for both scheduled services and charter flights to island resorts. Turtle Airways, which is also privately owned, provides charters to various islands.

### ***Civil Aviation Policy***

The Fiji Government continues to review and monitor its civil aviation and landing rights policy to ensure increased visitor traffic to Fiji and to develop better accessibility to neighbouring island countries.

Prior to 1987, Fiji was experiencing screening on short-haul passengers by some of the international carriers operating through-flights. As a result Government instituted a policy that all future Bilateral Flight Agreements would provide for minimum capacity in order to ensure sufficient airline seats.

Civil aviation policy worldwide is changing toward liberalisation in air transport. Fiji is undertaking a policy which it terms "controlled competition" to avoid the instability of an "open skies" policy. "Controlled competition is an approach aimed at encouraging airlines to offer competitive fares to Fiji.

One of the critical considerations in the issue of fares and seats relates to the commercial advantages to an operator of seats being sold "end to end" (e.g. Sydney to Los Angeles). Airline operators tend to dedicate the great majority of airline seats to this "end to end" traffic, rather than to an intermediate destination such as Fiji. The "overflying" problem that Fiji faces will become more serious with the emergence of the B747-400 which has the ability to fly non-stop between Sydney and Los Angeles without any load penalties.

The Fiji government has successfully negotiated critical traffic rights for Air Pacific. These include commercial rights to Sydney, Melbourne, Brisbane, Auckland, Wellington, Christchurch, Honolulu, Los Angeles, Vancouver, Narita, Seoul, Singapore, Hong Kong, Tahiti, Bombay and New Delhi. Although Air Pacific is not in a position to utilize them all, the government is considering available options to encourage these dormant rights to be used. Fiji Government is also entering into bilateral air service agreements with Thailand, Indonesia and Malaysia as part of a new thrust for Asian trade and tourism.

## **F** Tourism Employment

Tourism is an important source of employment in Fiji. In addition to providing employment in the urban centres, tourism also provides jobs for people in less developed areas, where employment opportunities are limited.

Tourism is a labour intensive industry, with the added advantage of employing skilled graduates from universities and technical institutes as well as semi-skilled labour. A high proportion of those employed are married women and young people.

In an early study of tourism employment in a hotel in Fiji, Samy (1973) found that 33 per cent of the employees in the hotel were women. In 1977, 6,619 persons were employed in direct tourism employment: 48 per cent were employed in the accommodation sector, 14 per cent in tourist shopping trades, 14.7 per cent in the handicraft sector and 11.6 per cent in the entertainment, travel and tour sectors. (Britton, 1983) It was estimated that another 3,414 people were employed indirectly in tourism through other sectors of the economy.

With deductions made for foreigners who held hotel management positions and entertainment (who also held other positions in hotels) net employment in the tourist industry was approximately 9,000 jobs in 1977. (Britton, 1983)

However, in 1977 the tourism industry's ability to stimulate employment was lower than for all primary and secondary sector industries. The tourism industry's propensity to stimulate employment was a 0.34 per cent increase in labour demand for every 1.00 per cent increase in expenditures, compared with multiplier averages of 0.64 for primary sector industries, and 0.55 for secondary sector industries. (Britton, 1983)

Varley (1978) found providing tourism jobs very expensive. For example he found that an investment of at least \$25,000 is needed to create one hotel job (p.58). This is one reason why the secondary tourism sectors of tourist shopping and handicraft vendors may be more appropriate avenues to promote employment, although they probably offer less security.

Estimates of direct employment for the period 1981-1984 show an average of 6,700 people employed. Of these, 50 per cent were in the hotel sector; 14.4 per cent in the wholesale, retail and distribution sectors; and 20 per cent in the tour and transport sectors. It was estimated that approximately 17,823 people were either directly or indirectly employed in tourism by 1985. (Table 9.8). By 1988, it was estimated that this number has grown to over 24,000 people. Projections indicate that direct employment in the tourism industry will grow from 7,664 in 1985 to 13,231 by 1990. (Table 9.9)

Government policy is to encourage the growth of tourism to provide more employment. It has been estimated that on average, approximately 12 to 13 additional visitors are required to support one additional job in Fiji. On this basis, it was estimated in 1985 that the tourism industry would provide approximately 5,567 additional jobs in tourism related activities by 1990.

## **G Education and Training**

The government is preparing a tourism awareness programme which will be introduced into the curriculum of the secondary schools. To inform young people of the benefits (and problems) of the tourism industry.

In addition, the Government recognises the need to develop an educational programme for overseas visitors. This would include information on issues such as the languages of Fiji, the Fijian way of life, the system of government and the Fiji economy.

**Table 9.8**  
**FIJI: Potential for Labour Absorption In Tourism During DP9**

	1985	1990	Additional Employment
Hotels and Restaurants	3,832	6,616	2,784
Wholesale and Retail Trade	1,104	1,905	801
Transport	1,533	2,646	1,113
Other Sectors	1,195	2,064	869
Direct Employment	7,664	13,231	5,567
Indirect and Induced Employment	10,159	17,538	7,379
<b>Total</b>	<b>17,823</b>	<b>30,769</b>	<b>12,946</b>

Note: Indirect and induced employment shows employment generated in all the other sectors of the economy through the multiplier effect for tourism expenditure.

Source: Fiji's Ninth Development Plan 1986-1990, Central Planning Office, Suva, 1985.

**Table 9.9**  
**FIJI: Manpower Requirements for the Tourism Industry**  
**1985-1990**

	%	1985	1990	Additional
Level I Managerial	5	383	662	279
Level II Higher Technical	12	920	1,588	668
Level III Medium Technical	30	2,299	3,969	1,670
Level IV Basic	53	4,062	7,012	2,950
<b>Total</b>		<b>7,664</b>	<b>13,231</b>	<b>5,567</b>

Source: Fiji's Ninth Development Plan 1986-1990, Central Planning Office, Suva, 1985.

This programme will also include training of tourism workers so that they can be more effective as disseminators of information. The workers would also benefit by becoming better informed on the culture, history and traditions of Fiji. This would improve the image of the local workers in the industry, and increase the overall awareness of tourism in Fiji.

All companies in Fiji are required to contribute 1 per cent of their wages and salaries to the Fiji National Training Council (FNTC), and as an incentive, companies are entitled to a refund if they provide courses for their employees or release them to be trained elsewhere. Most companies take advantage of this training scheme, and find it in their best interests to train their employees to retrieve at least some portion of their involuntary contribution to training.

Training for the tourism industry in Fiji comes under three categories: First, the larger hotels normally conduct their own in-house training programmes. Second, the Fiji National Training Council, through the Hotel and Catering Industry Board, conducts short-term courses to upgrade practical food and beverage training, front office/reception management, and housekeeping. Third, the Tourism Council of the South Pacific (TCSP) provides training on request by the Fiji Government. TCSP has conducted short-term training courses on tour guide training, strategic marketing, collection and analysis of statistics, and general background on the tourism industry.

The Hotel and Catering Industry Board (HCIB) consists of representatives of employers, investors and government. The main function of the Board is to identify training needs, decide on priority areas and approve training programmes for the industry. The school of Hotel and Catering Services was established to train Fijians for employment in the tourism industry.

The programme is developed in partnership with the tourism industry and

includes compulsory periods of in-plant training between terms. Students are usually guaranteed employment and some are actively sponsored by employers who provide them with a subsistence allowance and pay their fees.

In 1978 it was estimated that 884 people who were at that time employed in hotel and catering required training. The school of Hotel and Catering Services did not have the capacity or adequate resources to meet the demand of the industry for more trained personnel. (Taal, 1982) The emphasis in training for the tourism industry has traditionally been in the lower skilled areas.

As a result Fijians are not represented in any significant number at the management level of the tourism industry, and the management of these establishments has continued to be dominated by expatriates. Until recently, the University of the South Pacific has not provided courses in tourism management. However, a new project of the TCSP will provide funding to develop a tourism diploma curriculum for the University of the South Pacific.

In addition, the Government recently announced that plans were underway for the establishment of a new Hotel and Tourism School in Nadi in the western part of Viti Levu where the majority of hotels are concentrated. This will provide both pre-service and in-service training. The new school will help meet the objective of improving the coordination, delivery, quality and scope of training available to the tourism industry. The objectives of the Hotel and Tourism School are:

- a) to provide training at all levels for people wishing to enter the hotel and tourist industry, and to provide professional development for those already in employment; and
- b) to provide the type of training that will induce competence in all employees at all levels of the Tourism Industry, and enable them to

provide the range and quality of services that will be required by visitors. (Coopers & Lybrand, 1989)

Planning for the new school is being handled by a Steering Committee established by the Ministry of Education in 1988. It was estimated that it would cost \$F6 million to build the new school, and construction is expected to start in 1989. However no firm commitment of funding for the capital cost has been received, although the Hapanese (and other aid souces) have indicated an interest. (Coopers & Lybrand, 1989)

Government recognises the fact that the development of several new large resorts with a total of approximately new rooms over the next 5 to 8 years will require of trained people.

The basic objective of employment and manpower planning in Fiji is to better utilise the country's human resources in order to achieve social and economic development. In spite of the government's efforts to provide full employment, an analysis of Fiji's employment trends reveals that the problem of high levels of unemployment emerged in the early 1980's when the worsening economic situation resulted in a deterioration in Fiji's labour market.

The rate of unemployment increased from eight per cent in the 1980 -82 peirod to 10 per cent in 1985, well before the military coups. The deterioration in Fiji's economic situation was due to a marked decline in sugar production a slowdown in the growth of tourist arrivals and a decline in captial inflows. (Fiji Government, 1985)

The government, through the Fiji National Training Council (FNTC) established a vocational training council which advises government on the training needs of personnel in the industry. Under ection 19 of the Fiji National Training Council Act (19730, the Minister may impose a levy on any employer for the

The government, through the Fiji National Training Council (FNTC) established a vocational training council which advises government on the training needs of personnel in the industry. Under section 19 of the Fiji National Training Council Act (1973), the Minister may impose a levy on any employer for the training of employees working in that establishment.

If projected tourism development proceeds as expected, tourism will generate a significant number of jobs which will in turn ease the unemployment situation in Fiji. However, it will take a great effort to be able to provide adequate training for people to fill these positions, especially if Fijians are to be fully represented at all occupational levels in the tourism industry.

**CHAPTER 10****FIJIAN ENTREPRENEURS**

This chapter will describe the business environment in Fiji and review the significant features and problems of indigenous Fijian entrepreneurs. The role of indigenous entrepreneurs in the tourism sector is presented, and the handicraft sector is given special attention.

**A Fiji's Business Environment**

Over the years, Fiji had developed an active, thriving private sector, and the business climate had been very positive, until the two military coups in 1987. The commercial sector has been dominated by Indians, many of whom fled the country in 1987 as a result of the political turmoil that took place. Many business people suffered economic losses during the coups, especially in Suva, where they became the victims of vandalism, looting and rioting. Consequently, many of the positive gains made in strengthening the role of the private sector in national development were immediately lost, and foreign reserves were seriously depleted in a matter of weeks through capital flight. However, this was soon brought under control by the Reserve Bank with the introduction of strict financial controls.

Although there are signs of an improvement in the Fijian economy in 1989, much of the growth in new investments has been in the manufacturing sector, by foreign companies (mainly Australian and New Zealand) who are taking advantage of the tax free zones that the Interim Government has established to encourage exports. It will take a considerable period of time before local investors have full confidence in the Fijian economy, especially because considerable political instability still exists. The draft of the new constitution has not been approved, and a date for a national election (signalling a return to democracy) has not yet been determined. In addition, most business people who left the country in 1987 are not expected to return.

Part-Europeans, Chinese and Others: This racially diverse group are defined for political purposes as "General Electors". No clear definition exists although a Part-European is a Fiji citizen whose paternal ancestor married a Fijian woman, and who, because of the patrilineal nature of Fijian society, has few traditional rights or claims to land. This applies to Chinese, Gilbertese, Solomon Islanders, Tongans etc. who have married Fijian women.

The total labour force in Fiji was estimated at 258,610 (1988) with paid employment totalling 81,212 in 1986 (Government of Fiji, Current Economic Statistics, 1986). In 1985 unemployment was estimated at 10.2 per cent (Government of Fiji, Ninth Development Plan, 1985). Fiji's labour force is well educated, with 77 per cent having attended grade 5 and above, and 4 per cent having post-secondary education.

Prior to the two military coups in Fiji, private business was showing signs of "great buoyancy and resilience" (Hailey, 1985). Locally owned business enterprises played a major role in Fiji's economy (Table 10.2). More than two-thirds of the regularly paid positions in Fiji had been created directly by the business sector. After the coups, there was a marked decline in the growth of private business, and in fact many existing businesses closed down as a result of the political turmoil. There are, however, signs that by 1989 small businesses are making a comeback.

In 1981 an estimated 12,200 Fijians were employed by the private sector (Table 10.3). Although they represented one-third of the total number employed in the private sector, the great majority were employed as semi-skilled or unskilled labour. Only 2,040 Fijians held senior salaried positions, which is only 17 per cent of all the Fijians employed in the private sector.

To understand Fiji's business climate, it is necessary first to comprehend some of the demographic and cultural characteristics of Fiji's multi-racial society.

***Demographic Factors:***

Fiji's population was estimated at 715,375 in 1986, with an average growth rate of 2 per cent. The population is made up of approximately 46 per cent ethnic Fijians, 49 per cent Indians, and 5 per cent Part-Europeans, Chinese, and "others" (Table 10.1). For the purposes of this study, the following definitions of the racial groups in Fiji apply: <sup>1</sup>

- Fijians: "a person shall be regarded as a Fijian if, and shall not be so regarded unless, his father or any of his earlier male progenitors in the male line is or was the child of parents both of whom are or were indigenous inhabitants of Fiji or any island in Melanesia, Micronesia or Polynesia" (Section 134a). Indigenous Fijians had been defined to include any persons who are registered in the Native Land Owners Register, whereas indigenous Rotumans are persons who can prove their claim to that designation through family landholdings and relations still living in Rotuma.
  
- Indians: "a person shall be regarded as an Indian if, and shall not be so regarded unless, his father or any of his earlier male progenitors in the male line is or was the child of parents both of whom are or were indigenous inhabitants of the subcontinent of India."

1 Sources for this definition are the 1970 Constitution of Fiji and Hailey 1985.

**Table 10.1**  
**ESTIMATED POPULATION OF FIJI BY ETHNIC ORIGIN**  
**(MID-1983)**

Origin	Population	Per Cent of Total
Indians	336,000	50.0
Fijians	301,000	45.0
Part-Europeans, Chinese and Others	35,000	5.0

**Source:** Hailey, 1985

**Table 10.2**  
**FIJI: Distribution of employment by sector: 1980-82**

Sector	1980	1981	1982
Private sector	46,488	47,747	45,261
Central government	18,874	17,838	15,785
Statutory bodies and local government	5,628	4,800	5,950
Total	70,990	70,384	66,996

**Source:** Hailey, 1985

If Fijians are to become entrepreneurs, they must be given opportunities to acquire managerial experience through employment in the private sector.

The private business sector in Fiji is composed predominantly of sole traders and partnerships (Table 10.4), but economically the business world is dominated by a few large companies that generate the highest sales turnover and are the largest employers. It is acknowledged that the whole retail sector is manipulated by ten major importers and wholesalers (Hailey, 1985).

### ***Foreign Investment:***

Foreign investment in Fiji has been focused on sugar production and tourism. It was estimated that in 1980 736 companies with some foreign equity were registered and active in Fiji, and that 660 of them had more than 50 per cent foreign equity. This foreign investment was dominated by Australian and New Zealand companies in 1980, however with the changing structure of the economy, foreign investment was becoming more diversified by source (Carstairs & Prasad, 1981).

A study conducted in the late 1970s indicated that there was a decline in foreign investment in Fiji in the mid-1970s, mainly due to an increase of local private and public investment. There were indications that local companies (mainly Indian companies) had gained control in the construction, manufacturing and transport industries, all areas which were heavily dominated by foreign companies in the early 1970s (Carstairs & Prasad, 1981). Other studies concluded that these developments indicate that foreign investors were playing a declining role in the Fiji economy because of the withdrawal of foreign capital, and the growth of indigenous (mostly Indian) smaller firms (Taylor, 1983; Hailey, 1985). However, by 1989, Japanese companies had become major foreign investors in Fiji, especially in the tourism sector.

**Table 10.3**

**Fiji: Wage and salary earners in the private sector by ethnic origin (1981)**

Origin	Wage Earners	Salary Earners
Fijians	10,168	2,040
Indians	17,232	5,333
Others	1,984	2,103

**Source:** Hailey, 1985.

**Table 10.4**

**Fiji: Distribution of wage earners by type of organization and ethnic origin (1982)**

Type of organisation	Fijian	Indian	Other	Total
Sole trader	617	1,775	159	2,551
Partnership	831	1,810	132	2,773
Private limited company	5,566	1,038	1,078	14,682
Public limited company	2,642	4,279	551	7,472

**Source:** Hailey, 1985

The predominance of the Indian community in the commercial sector has steadily grown since 1887 (when hawker's licences were issued to Indians) to at least 14,110 businesses in 1982 owned by Indians. This represented 70 per cent of all registered businesses.

