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Explaining Investment Policies in Microstates: The Case of the Fiji Islands

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Explaining Investment Policies in Microstates: The Case of the Fiji Islands

By

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Abstract

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Prevailing theories have failed to take into account the development of policy and institutions in microstates that are engineered to attract investments in areas of comparative advantage as these small islands confront the challenges of globalization and instead have emphasized migration, remittances and foreign aid (MIRAB) as an explanation for the survival of microstates in the global economy.

This dissertation challenges the MIRAB model as an adequate explanation of investment strategy in microstates and argues that comparative advantage is a better theory to explain policy behavior of microstates. These small economies can take advantage of their exotic locations and natural endowments of sun and sand to develop a robust tourism sector through prudent investments and incentives in collaboration with stakeholders in the industry. This case study on the Fiji Islands will demonstrate that microstates are capable of developing policy instruments that encourage investments, even during periods of deep political crisis, thus underscoring a maturation of institutions in small post-colonial societies.

The development of the tourism industry in Fiji was neither an *ad hoc* exercise nor an instance of *creation ex nihilo*, as both government and the private sector recognized over time the economic potential of tourism as a conduit for national development. The state collaborated in this endeavor by building institutions and supporting investments in hopes of capitalizing on the positive spillovers that could occur from a robust tourist industry. This dissertation argues that investments undertaken by the Fiji Islands in the tourism sector was a rational strategy to fully exploit its comparative advantage through the development of sophisticated institutional and organizational structures that emerged to meet the challenges of a complex global industry.

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EXPLAINING INVESTMENT POLICIES IN MICROSTATES: THE CASE OF THE FIJI ISLANDS

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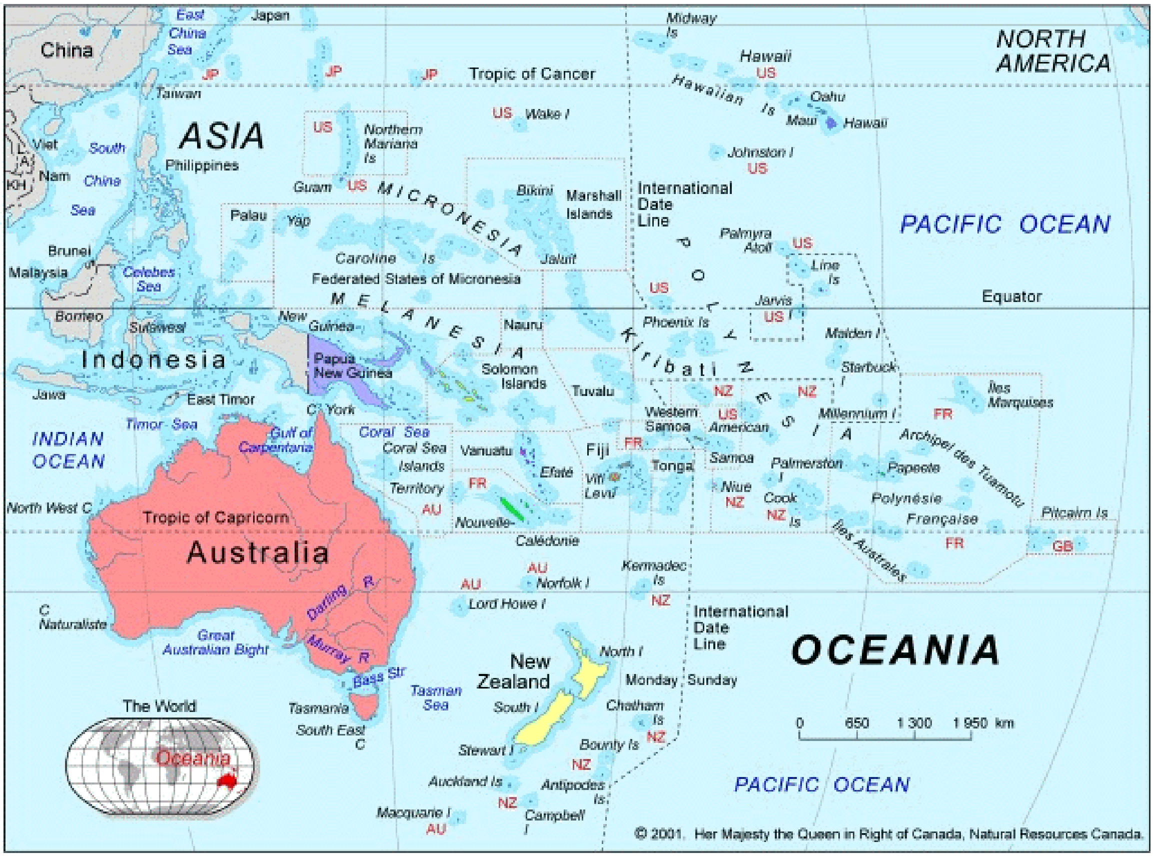

Introduction

This dissertation explains investment policy in microstates of Oceania through exploring the experience of the Fiji Islands from 1975 to 2010. The study of investment policy in microstates fills a gap in the expansive literature on investment policies over the last three decades (Diamond and Diamond 2006; OECD 2003; Anthoine 1979) and gives us a lens to examine the survival strategies of small island states in the international system. A careful enquiry on the Fiji Islands as a typical microstate will demonstrate both the challenges and capabilities of microstates in developing policy instruments to encourage investments even through periods of deep political crisis, thus underscoring a maturation of institutions in small post-colonial societies.

(a) From Sugar to Tourism

The Fijian economy for the better part of a century was dominated by sugar production which began with the early European settlers in the 1860s and developed into an export commodity by the colonial government in 1883, lasting through Independence into the 1980s.[1] Since then, the production and export of sugar in Fiji has steadily declined due to a pair of internal and external reasons which will be explored later in greater detail, such as the intractable problems of land tenure and the World Trade Organization (WTO) ruling against sugar subsidies. The cessation of leases under ALTA (Agriculture Landlord and Tenant Act) and the end of the preferential trade agreement with the European Union in 2005 has forced the State to come up with alternative policies to plausibly replace an industry which may not survive without life support. The emergence of the tourism sector in Fiji and the eventual eclipse of sugar production as the country's dominant industry refocused the government's attention away from agriculture and towards tourism. This transition from sugar production to a tourism based economy in Fiji has not been examined from an institutional and policy perspective and challenges the dominant narrative of microstates as institutionally "failed societies." The Fiji Islands like other microstates in Oceania rationally perceived tourism as a natural fit congruent with its endowments and developed strategies to exploit its comparative advantage. It has thus tied its investment policies with the tourism sector.

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[1] See http://www.fsc.com.fj/history_of_sugar_in_fiji.htm for a brief historical timeline. (Accessed September 5 2011).

This project therefore focuses on the tourism industry in Fiji and seeks an explanation for its success and adaptability and examines the role that the state has played in ensuring the current dominance of the sector in Fiji. I further look at the evolution of institutions and policies that emerged in Fiji as a response to the needs and challenges peculiar to tourism in a small island economy and postulate that tourism was a legitimate tool for economic development. The tourism industry as a unique and complex undertaking required adept institutions, stakeholder relationships, international collaboration and the construction of agencies, incentives, policies, domestic support, resources and human capital to become a successful sector. The one notable failure examined in greater detail in chapter four was the shift in direct investment by the state using public funds to underwrite large tourism development projects in Momi Bay and Natadola, resulting in substantial losses. The demands imposed on the industry to expand carrying capacity encouraged the state to become a direct partner in tourism development but the failure of these projects emphasized rather expensively the importance of the state in building institutions rather than resorts. The Fijian example is an ideal case study on how small island states situate themselves in the global economy and negotiate through the international system.

(b) Tourism and Crises

The military *coup d'état* of 1987 in Fiji was a pivotal event in the South Pacific. It was the first coup of its kind in Oceania, and it occurred in the most politically and economically developed country in Oceania. While a substantial body of work has emerged in the two decades since the coup, on the political, cultural, social and ethnic implications of that crisis, and diagnosing the causes and consequences of the coup (Howard 1991; Sutherland 1992: Lawson; 1996;), very little work has emerged on examining its effect on policy, institutions, sectors and agencies,[2] especially studies that examine the role of domestic political crisis on investment policy in general and the tourism sector in particular, Beirman (2003) and King and Berno (2002) have come closest in probing this question. Most scholarship has either focused on macro-political issues such as constitutions, democracy, elections or normative concerns over race, ethnicity, culture (Crocombe, Neemia, Ravuvu Vom Busch 1992) or resource allocations such as land and most recently customary fishing rights (Maunders 2007; Cooke and Moce 1995). These are important and significant issues that continue to occupy scholars and interested parties in moving Fiji and other troubled islands beyond the current political stalemate, and a study on investment policy hopes to contribute to that end.

The volatile political situation in Oceania in recent years has understandably received a disproportionate amount of scrutiny and scholarly analysis, especially Fiji and the Solomon Islands, but serious inquiry about state initiatives and policies have been lacking. Most research has focused on political determinants, i.e. the effects of corruption, economic freedom and democracy and its relationship with investments, growth and development. I do not eschew the importance of these variables, and as studies have indicated, the role these determinants play in securing investments, especially FDI. However, an exaggerated emphasis on political determinants has overlooked the actual policy instruments developed by the state to enhance investments and economic activity in areas of comparative advantage.

However the unhappy realities of geography, demographics and economics characterizing microstates have had deep institutional and political consequences and therefore severely restricted their capacity to develop investment strategy as compared to countries with

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[2] The work by Yash Ghai (1990) is a notable exception to the general emphasis on political developments, i.e. democracy and nation building.

robust factor endowments, abundant human capital and sophisticated infrastructure.[3] Consequently, the prevailing theory has emphasized migration, remittances and foreign aid (MIRAB) as an explanation for the survival of microstates in the global economy.

This project challenges the MIRAB model as an adequate explanation and instead argues that comparative advantage is a better theory to explain policy behavior of microstates. The small economies of Oceania have taken advantage of their exotic locations and natural endowments of sun and sand to develop a robust tourism sector through prudent investments and incentives between the different stakeholders. This dissertation is an examination of how the microstates of Oceania, given the many limitations of size and resources, have managed to not only survive but occasionally flourish in the international system, contrary to the expectations of the MIRAB model.

Table 1.1: Microstates

MICROSTATES - OCEANIA			
	POPULATION (2007)	**GDP (2007-US$)**	**GDP per capita (2007-US$)**
MICRONESIA (FSO)	108,000	235.9M	2,183
FIJI	869,000	3.3B	3,824
KIRIBATI	98,000	67M	686
NAURU	10,745	45M[a]	4,522
NIUE	1,625[b]	10M[c]	6,088[c]
MARSHALL ISLANDS	61,815	149.2M	2,851
SAMOA	189,000	397M	2,101
SOLOMON ISLANDS	508,000	377M	741
TONGA	103,000	246M	2,397
VANUATU	229,000	494M	2,160
AUSTRALIA	**21,200,000**	**911.0B**	**43,010**
NEW ZEALAND	**4,200,000**	**128.7B**	**30,390**

Sources: Australian Department of Foreign Affairs and Trade http://www.dfat.gov.au (accessed November 21, 2009).
[a] 2005 figures, [b] 2006 figures, [c] 2003 figures

[3] The story of Singapore as *the* model of how a small State has become a major player in the global economy is often invoked, but as authors Leichter (1983), Grice and Drakakis-Smith (1985), Rowley and Warner (2007) reveal, none of the Pacific Islands share Singapore's policy and human resource management, nor does the State in these Islands control the factors of production to the extent that Singapore does.

Motivations

This research project challenges the prevailing theory (MIRAB) which assumes that microstates are incapable of structuring investment strategies because they are too weak and unstable and subsequently lack the institutional sophistication required of states in creating policies amenable for development. Are microstates hapless victims reduced to a mendicant status, passively afloat in the wide-open sea as the MIRAB model suggests? Granted that these small economies may not have the policy sophistications of larger societies, but does it necessarily follow that agencies and sectors are incapable for formulating a coherent investment policy? Finally the political scorecard has not been favorable to these small islands, but there are no failed states in Oceania or presence of brutal conflicts that are common elsewhere. Even the *coup d'états* in Fiji from 1987-2006 have been benign in nature, executed without a single shot fired, minus casualties or bloodletting. Jon Fraenkel (2004) conclusively exposed the limitations of comparing the Pacific Islands with the tribulations of Africa, methodologically and substantively by positing that natural resources, proxy conflicts during the cold war, deep ethnic and linguistic cleavages were the defining characteristics of post-colonial Africa and a significant ingredient to its enduring instabilities, none of which could minimally characterize the microstates of Oceania.

The MIRAB model however inadvertently demonstrates many capabilities of microstates that are easily overlooked, i.e. (1) microstates are able to train people with desirable skills that are exportable (2) microstates can develop sophisticated bureaucracy to capture aid and remittances (3) microstates have enough State and institutional power to bounce back from crisis and not descend into anarchy following political upheaval, all of which I argue are quite helpful in constructing policy that encourages investment.

The case study on Fiji will show that microstates are capable of developing policy instrument to encourage investments, and those agencies and sectors are able to collaborate and successfully execute policy. I will also show the impact of crisis on policy, although I make no assessment on the virtues and values of democracy nor do I dispute the economic analysis of the costs of political crisis. This project simply examines the influence of crisis on policy, how did it change? What affect it had on agencies and sectors? A thorough explanation of investment policy in microstates will require a close sectoral examination and one sector that is common for all the microstates in the region is tourism. Not only has tourism emerged as the most important industry among microstates in Oceania (McElroy 2003), but also more importantly serves as a hard-case example of the one industry most vulnerable to political crisis and upheaval.

The results of this project will have important implications for microstates in Oceania, how is investment policy developed in these small economies? What kind of policy instruments government's favor? What sort of influence is exerted by powerful sectors of the economy? How capable are agencies in executing policy? What is the effect of political crisis on policy? Were governments in microstates prudent in favoring a particular sector? What are the long-term consequences of these investment policies?

Political crisis significantly affects both the ability of the state to develop policy instruments and sectors vulnerable to political shocks. However the central puzzle will be to determine to what degree if any did investment policy change from before the political crisis and after, as well as scrutinize the effect of the crisis on the tourism sector to empirically determine the effect of the crisis. The operating hypothesis is that while there were some adjustments to policy instruments and sectoral disruptions in the immediate aftermath of the crisis, over the longer term (ten years beyond the initial crisis the government's decision to continue with its investment policy especially in tourism has proven to be prudent and efficacious).

Paresh Narayan (2005) in a significant article echoes this last hypothesis about the transitory effects of political crisis on tourism and argues that government policy calling for greater investment in the sector is justifiable. However his economic model elides over *why* the largest sector of the economy has been insulated over the long run from the deleterious effects of a severe political crisis, which this project hopes to answer. Rory Scott (1988) and Michael Hall (1994) have tentatively responded that as long as political instability is not followed by political violence, then the tourism sector is capable of bouncing back from crisis. The emphasis on Scott and Hall's study has been on the industry per se, while this project is fundamentally interested in the permutations of policy, notwithstanding the valuable contributions to the debate.

The MIRAB Model

In 1984 authors Geoffrey Bertram and Ray Waters developed a model that sought to explain investments among the microstates in Oceania that emphasized migration, remittances and foreign aid to prop up the bureaucratic apparatus of Island economies (henceforth referred as MIRAB). Building on the existing template of microstates ostensible lack of endowments, Bertram and Waters posed the seemingly obvious question, what explains the survival of these microstates (Bertram 1999:1-2)? The state they concluded was irrelevant in the economic success of these microstates, because "the living standards of indigenous island populations were raised and maintained by financial transfers from the metropolitan powers" (Bertram 1999:3). With the exception of the Kingdom of Tonga, all of the microstates of Oceania were former colonies of Great Britain, United States, New Zealand, Australia and France (which still retained parts of French Polynesia).[4] Since independence, the movement of peoples from the islands to the metropoles has steadily increased the current of labor and remittances (Brake 1993; Ward 1989; Narayan and Smyth 2003; Ware 2005; Robertson 2006). The export of peoples has resulted in an economy dependent on the flow of remittances and attenuated the necessity of developing policies conducive to investments. Bernard Poirine (1998:32) in response to the initial question posed by Baldacchino (1983) on comparative advantage and microstates, argued in defense of MIRAB that island economies simply chose to export labor that in turn generated remittances[5] back to the islands.