The British colonial government had decided to import indentured Indian labour to work in the sugar cane fields and the first of these labourers arrived on May 14, 1879. Between 1879 and 1916, over 60,000 Indians arrived in Fiji on five-year contracts, and most chose to stay after their contracts expired, rather than be repatriated to India. Many of them took leases on Fijian lands to grow sugar and other agricultural crops. The Indian tenant farmers are still the backbone of the sugar economy. Many of the sugar leases will terminate in 30 years time and may not be renewed.

Not all Indians in Fiji came as indentured labour. Many, including those in the Gujerati business community, migrated voluntarily in the 1920s. The Gujeratis come from a long tradition of trading in India, and descendants of those Gujeratis who settled in Fiji have established themselves as the dominant force in the Fiji business community.

The rapid growth of the predominantly Indian-owned local private sector was a matter of concern even before the coups of 1987. "The more entrenched the Indian business community becomes as a market leader, the harder it will be for Fijians to gain a market share and compete effectively against such well-established, experienced entrepreneurs" (Hailey 1987, p.16).

### ***Social and Cultural Factors***

Before the arrival of Europeans in Fiji, the traditional Fijian economy was well developed, with trading between local communities. Fijians are mostly Melanesian in cultural terms, with characteristic opportunities for personal achievement and success reflected in status and power in the community. One researcher has suggested that Melanesian societies are actually pre-adapted to market economic activities and provide opportunities for dynamic entrepreneurial activity (Finney, 1973 and 1987). While Fijians are primarily Melanesian, there is a pervasive influence of Polynesian culture (mainly from early Tongan settlements in the eastern part of Fiji, especially the Lau Group of islands). Polynesian cultural characteristics of highly stratified societies and ascribed status, with little opportunity or motivation for individuals to exploit economic opportunities, are very evident in Fijian culture. The traditional Fijian chiefs are the centre of power, controlling economic resources and politics even today. In 1989, there is agreement that the individual in Fijian society is submissive to the needs of the community. "This emphasis on the community may well have been at the expense of individual entrepreneurial activity" (Hailey, 1985, p.19).

Early colonial administrators were concerned that reliance on Fijian labour "would break up the village life of the Fijian people and undermine their whole communal way of living" (Donnellay & Kerr, 1972,p.53). Several factors contributed to the isolation of ethnic Fijians from the developing cash economy:

- European settlers found Fijian labour to be unreliable;
- Fijian chiefs were concerned that increased Fijian participation in the cash economy and the subsequent re-distribtuion of wealth to all levels of Fijian society might undermine and threaten their traditional power;

- Colonial administrators adopted policies which would preserve the Fijian communal way of life (Hailey, 1985).

The colonial government enacted the Native Affairs Ordinances which defined the responsibilities of Fijian chiefs in the administration of their own affairs within the colonial administrative structures. The Great Council of Chiefs was created to act in an advisory role, and the Native Regulation Board (which later became the Fijian Affairs Board) was established with powers to make regulations for Fijian people. These colonial structures ensured a continuing role for the chiefs.

By the 1950s, one of the greatest leaders of the Fijian people, Ratu Sir Lala Sukuna, acknowledged that "the very nature of our communal society on which the village is based provides a disincentive to production above the subsistence economy" (Spate, 1959,p.6).

The strengths of a cohesive communal Fijian society gradually came to be seen as a source of weakness.... traditional obligations and social commitments became a burden....A picture develops of a society and culture ambivalent to the encouragement of individual entrepreneurial activities (Hailey, 1985,p.20).

### ***Small Business in Fiji***

There are several criteria used in assessing the size of a business. These include the number of employees, the annual sales turnover, the level of profit, the size of assets, the decision-making structure, and the degree to which control is separated from ownership. While some of these criteria can apply to the definition of a small business in the Pacific Island context, some are not appropriate for the Pacific Islands.

For instance, many small businesses rely on relatives to work in the business on an irregular or part-time basis, therefore assessing the size of the company by the number of regularly paid employees would not take into account all of its employees. Similarly, the value of assets and levels of profits are usually underestimated by Pacific Islanders, thereby creating confusion.

The Fiji Development Bank's definition of a small business is:

Those enterprises with an initial capital outlay of and up to \$100,000 (Fiji Development Bank, 1988, p.30).

Another definition that is applicable is:

An independently owned and operated business that has a small share of the market and an annual turnover of less than F\$50,000, and that is personally managed by its owner, who relies on five or fewer regularly paid employees (Hailey, 1985).

Another possible definition is:

A Fijian (i taukei) who shows practical creativity combining resources and opportunities in new ways to benefit the individual, his family and the community (Ibid.p.34).

## B Indigenous Fijian Entrepreneurs

While a great majority of the entrepreneurs in Fiji are Fiji-Indians (with a significant number of Chinese part-Europeans), these groups will not be dealt with in detail in this study as the emphasis here is on indigenous Fijian entrepreneurs. This is necessary because of several factors. First, although Fijians are indigenous, they have not participated significantly in the commercial sector in Fiji and view themselves as economically "disadvantaged" as a result. Consequently they are putting increased political pressure on government to assist them to bring about changes that will enable them to become more economically active in the commercial sector.

Compared with other ethnic groups, it is clear that Fijians are lagging behind in terms of benefitting significantly from commercial development. Indigenous Fijian entrepreneurs are found mostly in the rural areas of Fiji (two-thirds of those surveyed in 1985), while Fiji-Indians and part-European entrepreneurs are concentrated mostly in the urban areas.

By 1982, 20,158 businesses were registered in Fiji. Of this total 4,030 (or approximately 20 per cent) were owned by indigenous Fijians.

A study sponsored by the Pacific Islands Development Program of the East West Center in 1984 has provided some very useful information on the characteristics of Fijian entrepreneurs. The following features were considered significant:

- 50 per cent of Fijian entrepreneurs interviewed were in the retail sector, operating small trade stores. None of these entrepreneurs were involved in any manufacturing industries, a sector dominated by expatriates or Fiji-Indian companies. Fijian entrepreneurs operated mostly in the service sector, where they are often competing directly against each other.

There is often a tendency to imitate existing businesses creating problems for businesses in small markets. This can be interpreted as a lack of confidence to innovate.

- 58 per cent of Fijian entrepreneurs questioned had a sales turnover of less than \$250 a week, which was considerably less than that of other entrepreneurs, compared with \$1,355 for Fiji-Indian businesses, and \$8,000 for part-European and Chinese businesses.
- 73 per cent of Fijian enterprises had been in business for less than five years, while other ethnic groups had survived for considerably longer.
- The Fijian entrepreneur worked an average of 67 hours per week. This suggested to the researcher that Fijian entrepreneurs were probably not making productive use of their time, and that profits generated from hours worked were relatively small.
- 74 per cent of Fijian entrepreneurs were over 40 years of age, most of them were men who had finished one career (often in the public service) and had started a business with little commercial or management experience. They often started the business "with an unrealistic assessment of the potential profitability of the business which frequently led to rapid unplanned expansion that collapsed in bankruptcy (Hailey, 1985, p.45).
- 48 per cent of Fijian entrepreneurs had reached Form 5 level of education, which by comparison is a higher level of education than Fiji-Indians.

- only 30 per cent of Fijian entrepreneurs had been exposed to a relative (often their father) who had been involved in running a business.
- 70 per cent of Fijian entrepreneurs had plans to expand their business and anticipated good business prospects. They expressed a sense of optimism in the economic future of their business not shared by others.<sup>2</sup>

While western theories of entrepreneurship emphasise creativity and innovation (Schumpeter, 1949), and the individual's need for achievement (McClelland, 1961), the Pacific Island entrepreneur must be viewed in the context of local social and cultural structures. Most researchers recognise the importance of the relationship of the Pacific Island entrepreneur to his family, village and community. Unlike western societies, the successful Pacific entrepreneur values the obligations and commitments associated with his role in the local community.

One of the major dilemmas faced by Fijian entrepreneurs is whether to operate their businesses as individuals, taking risks and maximising profits, or to accept the social values and communal obligations of their village or mataqali, often at the expense of their profitability. "If entrepreneurs reject such values, they jeopardise important customer relations, alienate potential employees, and create unnecessary personal tensions. In other words, they risk cultural alienation and social ostracism" (Hailey, 1985, p.33).

Pacific Island entrepreneurs are not necessarily innovators -- they frequently display a "copy cat" mentality by setting up an identical business in direct competition with other established businesses. This often means overcrowding of the market, and can lead to business failure.

<sup>2</sup> This is drawn from a survey conducted by Hailey in 1984 of 80 local entrepreneurs (69 men and 11 women). The majority of those interviewed were Fijians (52 per cent).

While Pacific entrepreneurs possess a sense and need for individual achievement, this drive and motivation is generally maintained within the context of the need to get along with others and achieve economic success without alienating the community. This is desirable not only because of social pressures imposed by small island communities, but also because of island cultural values which are learned at an early age.

The survey of Fijian entrepreneurs sponsored by East west Centre in 1974 revealed that there are three factors that characterise the successful performance of Fijians in business. These are management expertise, marketing skills, and an entrepreneurial personality (Hailey, 1985).

The survey found that successful Fijian entrepreneurs possessed the following characteristics:

#### *Entrepreneurial Personality*

- Good personal traits are prevalent including individual maturity and a sense of responsibility, reliability and professionalism. The survey determined that Fijian entrepreneurs were personally ambitious and relied on personal charisma to develop business contacts. The entrepreneurs valued hard work and honesty, and possessed risk-taking characteristics.
- An entrepreneurial personality requires clear personal goals and the need to achieve. Previous work experience, personal motivation, and previously acquired business skills of the entrepreneur were found to be more important than educational qualifications. Successful entrepreneurs were ambitious and were motivated by family commitments, social pressures and individual needs and expectations.

***Management Skills:***

- Good management skills require clear and concise business objectives and a well defined business plan. Successful entrepreneurs had developed a sound business plan based on market research, projections of operational costs, budgets, capital and cash flow requirements.
- Good management skills also require effective use of business resources, including financial control, selection of employees, stock control, investment in facilities and equipment and effective use of time.

Financial control of stock and credit were also important issues. The successful entrepreneurs prepared budgets and profit projections and were able to control personal credit, while dealing with communal and family obligations. The extended family system is considered to be an important asset to the entrepreneur, providing sources of advice, labour and, in some cases, capital.

***Marketing Skills***

The survey determined that indigenous entrepreneurs had limited marketing skills. They possessed a limited awareness of market opportunities and many failed to meet the needs of their potential markets. Furthermore, Fijian entrepreneurs operated from poorly established premises with a limited quantity and range of goods and services. They were unable, therefore, to take a dominant market position. Other entrepreneurs dominated market positions, leaving the Fijians to face the challenge of their poor market position and management problems.

### ***Problems of Fijian Entrepreneurs***

While most of the problems facing Fijian entrepreneurs are not necessarily unique to the Fijian experience, they nevertheless are major problems which restrict and inhibit the growth and development of indigenous business in Fiji.

These problems are:

- Lack of management experience and business skills. This includes limited family exposure to business, inappropriate training opportunities, inadequate planning and ineffective control of resources. Only 30 per cent of the Fijian entrepreneurs had parents or family involved in businesses, compared with over 80 per cent of Indian entrepreneurs. This lack of exposure and role models reinforced their lack of confidence in their business ability.

In addition, training opportunities have been inadequate, according to the survey. Although training has been available, it has not been well coordinated, often emphasising academic subjects rather than practical subjects, such as marketing, pricing and stock control.

The survey found that many entrepreneurs are unable to prepare realistic business plans based on accurate information. Clear business goals were not identified and maintained, and poor business planning resulted in over-ambitious projects with limited resources.

- Failure to control or exploit personal relationships. On the one hand, Fijians (and other Pacific Islanders) find it difficult to control personal relationships with customers, extended family members, and the community. Often the strictly business relationship between the entrepreneur (business) and the customer is confused because of close family relationships with inherent obligations. Fijian custom dictates that resources be shared with the chief, and the extended family or mataqali. This is often a disincentive to Fijians starting up a business. The successful entrepreneurs must learn to balance their sense of family and community obligations with the motivation to run a profitable business and make money. The entrepreneurs must learn to control credit and collect debts in a manner that does not alienate them from their community members.

On the other hand, Fijians need to learn how to exploit personal relationships more effectively, to improve their networking skills. While the extended family can become a drain on the entrepreneur's resources because of their demand for credit and goods, the entrepreneur must in turn learn to utilise the skills and resources of his/her extended family and community to his/her benefit. This sometimes means utilisation of specialised skills (such as carpentry, plumbing, electrical, sales, marketing skills), or pooling of capital to create a larger capital base.

The survey found that indigenous entrepreneurs faced problems of controlling relations with family and community. Often these problems were difficult to resolve.

- Lack of sufficient financial resources. Most entrepreneurs face this problem, although in the Pacific Islands it is exacerbated by inadequate banking services (especially in the rural areas) and shortage of capital sources. In addition, the conservative attitude of commercial bankers who are reluctant to extend loans to indigenous people is still an issue, even though Fiji emerged from its colonial past in 1970. However, to a large extent this is changing (although there is still a reluctance to make loans to indigenous women), and the Fiji Development Bank is providing an alternate source of funding for indigenous people.
  
- Limited marketing skills. Fijians lacked the necessary marketing skills to enable them to effectively compete with others. They were not continuously assessing consumer needs, improving product development, and were not offering high quality goods at competitive prices. The survey found that Fijian entrepreneurs were charging their customers relatively high prices compared with others. It was found that they lacked competitive pricing skills, and sometimes charged high prices to cover the costs of social demands. This often led to reduced sales and cash flow, and eventual business failure.

## **C Indigenous Entrepreneurs in the Tourism Sector**

### ***Primary Tourism Sector***

Although there are over 200 hotels and motels in Fiji, there are only a small number of indigenous entrepreneurs participating in this primary tourism sector.

While several accommodation units are owned and operated by "locals", most of them are not indigenous Fijians. The Tanoa Group of Hotels, the Tradewinds Hotel, Islands in the Sun, Crows Nest and Tubukula resort are examples of hotels & motels operated by non-indigenous Fiji citizens.

Indigenous Fijians participate in the primary tourism sector mainly through land ownership, where the mataqali (made up of individual Fijians) is the lessor of traditional land to the industry for hotel and motel development. They benefit from the development through lease payments, and a percentage of the gross revenues of the resort (Mike Qarikau, Native Land Trust Board, Personal Communication, 1989).

Two notable exceptions are the Fijian owned resort of Ono i Lau, and a new development of a motel/hotel at Nadi airport. This 20 room project, known as Toka Toka Nadrou, was developed by indigenous Fijians, with financial assistance from the Fiji Development Bank (J Hamilton-Peach, Fiji Development Bank, Personal Communication, 1989).

Probably one of the most important reasons for low indigenous participation in the primary (hotel and motel) tourism sector is the lack of capital. This is not necessarily because the capital is not available. One person interviewed acknowledged that Fijians have a fear of the commitment involved in taking out a big loan because of traditional obligations. The system of kere kere, whereby members of the extended family can expect financial assistance (or "loans") from an individual at any time, is a real deterrent to Fijians to commit themselves to development loans. As long as this system of kere kere is maintained, an indigenous Fijian's first commitment will continue to be to family members, not the financial lending institution. Until these traditional values and systems have been changed, it appears that these obligations will hold Fijians back from participating fully in the economic benefits of tourism and business development (Fasin Jone, Fiji Visitor's Bureau, Personal Communication, 1989)

### ***Secondary Tourism Activities***

While the major focus of government policy to date has been directed at development of the primary tourist activities (such as development of hotels, motels, and other infrastructure requirements), there is an increasing need to direct attention to the development of secondary tourism activities (STA).

The Fiji Development Bank has provided finance for several STA's owned by indigenous Fijians, including aqua-sports and riding tours based at the Hyatt Regency on Viti Levu. Other projects include boats and canoes for small scale operations in Nadi, and a T shirt operation in the Yasawa Islands where a group of indigenous Fijians hand print the T shirts and sell them to tourists who visit the islands (John Mohammed, Fiji Development Bank, Personal Communication, 1989).

Secondary tourism activities are important because they are less capital intensive and provide opportunities for local people. These activities are varied and include sea sport operations (including charter boats, diving operations, sailing tours), land and sea transport, tour operations, services (such as food service, flowers, entertainment, hairdressers, tailors) and retail sales (such as fresh fruit and vegetables, flowers, duty-free goods, clothing, gifts and handicrafts).