The second and third component of the MIRAB model emphasizes foreign aid and "nontradable production generally dominated by government, hence the term Bureaucracy" (Bertram 1999:1). Because of the long colonial histories of these islands, the largesse of foreign aid to sustain their economies is an extension of the colonial legacy and responsibility, echoing Deryck Scarr (1990) that "…transfers of aid to Pacific Island countries is a contractual exchange between former metropolitan powers and the islanders: in return for ending their direct political responsibility for the islands welfare and securing their strategic interests…by underwriting the costs of statehood". Microstates should therefore embrace their rentier status argue Baldacchino (1993:43) and Kaplinsky (1983: 203-204) and seek to exploit the existing relationships as well as cultivate new sources of aid or as John Connell (1991) quoted in Baldacchino (1993) frankly asserts, "The only semblance of 'self-reliance' is the reliance by microstate citizens upon their

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[4] Microstates that are not sovereign entities are excluded from this project (for example, Cook Islands, American Samoa, New Caledonia) are among some of the main islands that are not part of this analysis (see also the section on microstates in this proposal).

[5] The World Bank website has a comprehensive analysis on the global flow of remittances at http://remittanceprices.worldbank.org. It is outside the scope of the project to argue on the merits and demerits of remittances but to demonstrate the inadequacy of the MIRAB model in explaining investment policy in microstates.

abilities to negotiate the sums of money they need, in return for whatever marketable rights they are willing to surrender."

Microstates as Weak

Not only are microstates deemed irrelevant in developing investment policy under the rubric of MIRAB, but also neither state institutions nor specific sectors of the economy are capable of formulating policy. The natural limitations of size and resources also limit the capabilities of microstates to engage in the sophisticated task of policy development (Warrington 1994:109). Economic vulnerability together with geographic isolation and a dependence on a single primary commodity have not created opportunities to develop the technical abilities required for policy development. For example the study by Doecke Faber and Tosca Vijfeijken (1994) from the European Centre for Policy Management[6] on tourism and agriculture policy in the Eastern Caribbean[7] concluded, that lack of skills, weak agencies and powerful industry influences colluded to hamper policy and the ability to rationalize inter-sectoral objectives (Faber and Vijfeijken 1994:106-107). These microstates, thrust abruptly into the modern world with nascent institutions (Warrington 1994:117-120) are ill equipped to handle the task of complex policy formulations and subsequently, consistent with the MIRAB model, ought to focus on retaining and deepening ties with their former metropoles, who in return will manage the investment policy of their former colonies (Hoetjes 1992:142-143).

The case of Vanuatu seems to confirm the notion of microstate weakness, in a study conducted by Michael O'Donnell and Mark Turner (2005:617) on the administration of public sector agencies. A clear lack of any coordinated policy stream, skilled staff and integration

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[6] The website is at http://domino.ecdpm.org/Web_ECDPM/Web/Content/navigation.nsf/index.htm (accessed January 3, 2010).

[7] Antigua and Barbados, The British Virgin Islands, Dominica, Grenada, St. Kitts and Nevis, Montserrat, St. Lucia, St. Vincent and The Grenadines.

between policy development, implementation and sectoral feedback, exposed the incapacity of Vanuatu to develop coherent policy. Compounding the problem was the chronic political instability that resulted in nine different governments in nine years through 2004 (O'Donnell and Turner 2005:621).

Microstates as Unstable

Given the political realities on the ground in recent years, there is perhaps a justified wariness about the prospect of a vibrant and stable Oceania. The riots in Tonga in 2006, the conflict and subsequent military intervention in the Solomon Islands and the fourth *coup d'état* in Fiji have raised questions about democratization, political stability and state capabilities in Oceania (Reilly 2004; Wainwright 2003; Hayward Jones 2008). One analyst after observing the political crisis that engulfed Fiji and Solomon Islands in 2000 bluntly concluded that the South Pacific was undergoing the process of "Africanisation" (Reilly 2000). Democratic failure and political instability that seemed endemic to African regimes had finally arrived in Oceania, such as (1) the growing tensions in the relationship between civil regimes and military forces, (2) the intermixture between ethnic identity and the competition for control of natural resources as factors driving conflicts (3) the weakness of basic institutions of governance such as prime ministers, parliaments and, especially, political parties (4) and the increasing centrality of the state as a means of gaining wealth and of accessing and exploiting resources (Reilly 2000:262-263). Ron Duncan and Satish Chand (2002) moved from Reilly's political assessment of why Oceania was in crisis to the prosaic struggles over resources and opportunities in a region referred to as an "arc of instability." Enormous reserves of natural resources, poorly delineated rules marking property rights, persistent unemployment and weak central governments created a perfect storm for chronic instability in Oceania. The roots of this instability could go even deeper into the very structure of pacific society, i.e. its ethnic makeup, cultural allocations of resources and the traditional chiefly structure, all of which, as Benjamin Reilly (2004) and Asesela Ravuvu (1992) suggested, conspire against the adoption of democracy or political stability. Imposed upon this balkanized structure was western democracy that as Stephanie Lawson (1996) argued was bound to fail sooner or later.

The coups in Fiji (1987, 2000, and 2006) only underscored the political instability of Oceania and characterized the region as unstable, governments as weak and states on their way to failure. Stewart Firth (2001:277) noted that the consequences of the 2000 coup in Fiji,

> Political instability affected the three largest countries in the Pacific Islands and therefore affected the region as a whole. Smaller island countries depend particularly on Fiji as a transport hub and centre of regional organizations, many of them jointly funded by Forum member states, which have a direct financial investment in Fiji. Smaller states also have an interest in regional political stability, because events in one major country can give the whole region a bad name among tourists and potential investors. The reputation of the South Pacific as a whole was at stake.

Prior to the events of 2000 in Fiji was the 1987 military coup, the first of its kind in Oceania and set the template of instability and crisis in the South Pacific. Gerard Finin and Terrence Wesley-Smith (2000) suggest that the 1987 coup in Fiji revealed profound institutional weakness in the power of the State to manage its interests and execute policy, especially policies that may offend elite groups and individuals. Economists Paresh Narayan and Biman Prasad (2007) provided evidence of the long-term consequences to Fiji's economy as a result of the coups showing declines in trade, GDP and real growth.

Theoretical Foundations

Governments develop a variety of policy instruments to encourage investments, develop specific sectors, and protect domestic industries within a deeply competitive economic environment, globally and domestically, (Diamond and Diamond 2006; Porter 2008). Driven by the necessity to attract foreign direct investments, countries have subsequently rearranged policies that accommodate FDI. *Table 1.2* illustrates the regulatory changes that nation-states have pursued in order to secure FDI for their host economies.

Table 1.2: National Regulatory Changes Towards FDI, 1995-2006

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
No. of Countries introducing changes	63	66	76	60	65	70	71	72	82	103	93	93
No. of regulatory changes	112	114	150	145	139	150	207	246	242	270	205	184
More favorable to FDI	106	98	134	136	130	147	193	234	218	234	164	147
Less Favorable to FDI	6	16	16	9	9	3	14	12	24	36	41	37

Source: UNCTAD database on national laws and regulations. See the World Investment Report, 2007 p. 14

This project primarily focuses on the development of investment policy within a microstate, notwithstanding the significant emphasis on political determinants as important factors in attracting FDI, (Jensen 2006; Blanton 2007; Lall and Narula 2004). While the saliency of FDI as a conduit for economic growth and development is hardly a debatable proposition for most economies (Banerjee, Oetzel and Ranganathan 2006; Dailami and Leipziger 1998), political determinants that either attract or inhibit FDI are very much part of the debate. Some scholars (Egger and Winner 2006; Habib and Zurawicki 2002; Wrage 2007) have argued that foreign investors are repelled by corruption and lack of transparent institutions, and therefore *less* likely to invest in a particular country while others stipulate the necessity of democratic norms in attracting foreign direct investments (Jakobsen and de Soysa 2006; Li 2006; Jensen 2003; Oneal 1994; Busse 2004; Harms and Ursprung 2002). This project is limited to examining the impact of political crisis on investment policy and the ensuing sectoral responses and focus on the kinds of policy instruments governments employ in these small economies to develop and enhance investments such as subsidies, investment aid, locational incentives (all of which are used interchangeably, see Thomas 2000, 2007) and the institutional and sectoral forces instrumental in the development and implementation of investment policy. What can we know about the interaction between government agencies and powerful sectors that explain investment policy in microstates? What was the impact on both policy and sector in the event of a severe political crisis?

John Dunning's (1971, 1973) eclectic theory of FDI based on ownership location internationalization (OLI) and James Brander and Barbara Spencer (1985) on strategic trade theory helps situate the use of policy instruments by governments to encourage investments. In studying the behavior of multinationals, Dunning postulated three important attributes that incentivize FDI, (1) the firm must possess ownership specific advantages enabling it to exploit economies of scale, (2) the ability to internalize foreign production processes and (3) the host country must possess location specific advantages, i.e. factor endowments, market structure government legislation and policies.

Secondly, the genesis of policy is not a *creation ex nihilo* event but occurs within the matrix of rules, agencies and actors. Peter Hall (1995:90-113) began his institutional analysis of British economic policy in the 1970's within a broader "matrix of competing interests and ideas" (91) which included both the Labor and Conservative governments of the day, the "white paper" on Competition, Credit and Control (CCC), the Bank of England, the powerful financial sector in the City of London, the permanent secretary of the treasury, the research departments of the brokerage house, independent institutes, the Center for Policy Studies established by the Conservative Party, the British press, the Trade Unions and the British party system. Hall went on to conclude that only by examining the complex interaction between these actors and agencies could one adequately explain British economic policy in those years.

Similarly, Nitsan Chorev (2007) in his study of US trade policy illuminates the specific role that multiple actors played to shift the center of gravity from protectionism and towards a liberal trade regime over six decades (1934-1994). The US Congress, Chorev argues was generally more amenable to protect declining industries at the expense of free traders but by 1994 when the United States joined the World Trade Organization (WTO), the logic of free trade was a fait accompli. This transformation occurred as a result of institutional shifts made possible by the complex interaction between stakeholders at each epoch. During the era of free trade, the role of the service sector (banking and finance, transportation, construction, telecommunications, management consulting, advertising, education and entertainment) is especially highlighted in the ensuing policy shift, as well as the influence of the Executive Branch, including the United States Trade Representative, the Departments of Treasury and Commerce on the new trade policy (Chorev 2007:149-194).[8]

In his excellent study of British and German Labor Ministries between World War 1 and the Great Depression, Tien-Lung Liu (1998) addresses the problem of policy shifts using a contingency theory model that shows state agencies as active interlocutors over policy according to historical conditions "simultaneously or alternatively favoring important groups such as capitalists, organized labor, and state managers" (Tien-Lung Liu 1998:43, 51-55). Contingencies according to Liu "…are defined as crucial historical events that have momentous impacts on state policies because they facilitate or hinder dominant classes, organized labor, and state agencies to achieve their goals by shifting the balance of power within and between them" (Tien-Lung Liu 1998:54).

Policy, as these scholars have argued occurs, within a political and institutional environment (Krasner 1984), and explaining the permutations of investment policy in microstates will entail a close examination of state agencies, investment boards and influential sectors, most notably the tourism industry, using insights from historical institutionalism in order

[8] I am not making any assessment on the merits of Chorev's analysis; I am simply interested in observing the relationship between governments, state agencies and powerful sectors over the formation and direction of policy.

to develop a clearer understanding about the roles played by the aforementioned actors in the formation of investment policy. Historical institutionalists, writes Theda Skocpol, (1995:106) "…are more likely to trace sequences of outcomes over time, showing how earlier outcomes change the parameters for subsequent developments." Furthermore, she writes, historical institutionalists are "also interested in conjunctures of separately located processes or conflict". Skocpol raised this issue in regards to the paucity of historical and sociological delineation in rational choice theory. If we interpret the universe and our place in it through the matrix of institutions, then historical institutionalism seems to provide a fuller picture of social reality.

Importance of Crisis

Finally an important puzzle in this inquiry is the role of crisis and its impact on investment policy. This is a significant investigation of the effect of political crisis on actual policy and provides an opportunity to examine in fine detail the effect it had on all aspects of investment policy in microstates in Oceania. The substantial literature on the political crisis of 1987 in Fiji has either focused on the complex political causes and it's enduring consequences nationally and regionally or has emphasized the role of political determinants Gounder (1998, 2002; Prasad and Asalu-Adjaye 1998, Nelson and Singh 1998) on economic growth and development. While debate on the future of democracy among the Oceanic Islands is important, it cannot obviate the responsibility of stakeholders to develop investment strategies within the parameters of their resource capabilities.

The third component of this project examines investment policy through the lens of the punctuated equilibrium model by asking the following questions, how was policy affected by the crisis? What effect did the crisis have on the tourism sector? Did it force the state and its agencies to rethink/renege on its commitment to the tourism sector? What role did the industry play in maintaining the significant levels of support it had received prior to the crisis? If investment policy remained unchanged and tourism industry escaped unscathed, did it vindicate the preponderant bias of the state regarding its incentive priorities? Are investment policies in microstates by dint of their size, location and insignificance insulated from political disruptions? An affirmative response would compel a reexamination of standard arguments especially for micro-economies to separate policy instruments that enhance investments and political developments that enhance rights and liberties.

Stephen Krasner (1984) argued, "…Change is episodic and dramatic, rather than continuous and incremental. Crisis is of central importance" so too John Ikenberry (1989) argued, "…change is likely to be episodic and occur at moments of crisis (war and depression) when existent institutions break down or a discredited and when struggles over basic rules of the game change." Similarly, John Hogan combining insights from historical institutionalism argues that choices made at the genesis of institutional formation will have an enduring effect over its lifetime. Hence, institutional change occurs not as a gradual process over time, but abruptly in sudden punctuated moments when "trigger events"[9] emerge. Policy change is subsequently predicated on severe crisis or endogenous shocks (Greif and Laitin 2004) using a model first derived from evolutionary biology (Gersick 1991).

In policy analysis, punctuated equilibrium theory has been comprehensively developed by Frank Baumgartner and Bryan Jones (1993, 1998), first in explaining agenda setting and interest group behavior in American Politics (1993) and more recently with James True, the dramatics shifts in federal budgeting (1998). For example, they observed that government spending fluctuated between postwar adjustment till 1956, rapid growth through 1974 and

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[9] See Hogan (2006, 660).

restrained spending post 1976 (Baumgartner, Jones and True 1998) as a response to fundamental domestic shifts in priorities and control over appropriations. One could similarly postulate the expansion of the federal deficit and budget under the last Republican administration as a response to a shift in budget priorities brought on by the crisis of September 11, 2001.[10]

Punctuated equilibrium theory is a useful model to explain any possible shift in policy and institutions in Fiji as a result of the dramatic crisis of 1987. Unlocking the puzzle of possible changes in investment strategies before and after the coup will significantly contribute to understanding the role of the state, sectors, agencies and help explain investment policy in microstates, especially those undergoing similar political difficulties.

The Argument

Islands with close and in some cases, dependent ties with metropolitan powers (such has Samoa, Cook Islands and Tonga with New Zealand), Nauru with Australia and Federated States of Micronesia (FSO), Palau and Marshall Islands with the United States have encouraged labor mobility and the subsequent receipts of remittances as policy, while all microstates in Oceania receive some form of foreign aid packages which is a byproduct of lender priorities, historical associations, foreign policy objectives and the national interests of donor countries. The MIRAB model relegates microstates to a permanent dependency status and nullifies their achievements in developing investment policy congruent with their comparative advantage.

The central idea that animates the MIRAB hypothesis is that microstates are *institutionally anemic* societies wedged between perennial weaknesses or teetering on failure. The complicated challenge of exploiting comparative advantage and formulating regulations and

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[10] I am not in a position to analyze the specificities of Baumgartner, Jones and True's examples, which is outside the scope of this paper. These examples are highlighted to demonstrate the applicability of punctuated equilibrium to explain policy changes.

policies is beyond the ken of these small island communities and thus the only alternatives available to them is beg and borrow. A careful examination of the Fiji Islands as a representative microstate yields a different set of conclusions than the one proposed by the MIRAB model and argues that comparative advantage is a better model to explain investment in small island communities by analyzing the development of the tourism industry in Fiji.