There are two broad categories of secondary tourism activities:

- those which involve considerable capital investment for plant, equipment and/or operations, and technical expertise (for example scuba diving, boat charters etc.);
- those which do not involve major capital, and are more dependent on cultural or environmental elements for their attraction and successful operation. These community based STA's must be provided with

additional incentives for local investors and government should discourage foreign involvement in STA's which have low capital and technology requirements. It is recognised that these STA's will require a relatively higher level of public sector institutional support, including the Fiji Development Bank and the Ministry of Tourism. The Fiji Development Bank's Small Business Unit could provide assistance to potential investors in the preparation of project documents for submission to potential financiers.

Training programmes designed to increase local participation in STA's need to be designed and conducted as part of a broader strategy designed to promote small business development. This strategy should contain three main elements:

- enhancement of entrepreneurial activity among local communities through a more competitive environment;
- generation of awareness of STA opportunities among local entrepreneurs; and
- upgrading of business management and financial control skills among potential entrepreneurs in local communities.

There are a range of existing secondary tourism activities which need to be identified and promoted. A recent review recommended the preparation of a detailed inventory giving comprehensive information on the quality, capacity, and operational style of existing STA's to identify these operations (Coopers and Lybrand, 1989). Once they have been identified, there is a need to promote these activities with hotel and tour operators by emphasising the long term benefits to the industry if they work together. The study also identified a need for customer service training for staff of STA's, and business skills training for owners and managers.

The review identified handicraft production as a special case requiring particular consideration. It recognised the need for artistic development and diversification of handicrafts as well as business skills in order to have successful commercial enterprises. Training for entrepreneurs focusing on business principles, marketing skills, production costs, supply, demand, profit margins and dealing with wholesalers and export markets is necessary.

Other support programmes providing incentives for handicraft production include:

- minimal tariffs for machinery, equipment and materials necessary for handicraft production; and
- import restrictions on wood, shell and woven handicraft goods from overseas (Hailey, 1985, p.52).

The further development of duty free shopping was also identified as a priority. Shopping is widely recognised as an important activity within the travel industry. Shopping expenditure by visitors can be raised if available goods and facilities are of a high standard with attractive prices. While last minute duty free shopping at the airport concession before departure has been quite successful, shopping in the "down town" duty free stores has been decreasing. These "down town" stores need to improve their facilities and merchandise to encourage tourists to spend more.

### ***Fiji Government Handicraft Centre and Other Handicraft Operations***

The Government Handicraft Centre is a 100 per cent government owned limited liability company. The objective of the Centre is to promote and revive traditional handicrafts. Handicraft production is a very important industry for the rural sector, providing a steady income for rural people.

It provides an opportunity for rural dwellers to earn cash income without migrating to urban centres. For instance, women weavers can take advantage of their skills by producing mats, baskets, and other woven items for sale to tourists. Likewise, rural men who have wood carving skills are able to supplement their agricultural and farming income with the sale of wooden handicrafts.

The Centre was established in 1974 and has operated out of a prominent retail location in Suva. It sells only authentic handicrafts which represent traditional Fijian culture. The Centre operates a revolving fund which enables them to purchase crafts from the rural villages where they are made. The revolving fund pays for electricity and the wages of two sales staff, however, the manager's salary (the manager is a member of the Public Service) is paid for by the Ministry of Trade and Commerce. The cost of renting the premises is subsidised by government through the Ministry of Lands (Mrs G K Rup, Fiji Ministry of Trade and Commerce, 1989).

Purchasing is handled in several different ways. Many handicraft vendors personally transport their items to the Centre for sale while other producers ship them. Handicrafts are sent to Suva every two weeks from the Lau Islands (and other outlying islands), however, the agricultural settlement of Sowani on Viti Levu (just out of Suva) is now the main source of handicrafts for the Centre. Attention is paid to ensure a high quality in the manufacture of items sold in the Centre. One of the objectives of the project is to maintain and improve the production skills and preserve the national traditional art forms of Fiji. The Centre places a 50 per cent mark-up on the cost of the items, which contributes towards the administrative costs (Kiti Makasiale, Fiji Government Handicraft Centre, 1989).

It was estimated in 1989 that expatriates and local people made up 60 per cent of the Centre's market, while tourists made up only 40 per cent. The Centre was also exporting wood carvings, tapa and mats to Hawaii, mats and handbags to Los Angeles and tapa to New Zealand.

In 1989 the government announced that it would privatise the Centre. However after considering petitions from indigenous Fijians, they reconsidered this move for privatisation and to date have not taken the idea further.

One private retailer has established a store in a prime location in Suva in direct competition with the government Centre. Wolfs, an attractive store with excellent displays of handicrafts from all over the Pacific, made a successful entry into the market of quality handicrafts in 1988. Managed jointly by an expatriate entrepreneur and an indigenous Fijian (who formerly managed the government Centre), Wolfs is providing some competition for the Centre. Wolfs prices are slightly lower than the Centre, and special attention is given to the quality of the merchandise (Mr V Wolf and Emily Vulaca, Wolfs Boutique, Personnel Communication, 1989).

Other small handicraft vendors are found in the markets of Suva. While some sell some traditional Fijian items, most deal in cheap souvenirs and other inexpensive forms of "airport" art. Because a good proportion of this merchandise is imported, these handicraft vendors are not covered in this study.

While it appears that Fiji's economy is rapidly recovering after the two military coups in 1987, there is little change in the participation of the indigenous Fijians in the business sector. Foreign investment in tourism has increased, but this has been mostly in the tourism manufacturing and sugar industries. The Japanese especially have become major investors in the tourism industry, while Australian and New Zealand clothing manufacturing companies are

taking advantage of the tax incentives the Fiji government is providing to foreign investors in this industry. Although indigenous Fijian entrepreneurs do exist, there has been little growth for some years. This can be contributed to cultural factors that inhibit development, lack of management and business skills, failure to control or exploit personal relationships, and lack of financial resources.

Very few Fijians have established businesses in the primary tourism sector, although there is some participation by indigenous Fijians in the secondary tourism sector. Handicraft production and sale is one major sector where indigenous Fijians are participating, however, there is a need for more growth in this sector also.

Having demonstrated a need for more development of indigenous entrepreneurs, the next chapter will look at governmental policies which are designed to support Fijian entrepreneurs.

## **CHAPTER 11   GOVERNMENTAL POLICIES SUPPORTING FIJIAN ENTREPRENEURS**

This chapter will review governmental policies supporting Fijian entrepreneurs, including national planning objectives and strategies, the important role of the Fiji Development Bank as the development financing institution, the Fiji Trade and Investment Board, and the Native Land Trust Board, which administers the majority of the Fijian lands available for development.

### **A   National Planning Objectives and Strategies**

The national development objectives for Fiji, which were set out in Development Plan 9 (DP9), are:

- to achieve real economic growth, including growth in real per capita incomes;
- to generate job opportunities for Fiji's growing labour force;
- to promote a more equitable distribution of the benefits of development and improve social conditions, especially in rural areas;
- to maintain greater financial stability; and
- to foster a greater sense of national unity and national identity (Fiji Government, 1985).

In addition to concentrating on continued development of the resource-based sectors of the economy, the DP9 economic strategy recognised the importance of developing other sectors with potential for growth and employment generation. It was decided that tourism, with its favourable growth potential in the medium term, would be given greater emphasis.

The strategy for this sector is to encourage the establishment of more hotel rooms to cater for up-market tourism demand; ensure greater retention of the tourism dollar; increase local value added components through greater use of local inputs; and promote greater local participation through increased equity and employment (DP9, p.10).

At the time DP9 was written, the Fiji economy was making a recovery after growing at an average rate of only 1.7 per cent over the previous seven years. However, 1986 saw an increase of 14 per cent in investment expenditure and a similar rise in construction, suggesting that the economy was about to embark on a period of steady growth. There was an increase of 8.8 per cent in real output in 1986 and there was an account surplus in the balance of payments, which, coupled with a substantial long term capital inflow, resulted in the highest positive overall balance for many years. Foreign reserves were at a high level, and the inflation rate was only 2 per cent. The economic situation at the beginning of 1987 was stronger than it had been for some time (Republic of Fiji, 1989).

However, the two military coups in May and September 1987 totally destabilised the economy. These severe political problems were exacerbated by a fall in sugar production due to a severe drought. Political and economic uncertainty following the two coups prompted a heavy capital outflow, putting pressure on the country's foreign reserves. The Reserve Bank devalued the Fiji dollar in June and October, imposed tight exchange controls to counter the pressure on reserves, and removed the ceiling on interest rates.

These drastic measures paid off, and despite fears that the economy might contract by 6.5 per cent in 1988, real GDP in fact declined by only 0.4 per cent. There were increases in tourism arrivals (by 10 per cent) and gold production (50 per cent), however sugar output continued to decline as a result of drought (Ibid).

The National Economic Summit, which was held in Suva in June 1989 (the first since the coups in 1987) and sponsored by the Interim Government, provided a unique opportunity to examine the challenges facing Fiji's economy and to discuss policies and strategies to further stimulate development.

The Summit recognised the need to encourage Fijians in business and one of the policies for growth was titled the "Advancement of Ethnic Fijians".

Persistent under-representation of ethnic Fijians in business ownership and decision making in activities of fast development potential is a matter of concern. Given that business activities in the trade and manufacturing sector are fast growing, the pattern of development in these sectors will in large part determine the nature of the long term structural evolution of the economy.

Fijian entrepreneurs must be in a position to take up emerging opportunities, for example in tax free zones and agro-processing industries for export, created by the liberalisation of the economy and its strong export orientation. The cadre of Fijian entrepreneurs and the base for entrepreneurship and rural participation in business growth will need to be strengthened.... a nationwide entrepreneurship programme needs to be designed and implemented. (Republic of Fiji, pp. 17-18.).

The Fiji Government supports the development of the indigenous private sector through organisations designed to encourage, stimulate, support and sustain new enterprises. The general purpose of these organisations is to encourage new and existing indigenous entrepreneurs by providing management advice, business training programmes, feasibility studies and financial, technical and marketing support. The Fiji Development Bank is the main support organisation in Fiji.

## B Fiji Development Bank

The Fiji Development Bank (FDB) was established by an Act of Parliament in July 1967. It replaced the Agricultural and Industrial Loans Board and assumed its assets and liabilities. The FDB is a development financing institution, an autonomous statutory body with its own Board of Directors appointed by the Minister of Finance. The FDB Act states the Bank's overall policy:

to facilitate and stimulate the promotion and development of natural resources, transportation and other industries and enterprises in Fiji. (Fiji Development Bank, 1988).

The Bank operates within government policies outlined in development plans.

The Bank's operating strategy includes the following features.

- To provide loan financing primarily to agricultural and industrial enterprises, to support official national economic planning goals, and to establish a well balanced lending programme in the major economic sectors;
- To take equity participation in business enterprises and joint ventures with the aim of eventually distributing such participation in support of wider participation of the general public and institutional investors in the ownership of business enterprise in Fiji;
- to contribute to the national development process through increased activity in project identification, determination of project feasibility and assistance in project implementation;

- to promote the planning and development of supervised lending schemes;
- to review the need for, and to promote development of, auxiliary financing facilities in Fiji, such as capital equipment leasing;
- to furnish constructive business development and business management counsel to actual and prospective entrepreneurs and managers in Fiji;
- to collaborate with, and assist, other statutory bodies in the planning and financing of development projects and enterprises;
- to establish specific short and medium term objectives each year in major economic sectors.

The Bank uses four main types of instruments to attain these policy goals:

- direct, short, medium and long term loans, using a range of subsidised interest rates, currently ranging from 8 to 13.5 per cent, with the degree of subsidisation biased towards rural and agricultural lending;
- indirect assistance, through equity participation, guarantees and underwritings to stimulate investment in key areas where cash and asset liquidity is particularly short and immobile;
- subsidising commercial loans to indigenous Fijians, currently by 1 per cent, in line with government's objective to create a racially equitable participation in commerce and industry;

- identifying, appraising, promoting and directly implementing investments for which there is a temporary lack of funds but which are judged to be in the national interest.

The Bank's development policies are:

- to contribute effectively to broadening the basis of local entrepreneurship;
- to reduce income disparities;
- to utilise domestic raw materials;
- to have a high export potential or import substitution;
- to make use of labour intensive technologies;
- to introduce new technologies;
- to contribute to a diversification of the economy;and
- to create opportunities for the small emerging entrepreneurs.

### ***Financial Performance and Funding***

FDB made an operating surplus of \$2,919,000 in 1987/88. The net increase in provisions was \$2,434,000, and the resulting operating profit was \$485,000 (Fiji Development Bank, 1988) (Table 11.1). The Bank has grown from an operating surplus of \$157,000 in 1975/76 to the present figure. The Bank has several credit lines from overseas sources which are guaranteed by the Fiji Government. These include two from the IBRD (International Bank for Reconstruction and Development) totalling \$2,763,639, two from the Asian Development Bank totalling \$1,455,249, one with the European Economic Community (\$1,192,707), and one with the European Investment Bank (\$5,726,700). The Bank also borrows funds from its \$4 million overdraft facility with the Reserve Bank, the Fiji National Provident Fund (FNPF) and a \$0.4 million overdraft facility with the National Bank of Fiji.

**TABLE 11.1: FIJI DEVELOPMENT BANK - THE FINANCIAL PERFORMANCE FOR 1986/87 AND 1987/88 FINANCIAL YEARS (\$000s).**

	1987/88	1986/87	% Incr (decr)
<b>INCOME</b>			
Loan interest	14,115	13,024	8%
Fees	236	255	(8%)
Income for investments	1,077	570	89%
Other income	455	357	27%
Total Income	<u>15,883</u>	14,206	<u>12%</u>
<b>EXPENSES</b>			
Interest & other borrowing expenses	9,440	8,878	6%
Administrative expenses	3,524	3,312	6%
Total Expenses	<u>12,964</u>	12,190	<u>6%</u>
<b>SURPLUS OF INCOME OVER EXPENSES</b>			
	2,919	2,016	45%
Net increase in provisions for doubtful loans and investments	2,434	1,492	63%
<b>OPERATING INCOME</b>			
Retained profits at End of Year*	485	524	(8%)
	3,523	3,020	17%
<b>RATIOS</b>			
Debt equity ratio	207	2.21	(6%)
Return on equity (%)	116	1.42	(18%)
Interest spread	102	0.99	3%

**SOURCE:** Fiji Development Bank, 1989.

\* After including extraordinary items and adjustments for prior period foreign currency loss.

The Bank experienced a shortage of funds during the second half of 1987 as a result of the low level of repayments as clients faced financial difficulties caused by the military coups. The local money market was tight and domestic interest rates rose sharply, restricting short term local borrowing. However, by February 1988 the substantial inflow of sugar revenue following the two devaluations of the Fiji dollar improved the Bank's liquidity position and lending to all sectors resumed.

In July 1989 the New Zealand Government initiated a Small Loans Scheme through the FDB with initial funding of \$200,000. The intention was to provide an additional source of funds at concessional interest rates for people wishing to establish small scale business ventures. It was considered that the multiplier effect of entrepreneurial development had the potential to help more people to achieve a greater degree of self-sufficiency through their own efforts. Preference would be given to projects in rural areas, and particularly those which would be of direct benefit to women.

In 1987, for the first time, the Bank launched a "Start Your Own Business" competition. The objective of the competition was to encourage the development and successful operation of small businesses -- those enterprises with an initial capital outlay of up to \$100,000. A total of 92 entries were received, with 77 entries from indigenous Fijians. Three cash prizes totalling \$20,000 were awarded. The competition has now become an annual event, stimulating more interest and awareness of opportunities for entrepreneurial enterprises for indigenous Fijians.

The Bank has two main divisions, the Agricultural Division, and the Industrial and Commercial Division. Within the Industrial and Commercial Division there is a Special Loans Scheme Division with two schemes - the Commercial Loans to Fijians Scheme (CLFS) and the Joint Venture Loans Scheme (JVS).

***Commercial Loans to Fijians Scheme (CLFS)***

The CLFS was established in May 1975 to provide special financial support to indigenous Fijians and Rotumans. This scheme is available exclusively to indigenous Fijians or Rotumans and involves a number of concessions. Those eligible for assistance are Fijians who are registered in the Native Land Owners Register, those Rotumans who can prove they are indigenous Rotumans, and companies and partnerships that are 100 per cent owned by indigenous Fijians or Rotumans.

The concessions include credit for a wider range of business purposes, interest rate subsidy of 1 per cent, longer repayment terms, and greater flexibility of policy towards security requirements.

In 1987/88 there were 279 loans approved under this scheme, with a value of \$1.6 million (Table 11.2). There was only one loan approved for the tourism sector in 1987/88, with a value of only \$80,000.

There were 1,068 loans outstanding under the CLFS in June 1988 (Table 11.3) which was 58.4 per cent of the total number of industrial and commercial loans outstanding. The value of the outstanding portfolio at that date was \$8.9 million, or 12.8 per cent of the total industrial and commercial portfolio (Table 11.3).

Table 11.2

**THE NUMBER AND VALUE OF LOANS APPROVALS UNDER THE  
COMMERCIAL LOANS TO FIJIANS SCHEME FOR THE 1985/86 TO  
1987/88 FINANCIAL YEARS (\$000s)**

SECTOR	85/86		86/87		86/87	
	NO.	VALUE	NO.	VALUE	NO.	VALUE
Tourism	2	22			1	80
Transportation	69	348	87	417	69	403
Manufacturing	12	138	87	417	69	403
Timber	2	2	14	291	2	105
Construction	8	35	9	50	2	11
Commercial	199	907	191	1,033	194	955
<b>TOTAL</b>	<b>292</b>	<b>1,452</b>	<b>309</b>	<b>1,810</b>	<b>279</b>	<b>1,600</b>

Source: Fiji Development Bank, 1988.

**Table 11.3****NUMBER AND VALUE OF ALL INDUSTRIAL COMMERCIAL LOANS OUTSTANDING AS AT 30 JUNE 1988 (\$000s)**

Sector	Industrial Div		Joint Venture		CFLS		Total	
	No.	Value	No.	Value	No	Value	No.	Value
Tourism	31	5,32	1	187	3	47	35	5,563
Transportation	174	7,559	2	89	263	1,941	439	9,589
Manufacturing	236	27,928	10	659	49	652	295	29,239
Timber	24	1,853			20	505	44	2,358
Construction	61	2,324	1	98	23	296	85	2,718
Commercial	218	14,041	4	344	710	5,441	932	19,826
Total	744	59,034	18	1,377	1,068	8,882	1,830	69,293

Source: Fiji Development Bank, 1988.

***Join Venture Loans Scheme (JVLS)***

This scheme provides concessions to companies and partnerships with a minimum 25 per cent Fijian shareholding for investment in the manufacturing and service industries.

Finance is available for up to 80 per cent of the project cost, and the indigenous Fijian partner can obtain equity capital finance in addition to the joint venture loan. The aim of the JVS is to assist joint ventures so that indigenous Fijians can combine their resources with non-Fijians who may have business experience.

In 1987/88 there were 5 approvals under the scheme valued at approximately \$1.4 million (Table 11.4). The largest joint venture approval of just under \$1 million was for a tourism project. In June 1988 there were 18 loans outstanding under the JVLS with a value of \$1.38 million (Table 11.3). The interest rate in 1987/88 was 12.5 per cent.

In 1989 the Bank noted a sharp increase in commercial loans under the special loan scheme for Fijians. For the six months to 30 June 1989, a total of 445 loans had been approved with a value of \$3.8 million. This compared with a yearly average of only 260 loans valued at \$1.6 million over the last four years (DEVBANK newsletter, 1989). The sharp increase has been attributed to the reduction of interest to 8 per cent and a cash grant equivalent to 10 per cent of the costs of fixed assets purchased.

**TABLE 11.4**

**THE NUMBER AND VALUE OF INDUSTRIAL AND COMMERCIAL  
LOAN APPROVALS UNDER THE JOINT VENTURE LOANS SCHEME FOR  
THE 1985/86 TO 1987/88 FINANCIAL YEARS (\$000s)**

SECTOR	85/86		86/87		86/87	
	NO.	VALUE	NO.	VALUE	NO.	VALUE
Tourism	1	170			1	930
Transportation	1	6	1	21	1	80
Manufacturing	4	794	1	6	1	80
Timber						
Construction	1	100			1	30
Commercial	2	673	2	115	1	243
<b>TOTAL</b>	<b>9</b>	<b>1,743</b>	<b>4</b>	<b>142</b>	<b>5</b>	<b>1,363</b>

Source: Fiji Development Bank, 1988.

## ***Tourism***

In 1987/88 there were 35 loans outstanding for the tourism industry valued at \$5.6 million (Table 11.3). There was an increase in value of approvals by 159 per cent. This was due to 3 major approvals which totalled \$4.2 million and led to the further development of an existing hotel and to the construction of 2 resorts. Tourism continues to be an important industry in terms of foreign exchange earnings, employment and the development of ancilliary services including the handicraft, catering and duty free retail industries.

Under the Industrial Division, 4 loans were approved in 1987/88 with a total value of \$3.3 million (Table 11.5). In 1988 the FDB announced its participation in the development of a luxury class hotel to be constructed on the reclaimed foreshore of Suva. The shareholding is 50 per cent held by FDB and 50 per cent by the Government. Sheraton Hotels is to manage and operate the hotel. The hotel has 172 rooms and conference facilities for 500 people. The estimated project cost was US\$20 million.

## ***Management Advisory Services (MASD)***

In 1987/88 MASD had 70 clients under supervision with an emphasis on providing clients with financial planning supervision. The department is staffed by three people and is planning a series of seminars and workshops.

The department is also preparing several brochures and booklets for clients dealing with business operations.

**TABLE 11.5:**

**THE NUMBER AND VALUE OF LOAN APPROVALS UNDER THE INDUSTRIAL DIVISION FOR THE 1985/86 TO 1987/88 FINANCIAL YEARS (\$000s)**

SECTOR	85/86		86/87		87/88	
	No.	Value	No.	Value	No.	Value
Tourism	13	2,606	11	1,684	4	3,348
Transportation	72	2,079	68	3,281	20	664
Manufacturing	64	4,349	57	7,551	43	6,183
Timber	4	153	7	3,187	3	38
Construction	33	1,435	18	527	9	668
Commercial	76	6,406	73	5,027	24	2,478
<b>TOTAL</b>	<b>262</b>	<b>17,028</b>	<b>234</b>	<b>21,257</b>	<b>103</b>	<b>13,379</b>

Source: Fiji Development Bank, 1988.

Figure 11.1  
**The Value of Industrial and Commercial Loans Outstanding as at 30 June 1988**

\$000's

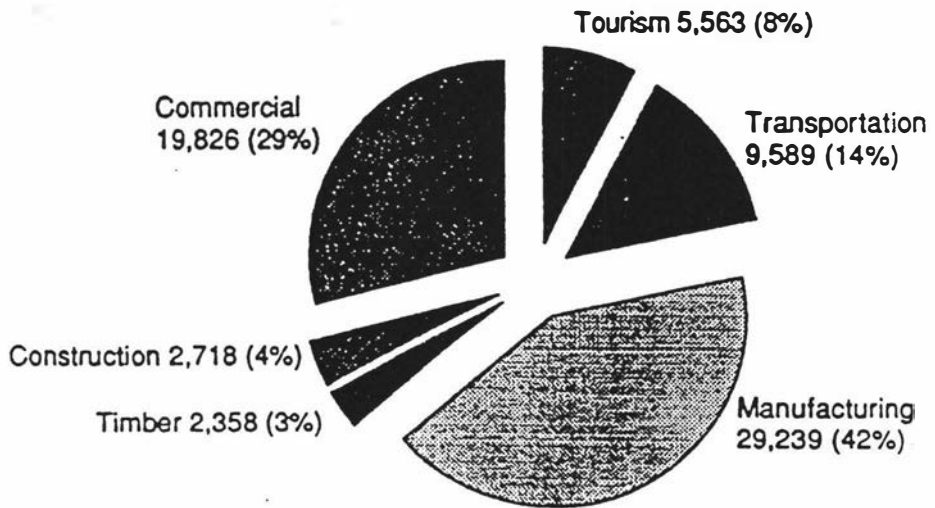
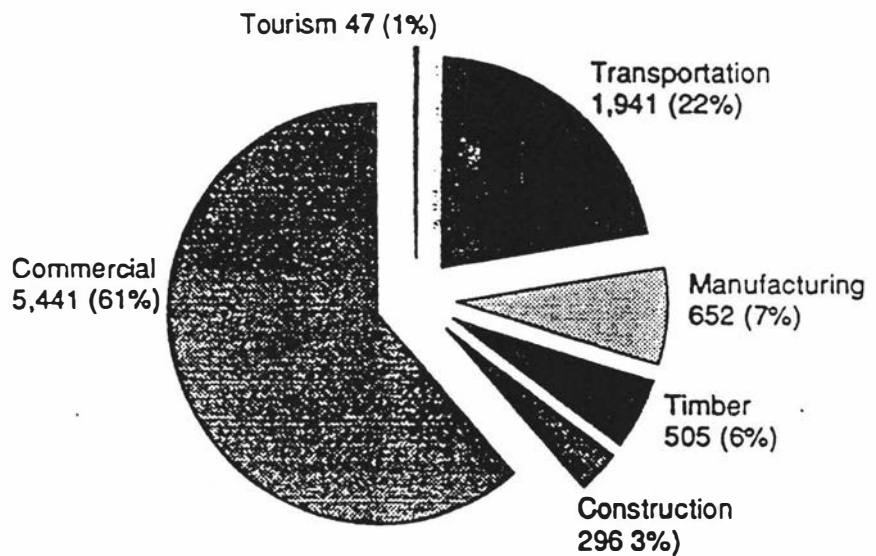


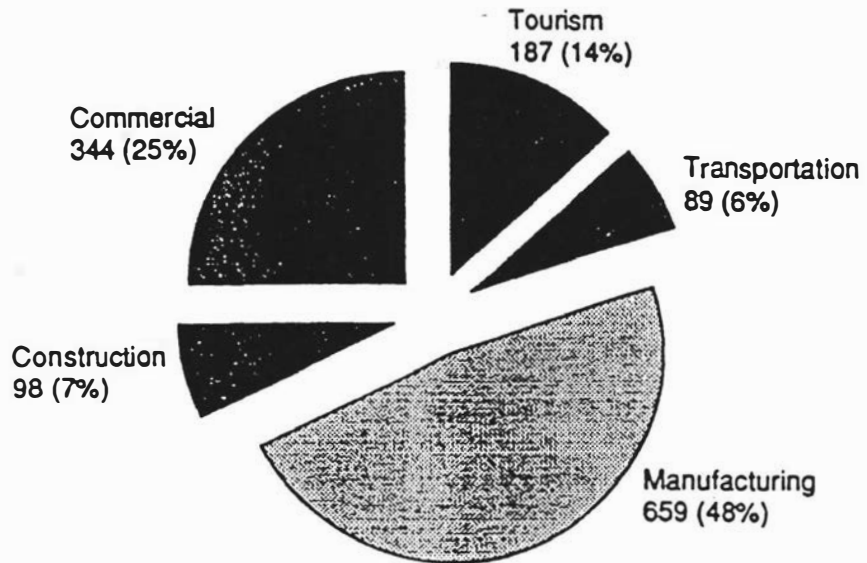
Figure 11.2  
**Commercial Loans to Fijians Scheme (\$8.9m)**

\$000's



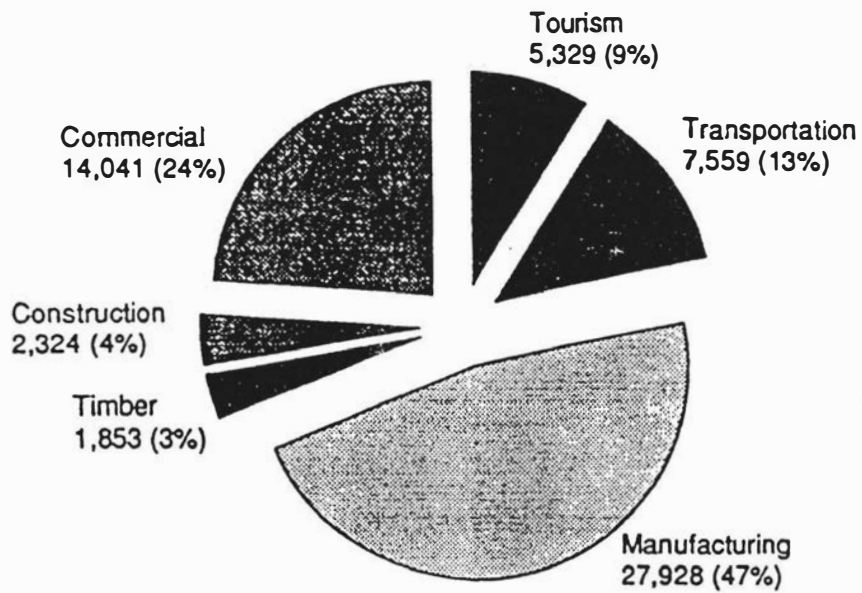
**Figure 11.3**  
**Joint Venture Loans Scheme**

\$000's



**Figure 11.4**  
**Industrial Division (\$59.0m)**

\$000's



***Business Opportunity & Management Advisory Service (BOMAS)***

Prior to 1987, BOMAS handled several of the functions of an enterprise support organisation. Set up in 1974 by a Cabinet subcommittee, BOMAS was formed by integrating the Project Evaluation Unit of the Fijian Affairs Board into the Ministry of Fijian Affairs. (PEU was created "to assist Fijians both individually and in groups to understand, cope with and operate within the present day business world"). The name of the unit was then changed to BOMAS to reflect this new role. BOMAS did not have clear legal status and was not a government department, nor was it a statutory board. In 1983 it had a staff of twelve with funding of more than \$250,000.

One of the problems with BOMAS was that there was no clear definition of its role. Two U.N. consultants in 1975 recommended that BOMAS should focus on providing training, education and advice to indigenous Fijians and not get into the role of providing financial support. However, BOMAS evolved as an agency which provided feasibility studies, consultancy services, and managed investments. In some respects this role conflicted with that of the FDB.

Feasibility studies assessed whether business proposals submitted by Fijians were viable. BOMAS made recommendations for financial support by the Fiji Development Bank (FDB). However, in 1984, of the 185 loans recommended to the FDB by BOMAS, only 108 (58 per cent) were approved, causing confusion amongst clients (Hailey, 1985).

In 1987 BOMAS was integrated into the activities of the Fiji Development Bank and no longer exists as a separate entity.

## ***Other Support for Fijian Entrepreneurs***

Additional support is available to Fijian entrepreneurs in the areas of training and incentives.

### **Training**

Fiji has a well developed educational system and offers numerous courses for entrepreneurs. Some examples are:

- the University of the South Pacific offers certificate and diploma courses in administration and accounting, a formal programme of vocational courses with majors in administration, accounting or economics and a formal academic degree programme;
- The Fiji Institute of Technology offers a diploma in business studies, an integrated vocational course lasting three years. They also offer a certificate in commercial studies;
- The Fiji National Training Council (FNTC), a levy-funded national training agency, offers short courses in retailing, office administration and stock control. These courses cater more to larger companies.

### **Incentives**

In 1980 the Government established the Economic Development Board (EDB) to encourage and facilitate new investment. The EDB was replaced in 1988 by the Fiji Trade and Investment Board (FTIB). FTIB's primary objective is to promote investment in, and development of, ventures or enterprises which enhance employment opportunities, increase exports, and reduce imports.

FTIB provides:

- information and advice regarding local and foreign investment policies, priority areas, incentives and facilities;
- information on overseas markets and export opportunities with details of the various preferential trade agreements (SPARTECA, ACP-EEC/LOME and GSP);
- information relevant to import/export procedures and regulations, freight rates etc.
  - organisation of investment seminars;
  - identification of local and overseas joint venture partners;
  - trade publicity for Fijian exports;
  - organisation of trade fairs;
  - feasibility studies and project profiles of various industries;
  - publication of the Fiji Products Directory, Fiji Export Guide and the FTIB monthly newsletter.

The FTIB also administers the Fiji Tax Free Zone System which includes a Tax Free Zone/Tax Free Factory package (TFZ/TFF). The TFZ is a collection of factories in a specific location, while individual factories enjoying the same preferential conditions are known as TFF's. The scheme is designed to encourage the establishment of export-oriented manufacturing units. Export-oriented projects which provide employment creation, foreign exchange, and technology transfer are encouraged. The basic criterion for businesses to qualify under the TFZ/TFF is that the enterprise must export a minimum of 95 per cent of its annual production. The types of enterprises encouraged are manufacturing; mixing, blending and packaging; assembly; and exportable professional services.

Enterprises approved under the TFZ/TFF are fully exempt from tax for a period of 13 years plus other tax concessions, and accelerated depreciation.

Although FTIB provides this range of supportive services to foreign and local investors, more foreigners than locals are in a position to take advantage of these incentives. The FTIB (and the EDB before it) has been criticised for its concentration on foreign investors. For example, in 1983 the EDB report identified only one privately owned and completely Fijian-controlled business that received EDB assistance (Hailey, 1985).

### **C Native Land Trust Board**

The Native Land Trust Board (NLTB) plays an important role in the development of the tourism industry in Fiji and indigenous entrepreneurship. As the sole agency that administers 83 per cent of all Fijian land available for development, NLTB's policies and activities are crucial to small business development for Fijians. It is therefore important to understand NLTB and its relationship to tourism and small business development.

The Native Land Trust Ordinance, the forerunner of the Native Land Trust Board (NLTB), became law in 1940. The NLTB was established in 1946 when the Fijian chiefs and people entrusted the management of their land to NLTB. The NLTB is considered by some to be a model for preserving indigenous land ownership within a framework of dynamic national development.