Table 1.3: Hypothesis

	Competing Theories	
	MIRAB	**Comparative Advantage**
Policy	External migrant worker schemes to encourage labor mobility Relaxed capital controls to capture remittances Closer metropolitan and regional partnership to enhance Aid inflows	Investment allowances and subsidies for hotel and resort development Tax holidays and duty exemptions Reduction on VAT (value added tax) and utility licenses
Institutional Assumptions	Endemic political instability Anemic policy networks Sectoral cooptation	Microstates while limited and dependent, retain institutional capabilities to develop investment strategies in line with their comparative advantages
Empirical Expectations	Robust labor movements in period under investigation Increase in remittances as a greater percentage of GDP Reliant on greater levels of foreign Aid to maintain State functionality	Expansion of the sector under investigation (Tourism) Institutional deepening between stakeholders in the industry Increasing role of the State in managing the sector through investments and incentives
Theory under Crisis	Confirms institutional assumptions Increases migration, remittances and Aid Enhanced reliance with regional and metropolitan powers	**1.** Collapse of Tourism industry Loss of State investments in the sector Realignment of stakeholders to disengage from the industry and pursue investments in less vulnerable sectors **2.** Hypothesis supported-promotion of Tourism is congruent with comparative advantage Microstates can develop investment policy and have the institutional capacity to manage policy through severe crises
Data	Department of Immigration The Fiji Bureau of Statistics	Fiji Trade Investment Board The Fiji Development Bank

Methodological Issues

(a) Defining Microstates

The United Nations through its Institute for Training and Research (UNITAR) commissioned in 1967 the first international panel to discuss the structure and nature of microstates and released its report three years later (UNITAR 1971). Drawing upon Charles Taylor's typology of microstates, the UN report conceptualized microstates along demographic, spatial and economic lines, while admitting to the arbitrariness of their definitions (UNITAR 1971:30). The UNITAR report used a population between 100,000 and 1 million to denote a microstate and established a pattern of broad inexactitude, while Taylor stipulated a population of up to 3 million as indicative of a microstate (Dommen and Hein 1985, 10) an astonishingly high number at a time when world population stood at only 3.7 billion.[11]

Elmer Plishke's (1977) influential work on microstates restricted them to a population under 300,000 in order for a state to qualify as a microstate which included a category of sub microstates with a population below 100,000. Michael Gunter in the same year as Plishke's study appeared (1977) employed a 1 million population cutoff to define a microstate in his analysis of the United Nations microstate problem. By the 1990s scholars were pushing demographic limits for microstates up to 1.5 million (Hindmarsh 1996:38; Bray1991:505). The current limits on population that would be constitutive of a microstate stand at the 1 million mark (Goldstein, Rivers and Tomz 2007:52). While this is a reasonable demographic ceiling accepted for this

[11] Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, *World Population Prospects: The 2008 Revision*, http://esa.un.org/unpp (accessed November 21, 2009).

project together with GDP and territorial size, I contend that within the rubric of political economy, these categories will have to be slightly revised.

The second level of microstate categorization attempted by the UNITAR report was along territorial size (UNITAR 1971, 59-78) based on the 1966 UN statistical yearbook. Apart from including both self-governing and dependent territories into its analysis and the dated nature of the report, the most serious problem was finding an acceptable cutoff for territorial size. For example Fiji in 1966 (a British Colony) had a population of 478,000 and a land area of 18,169 sq. km whereas Namibia (under South African administration) had a population of 584,000 and a land area of 824,292 sq. km. While both Fiji and Namibia could qualify as a microstate under the population marker (below the 1 million population threshold) could one reasonably adduce Namibia as a microstate with a territory 45 times that of Fiji? Unsurprisingly later studies including Plishke (1977) and Dommen and Hein (1985) abandoned territorial size as a categorical marker that defined a microstate just as UNITAR did in its later deliberations on small states and territories.

Separately from the UNITAR report, Raimo Vayrynen (1971) used aggregate variables (area, population, GNP, military budget, value of industrial production) to define and measure small power status. While he did not isolate the phenomena of microstates as a distinct category, Vayrynen did include GNP as a measurement of small power but he established no cutoff point in his analysis. Dommen and Hein (1985, 123) using the UNCTAD figures from 1980 suggested a GDP/GNP of US500 million as a measurement of a microstate. Unfortunately as the authors observe, because of the anemic economies of the African sub-continent, Equatorial Guinea with a GDP of 69 million is territorially larger than 10 independent island economies combined. Conversely, Iceland with a population 315,459, and an area size of 103,000 sq. km and a GDP per capita of 52,493 USD[12] hardly qualified as a microstate when compared with the Solomon Islands with a population of 508,000 and a GDP per capita of 741 USD.[13]

The United Nations decades after the UNITAR report have only exacerbated the confusion over microstates with its current classification of least developed countries (LDCs), landlocked developing countries (LLDCs) and Small Island developing states (SIDS). The later small island developing states (SIDS) includes Haiti with a population of 9 million and a GDP per capita of 1,300 USD as well as Singapore with a population of 4.6 million and a GDP per capita of 49,700 USD.[14] Thus, even while retaining the population threshold of one million peoples as indicative of a microstate, the wide diversity and disparities between states (See *Table 1.4*) make any analysis of investment policies common to deeply problematic. This research project will therefore limit itself to explaining investment policies of microstates in Oceania (Rolfe 2006) using the experience of the Fiji Islands as a case study.

Table 1.4: **Microstates with Population <1 Million (2009)**

AFRICA	***Pop.***	**ASIA**	***Pop.***	**CARIBBEAN**	***Pop.***
Djibouti	864,000	Brunei	390,000	Guyana	738,000
Comoros	676,000	Maldives	309,000	Bahamas	342,000
Cape Verde	506,000			Barbados	256,000
Equatorial Guinea	676,000			Saint Lucia	172,000
Sao Tome and Principia	163,000			Saint Vincent and Grenadine	109,000
Seychelles	87,000			Grenada	106,000
				Antigua and Barbuda	88,000
				Dominica	67,000
				St. Kitts and Nevis	52,000
EUROPE	***Pop.***	**OCEANIA**	***Pop.***	**SOUTH AMERICA**	***Pop.***
Cyprus	871,000	Fiji	849,900	Suriname	520,000
Montenegro	620,000	Solomon Islands	523,000	Belize	307,000
Luxembourg	486,000	Vanuatu	240,000		
Malta	409,000	Samoa	179,540		

[12] 2008 data retrieved from official government databank at http://www.statice.is. (accessed January 5, 2010)
[13] 2007 data retrieved from Australian Department of Foreign Affairs and Trade http://www.dfat.gov.au. (accessed January 5, 2010)
[14] 2007 data retrieved from United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and the Small Island Developing States (UN-OHRLLS) at http://www.unohrlls.org/en/home . (accessed January 5, 2010)

Iceland	315,459	Federated States of Micronesia	111,000
Andorra	86,000		
Lichtenstein	36,000	Tonga	104,000
Monaco	33,000	Kiribati	98,000
San Marino	31,000	Marshall Islands	62,000
		Palau	20,000
		Tuvalu	10,000
		Nauru	10,000

Source: UN population database at http://www.un.org/esa/population/publications/wpp2008/wpp2008_text_tables.pdf. (accessed January 5, 2010)

(b) Why Microstates?

Microstates as the Commonwealth Secretariat stated (Bray and Hui 1989:130) "…are not simply a scaled a scaled down version of large countries. They have an ecology of their own…there is a cluster of factors which suggest particular strategies in the smaller states of the world." Microstates, even within the cluster of the developing world, remain on the periphery because of their size, economic potential and geographical isolation for non-contiguous states (Quester 1983). The last factor is particularly salient for the microstates of Oceania who find themselves geographically isolated and increasingly marginalized in the new global economy. While not discounting the calculations of power and national interests exercised by nations beyond the cluster of microstates, this research will demonstrate that even very small economies share a similar logic and desire to construct strategies within their polities for investments and economic opportunities (Crawford 1989).

The microstates in Oceania while diverse in size and population still share important attributes as a cluster and validate a closer examination of any one of these Islands as representative of this cohort. My reasons for investigating the Fiji Islands as the locus of a case study is predicated on my deep familiarity with the country as well as with the widely accepted consensus on the centrality and importance of the Fiji Islands within Oceania, especially among the other microstates. The microstates of Oceania are all geographically non-contiguous and with the exception of Tonga were until recently colonial outposts. Secondly, the five largest Islands (Fiji, Solomon Islands, Vanuatu, Samoa and Tonga)[15] have experienced political conflicts and tensions within their societies (see *Table 1.5*), and finally all of these microstates, while predominantly agricultural, have via the state attempting to develop mechanisms to diversify their economies. This project aims to explain the development and implementation of these investment policies through a focused case study on the Fiji Islands.

Table 1.5: Politics and Governance in Microstates

COUNTRY	GOVERNANCE
FIJI	Military Junta (from Dec 2006) (excluded from seasonal worker scheme as developed by Australia and New Zealand)
VANUATU	Parliamentary democracy (political instability last 15 years).
SAMOA	Parliamentary democracy (NZ provides defense) special quota for NZ residency and seasonal employment.
SOLOMON ISLANDS	Parliamentary democracy (political instability from 1998-2003) Australia/NZ have troops on the ground.
TONGA	Constitutional monarchy (political instability in 2006) NZ seasonal employment benefit.
KIRIBATI	Democratic republic.
NAURU	Democratic republic (Australia provides defense)
TUVALU	Constitutional monarchy.
MICRONESIA (FSO)	Democratic republic (free compact with US) relaxed entry and employment privileges in USA.
PALAU	Democratic republic (free compact with US) relaxed entry and employment privileges in USA.
MARSHALL ISLANDS	Democratic republic (free compact with US) relaxed entry and employment privileges in USA.

Sources: New Zealand Ministry of Foreign Affairs and Trade at www.mfat.govt.nz and Australian Dept of Foreign Affairs and Trade at www.dfat.gov.au . (accessed January 5, 2010)

[15] I have excluded the Federated States of Micronesia (FSO), Palau and Marshall Islands because of its peculiar political status with the United States. Niue, Cook Islands enjoy full citizenship with New Zealand while Samoa is beneficiary of a quota system). Nauru's defense is provided by Australia so I am not sure if it qualifies as a fully sovereign state.

(c) Fiji Islands as a Typical (and important) Microstate

The microstates of Oceania are at the periphery of global concern and awareness and as this project demonstrates, remain under-researched in a variety of areas.[16] The one area that has received substantial scholarly attention has been on political developments in Fiji, most notably the events of 1987 (B. Lal 1988; Robertson and Tamanisau 1988; V. Lal 1988; Sharpham 2000). The focus on the politics of Fiji reiterated the strategic importance and influence of the Islands within the South Pacific (Ball 1973) and the obvious regional implications of domestic developments. Not only is Fiji strategically located, but economically, politically and culturally, Fiji is recognized as a regional leader and partner in the success and failures of other microstates in the region (Hayward-Jones 2009).

In an effort to develop regional relationships, the first Fijian Prime Minister Ratu Mara led in the formation of the Pacific Islands Producers' Association (PIPA)[17] in 1967, the Pacific Island Leaders Forum (Mara 1997), The South Pacific Bureau for Economic Cooperation (later the Forum Secretariat)[18] in 1971, and The South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA)[19] in 1981, all of which are headquartered in Fiji. The influential Pacific Islands Development Program (PIDP)[20] based at the East-West Center at the University of Hawaii was also a Fijian initiative and has traditionally been headed by a Fijian academic.

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[16] One exception has been the periodic reports issued by the Pacific Island Development Program (PIDP); see Sturton and McGregor (1991) and Lal (1994). Jai Narayan (1984) study on the political economy of Fiji between the colonial eras (1874-1970) is a rare and comprehensive treatment of both politics and institutions see also Howe, Kiste and Lal (1994) on a general history of the Pacific Islands.

[17] This was the first indigenous regional association in Oceania. See Neemia (1986) for an extended discussion of regionalism in the South Pacific.

[18] The website for the Forum Secretariat is at http://www.forumsec.org. . (accessed January 5, 2010)

[19] For a current report on the status of regional trade in Oceania, see website at http://www.forumsec.org./_Resources/article/files/Pacific%20Regional%20Trade%20and%20Economic%20Cooperation_FINAL%20REPORT_December%2020071.pdf . (accessed January 5, 2010)

[20] http://www.eastwestcenter.org/pacific-islands-development-program/

The influence of Fiji in Oceania was further enhanced through the establishment of the regionally owned University of the South Pacific[21] as well as schools of nursing and medicine, which trains the majority of healthcare professionals in the region. Furthermore, Fiji also serves as a regional base for most of the international institutions (IMF, UNDP) and foreign chanceries within the region, for example, the US mission based in Suva serves Fiji, Kiribati, Tuvalu, Tonga, French Polynesia, New Caledonia, Wallis and Futuna, making it geographically the largest consular section in the world. As early as the 1930 Fiji's status as a leader among the many Islands of the Pacific was being debated between her colonial administrators (Hedstrom 1930).

Beyond the strategic importance of Fiji as the subject of this case study is the theoretical value Fiji lends to the research question that makes it an ideal case. I postulate that understanding investment policy in microstates can best be explained through a systemic analysis of the theoretical rationale behind government policy, how and why it has developed investment incentives within institutional and resource limits, the interaction between state agencies and particular sectors, and the impact of political crisis on investment policy. The Fiji Islands fulfill all of the above criteria and allow the researcher within the parameters of this inquiry a unique opportunity to examine and explain investment policy in the microstates of Oceania. The government of Fiji for many years has been active in developing investment strategies (see *Table 1.6*) through the Fiji Trade Investment Board (FTIB).

[21] http://www.usp.ac.fj/

Table 1.6: Fiji Islands Trade and Investment Board (FTIB) Incentive Targets

FIJI ISLANDS: TRADE & INVESTMENT INCENTIVES SECTORAL TARGETS			
Natural Resources	**Service**	**Transportation/SME**	**Manufacturing**
Mining Fishing **Agriculture** Logging and Sawmilling	**Tourism** Film Making and Audio Visual Productions Information Communication Technology (ICT)	Bus Industry Small and Micro Enterprises	Ship Building Manufacturing - Food Processing - Renewable Energy Projects and Power Generation - Bio-Fuel Production - *Garment Industry*

Source: Fiji Trade and Investments Board at www.ftib.org.fj

Secondly, Fiji has a well-developed bureaucracy[22] and multiple stakeholders that help create a complex political environment and provide an opportunity to study the institutional dynamics of policy, strategy, power and influence. Investment policy, as I have argued, does not emerge out of a vacuum, but is a product of intense and complicated negotiations between various actors through time, and the recent history of Fiji is likely to yield a rich explanatory schema for understanding investment policy in microstates.

The years in which this study is situated (1975-2010) are significant both in the design of this project and the puzzle that follows. The 1977 elections were pivotal in returning the incumbent political party (Alliance) to power with an ambitious plan to develop incentives, attract FDI and diversify the economy which was dominated by sugarcane farming (Levantis, Jotzo and Tulpule 2005; Narayan and Prasad 2005; Reddy 2003). Developing the tourism sector was paramount in the government's five-year plan (Mara 1997) and established the template for investment policy for the next decade (Alliance also won the 1982 elections). In 1987, following the defeat of the Alliance party at the hands of the newly formed Fiji Labor Party (FLP), the

[22] The most significant work to date on state agencies from the perspective of labor in Fiji is by Jacqueline Leckie (1997) and as manifested by the title of her study, state agencies understood themselves as laboring *with* the State.

military staged a *coup d'état* and triggered a political crisis. This project will explain investment policy both *prior* to the crisis of 1987 and beyond through 2010 to examine the effect of the political crisis on policy.

Thirdly, Fiji has the most developed and robust tourism sector in the South Pacific and thus provides an ideal opportunity to examine the permutations of investment policies on an important sector of the economy (McDonnell 1998; Rao 2002). The efforts in developing a viable and thriving tourism industry among the microstates have not gone unnoticed, and governments in recent years have embarked on an ambitious effort to develop tourism within their countries.[23] Also examining investment policy as applied to the tourism industry serves as a hard case example. Using Fiji as a case study provides a closer look at the effect of political crisis on investment policy in a specific sector in microstates. Among all the sectors that the FTIB (see *Table 1.6*) has targeted as part of its investment strategy, tourism is seen as the most vulnerable to political shocks and instability. David Beirman (2003) used a series of case studies (that included Fiji) to analyze policy shifts and market responses to crisis in the tourism industry. Tourists tend to leave, with their finances in the event of a national upheaval, and a cursory examination of any troubled region will indicate the lack of a robust trade in tourism (Faulkner 2001; Ritchie 2004; Wang 2008). Analyzing impacts of shock events on tourism has recently focused on epidemics (Wen, Huimin and Kavanaugh 2005) on the SARS outbreak in Asia, or natural disasters (Huang and Min 2002) i.e. the 1999 earthquake that struck Taiwan and sent the tourism industry in a tailspin.[24]

[23] Similarly a sustained effort has been underway in Africa to develop a robust tourism market as part of its overall development strategy (Dieke 2000).

[24] The Taiwanese government implemented series of aggressive investment strategies to revive the industry ranging from 30 second commercial spots on CNN to hosting a four day International Travel Fair, discounted travel program with major Japanese airlines and rebuilding scenic and recreational area through generous loans and grants for the travel industry (See Huang and Min 2002).