The concept of land ownership in Fiji is similar to other Pacific Island countries, but vastly different from land ownership in most developed countries. Fijian land is owned by small tribal units, the most important being the mataqali. Fijian land is not owned by individuals, and cannot be sold, even to other Fijians. The exception is land alienated during the early 1900's.

In 1905 an amendment in the law permitted the sale of Fijian lands to non-Fijians. Strong opposition to this led to a repeal of the legislation in 1909. During that four year period, 368,390 acres, or 8 per cent of Fijian land was alienated and today is known as "freehold" land. Since 1909 the sale of Fijian lands has been prohibited, except to the Crown in very special circumstances. Although Fijian lands cannot be sold, areas not used by the landowners themselves can be leased. With the establishment of the NLTB, the Fijian people voluntarily surrendered management and control (but not ownership) of these lands to the NLTB.

The NLTB administers 83 per cent of Fiji's land which is owned by the Fijian people and has become one of the most important institutions in Fiji. The NLTB works with land owners to turn land into productive assets. By 1986 429,000 hectares had been leased out in more than 25,000 leases for agriculture, commerce, industry and tourism. Rental payments alone totalled approximately \$5 million a year and were expected to increase to about \$8 million by 1990. The landowners benefit from rental income, jobs, dividends, royalties and commercial opportunities. Timber royalties are estimated to grow to approximately \$1.6 million in 1990.

The Native Land Development Corporation was established in 1975 to develop native lands and promote Fijian business investment. The NLDC completed three residential subdivisions in 1977 and another six subdivisions in 1978.

Fiji's sugar industry is built on native land leased to cane farmers who are mostly Indians. In 1984 there were 9,200 cane farm contracts on 78,000 hectares of native land. In addition, native land is leased for many other uses such as forestry, factories, housing developments, hotels, timber mills, commercial buildings and diversified agriculture.

Tenants of Fijian land are issued with leases which are a guarantee of security. Leases are available in five main classifications: agricultural, residential, commercial, industrial and "special". Different conditions and terms apply in each category.

- Agricultural leases cover 30 years with five-yearly reassessments of rent.
- Residential leases are usually issued for 99 years and rent is also reassessed at five yearly intervals.
- Commercial and industrial leases are for 60 to 99 years, with 10 year reassessments.
- Tourism leases are in the "special" category and terms are negotiated according to the type of development. The term ranges from 60 to 99 years.

NLTB leases may be sold, transferred and varied. A leaseholder may sub-lease all or part of a leasehold to other tenants, subject to NLTB consent. Sub-lease of tourism leases requires the written consent of the landowners.

### ***Leases for Tourism Purposes***

Since the 1950s the NLTB has granted many leases to the tourism industry. The Hyatt Regency Hotel, the Fijian Hotel, the Regent and Sheraton hotel developments on Denarau Island are some of the outstanding examples of tourism leases administered by the NLTB. NLTB expects rentals from hotels to total approximately \$1.75 million by 1990.

Assessment of rent for tourism leases is calculated at:

- 2.5% of gross receipts from the sale of accommodation, liquor, food, beverages, guest services, and other sundry items during the preceding calendar year; and

- 20% of gross rentals from any sub-lease, licence or concession.

In addition, tourism leases specify that:

- the lessee will give first preference to members of the landowning unit for all staff posts or other types of employment, both skilled and unskilled;
- the lessee will "use its best endeavours to promote the training of members of the landowning unit who are employed in all aspects of tourist resort management and administration and other types of skilled or professional work in connection with the tourist facility" (NLTB, 1989);
- the lessee will appoint one member of the landowning unit (approved by NLTB, the lessor) as a Director of the company, to participate in all board meetings.

The NLTB's five year plan to 1990 emphasises its central role in Fiji's economy. The plan's main points are:

- support for the Government's programmes in urban areas for industrial and commercial development;
- support for agricultural and manufacturing industries in rural areas, including timber industries;
- assessment of individual projects requiring native land for development on their merits;
- encouragement of landowner participation in land development through the leasing system;
- the ensuring that the development potential of native land is recognised and incorporated into national land-use policies;
- continued improvement of services to landowners, tenants, and customers through staff training and development.

Services offered by the NLTB include:

- consulting with landowners to obtain their approval for leasing;
- interviewing prospective tenants;
- inspecting prospective sites where tenants want to build or plant;
- drawing up lease documents;
- collecting and distributing rents and royalties;
- identifying schemes for successful development of Fijian land;
- helping to prepare feasibility studies;
- monitoring development to ensure lessees adhere to the tenancy agreement.

This chapter has reviewed national objectives and strategies which clearly indicates that the current Fiji Government supports the development of the indigenous private sector. The Fiji Development Bank, as the main development finance institution in the country, provides specialised financial support programmes for indigenous Fijians. The Commercial Loans to Fijians Scheme (CLFS) and Joint Venture Loans Scheme (JVLS) are two examples of special financing plans available to indigenous Fijians. Since the coups of 1987, there has been a substantial increase in activity in these loan schemes.

The Native Land Trust Board (NLTB), which administers leases for development on 85 per cent of Fijian Lands, plays an important role in leasing land for tourism development. Many of the major hotel developments are administered by NLTB, and lease rentals from these hotels are making a significant contribution to the incomes of some rural Fijian people and the economy as a whole.

## **PART IV**

### **CHAPTER 12**

#### **DISCUSSION AND COMPARATIVE ANALYSIS OF INDIGENOUS ENTREPRENEURSHIP AND TOURISM DEVELOPMENT IN THE COOK ISLANDS AND FIJI**

The critical development issues which must be addressed by decision makers in the Pacific Islands have been explored in the previous chapters of this thesis. Specifically, the issues associated with tourism development and indigenous entrepreneurs in the Cook Islands and Fiji have been presented and analysed.

As a result of the analysis in this study a model was designed to assist and guide policy makers in developing national policies for tourism development and indigenous entrepreneurship. It is timely that such a model has been developed because both the Cook Islands and Fiji need to improve and update their policies concerning tourism and indigenous entrepreneurs for the 1990s, which will prepare these two countries for further development beyond the year 2000.

Although Fiji was the first South Pacific island country to adopt a tourism masterplan in the 1970s, thirty years have now passed and Fiji has not adopted a new masterplan which would reflect the progress made over the last three decades and plan for the realities of tourism development over the next decade.

As stated in Chapter 5 of this study, the Cook Islands Government Second Development Plan (1988-1992) adopted policy objectives of a controlled and balanced tourism industry which would be developed at a moderate growth rate. Another objective was to optimise local economic benefits and ensure widespread distribution of these benefits within society and among the islands. The aim was to achieve this development while ensuring conservation of the natural environment, and maintaining Cook Islands' culture and traditions (Cook Islands Government, 1988).

In Chapter 9 of this study we saw that the Fiji Government has also adopted several policy objectives for tourism development in the Development Plan (DP9) period. These were: to ensure that tourism is developed in harmony with other national development policies and objectives; to increase the use of local agricultural produce in hotels and restaurants in order to improve overall linkages with the rest of the economy and reduce leakages; to promote greater participation of local entrepreneurs in hotel investment and related industries; to facilitate small scale secondary activity for local entrepreneurs through provision of basic infrastructure, physical resources and credit facilities; to diversify visitor source markets; to increase tourism awareness among local people and visitors; and to ensure that negative impacts on local customs and cultures are avoided while enhancing local cultures (Fiji Government, 1985).

In addition, the Coopers and Lybrand study of 1989 added several other objectives including a sustained growth in total visitor expenditure; an equitable distribution of the benefits of tourism; and appropriate environmental management (Coopers and Lybrand, 1989).

The discussion in this chapter will take into account these policies and objectives in order to evaluate to what extent these policies and objectives have been achieved.

In 1989 a draft report for a tourism masterplan was prepared (Coopers and Lybrand, 1989), but this has not yet been adopted by the Interim Fiji Government.

The Cook Islands have not yet produced a tourism masterplan. Since tourism began in the early 1970s, development has occurred on an ad hoc basis without the guidance of government policies set out in a masterplan. However, the Cook Islands Government has recently received funding from the ADB to prepare a tourism masterplan in 1991. This study can therefore play a small role in the Cook Islands tourism masterplan.

In the meantime, both countries have based their development on policy statements on tourism development presented in their respective development plans (Fiji's DP9, 1985, and Cook Islands Second Development Plan, 1988).

Neither country has developed adequate policies for dealing with indigenous entrepreneurship. Again, there is some mention of the need to develop small businesses (especially for indigenous entrepreneurs) in the development plans, however neither country has a dedicated section on the encouragement and promotion of indigenous entrepreneurs.

Similarly, neither country has focused adequate development policies on the role of women in development (although Fiji has a section devoted to women in DP9), or more specifically the role of women in business.

Therefore the model developed in this study will be an important guide to planners and decision makers to assist them in the evaluation and monitoring of tourism development and the role of indigenous entrepreneurs in that development.

A model for tourism and indigenous entrepreneurship development strategies for small island states has been developed and provides a framework for analysis (Figure 12.1).

According to the model, any analysis of indigenous entrepreneurship and tourism development in the Cook Islands and Fiji must take into account several major factors. The model developed in this thesis is based on four key factors. They are as follows:

### 1. Economic Factors

- ✦ - generation of foreign exchange and reduction of foreign exchange leakages;
- employment generation;
- contribution to gross domestic product (GDP);
- increased linkages with other sectors of the economy;
- provision of small business opportunities;
- increased participation of indigenous people in business;
- role of women in tourism and entrepreneurial development.

### 2. Social Factors:

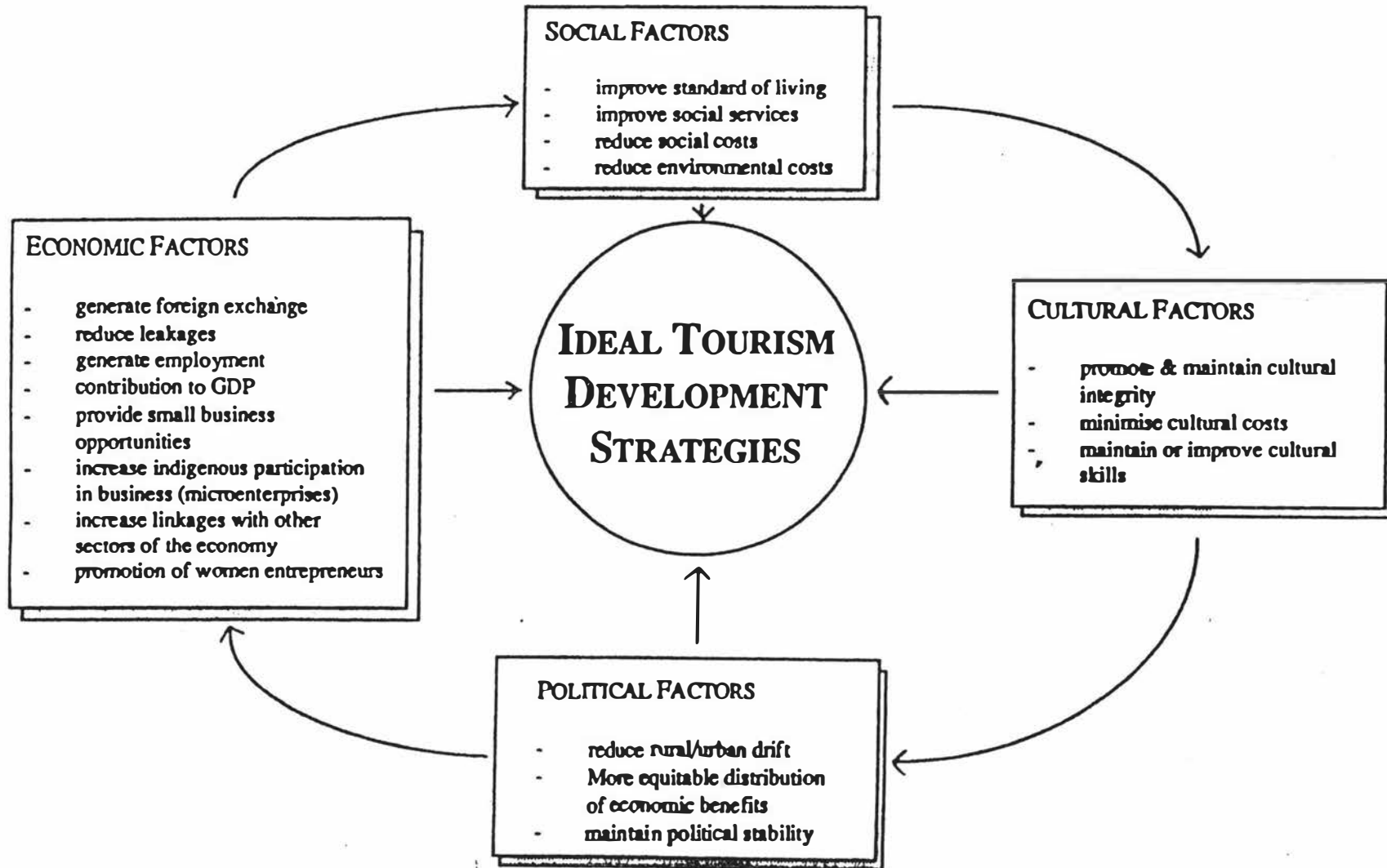
- minimisation of the social costs of tourism;
- protection of the environment and the minimisation of environmental impacts of tourism.

### 3. Cultural Factors:

- minimisation of the cultural costs of tourism;
- maintenance and promotion of cultural integrity;
- maintenance and improvement of cultural skills.

Figure 12.1

## A Model for Tourism and Indigenous Entrepreneurship Development for Small Island States



#### 4. Political Factors:

- reduction of rural/urban drift;
- more equitable distribution of economic opportunities;
- more equitable distribution of economic benefits;
- maintenance of political stability.

It should be emphasised here that, while these four important factors incorporated in the model can be analysed independently of one another, each factor is interactive and inter-dependent. The model must be perceived as a dynamic, shifting relationship amongst the four key factors. If tourism development is to be functional and beneficial to the majority of the population, somehow a balance amongst these four factors must be achieved. Ideal tourism development would incorporate a balanced synthesis of all these factors.<sup>1</sup>

### A ECONOMIC FACTORS

#### *Generation of Foreign Exchange and Leakages*

Both Fiji and the Cook Islands ascribe to the objective of increasing foreign exchange earnings to reduce national balance of payments deficits. Each country suffers from a shortage of foreign exchange which provides constraints on overall economic development.

In the case of the Cook Islands, agricultural production is declining, export prices for produce are unstable and low, the export base is low and foreign exchange reserves are depleted.

<sup>1</sup> A major source for the economic strategies is a study conducted by Larry Dwyer of The Australian National University in 1986.

Here, tourism is making the largest contribution to the country's balance of payments. Tourist receipts were \$29.7 million in 1987 and were projected to reach \$36.2 million in 1990 (Cook Islands Tourist Authority, 1988). The off-shore banking industry, with revenues to the Cook Islands of \$1.14 million in 1987, makes the second largest contribution. In the near future it is expected that the new and developing pearl industry will also be making a significant contribution to the country's balance of payments.

In the Fiji case, even though agricultural production (especially sugar) is relatively high, the country is also faced with a narrow export base and depleted foreign exchange reserves and unstable and low export prices, especially since the military coups of 1987. In Fiji, tourism is also making a major contribution to the country's balance of payments. Gross tourist expenditure has been steadily increasing in Fiji, except for 1983 when cyclones hit Fiji and 1987 when tourism dropped as a result of the coups. As a percentage of all exports, tourism accounts for approximately one-third of Fiji's export receipts. In 1984, gross tourist expenditure of \$161 million was significantly higher than the \$110 million from sugar exports, which has traditionally been Fiji's major source of foreign currency earnings. A large portion of Fiji's trade deficit is met from tourism earnings, which have in turn reduced the instability in export income (Dwyer, 1986).

However, in both countries, outflows of foreign exchange brought about by tourist sector activity must be deducted from inflows of foreign currency in the form of tourist expenditure and foreign capital investment. In Fiji, even with its diverse economic base, the most recent estimate is that leakages constitute 75 per cent of gross tourist expenditure (Dwyer, 1986, p.238).

In the Cook Islands leakages are estimated to amount to 55 per cent of tourist expenditure (Cook Islands Tourist Authority, 1990).

Five types of foreign exchange leakages can be identified:

1. Imported goods and services consumed by visitors - While in both countries many goods (especially foods, beverages, clothing, furnishings, vehicles, etc.) and some services are imported, Fiji imports a much larger quantity of these goods and services than the Cook Islands. This is because the tourism industry in Fiji is obviously much larger than the Cook Islands, however it does contribute to more foreign exchange leakages.
2. Factor payments abroad, including management fees to foreign concerns, interest payments on foreign loans, remittances overseas by expatriate employees, and repatriated profits. Again, Fiji makes more of these factor payments abroad because most of the major hotels are foreign owned and operated and therefore employ more expatriate employees, make interest payments on loans overseas, and repatriate any profits. In contrast, in the Cook Islands, only one of the large (over 100 rooms) hotels is foreign owned and most of the medium and small size motels are locally owned and operated.
3. Expenditure on overseas publicity and promotion of the country. This is an expense that both countries are committed to spending as the entire tourism industry depends on vigorous marketing because competition for the tourist dollar is constant.
4. Imports of capital goods for tourist accommodation and facilities. While both Fiji and the Cook Islands face importation of capital goods, again the degree is higher for Fiji because of the size of the country and the industry.

5. Increased imports due to increased consumption by residents - the "demonstration effect" of tourist expenditure. The demonstration effect of tourism consumption undoubtedly causes increased consumption of imports by residents. However, not all increased consumption can be attributed to tourism. Increased consumption by residents is also caused by residents travelling overseas themselves, and by development in general.

The magnitude of the foreign exchange leakages which occur in a country will depend on such things as:

1. The structure of ownership and control in the tourist industry. As indicated earlier, Fiji has a greater degree of foreign ownership and control in the tourist industry than the Cook Islands, therefore the magnitude of foreign exchange leakages is higher.
2. The type of accommodation and tourist facilities offered. Again, Fiji has many large hotels (10 hotels with over 100 rooms each), catering to up-market tourists whose expectations of food and services are much higher than lower-income tourists. Many of these large hotels are operated by international hotel chains (such as Sheraton, Hyatt, Regent etc.) who have set international standards of accommodation, facilities and services. The Cook Islands, on the other hand, have only two large hotels and none of the hotels are operated by international hotel chains. The industry caters mostly to average income tourists and the budget market.

3. The extent of the linkages between the sectors meeting final tourist demand, and other producing sectors. In both countries, the extent of the linkages between the tourist sector and other producing sectors are minimal and need strengthening.

The net effect of tourism earnings on the balance of payments requires information regarding the direct and indirect foreign exchange costs of goods and services purchased by tourists. The proportion of tourist expenditure which flows overseas in small island states is expected to be high because of the elementary nature of secondary industry and the difficulty for the agricultural sector in supplying products of sufficient variety, quantity and quality to the tourism industry. For example, some recent estimates of the import content of tourist services in Western Samoa ranged from 65 per cent for hotels and food to 100 per cent for transportation (Dwyer, 1986, p.238).

In summary, both the Cook Islands and Fiji have achieved their tourism development objectives of generating significant foreign exchange earnings to the country. However, both countries need to monitor and reduce the foreign exchange leakages out of the country. Although both countries are making serious attempts to reduce these leakages, more needs to be done.

### ***Employment Generation***

Tourism is a labour intensive service industry. Tourism's demand for labour is mostly in the unskilled and semi-skilled categories. However, employment opportunities may be expanded for self-employed small-scale entrepreneurs offering goods and services to tourists (for example, tour guides, vendors and transport operators). Employment is generated in the following sectors, with additional multiplier effects from the following sources:

- the tourist sector (hotels/motels, tours and transport, retail shops, and government administration of tourism);
- the tourism supplying sectors (agriculture, distribution, foodprocessing, financial and other services);
- the construction of tourist accommodation and tourist related infrastructure.

Tourism-related employment can be generated in regions removed from the main tourist areas, such as the production of handicrafts which are then transported to centralised sales outlets. In both Fiji and the Cook Islands handicrafts are produced in rural outlying islands (for instance the Lau Group in Fiji and the Northern Group, Atiu and Mauke in the Cook Islands) and shipped to the tourist centres of Suva, Nadi and Rarotonga for sale. This, in addition to the location of tourist resorts in rural areas (with the creation of employment opportunities), also helps alleviate rural/urban drift.

The preservation of traditional handicraft making and entertainment skills are also direct benefits of tourism employment. By creating paid employment for these skills, the tourism industry is helping to preserve them. In addition, tourism provides greater opportunities for commercial and entrepreneurial skills in a variety of areas such as handicrafts, entertainment, tours etc.

The magnitude of employment generated depends on the rate of growth of tourist expenditure and investment, and linkages between industries (economic sectors). "The greater the degree of integration and diversification in an economy, the greater the amount of employment generated from a given amount of tourist spending" (Dwyer, 1986).

Tourism development can help to reduce unemployment rates in the Pacific Islands in the future; however, some doubts have been raised about its employment creating potential. Estimates for Fiji indicate that the employment generating potential of tourism is less than that of all primary and secondary industry. It appears that, compared to other sectors, tourism does not create a significant demand for labour (Varley, 1978). Agriculture has consistently provided more employment than tourism in Fiji. Other questions that must be raised are: what are the opportunity costs of expanding tourist industry employment, especially when manpower is diverted from agriculture? What opportunities exist in the tourism industry for acquiring productivity enhancing skills?

However, tourism is still an important source of much needed employment in Fiji. Estimates show that 7,000 direct and indirect jobs were created by tourism in 1971, which was 9.4 per cent of total paid employment. By 1981 it was estimated that tourism-generated employment provided 22,042 jobs, or 27 per cent of total paid employment. In addition, it was estimated that by 1990 tourism would provide employment for 30,769 persons, 13,231 in direct employment, and 17,538 in indirect and induced employment (Fiji Government, 1985).

In the case of the Cook Islands, where tourism is the largest industry, it is also providing a significant number of jobs, in direct, indirect and induced employment.

In 1981 it was estimated that tourism provided direct full-time employment for 464 persons (Pryor, 1981). By 1984, there were 768 people directly and indirectly employed in the tourism industry (Milne, 1985).

It is obvious that both the Cook Islands and Fiji are achieving their goals of employment generation to a large degree. However, more opportunities must be provided for increasing the skill levels of local people, increase entrepreneurial opportunity, and managerial development for local people if full advantage is to be taken of the opportunities provided by the tourism sector.

### ***Contribution to Gross Domestic Product (GDP)***

National income is increased by both tourist expenditure and investment in tourist-related plant and equipment. Tourist expenditure has three effects on national income.

- Direct effects of tourist expenditure include revenue to hotels, restaurants, tour and transport companies, retail stores, entertainment, and visitor attractions, etc. Domestic value added accrues to employees as wages, to owners as profits, or to the government as tax revenue. This can be an important source of development financing to governments.
- Indirect effects result from "flow ons", whereby direct suppliers purchase inputs from other local firms, which in turn purchase inputs from others etc.
- Induced effects occur when the recipients of the direct and indirect expenditure (the firms and their employees) demonstrate induced consumption by spending their increased incomes on other locally produced goods and services. An added benefit to local residents is that the expansion of accommodation and other facilities and infrastructure (such as improved roads, communications, electricity etc.) serves the local population as well as tourists.

However, the overall multiplier effect and tourism's contribution to GDP is reduced by leakages overseas. Foreign investment, which is necessary for construction of tourism facilities, also increases ownership and control of the tourist industry by foreign interests, further weakening the beneficial economic impact of tourism to residents. "The less developed the linkages are between the tourism industry on the one hand and primary and secondary industry on the other, the less the contribution that tourism-related spending makes to domestic value added. The greater tourism's contribution to GDP, moreover, the greater the vulnerability of the economy to any instability in tourism numbers" (Dwyer, 1986).

In Fiji, tourism's estimated contribution to GDP ranged from 8.25 per cent of GDP factors (Dommen, 1973:p.28) to 13.5 per cent of GDP market prices (Britten, 1983:p.163). Another analysis of tourism expenditure shows that, on average, tourism accounts for 12-13 per cent of GDP. The tourism income multiplier was estimated at 0.94, which is much lower than sugar (1.47). This is due to the lack of foreign exchange leakages within other sectors of the economy as well as its high import content (Fiji Government, 1985). Although these figures vary, it is clear that tourism's contribution to the Fiji economy is significant.

Estimates for the Cook Islands indicate that 20 per cent of total government taxation revenue was generated either directly or indirectly by the tourist industry in 1985. In addition, revenues generated by tourism have grown from \$24.4 million in 1985 to \$29.7 million in 1988. Tourism has become the principal force for economic growth in the Cook Islands' economy.

### ***Provision of Small Business Opportunities***

The tourism industry in small island states must act as a catalyst to overall growth in other sectors, but careful attention must be paid to developing strategies to retain a greater proportion of tourist expenditure and tourist-related investment domestically. One of the most important issues facing governments of these island countries is how to increase local indigenous participation in ownership, management and control of tourism facilities.

Local entrepreneurs have poor access to capital, markets and management expertise which limits their ability to participate fully in the development of tourism facilities. This situation promotes the need for foreign capital and therefore foreign control of tourism facilities. The best opportunities for local participation and control in the tourist industry are:

- the provision of medium-standard accommodation; and
- involvement in certain tourist-related facilities and services, or secondary tourism activities (STA's).

Island governments can encourage indigenous entrepreneurs to develop an integrated network of small, medium and budget standard accommodation facilities located in various parts of the country and outside the major tourist areas. Governments can encourage and facilitate the construction of these small lodging facilities through development bank assistance to local communities and by providing technical management skills training.

Both the Cook Islands and Fiji have provided development bank assistance to locals for development of accommodation facilities. However, they have not provided sufficient technical management skills training. Also, the development banks have not provided monitoring of loans in order to detect management problems at the early stages.

Island governments can also encourage indigenous participation in the secondary tourism activities such as restaurants, hiking and trekking tours, transportation (e.g. tourist mini-buses, motor bikes, bicycles, horse riding, sail boats, canoe riding), handicraft sales, music and entertainment, and provision of produce for hotels and restaurants.

In both the Cook Islands and Fiji, these secondary tourism activities are reserved for development by locals, which provides indigenous people with opportunities for participation.

### ***Increased Indigenous Participation in Tourism Businesses***

By encouraging indigenous entrepreneurs to participate in equity investment and management of tourist facilities and services in the accommodation sector, several advantages can be expected:

- increased control over inputs and ensured maximum use of local inputs such as building materials and food;
- wider distribution of income and employment benefits of tourist expenditure outside of tourist centres;
- reduced leakages of foreign exchange because more local materials and services will be utilised;
- minimisation of adverse socio-cultural impacts because of the type of tourist who would utilise this type of accommodation. Although the type of tourist likely to utilise these facilities will spend less than the tourists who prefer international resorts, the impact of this tourist expenditure is usually significant for local residents;
- increase in the development of indigenous management skills and expertise.

Governments can also encourage indigenous entrepreneurs to set up businesses in the secondary tourism sector. In many instances, this may be a more feasible approach, as the initial investment needed is usually less than that required for accommodation.

The encouragement of indigenous communities to participate in the decision making, equity investment and management of tourist facilities and services not only provides income and employment benefits to indigenous people, but also provides the opportunity for a more equitable distribution of economic benefits from the tourism industry.

In Fiji there was a total of 35 loans made to the tourism sector, with a total value of F\$5.6 million (June 1988). However, of this total, only 4 loans with a total value of F\$234,000 were made under the Joint Venture and Commercial Loans to Fijians Scheme, which makes specific provision for the indigenous Fijians. The remaining 31 loans, with a value of \$5.3 million, were made to the Industrial Division, presumably to non-indigenous Fijians (Fiji Development Bank, 1988).

In the Cook Islands in 1989, the commerce sector (which covers principally tourism projects) received the largest number of loans from the CIDB (41.1 per cent) with a total value of NZ\$616,000. All loans made by CIDB are made to Cook Islanders and permanent residents.

It is clear that while government policy in Fiji ascribes to a policy of increasing indigenous participation in tourism-related businesses, in reality most of the development financing is going to non-indigenous clients. There are several reasons for this, including the fact that many potential indigenous entrepreneurs may not be aware of the opportunities for development financing that exists.

More effort must be made to promote the availability of financing if the Fiji Government is to achieve its objectives in this respect.

The high level of Japanese investment in the tourism industry in Fiji (especially the accommodation sector) is another issue that will need monitoring to avoid problems of vertical integration. In other countries where Japanese investment in accommodation has been high (for example, Australia and Hawaii), local entrepreneurs have been squeezed out of many of the secondary tourism activities where the Japanese are also taking over. This includes tours and internal transportation, restaurants, entertainment, gift shops and other services. In some cases, these services are pre-sold in Japan, thereby cutting out local businesses.

In the Cook Islands, while all development bank loans are made to indigenous Cook Islanders (and permanent residents), there is still a large segment of the population who are not aware of the financing opportunities available. This is especially true in the case of people in the outer islands and potential women entrepreneurs. An effort must be made to create an awareness of the financing opportunities available.

### ***Promotion of Indigenous Women Entrepreneurs***

The role of women in national economic development is now attracting the attention of development planners. Planners (who are mostly male) have come to recognise that women make up at least 50 per cent of the population in most countries, and that this major human resource has been largely overlooked in the past. Most developing countries cannot afford to overlook this important resource. More importantly, Pacific Island countries, with their very limited natural resources, most definitely cannot afford to overlook this resource.

While women find it difficult to compete in traditionally male dominated professions (such as the public service, politics and agriculture), Pacific women find competition in the business world more successful for them. Although competition is tough, men accept women in business more readily and do not feel as threatened by business women as they do by other women who compete in what has been the exclusively male dominated fields. This does not mean to say that business women have it easy. On the contrary, they still face competition, but the barriers they have to confront are predictable. These are mainly in the areas of obtaining financing for business development (banking and credit).

Pacific women need encouragement and training to become more effective entrepreneurs. They have not had the opportunities that men have had in the past, and have therefore not developed all the business skills necessary to succeed. Many of them have succeeded in spite of this lack of training, and many have not even attempted entrepreneurial ventures.

The role of women in the development of the national economies in the Pacific Islands has been largely overlooked. In the Cook Islands the role of women in development generally (let alone business development) has not been recognised in the development plan. In the Fiji Development Plan (DP9) the role of women is paid some attention, but the role of women in business development is overlooked.

Women need assistance in obtaining financing for their businesses. They often face the problem of a weak collateral position and have very little experience in establishing personal credit. Women lack guidance, counselling and business training and need experience in financial planning. Both the Cook Islands and Fiji governments must face the fact that women need special incentive programmes to enable them to bridge the gender gap.

### ***Increased linkages with other sectors of the Economy***

The tourist industry is frequently expected to act as a catalyst to growth in other sectors. However, careful attention needs to be paid to how a greater proportion of tourist expenditure and tourist-related investment can be retained domestically. One of the critical issues is the strengthening of links between the tourism and agricultural sectors and reducing the reliance on imported goods.

There is a need to develop more organised marketing arrangements of agricultural products and solving the technical problem of supplying products at the right price, quantity and quality.

The hotels need good supplies of quality locally produced foodstuffs (fruit, vegetables, meat, poultry, fish) on a regular basis at agreed prices. This can be handled either by individual entrepreneurs or by a national organisation.

For Fiji, where there are thousands of agricultural producers and the markets are further away, it has been suggested that the National Marketing Authority could assume this role (Coopers and Lybrand, 1988). However, the farmers in the Sigatoka Valley have formed a group which directly supplies the major hotels and resorts in the Nadi area with agricultural products with no involvement at the national level.

In the Cook Islands, because of its small size, the supply of agricultural products is handled directly by a small group of agricultural producers who have direct access to the tourism market. One of the more successful linkages in the Cook Islands is the provision of coffee from the island of Atiu which supplies the tourist market.

This is a small, domestic industry but provides a much needed local product. Also, the recently established Rarotonga Breweries is providing Cook's Lager which has become very popular with tourists. Most tourists prefer this to the imported Steinlager from New Zealand. Locally produced orange and pineapple juices are other goods examples of linkages.

Hotels and restaurants also need supplies of seafood which can be supplied by the local fishing industry. In both the Cook Islands and Fiji the linkage with marine resources has not been as successful as it should be. Visitors would much rather eat local seafood than seafood imported from the countries they have just left.

Fiji could develop a coffee industry to service domestic and tourist demands. Fiji also has a successful brewing industry which services tourists, and is producing local juices.

Both the Cook Islands and Fiji have attempted to develop economic linkages between the tourism industry and other sectors of the economy with some level of success. However, this is an area that requires constant monitoring and promotion.

In both countries, there is an urgent need to fully determine the existing linkages between the tourist industry and other sectors. If these linkages remain weak, the economic impact of tourism will continue to be limited. Research needs to be undertaken to determine how various inter-industry linkages can be strengthened, in the context of the governments' overall development objectives. Appropriate policies need to be designed to encourage these inter-industry linkages, and to strengthen and maintain them.

## **B SOCIAL FACTORS**

One of the most important social objectives in development planning is to improve the standard of living of the people of a country. Most Pacific Islanders in the 20th Century have developed an understanding and need for a higher standard of living based on the western capitalist model. They have become part of the consumer society introduced to them by the western world.

In addition, Pacific Islanders now expect better social services such as health and educational services. By developing country standards, the health and education services available in the Cook Islands and Fiji are quite high.

If Pacific Island countries enjoy higher standards of living and improved social services, social costs can be reduced. If a high level of social services is provided to all people in the community, social problems such as burglary, rape, juvenile delinquency, drug abuse and alcoholism will be reduced.