This project is predicated on the premise that investment policy is an important component of states developmental strategy, and that given the limited resources these small economies have, structuring prudent policy instruments entails not only being cognizant of the dynamic between agencies and sectors but understanding the impact of political crisis on investment policy. Is the state's investment in tourism a reliable measure of where limited resources should be allocated? What role did domestic coalitions play in the formation of investment policy? Are state agencies that oversee investment strategies capable of withstanding institutional manipulation in the formation of policy in these small states, especially regarding the powerful tourism industry? This project is undertaken in hopes of responding to these questions, objectively, fairly and thoroughly and contributes to our understanding of investment policy in microstates.

(d) Case Study

Globally, national governments employ a wide array of incentives and policies to attract investments and promote development. The case study on the Fiji Islands in explaining investment policy in microstates fills a theoretical lacuna on how very small and non-contiguous states use policy instruments to develop investment strategies. While the expansive use of government measures to encourage investment is widely acknowledged, there has not been any systemic study of investment policy in microstates as far as I can ascertain.

However the use of case studies in political science has raised some objections, especially in possible violations of important assumptions in scientific research. I posit that it is desirable within the scope of this research to use the case study method and that the methodological literature provides ample support to overcome the most important objections that may possibly impair scientific investigation of this project.

Lijphart (1971) argued that one of the advantages of pursuing a case study was the ability of the researcher to focus on a salient issue of interest given the constraints of time and resource. This could he stated “make an important contribution to the establishment of general propositions and thus to theory building in political science” (Lijphart 1971:691). Similarly, Alston (2008) stipulates that case studies “allow the analyst to isolate the impacts of a theoretical concept in a more detailed and compelling manner” (Alston 2008, 103) through examining the specific policy and institutional arrangements of individual societies. As Lijphart (1971) observes, case study is one of several methods used in political science (Lijphart 1971:682) and therefore not exclusive of quantitative analysis (King, Keohane, Verba (1994:43-46), but as Alexander George and Andrew Bennett (2005:20) suggest, statistical research is frequently preceded by case studies. The goal of case studies outlined by Alston (2008:121) and salient for this project is that (a) to understand an issue prior to modeling it (b) the ability to test theoretical hypothesis (see Lijphart 1971:691) and (c) to shed credible light on the workings of institutions and economic working of society.

The specific loci of investigation in case study make generalizability problematic and, as Yin (2003:10-11) states, imprecise research could be easily collapsed into mere narratives. I concede that examination of a single anomalous event cannot contribute to an overall understanding of political phenomena, but a study of Fiji within a cluster of microstates is scientifically valid. While theories generated from a case study of Fiji may not be applicable to OECD countries, it should reliably contribute to an understating of investment policies in microstates.[25]

[25] One possible mechanism to overcome the problem of generalizability is through Lieberman’s (2005:436) theory of nested analysis which allows researchers to “explore general relationships and explanations” without eschewing the “specific explanations of individual cases.”

Ancillary to the problem of generalizability in case studies is issue of "conceptual stretching" (Sartori 1970) that authors George and Bennett (2005, 19-21)) argue could be substantially attenuated through case studies. Instead of "lumping together dissimilar cases to get a larger sample" they suggest that case studies allow for a finer grained analysis of questions under investigation. This observation is significant for the study of microstates in Oceania, which while part of a larger cohort of sovereign states with populations below the one million mark share unique attributes of geography, history and capabilities that creates opportunities for a focused study in of itself. Even among microstates one has to be wary of drawing conclusions between contiguous and developed economies such as Brunei or Iceland and the remote islands of the pacific with very low levels of development. Case studies therefore "identify the universe or group under investigation" (George and Bennett 2008:25, 69-70) and allow the researcher to craft a focused and precise research objective, case studies they argue are "stronger at determining *whether* and *how* a variable mattered than at assessing *how much* it mattered."

Case studies are prone to the problem of selection bias (King, Keohane and Verba (1994:128-132) which "is commonly understood as occurring when some form of selection process in either the design of the study or the real-world phenomena under investigation results in inferences that suffer from systematic error" (Collier and Mahoney 1996:59). An example would be investigating the relationship between democracy and economic development using OECD countries as observations and extrapolating the results to the general population. While the observations for this project are circumscribed, there is no intrinsic assumption about a relationship between size and policy, only in explaining how and what factors are engaged in the structuring of investment incentives within microstates. The focused nature of this investigation make the results applicable to other microstates that share similar attributes as opposed to being generalizable to states that are vastly dissimilar in size and endowments (McKeown 1999).

The lack of representativeness in comparison to statistical analysis can be overcome by making a trade-off between parsimony and broad applicability with explanatory richness and fine-grained analysis of the case under investigation. Case study researchers, argue George and Bennett (2008:31-32), "are more interested in finding the conditions under which specified outcomes occur, and the mechanisms through which they occur, rather than uncovering the frequency with which these conditions and their outcomes arise." Selection bias could be problematic if *microstates* were the *dependent* variable in this investigation, which it is not but rather *investment policy* as the variable under inquiry (Dion 1998).

However simply observing the movement of independent variables in explaining investment policy seems reductionist and lacks the ability to provide a more nuanced analysis of affective forces involved in the formulation and implementation of a significant policy. Without negating the importance of quantitative measurements, the purpose of this inquiry is explaining investment policies in microstates through a careful examination of the different units of analysis and the possible effect of a severe exogenous crisis, i.e. the military coup d'état of 1987. A better model would be to use the case study method to explain in detail the permutations and trajectories of investment policy of microstates in Oceania by examining the experience of Fiji. Case studies suggest George and Bennett (2008:25) "are stronger at determining *whether* and *how* a variable mattered, than at assessing *how much* it mattered," which has deep implications for the study of investment policy in microstates.

Robert Yin (2003:3-5) uses the example of Allison and Zelikow's *Essence of Decision, Explaining the Cuban Missile Crisis* as a model of how case studies can move beyond the exploratory stage and into the explanatory phase and "can be the basis for significant explanations and generalizations" through the creative and successful use of multiple perspectives and institutional constraints in explaining the Cuban Missile Crisis. Prudent use of case studies such as the embedded design model (Yin 2003:19-56) have the potential to unravel complex policy formulations through its emphasis on examining different units of analysis individually and *in toto* (Ragin 1994:101-102; 2004:123-138).

As a caveat, I am aware of important quantitative studies on investment policy in microstates, which has helped me refine my research agenda throughout this project.[26] I am also cognizant of the use of the case study method to study microstates, investment policy, institutions and crisis which validates the appropriateness of utilizing case study methodology for this project.[27]

Table 1.7: Design & Data: Explaining Investment Policy in Microstates of Oceania

Unit of Analysis	Extant Institutions	Research Questions	Data	Methods of Inquiry
Microstate (Fiji Islands)	Domestic environment (constituency pressures) Regional environment (SPARTECA-South Pacific Regional Trade and Economic Cooperation Agreement)	How did investment policies emerge? What were the political and economic factors that led to the development of specific investment incentives? Are this incentives elite driven, part of a regional trend or a "race to the bottom" dynamic"?	Legislative record (Hansard documents), Regional policy formulations (South Pacific Forum databank).	Archival analysis of historical record on the genesis of investment policy in microstates, explore patterns and overall trends.
State Agencies	Departmental Ministries (Tourism,	How did these institutional	Ministerial directives and government	Process tracing to determine how and if

[26] Some notable studies that I have greatly benefited have been Jayaraman and Choong (2006), Gani (1999) on the determinants of FDI in Fiji and Clague, Gleason and Knack on the determinants of lasting democracy in poor countries. Also studies in tourism and economic performance by Rosentraub and Joo (2008), and Brau, Lanza and Pigliaru (2003) have been helpful in showing estimated changes in the dependent variable and linear relationships.
[27] On development in small economies, see Winslow (1991-92), Bray and Hui (1989), Anckar (2002), Storey and Murray (2001), Baldacchino (1999), Thomas (2002). For case studies on institutions, see Cortell and Peterson (1999), Peters, Pierre and King (2005), Tien-Lung Liu (1998) and sector research; see O'Donnell (2005), Vassiliou (1995), Kersell (1987) and Agor (1981).

	Lands) Fiji Trade Investments Board (FTIB), Native Land Trust Board (NLTB), Fiji Development Bank (FDB)	arrangements affect investment policies? What roles do state agencies in microstates play in formulating investment policies? Is the pressure upward or downward?	records. Public Service Commission rules that regulate interaction over policy formation and implementation.	bureaucratic agencies affect investment policy in microstates. What are the limits of institutional power in microstates on investment policy?
Sectors (Tourism, Agriculture and Garment Manufacturing)	Fiji Tourism Board, Fiji Visitors Board, Fiji Hoteliers Association, Individual Resorts, Fiji Sugar Corporation, Fiji Development Bank,	How has the tourism industry benefitted from investment incentives? What role has it played in the structuring of investment policy in Fiji? What is the role of sectoral elites in microstates over investment strategy?	Fiji Trade Investment Board (FTIB) data on investments in the tourism sector, Tax incentive data from the Reserve Bank of Fiji	Data analysis on the effects of investment policy as implemented within the tourism sector over time (total subsidies received, tax benefits, duty concessions, etc) comparative analysis between the tourism sector and other sectors regarding incentives.
1987 Political Crisis	Tourism Industry, FTIB	What was the effect of the political crisis on investment policy? Are microstates, by virtue of size, insulated from permanent effects of political shocks? How was the tourism sector affected by the coup?	Newspaper reports on the political crisis, tourism data from Fiji Bureau of Statistics, and economic data from the Reserve Bank of Fiji.	Comparative analysis of investment policy before and after the political crisis; what changed and how? Interviews with agency and trade representatives on the effects and long-term consequences of the political crisis of 1987.

(e) Hypothesis Testing

The Fiji Islands like other small states in Oceania face deep resource, capital and demographic limitations yet have managed to reasonably negotiate through the global economy by developing tourism as a natural extension of their location, natural beauty and languid surroundings. I explore these developments by examining the formation and implementation of investment policy in the tourism from the genesis of the industry through periods of crises and beyond.

In order to successfully prosecute my hypothesis that comparative advantage is a better theory in explaining microstate behavior in the international system than MIRAB, I will need demonstrate the specific role that various stakeholders, institutions and agencies played in securing the success of the tourism industry. This will entail documenting policies, legislation, debates, subsidies, funds, land, resources, etc by the Fijian government from 1975-2010 that ensured the success of tourism in the islands. If it can be demonstrated that the Fijian government played an active and direct role in the development of the tourism sector in collaboration with key stakeholders and interest groups over time, than my hypothesis that microstates are capable of developing policies congruent with their comparative advantage is vindicated. The alternative is that the limitations inherent to microstates are too great to overcome, and racked with political instability, economically inefficient, and institutionally weak and therefore MIRAB may ultimately be a better explanation of how microstates can survive in the global economy.

Chapter Two

Tourism as a Developmental Strategy

Introduction

This section provides an overview of the competing models of tourism development and the externalities that emerge from them. Large scale development projects in tourism have ranged from exclusive and isolated resorts to urban hotels and niche ecotourism. The myriad of travel products reflect the diversity of consumer tastes and purchasing power and the ability of host economies to cater to the needs of an expanding market. The sharp variation in the demand for tourism in the Pacific explicates the complexity of geography and the level of tourism development in these microstates (see *Table 2.1*) but the costs associated with utilizing tourism as a conduit for development are neither exclusive nor unique to each of these islands. The pressure on fragile ecosystems and the possible changes to culture and society have to be taken into account to ensure that tourism development fulfills its strategic potential within national priorities.

Table 2.1 Tourism Demand in Oceania-Number of Visitors (1996-2001)

COUNTRY	1996	1997	1998	1999	2000	2001
COOK ISLANDS	48,354	49,866	48,630	55,599	72,994	74,575
FIJI	339,560	359,441	371,342	409,955	294,070	348,014
KIRIBATI	4,206	5,054	5,679	3,112	4,829	4,574
MARSHALL ISLANDS	6,116	6,254	5,727	4,622	5,246	5,399
NIUE	1,522	1,820	1,736	1,870	1,647	1,407
NOTHERN MARIANA	736,517	726,690	526,298	491,602	526,111	497,685
PALAU	69,330	73,719	64,194	55,493	57,732	54,111
SAMOA	73,155	67,960	77,926	85,124	87,688	88,263
SOLOMON ISLANDS	10,290	13,807	15,802	6,224	2,427	3,418
TONGA	26,642	26,162	27,102	30,949	34,694	32,386
TUVALU	898	1,000	1,100	1,000	1,000	1,140
VANUATU	46,123	49,624	52,085	50,746	57,364	53,300

Source: Treloar and Hall (2005: 171)

The different models of tourism development that could be beneficial for host economies are often determined by factors beyond the control of these islands because international tourism is managed by entities outside the reach of these economies. The stenopeic choices available to microstates by virtue of their size and endowment capabilities indubitably make the structuring of a tourism based economy an attractive and viable model for development. The different trajectories of tourism development in these islands often determine whether industry is successfully integrated into national economies, as well as whether these societies are able to manage the negative externalities that arise as a consequence of large influxes of outsiders in small communities.

Developing tourism involves both tangible and intangible costs, the former through building infrastructure, creating organizations, subsidizing incentives (Eadington and Redman 1991) while the later includes problems of cultural disintegration, social and ethnic stratifications, crime and the erosion of informal institutions, etc. While the focus of this project is on the tangible aspects of tourism and the institutional and developmental challenges facing microstates, I am cognizant of the valuable contributions by anthropologists and sociologists (examined later in this chapter) who have made salient critiques of tourism and its negative social and cultural effects on host communities. An empirical examination of changes in attitudes, psychology, culture, norms, values, etc. of tourists and hosts is a vast and complex undertaking and beyond the scope of this project. In spite of the vast scholarship in this area, there is a paucity of actual ground level study of residents who are most directly affected by the changes from tourism and is an opportunity for further enquiry. One of the few case studies that explore the cultural and social effects of tourism in the South Pacific disputes the assertions made by anthropologists and sociologists about tourisms deleterious effects, but a lack of comparative data makes it unhelpful to generalize (King, Pizam and Milman 1993).

The Advent of Mass Tourism

In the era of mass tourism, international travel is no longer a province of the privileged but accessible to citizens of advanced capitalist societies, many of whom had now inherited a new "culture of mobility" (Bianchi 2006). International travel in a previous era was mainly undertaken by wealthy individuals in an *ad hoc* fashion and commonly referred to as the "Grand Tour" (Brennan 2004), while the current wave of tourism is a highly structured product packaged for mass consumption. Freya Higgins-Desbiolles (2006) in *Table 2.2* provides a timeline of the evolution of travel, with particular emphasis in the postwar era. International travel in the succeeding decade was increasingly articulated and facilitated through international norms and institutions within the context of an intertwined globalized economy. The bourgeoning travel industry has enabled societies in the periphery to engage in the global economy through the provision of goods and services specific to international tourism, notwithstanding the criticism that this is a debatable proposition because peripheral societies are too marginal to dictate the terms of exchange (Goodwin 2007; Wu 1982). Providing the essential accoutrements associated with tourism is an expensive and complex undertaking and requires systemic policies and organizational structures for successful prosecution of developmental objectives (Diamond 1977:552; Sautter and Leisen 1999; Gearing, Swart and Var 1976).

Table 2.2: Milestones in the Human Right to Travel and Tourism in the Modern era

TIMELINE	MILESTONE	DETAIL OF EVENT
16–19th centuries	Travel for the Elite	Grand Tour used by European elite as educational experience
1841	Travel for the workers and masses	Cook's Tours are born when Thomas Cook organizes rail journey between Leicester and Loughborough, UK
End of World War I	Passport as travel requisite	To consolidate nation states and deal with global war,

		passports become widespread (O'Byrne, 2000)
1948	UN Universal Declaration of Human Rights	Declaration which states the basic rights to travel, rest, leisure and paid holidays
1954	World passport initiative	Travel document for ''world citizens'' created by World Movement for World Citizens to enable the realization of the right to travel as stated in the 1948 Universal Declaration of Human Rights
1963	International Bureau of Social Tourism	Organization founded in Belgium chartered to promote ''access to travel and leisure opportunities for all''
1976	UN International Covenant on Economic, Social and Cultural Rights	Document which reiterates the rights to rest, leisure and paid holidays
1980	WTO's Manila Declaration on World Tourism	Document which states: ''tourism is considered an activity essential to the life of nations…Its development is linked to the social and economic development of nations and can only be possible if man [sic] has access to creative rest and holidays and enjoys freedom to travel''
1985	WTO's Tourism Bill of Rights and Tourist Code	Document which states: ''the right of everyone to rest and leisure…periodic leave with pay and freedom of movement without limitation, within the bounds of law, is universally recognized. The exercise of this right constitutes a factor of social balance and enhancement of national and universal awareness''
1990s	Human Development Index drops in 3rd world	Human Development Report describes ''unprecedented reversals of the 1990s'' as development went backwards in dozens of countries (UNDP, 2004, p. 132)
1999	WTO's Global Code of Ethics for Tourism	Document includes Article 7 on the ''Right to Tourism'' which states ''the prospect of direct and personal access to the discovery and enjoyment of the planet's resources constitutes a right equally open to all of the world's inhabitants''. It also calls on the public authorities to support social tourism
September 11, 2001	Attack on USA and subsequent ''War on Terror	Implementation of universal right to travel is set back with tighter border security, travel advisories and heightened international tensions

Source: Higgins-Desbiolles, Freya (2006: 1199)

The case study of Fiji challenges the notion of impotency endemic to peripheral economies and demonstrates how it has been able to organize its policies in order to capture its share of the global market in travel. Both the World Tourism Organization (UNWTO) and the World Trade Organization (WTO) recognizes that tourism can be harnessed for social and economic ends and contributes towards national development if properly organized by all stakeholders (UNWTO 2004; Honeck 2008). Tourism can either mimic the predictable contours of the global economy as an exploitative and ultimately destructive enterprise for host economies, or it can *ceteris paribus* generate development, employment and opportunity. The logic of utilizing tourism as a developmental strategy is, I believe, a reasonable policy within the scope of endowments available to microstates such as the Fiji Islands. The following section examines the competing theories of tourism development and addresses the criticisms pertaining to the asymmetrical relationship between the core and the periphery within the context of the global economy.