Tourism and indigenous business development do provide more employment, generate more household income and therefore improve the standard of living. Tourism also provides more social services for a community, including improved infrastructure development.

However, tourism can also provide more opportunity for increases in the crimes mentioned earlier. The "demonstration" effect of tourist consumption can have a negative impact on island communities, especially the youth. Some tourist behaviour, mode of dress, consumption of alcohol (and other consumer goods) and at least the appearance of greater wealth can cause dissatisfaction and frustration to indigenous people and lead to various criminal offences.

These are some of the pitfalls of development and are issues faced by both developed and developing countries. Constant monitoring is required and constant attention must be paid to minimise these impacts.

In both the Cook Islands and Fiji, little research has been carried out to monitor the social impacts of tourism on the local communities. While a social and economic impact study was carried out on employment and residents' attitudes towards tourism in the Cook Islands in the 1970s (Pryor, 1981), no further studies have been implemented since. The Cook Islands are in a unique position because this study established a baseline against which changes in employment and residents' attitudes can be measured. Further research should be encouraged in this area.

Another issue that is of prime importance is protection of the natural environment and the minimisation of environmental impacts of tourism development. The tourism industry in most Pacific Islands is dependent on the natural environment. Tourists visit these islands simply to experience their beautiful beaches, pristine waters, natural wildlife, and traditional cultures. Without these most important and unique environmental features the tourist industry would not exist.

However, in both the Cook Islands and Fiji no environmental guidelines for the tourism industry have been established. While some effort has been made to establish national environmental plans, no specific environmental policies for tourism development have been adopted.

## C CULTURAL FACTORS

### *Maintenance and Promotion of Cultural Integrity*

The development of indigenous controlled tourism activities can be a significant factor in maintaining and promoting the cultural integrity of a country. Although it is claimed that tourism down-grades cultures, in many instances tourism has provided opportunities for the accurate display of cultures through cultural centres, cultural performances, and by providing markets for traditional arts and crafts.

The Fiji Cultural Centre at Pacific Harbour, and the Ka Levu Cultural Centre at the Fijian Resort are two examples of centres where arts, crafts and handicrafts are sold and where cultural displays and performances can be viewed by tourists. Both these centres employ ethnic Fijians and are important sources of income for the village people.

The Cook Islands Cultural Centre on Rarotonga has recently been developed by indigenous Cook Islanders, providing an important activity for tourists where they can observe cultural displays and performances and sample ethnic food. Again, this centre provides employment for indigenous Cook Islanders, and provides the tourism industry with an important activity for tourists.

In both countries significant progress has been achieved in the maintenance of cultural integrity and improvement of cultural skills. The cultural centres in both countries not only provide entertainment and education for visitors, they also encourage indigenous people to have a sense of pride in their cultures and traditions.

### ***Maintenance and Improvement of Cultural Skills***

By providing opportunities for indigenous people to practise and maintain their traditional cultural skills (such as weaving, carving, dancing, choreography, design of costumes, and music composition) and still earn an income, tourism is contributing to the maintenance and improvement of cultural skills.

In both Fiji and the Cook Islands, tourism is providing significant incentives to the indigenous peoples to maintain their cultures. By doing this, the cultural costs of tourism are minimised.

However, the impacts of tourism and business development on traditional cultures must be monitored. While both countries recognise the importance of maintaining cultural integrity and improving cultural skills, little research is actually being sponsored to determine exactly what these impacts are, and how they can be minimised. One important area is promotion of the use of local languages in the tourism industry.

#### **D POLITICAL FACTORS**

As mentioned earlier, one of the important national development objectives for all island countries is the reversal or minimisation of rural/urban drift. As the main towns and centres have developed increased employment and educational opportunities, the movement of people from the rural or village areas to the urban centres has been a major cause of concern for governments. Large increases in populations in the urban centres have stressed the housing, medical, and educational facilities in these centres, while the loss of people with skills from the rural or village areas has caused a vacuum in village communities.

Overcrowding in the towns also leads to housing problems, and lack of parental and traditional village controls over youth. This breakdown in traditional social systems leads to increased crime, alcohol abuse and general disorientation and loss of identity of the youth.

### ***Rural/Urban Drift***

As tourism facilities and attractions are usually located in more rural areas, the employment and other social opportunities provided by tourism can be a major factor in convincing young people to stay in rural communities, thereby reducing rural/urban drift. By providing people with jobs and income, tourism can be viewed as an effective way of keeping people in their home communities.

In the Cook Islands the tourism industry has certainly made a contribution to the reduction of out-migration of Cook Islanders to New Zealand, although the economic recession in New Zealand has also been a major factor. The tourism industry has provided people with jobs and in many cases the industry is able to pay people at levels comparable with New Zealand.

Recently there are even some instances where Cook Islanders living in New Zealand have returned to live in Rarotonga and have secured employment in the tourism industry.

However, migration from the outer islands to Rarotonga (and often to New Zealand) is a major issue. Apart from the island of Aitutaki (where a small but growing tourism industry exists) there is very little tourism development in the outer islands. This can be attributed to the fact that basic infrastructure development (electric power, water, communications) has not occurred. As this happens, more tourism development can be expected and levels of migration are likely to decrease.

In Fiji there is a major rural/urban drift problem. However, tourism development is playing a major role in keeping some people in the rural areas and neighbour islands where most of the major hotels and resorts are situated.

The development of indigenous business also reduces the rural/urban drift problem by providing income for indigenous people within their own community.

### ***Equitable Distribution of Economic Benefits***

Another major political factor is the equitable distribution of economic benefits. Tourism provides a rather unique opportunity to equitably distribute economic benefits because it employs a lot of local people (many of them women) who probably had limited job skills before they joined the tourism industry. Most tourism industry activities provide on-the-job training which is also a benefit to unskilled workers.

Also, the development of more indigenous business obviously provides for a more equitable distribution of economic benefits.

In both the Cook Islands and Fiji it is clear that the development of tourism has contributed to a more equitable distribution of economic benefits. In the Cook Islands the development of indigenous entrepreneurs in tourism related businesses has been successful and has also had a significant impact on the equitable distribution of benefits.

In Fiji, however, the development of indigenous entrepreneurs and business in the tourism sector has not been successful and this has contributed to some of the country's political problems.

The business sector is still dominated by Fiji-Indian business people and the participation of indigenous Fijians in business has not increased significantly. The economic benefits of tourism and business development have therefore not been equitably distributed and the indigenous Fijians are feeling left out and disadvantaged. This was one of the basic reasons for the coups of 1987. ✱

### ***Maintenance of Political Stability***

One of the most important political objectives (perhaps the most important) in the development of tourism and indigenous business is the maintenance of political stability.

Most Pacific Island Governments at this time in history ascribe to the western principles of democracy. However, some Pacific Island countries are finding it difficult to adhere to these western principles of democracy because there is inherent conflict with traditional structures. For example, in Western Samoa, since independence in 1962, only matai (traditional chiefs) have been able to vote in elections.

This has meant that only one quarter of the entire population could vote. The absence of universal suffrage has been in direct conflict with western definitions of democracy, yet Western Samoa considers itself to be "democratic". This is about to change as a result of a referendum in 1990, when the majority of Samoans voted for universal suffrage.

In addition, only matai are able to stand as political candidates in parliamentary elections. There are no plans to change this special qualification for political candidates.

Also, in Tonga, where (except for 7 seats representing commoners) only the nobles can stand for election, there is increasing pressure to change this system which has been regarded by Tongan leaders as "democratic".

In Fiji, where a democratically elected Parliament survived for 17 years after independence in 1970, a democratically elected government (which was dominated by Fiji-Indians) was overthrown by a political coup in 1987 led by indigenous Fijians. As mentioned earlier, indigenous Fijians' dissatisfaction with their economic role and their political role drove them to this desperate solution, thereby causing a level of political instability that has not been experienced in the Pacific Islands since World War II. In 1990, the Interim Government put in place by the leaders of the coups promulgated a new, post-coups Constitution for the Republic of Fiji which replaces the 1970 constitution.

The new Constitution is weighted in favour of the indigenous Fijians, giving them political and customary guarantees that were not present in the 1970 constitution with which Fiji gained independence from Britain.

The new Constitution has drawn severe criticism from some countries. The Indian government views the new constitution as one designed to disadvantage Fiji-Indians, who make up just under half of Fiji's population. At the United Nations General Assembly in New York, India's Foreign Minister stated:

While racism is on the retreat in South Africa, in Fiji, a constitution has been imposed which institutionalises racial discrimination.....the Suva regime flouts internationally accepted principles of democracy and human rights. Its undemocratic and racially discriminatory policies are unacceptable (Gujral, 1990, p.14).

In addition Australia's Foreign Minister Senator Gareth Evans stated at the United Nations that Australia was

deeply disappointed at the backward steps that occurred in Fiji. The new constitution is a welcome return to representative constitutional government, but it is considered to be building new and far-reaching racially discriminatory principles into the Fiji political system (Evans, 1990, p.14).

Indigenous Fijians and others view the Fijian political situation as a question of indigenous rights. Although a general election has not yet been scheduled it is bound to be a most difficult election. Only time and strong leadership will draw Fiji out of this very difficult period of political instability. It is apparent that the Fiji Government has not succeeded in achieving the political objective of maintaining political stability.

The Cook Islands, on the other hand, have enjoyed at least a decade of political stability and, as a result, have been able to achieve significant economic progress.

There has been little growth in per capita GDP in Fiji in recent years, with little growth until 1986, and a significant decline of 3 per cent in 1987. By 1989, GDP made a recovery of approximately 6 per cent through an increase in tourism, a good sugar year and establishment of a garment manufacturing industry in tax free zones (Centre for Development Studies, Australia National University, 1990 p.13).

In comparison, in the Cook Islands for the period 1982 to 1986, per capita GDP increased by more than 9 per cent per year (Cook Islands Statistics Office and Asian Development Bank, 1990). Although 1990 figures are not year available, it is estimated that this growth has levelled off in the latter part of

the 1980s.

It is clear from this analysis that political stability is an important element for the growth and development of tourism. This has been recently demonstrated in the case of Fiji, where internal political turmoil seriously disrupted the tourism industry in 1987 and 1988. The Government has made concerted efforts to re-establish political stability over the last two years, and as a result the tourism industry is again enjoying significant growth.

This chapter has presented a discussion and comparative analysis of indigenous entrepreneurship and tourism development in the Cook Islands and Fiji, using a model which has developed as a framework to analyse ideal tourism development strategies. The model analysed the issues, taking into account the relevant economic, social, cultural and political factors.

## **CHAPTER 13**

### **EVALUATION OF GOVERNMENT POLICIES AND RECOMMENDATIONS**

In Chapter 12 a model was presented for the discussion and comparative analysis of indigenous entrepreneurship and tourism development in the Cook Islands and Fiji.

It is anticipated that this model will be used by planners and decision makers to assist them in the evaluation and monitoring of tourism development and the role of indigenous entrepreneurs in that development.

If tourism is expected to provide maximum benefits to the resident population of any Pacific Island country, then it must be developed in a synergistic manner, taking into account the four important factors identified in the model. Ideal tourism development strategies would include a balanced approach to development, taking into account the dynamics of the economic, social, cultural and political factors.

The interaction of these factors can either make or break a tourism industry. For example, if the economic benefits are considered satisfactory but the social, cultural and political issues are not satisfactory, major social and political upheavals will occur and the tourism industry will suffer.

This was the outcome of the political developments in Fiji in 1987. Not only did the tourism industry come to a virtual standstill immediately after the coups, but hangover effects are quite long-lasting. Over two years later Fiji is still considered by some in the market place to be a politically unstable country with an element of danger.

Although visitors are returning to Fiji in large numbers (with annual visitor arrivals of approximately 256,000 in March 1990), the impact of the political upheaval will be felt for some time to come. There are still some people who believe that it is possible that another coup will occur. There will certainly continue to be doubts about the political stability of Fiji, especially with the prospect of a general election based on a racially discriminatory constitution.

Generally speaking, government policies in Fiji and the Cook Islands, both for tourism development and for increasing the number of indigenous entrepreneurs in the tourism sector, have been well developed. Considerable thought and planning has resulted in the establishment of policies which attempt to address the important economic issues of tourism development and indigenous entrepreneurs.

As a result the tourism industries in Fiji and the Cook Islands are two of the most successful industries in the South Pacific Island region. Fiji, with a large tourism industry, leads the region in tourism development, while the Cook Islands is viewed by most as a good example of tourism development in a small island state.

While these policies go a long way towards providing a sound framework for tourism development, there are some issues that need to be addressed further. In some cases the governments of these two countries have adopted policies which adhere to the model, but the governments have failed to implement the policies.

The following analysis points out some of the shortcomings of existing policies and provides some suggestions for improvements. General recommendations for both the Cook Islands and Fiji for the development of tourism and development of indigenous entrepreneurs will be presented first.

These are followed, in some instances, by specific recommendations for each country, which will be dealt with separately.

## **A DEVELOPMENT OF TOURISM**

For both Fiji and the Cook Islands tourism development needs monitoring, and reviews and evaluations are necessary to address the following issues:

- there is a need for policy makers to address the question of the opportunity costs of the government allocating scarce public funds to the tourism sector;
- there is a need to raise the level of public awareness of the nature of tourism and its significance in the economic development of the of the country;
- there is a need for training programmes to prepare local residents for managerial positions within the tourist industry
- increased regional cooperative marketing strategy and improved air access to each country will assist in successful promotion and marketing.

### ***Economic Factors***

#### **Foreign Exchange Leakages:**

Although both the Cook Islands and Fiji are abundantly aware of the problem of foreign exchange leakages, neither country has developed adequate policies to deal with this issue.

There is even some disagreement about the level of leakages. For instance, the Fiji Government estimated that about two-thirds of the gross receipts from the tourist industry eventually flows out of Fiji (Fiji Government, 1985), while another source estimates a 75 per cent leakage rate (Dwyer, 1986). In the case of the Cook Islands, the leakage rate is estimated to be 55 per cent (Cook Islands Tourist Authority, 1990).

This demonstrates a real need for reliable collection and analysis of relevant statistics through annual visitor expenditure surveys and reviews of foreign exchange outflows. It is recommended that both countries undertake regular in-depth analysis of visitor expenditures and foreign exchange leakages.

There is also a need to review proposed new tourism developments carefully to ensure that there is a lesser degree of foreign ownership and control in the tourism industry.

Both the Cook Islands and Fiji need to strengthen linkages between the tourism sector and other producing sectors of the economy.

#### Tourism Employment:

Although tourism is providing a significant number of jobs in both countries, there is a need for human resource planning to determine the skill levels needed for employment of indigenous people at all levels of the tourism industry.

For instance, both Fiji and the Cook Islands are lacking in the numbers of indigenous people in managerial positions in the accommodation. The numbers of indigenous Cook Islanders at the managerial level is approximately 5, while Fiji has only one indigenous Fijian at managerial level in major hotels.

Also, the major new resort developments proposed for Fiji over the next five years, will create a great demand on the available human resources.

It is recommended that both countries develop detailed plans for human resource needs in the tourism industry over the next decade. The numbers and types of jobs must be identified, and training for these positions must be provided to ensure that the indigenous people will have the necessary skills for managerial positions.

#### Contribution to GDP:

In both countries, tourism's contribution to GDP is significant, approximately 13.5 per cent in Fiji and 20 per cent in the Cook Islands. This makes both countries highly vulnerable to any instability in tourism numbers.

This was painfully evident in Fiji when numbers plummeted after the coups, and the Cook Islands economy experienced some hard times in 1988/89 when visitor growth fell.

It is therefore recommended that both countries constantly monitor the tourism industry and continue to develop other economic sectors to diversify their economies.

#### Linkages with Other Economic Sectors:

It is recommended that both countries undertake research to clearly determine how various inter-industry linkages can be strengthened. This will provide the basis for the design of appropriate policies which will strengthen and maintain inter-industry linkages. For example the production of agricultural products for hotels, the supply of fresh fish for restaurants and the marketing of locally produced clothing would strengthen inter-industry linkages.

### ***Social Factors***

It is recommended that both countries sponsor research to monitor the social impacts of tourism on local communities. This research should be repeated at regular 3 to 5 year intervals in order to monitor social concerns.

In addition, there is a need for both countries to develop policies dealing with the social issues associated with tourism.

It is also recommended that both countries develop environmental guidelines and policies for tourism development.

Both the social and environmental policies will assist decision makers in reviewing plans for any new development in each of the countries, and will provide guidelines for development.

### ***Cultural Factors***

In the area of maintenance of cultural skills and cultural integrity, both the Cook Islands and Fiji need to develop cultural policies and guidelines for the tourism industry. By setting guidelines, it will then be possible to monitor cultural impacts.

There is also a need for research into the existing impacts of tourism on cultural development in order to implement programmes to minimise these impacts.