Globalization has intensified the pressure on economies to develop policy instruments that are commensurate with this new reality, or face the danger of being left behind. The survival of microstates is therefore predicated on their ability to organize their economies in ways that will maximize their natural and geographical advantages, albeit there are fundamental limitations intrinsic to the small islands of Oceania. Thus the development of tourism has been the preferred route of small island economies to optimize their comparative advantage in order to survive and flourish in the global economy. The MIRAB model grossly underestimates the extraordinary efforts that microstates in general and the Fiji Islands in particular have undertaken over the last several decades to develop institutions and structures in order to capture the gains from tourism for national development.

The physical dimensions of tourism require substantial investments to meet supply conditions in order to create a product that is essentially amorphous and liminal. The economic, environmental and cultural challenges wrought by international tourism are insurmountable for small economies, argue critics for using tourism as a conduit for development, and point to the creation of enclave sites as indicative of the exploitative nature of global tourism (Taylor 2001; Mbaiwa 2005; Freitag 1994). The creation of locales in the periphery to deliver a contrived travel experience for consumers in the core is financially irresponsible, environmentally destructive and culturally corrosive. The payoffs for host communities in the form of employment, opportunity and development are negligible and scarce resources would be better allocated elsewhere. Alternatively, the functional approach concedes the pervasive and complex influence of tourism on societies but rejects the implicit assumption that host communities are passive agents lacking the *capacity* to direct development and manage the industry consistent with its social and national objectives.

The competing models of tourism within the literature illuminate the complexity of the travel industry and expose the deep contested issues inherent in the nature of the sector itself. *Table 2.3* provides a sampling of the expansive literature on the competing arguments regarding the tourism industry. As Lea (1988: 2) states, "…There is no other international trading activity which involves such critical interplay among economic, political, environmental and social elements as tourism…" Both the *political economy* approach and the *functional model* enable theorists and policy analysts to develop a nuanced and critical understanding of the complexity of international tourism and situate it within the broader currents of development and globalization (Lea 1988: 10).

Table 2.3 Competing Theories of Tourism Development

Political Economy Approach	Functionalist Approach
Tourism development reflecting colonial relationships (Britton 1980,1982); The socio-spatial nature of tourism development between	Tourism as a rational development strategy (Wilkinson 1989; Rosentraub and Joo 2010): Croes 2004: McElroy 2003); Advantages of

the core and the periphery (Husbands 1981; Oppermann 1995); Enclave structures (Freitag 1994; Jaakson 2004; Mbaiwa 2005); High costs of infrastructure development and low skilled employment opportunities (Diamond 1977); Unequal dispersal of benefits from tourism (Brougham and Butler 1981): Negative cultural impact on host communities (Macnaught 1982; Wu 1982 Goodwin 2007; Haralambopoulos and Pizam 1996; Yang 2011); Inauthentic social construction of the "Other" (Silver 1993; Wang 1999: Chabra, Healy and Sills 2003: Taylor 2001Tourism as a "plantation economy" (Hall 1994); Negative environmental impact of tourism (Cohen1978; Romeril 1989)	community based tourism (Sebele 2010; Binns and Nelt 2002); Tourism and poverty alleviation (Honeck 2008; Hampton 2003); Tourism as an integrative enterprise (Pearce 2001); Tourism and the diversity of consumer behavior (Goosens 2000; Gnoth 1997; Chen, Mak and McKercher 2011); State capacity to manage tourism (Sautter and Leisen 1999); Resident attitudes towards enclave resorts (Hernandez, Cohen and Garcia 1996); Neutral social impacts of tourism (King, Pizam and Milman 1993); Tourism as a positive social force (Higgins-Desbiolles 2006); Sustainable tourism (Bramwell and Lane 2010; Weaver 2010; Brohman 1996; Beaumont and Dredge 2010).

Political Economy Approach

The political economy model (Britton 1981; King, Pizam, Milman 1993; Baldacchino 1993; Harrison 2004) emplaced tourism in the developing world as an extension of historical ties between former colonies and their metropolitan overseers. The political and military dependency that once characterized the relationship between the developing world and Europeans was now protracted through the market for travel and associated sectors. The tourism industries these scholars argued perpetuated these asymmetrical relationships through established markets and investments in host economies and thus creating a new framework of economic and cultural dependency. The severing of political ties was replaced by tighter economic and cultural dependency that belied the promise of independence for many of these former colonies.

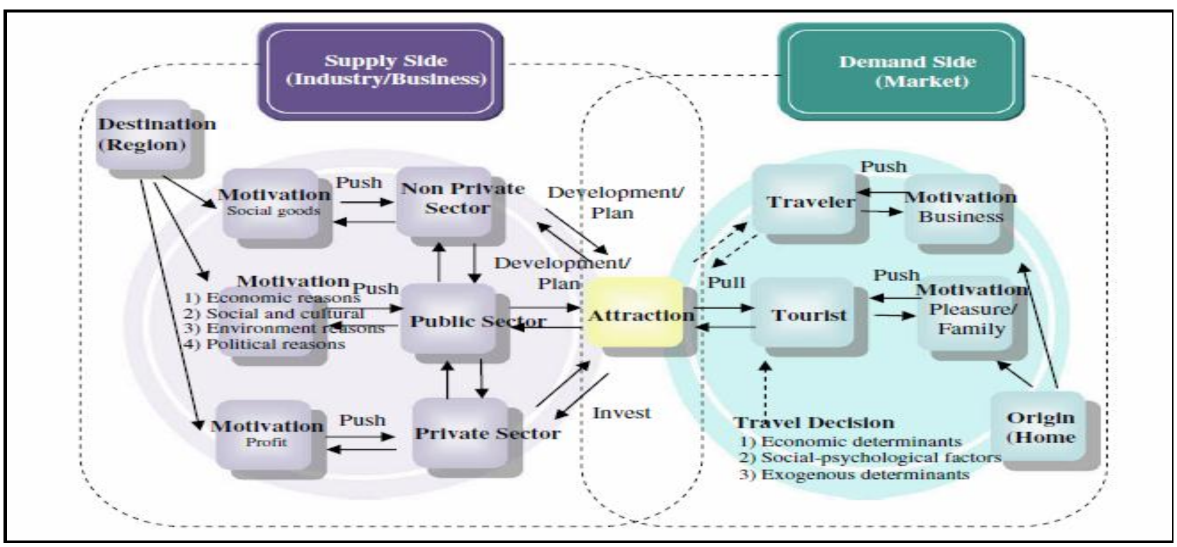
Criticism of tourism focused on the high capital demands required to meet supply conditions, the spatial concentration of tourist sites and the cultural construction of the other by the sending states (Oppermann 1995; Hanna and Casino Jr 2003, Britton 1982). International tourism is organized along parameters that may either attenuate economic inequalities or further exacerbate the asymmetrical relationships that exist between host economies and the sending states. From a neoclassical perspective, the tourism market functions along a supply and demand frontier (see *Table 2.4*). This necessitates the hard investments required by host countries to provide the physical components if they desire to capture the market in international travel. As we will see in the case study on Fiji, microstates in particular have to rely on a combination of private and public resources to fulfill the supply conditions necessary for success or failure in developing their tourism industry. Tourism, as Sinclair (1998: 14) observes is a "composite product, involving transport, accommodation, entertainments, natural resources and other facilities and services such as shops and currency exchange." The high capital intensity required for infrastructure projects such as building roads, electricity grids, communications, airports and accommodations to create conditions amenable for tourism place an unfair burden on receiving states, many of whom are developing low income economies (Jafari 1974). However countries desirous of acquiring market share in the intensely competitive travel industry cannot afford to lag behind in infrastructure development, and therefore feel compelled to undertake expensive tourism development projects. Freitag (1994: 541) recounts the example of the Dominican Republic to develop the Puerto Plata coast between 1974 and 1982 into a tourism enclave by borrowing $76 million dollars to build infrastructure, at the cost of other development priorities.

Table 2.4: Conditions for Developing Tourism

Demand Conditions	**Supply Conditions**
Exotic Experience	Infrastructure
Service	Accommodations
Entertainment	Transportation
Accessibility	Communication
Affordability	
Safety	

A possible alternative sketched by Rosentraub and Joo (2009: *Diagram 2.1*) is for governments to develop cooperative partnerships with the private sector and co-invest in infrastructure projects (Agor 1981), which has the potential for positive spillover effects. In Fiji, large resort developments receive incentive packages from the government to generate their own electricity which allows the resort to sell excess wattage to neighboring communities, allowing rural villagers access electric power. However, the scarcity of capital for developing tourism has sometimes caused host communities take imprudent risks and incur huge losses. The US1.2 Billion dollar Costa Isabella Project in Puerto Rico which started twenty years ago has yet to be completed with mounting losses and periodic change in ownership (Hernandez, Cohen and Garcia 1996:757-759). The troubled Natadola and Momi Bay Project in Fiji is financed through the public pension fund and is losing almost three hundred million Fijian dollars (the next two chapters outlines the genesis and implications of these troubled tourism projects in Fiji).

Diagram 2.1: Public Private Partnerships for Developing Tourism



Source: Rosentraub & Joo (2009: 762)

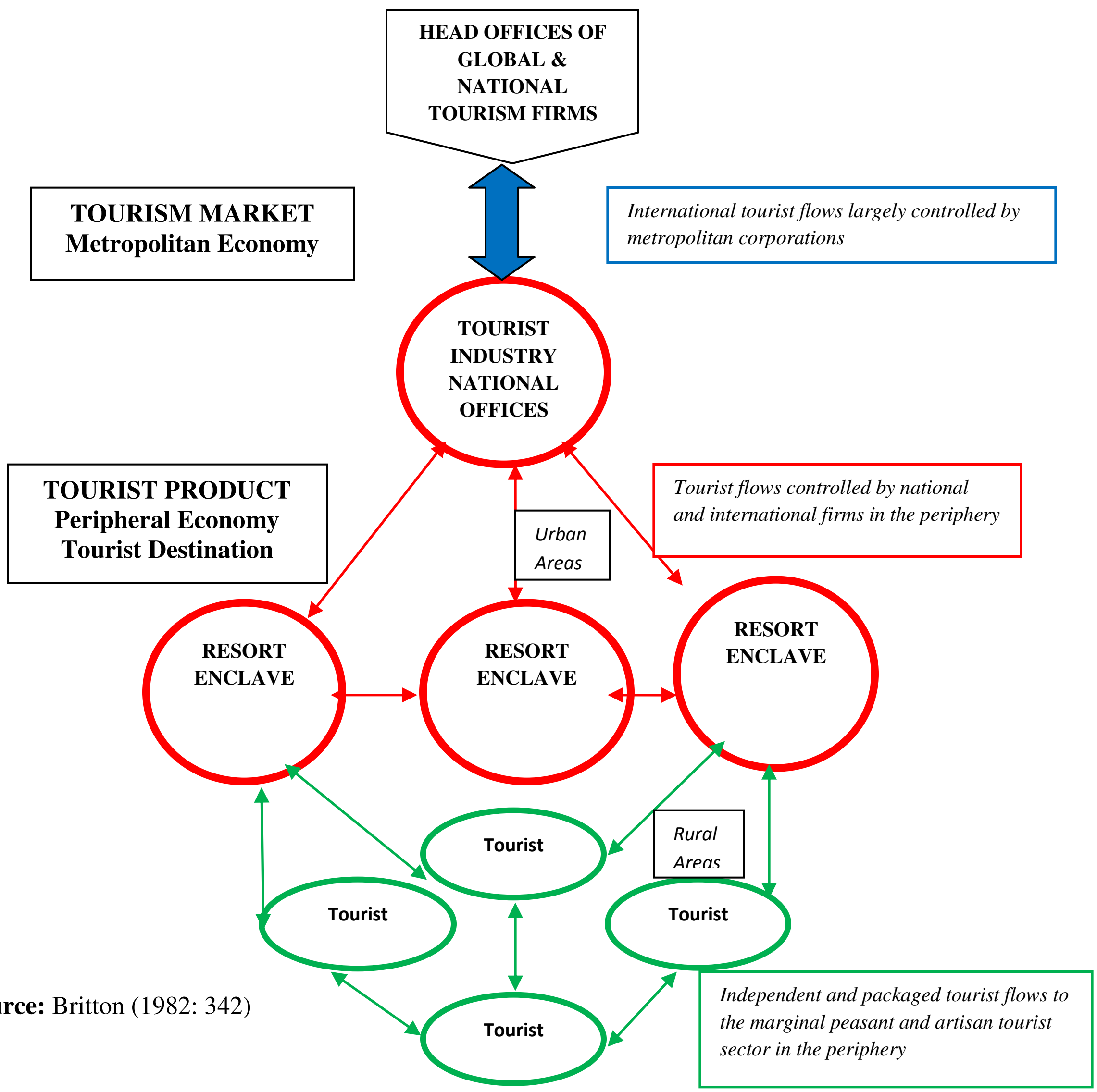
Enclave Tourism

Tourism, as Lea (1988) has argued is a comprehensive project touching on both the temporal and intangible aspects of society. The temporal dimensions of tourism require substantial investments in supply conditions to meet acceptable standards in order to create a product that is essentially amorphous and liminal. The spatial concentration of the tourism industry is intensified by the creation of enclave communities and further exacerbates the exploitative nature of the relationship between the core and the periphery. Britton (1982:341) argues that;

> In physical, commercial and socio-psychological terms, then, tourism in a peripheral economy can be conceptualized as an enclave industry. Tourist arrivals points in the periphery are typically the primary urban centers of ex-colonies, now functioning as political and economic centers of independent countries…If on package tours, tourist will be transported from international transport terminals to hotels and resort enclaves. The transport, tour organization and accommodation phases of their itineraries will be confined largely to formal sector tourism companies. Tourists will then travel between resort clusters and return to the primary urban areas for departure.

Professor Britton's critique of the enclave type of tourism development goes beyond the merely contrived "bubble" experience that self-contained places offer to consumers akin to being on a cruise ship (Jaakson 2004), into the very *economic* arrangements that are instrumental in creating the enclave model of tourism development. Similar to the colonial structures that once governed these Islands from afar, are now the new organizations that operate and regulate international tourism from the core, often located in the former metropoles (Husbands 1981). The tourism industry according to Britton (see *Diagram 2.2*) is disproportionately biased towards enclave types of development, for cultural and economic reasons. Operators of self-contained tourist areas are able to capture most of the tourist expenditures (Hernandez, Cohen and Garcia 1996; Jaackson 2004; Mbaiwa 2005) from the moment they book their travels to the final departure. Aside from bureaucratic expenses such as airport taxes or visa fees, guests at inclusive resorts have little incentive or opportunity to spend during their travels. International tourism is deeply intertwined with the social and political structures of host economies and thereby exposes them to external manipulation by the core countries (Henderson and Ng 2004; Kim, Timothy and Han 2007; Schwartz 1991; Freedman 2005). The promotional advantages enjoyed by enclave tourism through its close relationship with the metropole can easily be withdrawn over conflicts with policy and politics, allowing the core to retain political control over the developing world.[28]

Diagram 2.2: Enclave Model of Third World Tourism



Source: Britton (1982: 342)

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[28] The discussion on travel warnings in chapter 5 discusses at length the complicated relationship between host economies and sending states, given the nature of the industry *per se* and the impacts of political instability on tourism.

Furthermore, enclave models of tourism development have been notorious in the production of "staged authenticity" in the guise of creating sites that mimic the cultural heritage of host communities (Chabra, Healy and Sills 2003; Daniel 1996; Hughes 1995; MacCannell 1979). Tourists do not have to venture out beyond the security of their all inclusive sites to "experience" the thrill of travel in a foreign and exotic location, essentially shielding them from the social and economic realities of the communities which they ostensibly are guests of. The desire on the part of the consumer to have an exotic experience and the willingness of the provider to package it for consumption creates a "reification of the other" argues Taylor (2001) and does not contribute to heightened awareness and sensitivity of societies different from the traveler and enlarges the sense of alienation and objectification (Silver 1993; Adams 1984; Bruner 1991).

An unintended consequence of enclave tourism seemingly overlooked by critics (Aili, Jiaming and Min 2007) is the ability of both the host community and the tourist sector to insulate each other from the negative social and cultural impacts of the industry. Whether that is a desirable proposition is debatable but it is my contention that scholars cannot have it both ways. Enclave tourism is problematic because its creates a superficial product for travelers, while an integrated travel experience is detrimental to host culture and society

Functional Approach

In the second conceptual model, Mathieson and Wall (1982), McElroy (2003), Agor (1981) argue from a functional perspective that tourism as a unique activity should be examined intrinsically on how it impacts individuals, society, culture and the environment rather than merely as a tool for political and economic domination. This is not to extricate tourism from the larger currents of the global economy, but rather to situate the phenomena of international tourism within the context of national economies and the ways in which host economies manage and develop this trade in services (Lea 1988: 10). The functional approach towards tourism posits the *State* as an *active* player in the organization of the tourist industry within its national development objectives. In contrast to the pessimism of the political economy model in which tourism is "imposed" on economies (Sautter and Leisen 1999: 312-313), the functional model attributes agency to actors in the formation and development of tourism, even though it may occasionally underestimate the complicated historical realities and economic asymmetries (Lea 1988: 16). A functional approach according to Sautter and Lesien (1999: 313) require "all parties-or stakeholders-interested in or affected by this business within a particular market or community…to collectively manage the tourism system."

I concur with John Lea (1988) that both models provide the researcher with an inadequate framework to understand the phenomena of global tourism. While the development of tourism has exploited historic relationships and exacerbated inequalities as articulated by the political economy approach of Britton et.al, developing countries have nonetheless adopted tourism as part of their development strategy.[29] Host economies have invested substantial resources and capital to develop the tourism industry as a rational response to what they perceive as their comparative advantage in the global economy, as is the case of the Fiji Islands. This project situates the development of tourism in the Fiji Islands within the functional model as it most closely approximates the institutional and organizational diastole of the travel industry. The *focus* of our enquiry is from the perspective of the host economy i.e. the microstate instead of the metropole on which the Britton's enclave model is biased towards (Lea 1988:11).

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[29] This is not to suggest that global economic realities and factor endowments may not have constricted their capacities to choose otherwise, but this project seeks to examine the impact of tourism *per se*, within the Fiji Islands.

Table 2.5 illustrates the many possible ways in which host countries can develop tourism that is consistent with their resource and structural capabilities. Host communities can develop a fairly diversified and sustainable tourism industry as demonstrated by the Fijian experience. The complicated nature of the industry requires institutions, incentives and organizational structure to develop and adapt to the changing consumer needs, environmental pressures and political instability. Scholars that deny the positive role that tourism can potentially play in developing peripheral economies make similar assumptions of MIRAB theorists, i.e. that (1) microstates by virtue of size and endowments lack agency and consigned to a permanent dependent status (2) tourism is a top down process imposed on the periphery (3) the ability to negotiated pathways to development is severely compromised or absent (4) incapable of building the necessary institutions required for policy (5) lack an interest in preserving the environment (6) culture is either unchanging and frozen for posterity or fragile and susceptible to irreparable damage from exogenous factors.

Table 2.5: Range of Development Options

Approach to Tourism	Types of Development	Infrastructure
Political Economy	Enclave	Full service luxury Resorts Self-contained Boutique accommodations Island Getaways Secluded private Resorts
Functional	Integrated	Urban Hotels Motels/Day Inns Home stays Backpackers accommodations Adventure Tourism Camping sites Ecotourism

The Fijian case study challenges these assumptions and situates the development of tourism within the broader context of challenges facing small economies. Fiji enjoys a comparative advantage in tourism because of its location and accessibility to larger and affluent neighbors, as well as a carefully cultivated image of an island paradise, but also because it has successfully built the institutional structure required for the industry to take flight. Furthermore, tourism in Fiji has endured almost twenty-five of chronic political instability and most studies of tourism have failed to address the phenomena of tourism under crisis. The survival of tourism through the periods of crisis provides an opportunity to examine both the limits of small states in the global system and the appropriate policy responses required by them to retain market share, justify continued investments and minimize collateral damage to other sectors of the economy.

Studies have demonstrated that safety and security play a crucial role in determining consumer choice about the locations travelers choose to visit. The development of tourism as well as the ongoing political crisis in Fiji provides an invaluable opportunity to examine the effect of crisis on the industry, the ability of the State to respond to the crisis and most surprisingly, the resiliency of the tourism industry to emerge from the political upheavals. Whether this is indicative of government foresight and commitment to investing in tourism, or the ability of the sector itself to adapt to crisis can only be determined after the case study on Fiji. Despite the coverage of the situation in Fiji about its so called "coup culture," the political instability it has experienced, I will argue, has been quite benign in nature. In spite of travel warning and in some cases travel restrictions by sending countries, tourism in Fiji has not been irretrievably damaged. Consumers, unlike Foreign Service Offices, seem to have a more nuanced and sophisticated understanding of travel locations than official policies.

Developing Tourism

John Bryden (1973) argues that tourism emerged as a viable strategy for development in small island economies within a specific political and economic framework (Bryden 1973:3) rather than as an ad hoc response to exogenous forces. The Caribbean Commonwealth, the site of Bryden's inquiry, appropriated tourism as congruent with their development plans for reasons I suggest applies to the Fiji Islands. Bryden (1973) observed that the Caribbean Islands had long historical and political ties with the metropole, they suffered from geographical isolation, had limited resources and human capital. Survival in the early years following independence either meant reverting back to dependency with the metropole as implied by the MIRAB model or developing strategies to exploit their comparative advantage in tourism.

Some possible benefits for development secured by tourism adumbrated by M. Thea Sinclair (1998:2) include (1) the provision of hard currency to alleviate a foreign exchange gap and to finance imports of capital goods (2) increase employment (3) increasing the GNP and personal incomes (4) increase in government tax revenues. Indirect benefits may also include informal employment, intercultural exchange, positive externalities from infrastructure developments and spillover effects such as skill formation and technical training.

Data from the World Tourism Organization (WTO) shows that from 1975-2000, global tourism increased by 4.6 percent per annum (see *Graph 2.1*) and provided host countries with a new set of challenges and opportunities to expand their market share.

Graph 2.1: Worldwide Growth in Tourism

Source: World Tourism Organization; International Monetary Fund

Tourism is an important industry and for many microstates an essential component of economic development (Shareef and McAleer 2005; Croes 2006; Wilkinson 1989; Taylor 2006). This has far reaching implications for all stakeholders involved in this vital sector, especially the sending nations whose actions have extraordinary consequences over the economies and livelihoods of receiving states. While travel is not a general necessity for survival, the intake of tourists for many small economies is (Wang 2009; Narayan 2005; Causey 2007). The efforts in developing a viable and thriving tourism industry among the microstates have not gone unnoticed, and governments in recent years have embarked on an ambitious effort to develop tourism within their countries. However, incorporating tourism as part of a development strategy for small economies potentially created problems that could negate gains accrued from the expanding trade in services. The burgeoning tourist industry argues Britton (1982) and Wu (1982) that tourism foists new forms of dependency on former colonies by metropolitan powers through control and ownership of factor endowments integral to exploiting their comparative advantage in global tourism.

Tourism and Culture

Neither the insular mode of enclave development nor limiting the movement of peoples effectively addresses the possible consequences of international tourism on culture and the environment. Global institutions and norms regulating tourism have emphasized the specific responsibility of sending states; multinational corporations and travelers play in maintain the integrity of host cultures, the natural environment and social values. The United Nations Educational Scientific and Cultural Organization (UNESCO) in its 18th General Conference in 1975 adopted resolution 3.411which authorized the Director General to "undertake a study concerning the effects of tourism on socio-cultural values" (UNESCO 1976: 75). The UNESCO study chided theorists of tourism who exclusively focused on its developmental and economic potential (Bryden 1973: 82) and argued instead that "tourism is something more than an economic phenomenon with sociological and cultural effects; it has become a phenomenon of civilization" (UNESCO 1975: 99). Cognizant of tourisms expansive role in host economies, the World Tourism Organization (WTO) drew from existing norms and institutions ratified in 1999 a Global Code of Ethics for tourism, with emphasis on the safety of travelers, protection of indigenous cultures, economic opportunity for host communities and sustainable development (World Tourism Organization Global Code of Ethics for Tourism:2001).

Tourism as a "phenomenon of civilization" therefore remains a fertile area of scholarship beyond its institutional and developmental nexus (the focus of this project) by scholars in sociology and anthropology who seek to understand the effect of tourism on societies, culture, people, language, food, religion, etc. This section will outline the broad contours of the debate on the impact of tourism on culture and discuss the findings of few specific case studies as it relates to the experience of the Fiji Islands and the microstates of Oceania.

The French, who often admit an acute sensitivity to American tastes and mores, have occasionally complained about American cultural imperialism (Time Magazine 1995; Powell 1995). Culture, they argue cannot be reduced to its simplest verities because it is not only a repository of a peoples history, but also their inheritance and identity whether its language, creed, ritual or food. These essential components of culture however form the core demands of tourism and make international travel the most expansive exercise in intercultural incursion. While travel has allowed more people access to other peoples in other places, to explore and to learn, it is not without its costs. Critics argue that cultural engagement seeks not to explore but to exploit, for profit and gain, and sending States as capitalist economies seek to comodify and overwhelm other cultures on its march to maintain economic dominance (Watson and Kopachevsky 1994). This form of cultural dominance is quite unique, both in its subtlety and pervasiveness, unlike in previous eras of forced conformity under kings and emperors guided by the maxim *cuius regio, eius religio* (whose realm, his religion). International tourism within the narrative of capitalism wraps its goods and services inside specific cultural contexts, whether hawking sacred sites in South America or traditional art and music in the South Pacific, brought to you by Hilton Hotels. International tourism driven by the market imperatives of capitalism integrates itself to host communities and cultures in order to provide a "unique" product for consumers eager for an "exotic" travel experience (Crick 1989).

Sociological and anthropological enquiry into tourism is conceptually organized around the psycho-social motivations of tourists and their encounter with the "other" within a specific cultural, social and economic milieu. Core issues that are of primary concern to scholars are according to Cohen (1984: 374-376) are: (1) Tourism as a commercialized hospitality (2) Tourism as democratized travel (3) Tourism as a modern leisure activity (4) Tourism as a modern variety of the traditional pilgrimage (5) Tourism as an expression of basic cultural themes (6) Tourism as an acculturative process (7) Tourism as a type of ethnic relations (8) Tourism as a form of neocolonialism. International tourism seen through these lenses emerges as a problematic and incursive enterprise that objectifies people and their cultures through comodification and consumerism (Dogan 1989). The tourist (often western) goes off in search of the exotic and the novel in order to discover oneself and ends up projecting on the other his own values and priorities, often subconsciously argue Laing and Crouch (2009) and Cater and Cloke (2007) in their study of tourists rationales for international travel. International travel goes beyond the prosaic need for rest and relaxation and into the realm of an "extraordinary travel experience" (Laing and Crouch 2009: 127) through the production of myth, fantasy and adventure for individuals in search of a unique exploration of the self (Curtin 2010). International travel as an existential phenomenon belies the socio-cultural examination of tourism and provides a necessary counterweight against the notion that tourism is merely an economic and developmental enterprise.

There are few regions in the world that are as emblematic as the South Pacific in constructing a desirable and evocative image of place and experience. Farrell (1979: 124) wrote, "Each tourist arrives at a Pacific country or in an island group with his or her preconceived construction of local life and landscape. This is a very imperfect model, but, nevertheless, it is for the tourist his gestalt-external, artificial and contrived." The mystique of the Pacific Islands are eagerly packaged and promoted by the state and sector for tourists yearning to experience the myth and mystery of travel to these far flung regions of the globe (Farrell 1979: 125, 128-129). Farrell's argument coincides with the arguments by Watson and Llewellyn (1994), Leiper (1997), Nash (1996/7), Jafari (1986) and Diedrich and Garcia-Buades (2009) that international tourism has a deleterious effect on culture for the following reasons (1) the tourist constructs a false and misleading image of the host culture (2) that mass tourism has an "invasive" character which deforms host communities through new modes of habits and being. There is a legitimate concern for microstates in Oceania that visitors, which often outnumber locals given the slight demographics of these islands, will introduce changes inimical to traditional communities, such as ways of dress, entertainment and social intercourse. Increases in crime, drug and alcohol abuse, sexual promiscuity and prostitution are therefore cited as incidences of negative externalities resulting from an influx of visitors via tourism. In one of the most comprehensive case studies that examined the relationship between crime and tourism, Australian scholars Walmsley, Bokovic and Pigram (1981) lamented the lack of research on the effect of tourism on host communities in spite of the intuitive relationship between the two phenomena (Walmsley, Bokovic and Pigram 1981: 5-6). Most studies have focused on the effect of crime on tourists (Brunt and Shepherd 2004; Chesney-Lind and Lind 1986; Brunt, Mawby and Hambly 2000; Garofalo 1979; Ryan 1993; Mawby 2000). Pizam (1982) failed to find a strong relationship between crime and tourism development in his case study of all fifty states whereas Fujii and Mak (1980) Hawaiian case study from the mid seventies revealed higher incidences of property crimes in tourist areas when compared to other regions. Albuquerque and McElroy (1999) revealed a similar pattern in the Caribbean where property crimes outnumbered other offenses in tourist dominated areas. Current research on tourism and casino development by Park (2011) failed to account for a strong relationship between the two either, and instead hypothesizes that crime is too complex a phenomenon and cannot be attributed to just one targeted variable. An obvious limitation of these studies is their focus on the safety and security of tourists abroad *rather than the negative or illicit effects of tourism on host communities*. Case studies that have sought to empirically examine how tourism actually affects host cultures have been circumspect in their results on the interaction between tourism, culture and community by King, Pizam and Milman (1993) on Nadi in the Fiji Islands or the Samos Island in Greece by Haralambopoulos and Pizam (1996). Casino development in Connecticut was examined by Carmichael (2000) and the pilgrimage site in Pushkar, India by Joseph and Kavoori (2001) and Andereck, Valentine, Knopf and Vogt's (2005) statewide study of host community attitudes towards tourism development in Arizona and its cultural impacts have all contributed to a better understanding of the ways in which mass tourism affects host societies (Lindberg and Johnson 1997).

Residents attitudes towards tourism and its perceived effect on their community and culture are circumscribed by three important factors argue Andereck, Valentine, Knopf and Vogt's (2005: 1057). These are (1) the derivation of economic benefits through jobs and taxes for people and the region (2) socio-cultural production and income opportunities through craft-making and ceremonies and (3) environmental accouterments such as wildlife parks and nature developments. Host communities who directly benefit from tourism and related services have an acquiescent attitude towards the sector as borne out by King, Pizam and Milman's important case study of Nadi in the Fiji Islands. Nadi town with its heavy concentration of tourism facilities and proximity to the international airport was an ideal site to examine many of the assertions regarding the negative impacts of tourism on the community. A series of extensive interviews was conducted in collaboration with the University of the South Pacific in English and vernacular languages to gauge the attitudes, feelings and perspectives of households, individuals and people directly, indirectly or outside the tourism sector on the impact of tourism on their community, culture, morals and way of life (King, Pizam and Milman 1993: 654-655). Results showed that while there were some concerns about drugs and alcohol abuse, increased crime, sexual promiscuity and traffic congestion, many of the benefits accrued from tourism such as employment opportunities, increased tax revenues, income from tourism related industry, hospitality to strangers and increased confidence among locals in dealing with others significantly outweighed any negative externalities (King, Pizam and Milman 1993:663). Unsurprisingly, the tabulated data showed an almost 80% favorable attitude towards tourism among the inhabitants of Nadi and pride in the fact that the large presence of tourists actually enhanced the image of their town from being just another rural backwater (King, Pizam and Milman 1993:656-657).