### ***Political Factors***

By providing employment opportunities in rural areas, tourism is contributing to the demographic stabilisation of rural communities. Although Fiji still has a major rural/urban drift problem, tourism development has nevertheless reduced some of this migration. Research on these issues is required in order to monitor population migration. The Cook Islands need to monitor population movements from the outer islands to Rarotonga and New Zealand.

In both countries it is recommended that proposals for new development be reviewed in light of their capacity to reduce rural/urban drift.

The equitable distribution of economic benefits of tourism is also an issue that requires research and monitoring. This study indicates that the Cook Islands have been more successful in ensuring a more equitable distribution of economic benefits. However, it is recommended that Fiji develop policies and programmes that will achieve a more equitable distribution of benefits.

Needless to say, the overall objective of all these policies is to maintain political stability in each of the countries.

## **B DEVELOPMENT OF INDIGENOUS ENTREPRENEURS**

### ***Government Coordination for Indigenous Business***

In both countries there is a need for a cohesive and integrated approach to encouraging indigenous entrepreneurship.

There is a need for both the Cook Islands and Fiji governments to develop clear policies and strategies to create a more conducive climate for indigenous people to enter the commercial sector and especially opportunities provided by the tourism industry.

It is recommended that both governments identify project opportunities within the tourism industry (and related industries) for development. This should include both primary and secondary tourism activities.

Both governments need to monitor investment in these sectors to ensure that vertical integration of tourism resources by foreign owned companies does not occur. Japanese investors often permeate the whole industry, including the secondary activities. This causes problems when the foreign investor owns the hotels, tour buses, gift shops, and even restaurants. The Japanese even sell vouchers in Japan for these services so that their tourists will not have to spend money in the host country. Examples of this can be found in Hawaii, New Zealand and Australia where Japanese investment is significant. Although the Japanese have shown no interest in investment in the Cook Islands, they have become the single largest investor in tourism in Fiji.

In order to achieve an integrated approach to encouraging indigenous participation in tourism development, it is suggested that each country establish an agency which will act as the central monitoring and coordinating unit within government. This agency would ideally be able to provide development finance, business advice and counselling, marketing advice, and education and training. It would also be able to develop appropriate incentive schemes to encourage individual indigenous entrepreneurs.

There is also a need for the establishment of a regional centre for business development. Such a centre could provide a resource base, design and conduct business training programmes throughout the region, and provide international coordination of regional business development.

### ***Provision of Finance and Credit Facilities***

The PIDP study reveals that most entrepreneurs in the Pacific Islands start their businesses with small capital investments. Most entrepreneurs (61 per cent) do not initially borrow money from financial institutions, but start up their businesses through self-financing from savings (Table 13.1). These savings include not only the owners' savings and those of immediate family members, but also savings from some overseas family members.

There are basically two reasons for these low levels of capital investment. The first is insufficient access to outside sources of finance, and the second is the failure of the entrepreneurs themselves to take full advantage of the available financial institutions who provide credit.

Most Pacific Island countries (except for Fiji) have undeveloped capital markets. The existing facilities in the formal capital market are the development bank, a few commercial banks (in some cases like Tonga, only one), post office savings banks, and, in a few cases, a provident or pension fund (e.g. Fiji). The lack of a well developed formal capital market is probably the most important factor in explaining the high dependence on self-finance.

However, another significant factor limiting access to outside finance is the lack of expertise in preparing and submitting loan proposals. Part of the problem is ignorance of what is required by the formal financial institutions, and sometimes there is conflicting advice from supporting agencies.

Table 13.1

**Main Sources of Start-Up Finance For Selected Countries  
Per Cent**

<b>Finance for Indigenous Business</b>					
	<b>Cook Islands (Rarotonga)</b>	<b>Fiji</b>	<b>Marshall Islands</b>	<b>Western Samoa</b>	<b>Tonga</b>
Self-finance/ owner's savings	61	61	67	78a	63b
Commercial bank loan	25c	3	11	-	9
Development bank loan	8c	36	4	8d	-
Combination- all or some of	6	-	11	-	28e
some of above Other	-	-	7f	14	-
Total	100	100	100	100	100

**SOURCES:** For the Cook islands, see Fairbairn with Pearson (1987:39); for Fiji, see Hailey (1985:68); for Marshall islands, see Carroll (1986:106); for Tonga, see Ritterbush (1986:110); for Western Samoa, see Croulet and Sio (1986:105).

- a Applies to self-finance as a primary or principal source of funds.
- b Includes a small element of bank finance.
- c Includes some self-finance
- d This figure applies to both commercial and development bank loans.
- e Major share from bank and other outside sources.
- f Applies to "no response" cases.

A third constraint limiting access to finance is the lending policies and practices of the formal financial institutions, especially trading banks. These institutions usually follow established rules regarding priority lending areas, acceptable collateral, minimum loan size, and interest rate charges. Usually, these policies discriminate against small businesses. These stringent bank lending practices often discourage indigenous entrepreneurs from even applying for credit.

Most indigenous entrepreneurs lack suitable assets that can be used as collateral to secure a loan from a formal lending institution. Inadequate security and lack of credit rating are disincentives to banks to lend money.

In the case of women, there are also legal constraints. In one instance (Fiji), women do not enjoy full citizenship status. Also, unlike most of the developed world, there is no legislation which prevents institutions from discrimination based on sex. In most Pacific Island countries, if a woman applies for a loan, she is invariably asked for a co-signature from her husband or father before a loan is granted.

In some countries informal credit networks exist. In Fiji the informal credit system is most evident amongst the Indian community. The Gujarati businessmen provide credit at high interest rates.

Other opportunities for diversification of credit facilities include cooperative credit unions, savings and loan societies, finance companies, individual money lenders and solidarity groups.

### ***Provision of Training and Education***

There is general consensus that if indigenous entrepreneurs are to flourish in the Pacific Islands, there is an important need for training and education.

Early business awareness programmes are needed at the primary school level to create an environment where children are aware of the importance of business and the opportunities for future employment. These early awareness programmes can also be developed for secondary level education. At this level, practical subjects that will give young people business skills should be taught. These subjects would include record keeping, budgeting, forward planning, pricing and inventory planning, and basic management skills.

In addition to providing young people with management and technical skills, the teaching of business skills at school will instill business attitudes and ethics in them.

Some students will want to go further to the tertiary level for more business education. This is available at the University of the South Pacific (USP) in Fiji, some courses through the USP's Extension Centres, and at other universities in the region in Australia, New Zealand, Hawaii, Canada and the U.S.A.

Some Pacific Islanders may want to complete a Masters of Business Administration. Efforts should be made to provide opportunities for business people to pursue an Executive MBA, perhaps through distance education.

In addition to the formal forms of business education, there is a need for informal training through seminars and workshops. The idea of a Pacific Islands Regional Business Training Centre should be investigated. This Business Training Centre could provide:

- policy and programme planning for indigenous entrepreneurship at the regional and national levels;
- development of resource materials and school curricula for practical training in all aspects of business management and administration;
- development of a resource centre with a collection of printed and audio-visual materials for use by trainers;
- training for indigenous entrepreneurs through the planning, organisation, and implementation of practical conferences, workshops and seminars for business development.

### ***Promotion of Indigenous Women Entrepreneurs***

It is clear that Pacific Island women have an important role to play in business and entrepreneurial development in their communities. Setting up a small business enables women to become economically active while continuing in their roles as wives and mothers. If women can be mobilised to set up businesses and make them financially successful, household incomes will increase, more services will be provided, more taxes will be generated, and national economic development as a whole will be enhanced.

In order to achieve this, special incentives and programmes must be developed for women. Pacific women have traditionally not been given opportunities for specialised education and training and there is a need now to provide them with these opportunities. Affirmative action programmes for special training of women in business are needed.

Both the Cook Islands and Fiji Governments need to recognise the role of women in the development of national economies. It is recommended that both governments adopt policies that will ensure that the role of women in economic development and business development will be a major feature of future development plans.

There is also a need to review legislation to ensure that any discrimination against women is eliminated. It is also recommended that financial institutions be made aware that equal access to credit for women is necessary.

In the Cook Islands there is no legislated discrimination against women, however, women are not fully aware of their rights. Women are also not fully aware of the opportunities for credit that can be made available to them, and need special training to help them prepare submissions for credit.

In Fiji, women are discriminated against in terms of citizenship. The new Draft Constitution (as in the 1970 Constitution) does not entitle expatriate husbands of Fiji women citizens to acquire Fiji citizenship. The Constitutional Review Committee concluded that:

The Committee accepts that Fiji is a patriarchal society. As such, the Committee also recognises the discriminatory manner in which citizenship is granted to expatriate men who are married to Fiji citizens (Fiji Government, 1989).

This statement is in direct conflict with the policy objective stated in the latest Development Plan. This states that:

There is a continuing need to review laws which discriminate against women or do not adequately support their needs. Furthermore, greater participation by women in decision and policy making bodies at the national level needs to be encouraged (Fiji Government, 1985).

This is an instance where appropriate government policy exists but is not being implemented. Admittedly this policy was adopted by a previous government and the present Interim Government may not be committed to adhering to this objective.

However, it is recommended that Fiji adopt and implement policies concerning women in development which ensures that women are equal partners in the national, political, economic and social development of the country.

Unfortunately, Fiji women are also not fully aware of their rights, and awareness programmes need to be developed to improve this situation. Fiji women also need affirmative action programmes to enable them to become more active economically and participate more in the commercial sector.

### ***Fiji Recommendations***

Recommendations specifically for Fiji mostly concern the Fiji Development Bank.

#### Fiji Development Bank (FDB)

One of the major shortcomings of the FDB is its failure to provide continuing support and advisory services to clients. Follow-up advice and supervision are inadequate, especially for clients with smaller loans, who are located in remote areas and have little prior commercial experience. The Bank's lack of resources to cater to the increasing number of loans is the main problem.

Also, loan evaluation procedures are long and overly complicated for most indigenous Fijians. The FDB procedures are more detailed than commercial banks who are concerned solely with the repayment capability of the client, and have tight security requirements. FDB is also concerned with the developmental elements of credit, and therefore is more prepared to lend to a project of marginal viability. Because of its development philosophy, the Bank is willing to provide more relaxed terms of credit to clients, including more liberal security requirements, and a willingness to reschedule accounts experiencing difficulties (Qarase, 1988).

The Fiji Development Bank has been viewed as a "racial" organisation (Hailey, 1987). "Preferential" finance is provided for Fijians through the Industrial and Commercial Loans for Fijians Scheme (ICLFS) and the Joint Venture Loan Scheme (JVLS). In the past these schemes have come under criticism because they are restricted to ethnic Fijians. However, these special programmes can also be looked upon as affirmative action programmes, allowing ethnic Fijians to catch up to other groups in the commercial sector.

The definition of "small business" used by the Fijian Development Bank needs to be revised. Businesses with an initial capital outlay of \$100,000 (or for that matter any business over \$50,000), are not "small" by Pacific standards. It is suggested that the figure of \$50,000 (or less) be applied to the definition.

### General

There is a need for more business education and training for all Fijians to enable them to enter the commercial sector. Basic training in bookkeeping, marketing, inventory control, management and administration, is needed at all levels.

There is a need to promote a greater awareness of business opportunities for indigenous Fijians and publications (and even videos) need to be developed to assist in this awareness programme.

There is also a need for more research into the whole question of indigenous entrepreneurship. For instance, in-depth case studies of existing successful indigenous entrepreneurs need to be developed, in order for others to understand how they became successful in business. These case studies can be used as role models for other ethnic Fijians.

It is suggested that a special committee be set up to advise government on specific objectives such as policy development, program evaluation, education and training, provision of financial assistance, and the impact of regulations and legislation on the small business sector.

### ***Cook Islands Recommendations***

As in the case of Fiji, the Cook Islands can further assist small business development and indigenous entrepreneurs. The following suggestions for improvement are recommended.

#### **Cook Islands Development Bank (CIDB)**

The CIDB is providing incentives to indigenous entrepreneurs with competitive interest rates and more flexible terms and conditions than the commercial banks. The Bank is establishing a project identification facility and improving its Business Advisory service in 1991 through technical assistance from ADB and the New Zealand Government.

The Bank does not provide special incentives for women entrepreneurs and few women have approached the Bank for funding. Currently there are only 5 individual women with CIDB loans. Most women entrepreneurs are in the retail sector and the Bank does not currently finance this sector. Therefore most women rely on the commercial banks for financing.

Women in the rural areas require special attention. Women in the outer islands have little access to commercial bank financing (in most islands there is no commercial banking service), and find it difficult to finance income generating projects. For instance, women's groups who want to finance a stitchcraft project (producing beautiful quilts, cushion covers and table cloths) cannot obtain financing to purchase the materials and equipment. It is recommended that special consideration be given to providing financing for women in the outer islands for viable income generating projects. This can be coordinated by the CIDB in cooperation with existing structures such as the National Council of Women.

The management structure of the CIDB needs evaluation. It appears that the appointment of the Board of Directors is too political, leading to changeovers whenever there are changes in government. The tenure of Board members should be longer term in the interests of stability. Over time these members gain experience and will be better equipped to deal with issues. In the past, some members have been political appointees with no business and /or banking background.

There has not been enough continuity in management and staff at the CIDB. Apart from short term training provided at the inception of the project in 1981, no training has been provided for Cook Islanders to take over management.

Apart from some initial technical assistance providing a long-term expert in the role of General Manager by New Zealand aid, the ADB project did not provide technical assistance for CIDB's institutional development. More attention must be paid to the provision of additional technical assistance to strengthen CIDB's accounting and staff training functions.

There is a need to provide business management assistance to clients to ensure a greater success rate. This would mean improved monitoring and follow-up procedures to identify problem areas at an early stage by requesting quarterly or semi-annual reports.

It would be useful to evaluate the need for a special Finance Committee. The role of this special committee could be to provide more efficient processing of applications, especially those under a certain limit, say \$20,000. It is suggested that this be reviewed and evaluated, and that procedures for such a committee be developed.

The effectiveness of the CIDB policies can be improved by offering business advisory services and promotion of financial packages. Also, the Bank (and other government agencies) needs to provide business training for indigenous entrepreneurs. The project identification and promotion facility will create a greater awareness of the Bank's potential to assist indigenous entrepreneurs.

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**APPENDIX I**Countries and Territories in the Pacific Islands Region

American Samoa  
Commonwealth of the Northern Marianas  
Cook Islands  
Easter Island  
Federated States of Micronesia  
Fiji  
French Polynesia  
Guam  
Kiribati  
Nauru  
Niue  
New Caledonia  
Papua New Guinea  
Palau  
Pitcairn  
Marshall Islands  
Solomon Islands  
Tonga  
Tuvalu  
Vanuatu  
Wallis and Futuna  
Western Samoa

**APPENDIX II****COOK ISLANDS: LIST OF PERSONS INTERVIEWED**

Unakea Kauvai	General Manager, CIDB
Janice Siulepa	Operations Manager, CIDB
Terai McFadzien	Operations Manager, CIDB
Dr. Rafii	Economist, CIDB
Chris Wong	Director, Cook Islands Tourist Authority
Dorice Reid	Marketing Manager, " " "
Linda Gideon	Research Officer, " " "
Louisa Cowan	Womens' Development Centre
Henry Puna	Secretary, Ministry of Trade, Labour and Transport
Andrew Turua	Statistics Department

**APPENDIX III****Fiji: List of Persons Interviewed**

Hon. Berenado Vunibobo	Minister of Trade & Commerce
Mrs. G.K. Rup	Ministry of Trade & Commerce
Surendra Sharma	Fiji Trade & Investment Board
Fasiu Jone	Fiji Visitors Bureau
Julian Hamilton-Peach	Fiji Development Bank
John Mohammed	Fiji Development Bank
Mike Qarikau	Native Land Trust Board
Silioi Koroi	Native Land Trust Board
Sala Kunatuba	Ministry of Tourism & Civil Aviation
Kiti Makasiale	Government Handicraft Centre
Mr.V. Wolf	Wolf's Boutique
Emily Vulaca	Wolf's Boutique

### GUIDELINES FOR INTERVIEWS

Date: \_\_\_\_\_

Name: \_\_\_\_\_

Organisation: \_\_\_\_\_

#### TOURISM

What are some of the social issues regarding tourism development that cause concern?

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Are existing government policies effective in dealing with these:

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What more can be done?

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What impact is tourism having on cultural integrity?

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Is tourism making a contribution to the maintenance and improvement of cultural skills?

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What more can be done?

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What are the economic benefits of tourism development?

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- What are the economic costs?

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- How does tourism contribute to a more equitable distribution of wealth and other economic benefits?

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- Does tourism provide opportunities for small business development?

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- Does tourism provide opportunities for indigenous entrepreneurs?

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- Does government provide effective incentives to promote the growth of indigenous entrepreneurs?

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- Do you think there should be special incentives for women entrepreneurs?

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- What more can be done to stimulate growth in the private sector?

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- What training programmes are needed for:

Tourism development \_\_\_\_\_

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Promotion of indigenous entrepreneurs \_\_\_\_\_

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