I am unaware of any current research available which builds on the work by King, Pizam and Milman regarding changes in attitudes towards tourism in Fiji in the years since they undertook their study. However, I spent considerable time in Nadi in summer 2010 collecting data for this project and in numerous informal conversations with individuals directly and indirectly involved in the tourism industry confirmed the earlier findings by King, Pizam and Milman.

While it is indisputable that tourism affects culture in profound ways and a fertile area of scholarship, this project disputes some core claims that are implicit in the literature. (1) One could reasonably postulate that cultural erosion in societies affected by globalization is not the fault of the West or the United States, but can directly be attributed to defects intrinsic to the host culture itself. (2) It is possible that the particular cultural mores and values no longer have the legitimacy to sustain itself, and when finally confronted with exogenous force, collapsed under the weight of its own irrelevancy. Furthermore, cultures, like societies are organic and change and grow, discarding outmoded habits while adopting new modes of being (Rothkopf 1997). (3) It is reductionist to imagine that cultures would remain untouched through space and time and quite unfair to criticize outside forces for affecting the way people live and respond in other places. Globalization provides a unique opportunity to engage with other cultures and bring to them the benefits of modernity, whether it is ideas, trade or technology. (4) Finally, one could argue that tourism provides necessary resources for host communities to develop heritage sites and fund cultural programs which would otherwise remain in decline.

Generating tourist attractions through cultural intercourse and infrastructure is a complex undertaking requiring a delicate balance between resource constraints and consumer demands. What do tourists want when they travel abroad? Is it cost prohibitive to build museums' and substitute instead with guided tours of traditional villages and sacred sites? Will intensified cultural incursions between sending states and host economies erode indigenous society and irreparably harm flora and fauna? Is traditional culture permanently deformed as a consequence of this cultural intercourse? These a legitimate issues raised by scholars concerned with the impact of tourism on culture, but the inordinate bias on tourism as a merely monogystic enterprise diminishes the reciprocal nature of international travel. As Gearing, Swart and Var (1976: *Table 2.6*) argue, the criterion for attracting tourists is as varied as individual tastes and preferences.

Table 2.6: Tourist Attraction Criterion

Group Heading	**Criterion**	**Considerations**
Natural Factors	Natural Beauty	General topography: flora and fauna, proximity to lakes, rivers, sea; Islands and Islets; hot and mineral water springs; caverns, waterfalls
	Climate	Amount of sunshine; temperature; winds, precipitation, discomfort index
Social Factors	Artistic and architectural features	Local architecture; mosques, monuments; art museums
	Festivals	Music and dance festivals;

		sports events and competitions
	Distinctive local features	Folk dress; folk music and dances (not organized); local cuisine; folk handicrafts, specialized products
	Fairs and exhibits	Normally of a commercial nature
	Attitudes towards tourists	Local congeniality and treatment of tourists
Historical Factors	Ancient ruins	Existence, condition and accessibility of ancient ruins
	Religious significance	Religious importance, in terms of present religious observances and practices
	Historical prominence	Extent to which a site may be well known because of important historical events and/or legends
Recreational and Shopping Facilities	Sports facilities	Hunting, fishing; swimming; skiing; golf; horseback riding
	Educational facilities	Archaeological and ethnographic museums; zoos; botanical gardens, aquariums
	Facilities conducive to health, rest and tranquility	Mineral-water spas; hot-water spas; hiking trails, picnic grounds
	Nighttime recreation	Gambling casinos, discotheques; theatres; cinemas
	Shopping facilities	Souvenir and gift shops; handicraft shops; auto service facilities (beyond gasoline dispensing stations): groceries and necessities
Infrastructure and Food and Shelter	Infrastructure above "minimal touristic quality"	Highways and roads; water; electricity, and gas; safety services; health services; communication; public transportation facilities
	Food and lodging facilities above "minimal touristic quality"	Hotels; restaurants; vacation villages; bungalows; motels; camping facilities

Source: Gearing, Swart & Var (1976: 93)

Tourism and the Environment

Unlike the latent cultural changes that occur in society in its encounter with tourism, there is nothing subtle about the physical impact on the environment because of tourist industry.

Accommodating larges influxes of people inevitably impose extraordinary demands on the environment, from developing infrastructure to providing food, entertainment and all that entails in making a host economy a desirable travel destination (Doggart and Doggart 1996). What are the environmental limits to tourism and how can we account for negative externalities, while maintaining that tourism is a legitimate strategy for development in Fiji and similar microstates in Oceania?

The scope and diversity of internationalism tourism reveal crucial variations of how tourism impacts the environment that ultimately determines the policy needs of host communities. The environmental impact of tourism on London will differ from the challenges to the environment by visitors to the plains of the Serengeti or the small islands of the South Pacific. Erik Cohen (1978) provides an excellent four-factor type framework to isolate the divergent ways in which tourism impacts the environment and situate tourism within the differentiated challenges facing host economies. Cohen (1978: 220-225) argues that the environmental impact can only be understood if (a) *we know the intensity of tourist site-use and development*, “the number of tourists visiting a locality, the length of their stay, the things they do and the facilities at their disposal determine the intensity and of the accompanying development” (b) *the resiliency of the eco-system*, and its ability to sustain large groups of people, i.e. is it a huge metropolis like London, the Australian Outback or small islands? (c) *The time-perspective of the tourist developer*, are investments predicated with “short-run profits in mind” or is there a regulatory framework that minimizes the negative externalities brought on by tourist developments? (d) *the transformational nature of tourist development*, large scale tourism ultimately changes the environmental landscape, especially “contrived attractions” like amusement parks and shopping malls, international tourism as Cohen argues is not confined to merely nature spectacles and untouched environs. The debate between the industry demands and environmental concerns have according to Cohen (1978: 215) coalesced around either protecting the environment *for* tourism or protecting the environment *from* tourism.

That tourism imposes an enormous stress on the environment, often with permanent consequences is not a debatable proposition, nor is the need for host economies to develop the necessary infrastructure required to meet the supply conditions for attracting international tourism, which inevitably impacts the environment. This debate has in recent years shifted towards sustainable tourism in which national governments are called to play a greater role to ensure that the integrity of the physical environment is maintained amidst the challenge of national development strategies. Bramwell and Lane (2010:1) have recently argued that "Effective management systems for sustainable tourism are, however, likely to require intervention and regulation by the state." Quoting a review on sectoral self regulation by Williams and Montanari (1999:38), they concluded that such an effort was largely insufficient and short-term. This coincides with Cohen's argument that the profit-driven time perspective of the developer is often in opposition to the longer-term sustainability of the environment and the needs of future generations within host communities. The evolution of ecotourism is an attempt to maintain the balance between development and the environment and creates opportunities for stakeholders to develop innovative products beyond the contrived and often ugly tourist clusters that often symbolize the industry. The success of this policy however is largely predicated on the ability of governments to oversee tourism development that is sensitive to its environmental concerns.

Defining Sustainable Tourism

Sustainable tourism is a mode of travel and development that recognizes the aesthetic element inherent in nature as well as the contextual and physical limitations within which the activity takes place (Buckley 2004: 1-4; United Nations Environment Program (UNEP) and Conservation International (CI) 2003; Romeril 1985). In 1993, Valentine took up the challenge of defining sustainable tourism as comprising of four essential components: (1) it was based on relatively undisturbed natural areas (2) it was non-damaging, non-degrading, ecologically sustainable (3) it directly contributed to the continued protection and management of the natural areas used, and (4) it was subject to an adequate and appropriate management regime (Valentine 1993:108-109). The exclusion of human rights concerns and values prompted Honey (2008) to argue for the necessity of sustainable tourism respecting and preserving local cultures and supporting political rights and democratic aspirations, perhaps a well intentioned but an impractical and contentious emendation. The Fijian government defined sustainable tourism in its white paper as “a form of nature-based tourism which involves responsible travel to relatively undeveloped areas to foster an appreciation of nature and local cultures, while conserving the physical and social environment, respecting the aspirations and traditions of those who are visited and improving the welfare of local communities” (ESCAP 2003:14).

To better meet the challenge of tourism development and environmental sustainability, islands nations in the Pacific have begun to craft policies and build institutions to ensure that their one comparative advantage which is their location and geography is preserved while providing economic opportunities through the tourist sector. A sampling of microstates in Oceania (see *Table 2.7*) outlines initiatives applicable to these islands in order to balance tourism development whilst preserving their natural and physical endowments.

Table 2.7: Ecotourism and Development in the Pacific

COUNTRY	POLICY and INSTITUTIONS
American Samoa	Local and federal laws prohibit construction on archaeological sites The creation of the American Samoa National Park The establishment of the Historic Preservation Office The United States Coral Reef Initiative assists in the area of coastal management
Fiji	Government white paper in 1995 on "Ecotourism and Village-based Tourism" The establishment of the Fiji Ecotourism Association to promote ecotourism projects The first Tourism Resources Owners Conference in 2000 to build on government white paper The establishment of an Ecotourism Development Unit inside the Ministry of Tourism The Environmental Act of 2005 that regulates sustainable projects in the tourism sector
Kiribati	The establishment of the National Tourism Marketing and Development Plan The introduction by the government of a Wildlife Act that prohibits killing birds indigenous to the Island The creation of marine conservation areas
Solomon Islands	The formation of the Solomon Islands Ecotourism Association to promote and encourage sustainable tourist development The establishment of "Ecolodges" at UNESCO world heritage sites Collaborative partnerships between Solomon Islands Development Trust and The World Fund for Nature, Conservation International and the Nature Conservancy to develop tourism in protected areas such as the Guadalcanal Province

Source: Ecotourism Development in the Pacific Islands (2003) United Nations Economic and Social Commission for Asia and the Pacific (ESCAP)

Conclusion

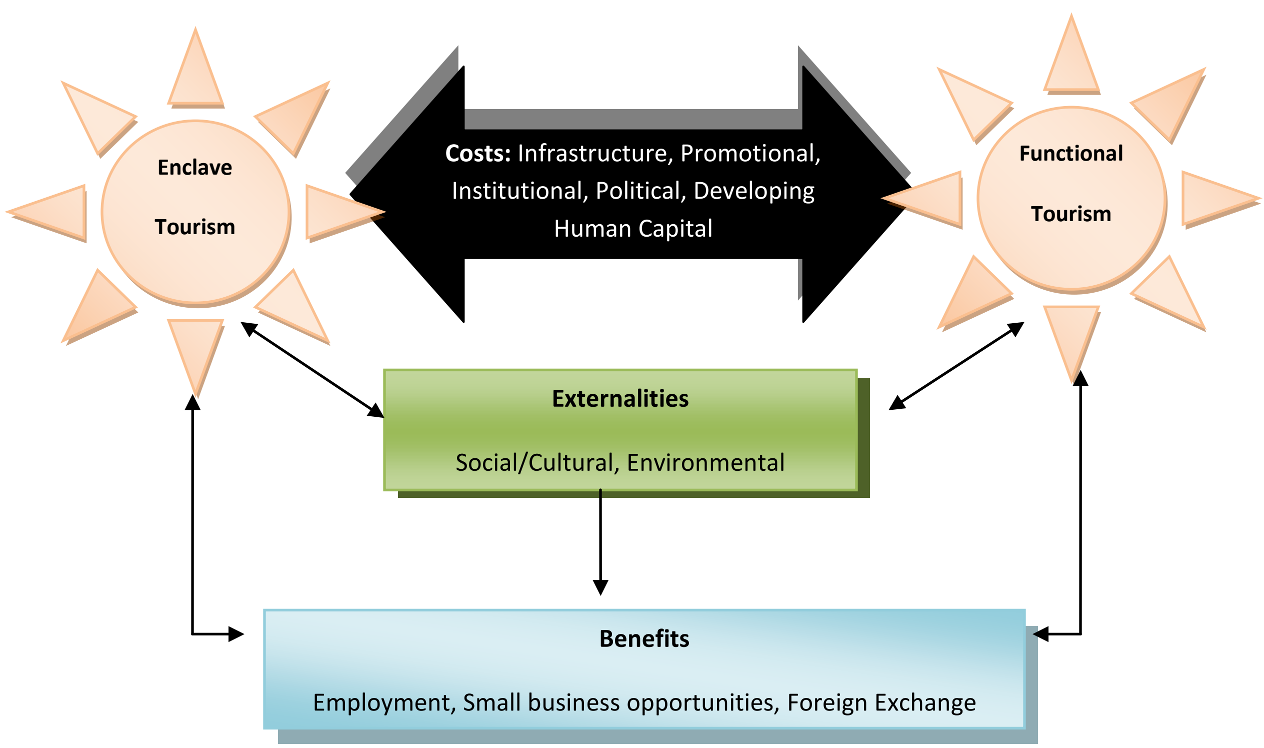
The debate over tourism is essentially between microstates and the tourist industry on ways to develop policies and allocate resources that will maximize national development priorities and minimize negative externalities, and *not* on whether one should encourage tourism for developing island economies. The argument presented here suggests that the small islands in Oceania are quite aware of the fundamental challenges facing their societies and the costs involved in developing tourism. In contrast to the MIRAB thesis which asserts that microstates lack *any* institutional and organizational capacity to organize their economies other than beg, borrow or leave, these small economies are doing the best they can to exploit their comparative advantage through developing a tourism based economy while fully cognizant of the negative externalities that will ineluctably emerge.

The development of tourism in the Fiji Islands as a typical microstate therefore encompass many of the challenges that are unique to small island developing states in the global economy even though the necessity for social and economic development are not exclusive to these islands alone. The political economy of tourism in Fiji emerged between two substantial issues that could not have been foreseen at Independence in 1970, first, the irrevocable decline of sugar production, long a mainstay of the national economy and secondly, the ongoing political instability brought on by four *coup d'états* since 1987. While tourism has gradually overtaken sugar production in earnings, it has done so in often difficult and complex situation compelling actors and institutions in Fiji to calibrate resources and policy in lieu of changed circumstances.

The next chapter delineates the institutional framework that is responsible for the emergence of tourism in Fiji, from uncertain beginnings during the colonial era to its dominant status today. Over the last two decades the Fijian government, forced by exigent circumstances, went beyond the regime of incentives and inducements for private investments in the tourism industry to becoming a direct investor with public funds in it. Chapter five chronicles the reasons and consequences of State involvement in the sector and how tourism in Fiji could possibly have transitioned into an industry "too big to fail." Both State and industry in Fiji have had to respond to the ongoing political instability in Fiji as well as the environmental challenges facing small island economies. Chapter six examines the existential threat posed by politics and nature to tourism and the policy responses by stakeholders to confront these crises.

Neither costs nor externalities can be obviated regardless of which model of tourism a community chooses to develop (see *Diagram 2.3*). An enclave model of tourism may insulate the host community from social or cultural externalities but at the cost of minimizing benefits for locals through high leakages, spillover trading opportunities and enclosed infrastructure development. A more integrated functional model of tourism development has greater negative externalities but increases the potential a better accrual of benefits for communities. Only when benefits outweigh costs and externalities could one posit that developing tourism in microstates has been a reasonably good proposition. Chapter six concludes with a summation on whether comparative advantage is a better theoretical explanation of microstates survival in the global economy as opposed to scholars who argue that migration, remittances and foreign aid (MIRAB) is the best plausible reason that we have that explains the existence of small island economies.

Diagram 2.3: Developing Tourism



Chapter Three

The Development of Tourism in Fiji

Introduction

The bourgeoning tourism industry in Fiji today could hardly been envisioned decades ago when the Fiji Islands was a colony of Great Britain. While assorted groups of explorers, adventurers, sailors and merchants often traversed the vast and hostile Pacific Ocean, few if any did so for purposes of pleasure or respite.[30] The emergence of mass international tourism has transformed the image of the Pacific Islands as places of escape from a harried world (Laing and Crouch 2009) on languid beaches and comfortable accommodations with marquee names familiar to most travelers. International tourism arrived in Fiji, albeit with uncertain origins and this chapter explores the crucial role that the State played in tourisms emergence in Fiji and the ensuing impact that the sector had in the development of the economy. This project has consistently argued that the survival of microstates in the global economy is directly related in its ability to exploit its comparative advantage within fairly circumscribed parameters. This section draws on primary documents to delineate the first original examination of the institutional development of tourism in the Fiji Islands and its investment strategies. The following chapter will analyze the opportunity costs and consequences of Fiji's investment policies in tourism within the context of national developmental priorities and the limitations faced by microstates. The Fijian case study reiterates a *countervailing* argument peculiar to microstates against the dependency model (MIRAB) in the ability of small oceanic states to institutionally develop and manage their economies. Microstates could either organize national economies through

[30] The celebrated travels of Robert Louis Stevenson to the Samoan Islands in the 1880s or Gauguin in Tahiti around the same time as Stevenson were more exceptions than the rule as individuals who went to the South Pacific Islands for *recreational* purposes.

expanding sources of foreign aid and remittances through labor migration and increased dependency with former *metropoles* and regional powers or create the structures necessary for exploiting their comparative advantage. The case study on the Fiji Islands argues that in spite of modest beginnings and few resources, small islands could over time develop institutions and strategies congruent with its endowments and national development.

Historical Origins of Tourism

The development of tourism in the Fiji Islands evolved through four distinct phases (see Ministry of Tourism General Information on Tourism in Fiji) from its primitive beginnings until 1964 to the birth of mass tourism in the early seventies. From 1973 through 1986 the tourist industry experienced steady growth only to be disrupted by the ongoing political instability engulfing Fiji since the first *coup d'état* of 1987. In a later section I will examine the impact of crisis and instability on the tourism sector in Fiji and the possible modes in which the industry had successfully negotiated its way through them.

Most of the old colonial structures in the capital city of Suva in Fiji has now been replaced by the ubiquitous cinderblock and assorted skyscrapers, but just from the old Government building in Suva, facing the ocean stands a dilapidated structure that was a jewel in a neighborhood once strictly reserved for the colonial elite. Named the Grand Pacific Hotel, it was completed in 1914 to expand the stock of available accommodations for tourists and travelers to Fiji and those crossing the pacific, via the Islands. The Hotel exuded a certain charm[31] which years later author James Michener (1992: 28-29) would recount his experience of staying at the Grand Pacific:

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[31] I had once attended a function at the Grand Pacific Hotel almost 30 years ago and it was as impressive an experience as Michener described, evocative of the colonial experience and heritage in the Fiji Islands.

> "And then came the target of my trip I would ever make to Fiji: one of the memorable hotels of the world, not majestic and not particularly spacious, but a haven to all who crossed the Pacific on tourist ships or who now came by airplane. It was the Grand Pacific Hotel, famed G.P.H of the travel books, a big squarish building of several floors, with a huge central dining area filled with small tables, each meticulously fitted with fine silver and china, bud vases, and a facing porch leading out to the lawn that went down to the sea. It was grand, and it certainly was pacific, and the barefoot Indians who served the meals had a grace that few hotels in the world could offer and none surpass."

A decade after the opening of the Grand Pacific Hotel, the White Settlement League convinced the colonial government to establish a tourist bureau to promote tourism to the islands and in February 1924 the Fiji Publicity Board was formed to "make recommendations with a view to popularizing the colony to tourists, to provide facilities to tourists to visit places of interest, to consider the best suitable methods of providing funds for the objects it desired to attain." (Ministry of Tourism General Information on Tourism). In 1931, the government according to the Tourism Ministry report allocated 535 pounds to advertise Fiji abroad as well as producing literature promoting the colony as a travel destination. Reserved in the National Library of Australia are the earliest records of these efforts in developing a tourism market by the Fiji Publicity Board in cooperation with the colonial government of the time with publications such as "Fifty Trips in Fair Fiji" a souvenir program on the visit of the R.M.S. Strathaird to Suva in 1936 or "How to Spend a Day in Suva" and "How to Spend a Holiday in Fiji" (the former two published sometime in the 1930's). These early attempts in developing tourism underscored the collaborative relationship between the State and the tourism sector and a harbinger of the complex dependency between the two over the years. Following the Second World War the Fiji Publicity Board recognized that infrastructure limitations presented substantial obstacles to expanding the market for tourism in Fiji and lobbied the government to improve the country's only airport[32] and build roads between towns and hotels. In 1952 the Fiji Publicity Board changed to its current name "Fiji Visitors Bureau" and became formally incorporated into the tourism ministry portfolio of the government.

Institutional Development of Tourism in Fiji

In 1958 the United States Department of Commerce with the Pacific Area Travel Association (PATA) which Fiji was a founding member sponsored the first comprehensive study of tourism as a potential vehicle for economic development in the Pacific and the Far East. The results published in 1961 and known as the "Checchi Report" (Clement 1961) explicated in its recommendations that Fiji was ideally located geographically to develop a robust tourist market. The Fiji Islands had easy access by sea and air as well as available markets for tourists due to its proximity to New Zealand and Australia. Fiji furthermore had a vibrant indigenous culture, relatively developed and stable and therefore could be the foundation on which to build the tourism industry (Clement, 1961: 157). The report forecasted that by 1968 with increased state investments in tourism, Fiji could increase its 1958 visitor arrivals of some 12,000 to 45,000 travelers bringing in receipts from $2.5M (USD) up to $10M (USD) within a decade. This fourfold increase in visitors and receipts seemed overly optimistic at the time when the tourism industry in the Islands was still in its formative stages. Fiji astonishingly exceeded both these benchmarks, with 67,467 visitors to Fiji in 1968 and tourist expenditures totaling $20M U.S. dollars. Data on visitor arrivals to Fiji from 1960 to 1970 (see *Table 3.1*) reveal a steady increase in tourist traffic to the islands across the main sending countries. These results were a consequence of a calibrated strategy by the State and industry stakeholders to develop an

[32] The only international Airport in Nadi was until 1970 managed by the New Zealand government and subsequently purchased by the Government after Independence.

institutional structure that would enable Fiji to capture the gains from the emerging travel industry.

Table 3.1: Visitor Arrivals to Fiji: 1960-1970

YEAR	Australia	NZ	USA	Canada	UK	Cont. Eur	Pacific Is.	Others	TOTAL
1960	2241	3186	3414	333	1477		1837	1784	**14272**
1961	2129	2924	4330	339	997		1885	2118	**14722**
1962	2715	3624	5444	542	2009		2449	1472	**18255**
1963	4795	5705	6023	679	1849		3366	1829	**24246**
1964	7496	7839	7848	880	2148	1723	2969	721	**31624**
1965	9092	11169	9535	1293	3018	1606	3236	1186	**40135**
1966	10056	12342	10204	1299	4017	1963	3772	908	**44561**
1967	14928	14830	12754	1653	3698	2012	4423	1723	**56021**
1968	21402	13239	16650	2277	3896	1783	5764	1447	**66458**
1969	26884	15779	22276	3679	5658	2893	6368	1626	**85163**
1970	34409	19070	31257	5574	6491	3439	7436	2366	**110042**

Source: Fiji Bureau of Statistics

The first regulation endorsed by the legislative council to encourage tourism in the Islands was in 1962 when a duty free ordinance was passed to exempt luxury goods such as cameras, telescopes and tape recorders. With increased visitors from abroad, namely Australia and New Zealand, this was seen as an attractive measure to promote Fiji as a shopping destination. Complementing the duty free ordinance was the hugely influential Hotels Aid Ordinance of 1964 designed specifically to assist the building of new hotels in Fiji. This legislation remains the institutional benchmark for the expansion and emergence of a serious tourism industry in Fiji and the *site* for all incentive mechanisms and structures that the State has undertaken on behalf of the tourism industry.

The 1964 hotel ordinance was explicitly stipulated as an "Act to provide for the encouragement of hotels in Fiji by the provision of financial inducements" (Hotels Aid Act: 1964). These included a "cash subsidy of 7 percent of total capital investment, excluding the cost of land and an accelerated depreciation allowance over a period of 15 years". Included also was a

"55 percent investment allowance which in effect meant that 55 percent of the total capital cost of the project [could] be written off against profits as free of tax" (Hotels Aid Act 1975). These provisions remained virtually unchanged when the Act came up for debate in Parliament in 1975 and the only significant amendment added in that period was the institution of a new schedule for the "turnover tax."[33] The consensus amongst both the government of the day and the opposition was that the incentive structure produced the desired outcome of increasing both facilities and visitors to Fiji as stated by the Minister of Finance E. J. Beddoes during hearings in Parliament on the Hotel Aid Act:

> "As you are aware Sir, the Ordinance was enacted in 1964 and has been instrumental in assisting the growth of accommodation facilities and tourism generally. Consequently, we now have accommodation facilities comparable to the best in the world, ranging from the modest and inexpensive to the luxurious. There are now over 5,000 hotel rooms and in excess of 12, 000 beds available in the country" (Hansard Parliamentary Papers 1888:1975).

The Hotel Aid Act was extended by parliament in 1976, 1981 and 1986 remained essentially unchanged and established the parameters for investment, development and strategies between the State and the tourism industry in the Fiji Islands.

The first major change to the Hotel Aid Act transpired in 1996 when it was amended to include a "short life investment" provision for the construction of new hotels. The shift to an enclave model requiring substantial capital investment compelled the government to expand the incentive package. The "short life investment" package was specifically designed to encourage the development of large scale hotels that would facilitate the rapid increase in visitor arrivals to Fiji (see Table 2) as well as accommodate the future growth of the industry. The amendment stipulated that:

[33] "turnover" means all sums or amounts received or receivable by a hotel for accommodation and refreshment and all other sums or amounts debited to and included in a hotel guest's bill" this amounted to a 3% sales tax (See appendix for the full schedule).

(a) With a minimum capital investment of not less than F$40 million exclusive of the cost of land, but including the cost of support infrastructure and overseas consulting fees; and
(b) With a minimum room capacity (in the new hotel) of not less than 200 bedrooms; and
(c) Where the building of the hotel commences at anytime on or after 13 February 1996 and is completed on or before 30 June 2000.

"Short life investment package" means the various exemptions, concessions, and allowances provided for by sections 21 to 24 inclusive in respect of a short life investment.

The new amendments to the Hotel Aid Act also replaced the previous year tax exemption with a new schedule, a special depreciation allowance, carry forward of losses and license to hotels to generate its own electricity. The following are the details pertaining to section 21-24;

Income Tax Exemption

21. (1) notwithstanding anything in the Income Tax Act the income of the company derived from the operation of the hotel shall be exempt from the income tax for a period of 20 years.
(2) The Minister shall notify the Commissioner of Inland Revenue when final approval is given.

Special Depreciation Allowance

22. (1) The company shall be entitled in any one of the eight years immediately succeeding the tax free period to in section 21 to claim a special depreciation allowance against the income arising from the operation of the hotel of up to the total amount of the capital expenditure incurred in the short life investment excluding the cost of land.
(2) The special depreciation allowance provided for by subsection (1) shall be an alternative and not in addition to any claim for depreciation otherwise available under the Income Tax Act.

Carry Forward of Losses

23. Subject to the provisions of the Income Tax Act any loss incurred by the company in the operation of the hotel may be set off against its income from other sources for the same year or may be carried forward and set of against what would otherwise have been the total income of the company for the next six years in succession.

Electricity Generation

24. (1) The company shall be entitled to be issued with a license under the Electricity Act to operate a generating station for the purpose of providing electricity for the hotel.
(2) Any electricity generated by the company and surplus to the company's requirement may be sold.
(3) For the avoidance of doubt the company shall comply with all requirements of the Electricity Act in respect of its generating station.

Table 3.2: Visitor Arrivals to Fiji: 1991-1999

YEAR	AUST	NZ	USA	Canada	UK	Europe	Japan	Asia	Pac Is	Others	TOTAL
1991	86625	30631	31842	15242	16555	26265	27802	7420	16227	741	**259350**
1992	87395	37227	34802	12602	16795	29513	35960	7206	15627	949	**278534**
1993	77609	40778	42557	12447	20233	29786	38203	7731	16985	113	**287462**
1994	85532	53495	45351	12018	23915	31004	39782	8370	17931	1476	**318874**
1995	78503	59019	39736	10412	24409	30968	45300	11335	17461	1352	**318495**
1996	79534	63430	38707	11431	28907	31875	44598	21104	18545	1429	**339560**
1997	80351	68116	44376	13359	35019	32806	44783	18556	20381	1724	**359441**
1998	100756	70840	48390	12837	39341	29334	35833	9321	22850	1840	**371342**
1999	118272	72156	62131	13552	40316	28371	37930	9286	26090	1851	**409955**

Source: Fiji Bureau of Statistics

It can be argued that the new incentive structure promulgated by the State was in response to the exponential growth of tourism and the corresponding pressures put on existing facilities. While reliable data is lacking on whom benefited from the previous financial inducements, it can be reasonably adduced from the 1996 amendment that most of the subsidies had traditionally been utilized towards constructing small to medium tourist accommodations. One could postulate that local entrepreneurs had an opportunity to capitalize on State inducements to become operators of small boutique hotels before the State shifted its investment policies in favor of larger and more capital intensive projects. In a later section (Chapter 5) data will show that Fiji has a fairly even distribution of hotel ownership between locals and foreign nationals in spite of some incentives biased towards enclave type of projects. The parliament in 1999 further amended the Act by splitting the Income Tax provision of the "short life investment" incentive structure to 10 years for capital investments under F$40 million while retaining the 20 year tax exemption for capital investments over F$40 million (Amendment Act 1999).

Organizational Structure of Tourism

The anemic organizational capabilities of microstates particularly in the management of complex sectors such as international tourism pose a significant challenge that is difficult to overcome. While there has been a gradual localization of professional positions, many island economies still rely on external expertise and resources for administrative and technical projects.[34] The complications of developing a service industry that is closely intertwined with global economic forces cannot be exaggerated, nor the many domestic challenges that inevitably

[34] A recent example is the formation of an anti-corruption body in Fiji in 2007, the Fiji Independent Commission Against Corruption (FICAC) and its inability to find personnel with specialized skills to fill key positions (such as forensic accountants).

emerge in these traditional and fairly isolated societies. International tourism is a complex industry and poses significant obstacles for governments in small states to manage the numerous competing interests and organizations that have a stake in the sector. Both the paucity of organizational capabilities and the presence of sectoral complexity create insurmountable barriers according to the MIRAB model for microstates to overcome and successfully execute their development objectives. An example of organizational complexity required of international tourism is illustrated in the following report on the effect of climate change on tourism in Fiji (*Table 3.3*) and demonstrates the interlocking relationship between multiple stakeholders with competing agendas in the tourism industry, and the ability of the government to negotiate and address the issue at hand:

Table 3.3: **Summary Report on Effect of Climate Change in the Tourism Sector in Fiji**

ORGANIZATION	ROLE	RELEVANT PARTNERSHIP/RELATIONSHIP
Ministry of Tourism	Advocates sustainable tourism, supports small (eco)tourism, operations, policy development and recommendations: new Master Plan	Department of Environment, Ministry of Health, Fiji Visitors Bureau, University of the South Pacific
Department of Environment	Focal point for UNFCCC, National Communications, Approve Environmental Impact Assessments (EIA), climate change policy, Environmental Act	Ministry of Health, Disaster Management Office, Ministry of Agriculture, Lands Department, Meteorological Service, Ministry of Forestry and Fisheries, SPREP
Meteorological Service	Climate observation; issue warnings, work with sectors on climate change issues	Department of Environment, Disaster Management Office, Fiji Visitors Bureau, FIHTA, agriculture (e.g. food for tourists), hydrology (water), public works (roads, etc), FEA etc.
Disaster Management Office	Responsible for disaster management, work closely with SOPAC, implement CHARM, training activities	Department of Environment, SOPAC, Meteorological Service, Local Town Councils
Department of Town and Country Planning	Approve developments (inc. set back from shore); depend on EIAs undertaken, require good supply of information for their approval process	Department of Environment, Department of Mineral Resources
Ministry of Health	Administer building codes, work with border control on diseases, food	Department of Environment, Local Town Councils

	hygiene, water quality monitoring	
University of the South Pacific	Research on climate change, modeling/adaptation, cyclones, erosion, marine issues and sustainable tourism, involved in tourism Master Plan	Ministry of Health, Disaster Management Office, Department of Environment, WWF, SPREP
SOPAC	Risk/disaster management, mapping: CHARM, cost benefit analysis	Department of Environment, Disaster Management Office, Department of Lands
WWF South Pacific	Awareness raising for climate change: start marine based GEF project	University of the South Pacific
Councils	Local issues; can recommend on new developments; have health inspectors, local infrastructure, e.g. drainage	Ministry of Health, Disaster Management Office
Department of Lands	Involved in new development (when land is claimed), role for new policy re overwater bungalows	Department of Mineral Resources, Department of Town and Country Planning, SOPAC
SPREP	Regional climate change framework	Department of Environment
Ministry of Agriculture	Erosion, sedimentation, climate change will affect crop/yield/land use	Meteorological Service, Department of Environment
Ministry of Fisheries and Forestry	Fisheries deal with marine biodiversity, coral reefs	Department of Environment, Meteorological Service, WWF South Pacific
SPTO	Regional marketing organization, develop new strategies	Fiji Visitor Bureau, SPREP
Fiji Visitor Bureau	National marketing agency, work closely with businesses on disaster management	Meteorological Service, FIHTA, tourism operators
Fiji Hotel and Tourism Association (FIHTA)	Represent hotel and diving industry; lobby at government level; short term concerns including some aspect of sustainability	Fiji Visitors Bureau, Meteorological Service, hotel and dive operators
Fiji Ecotourism Association	Represent 60 small businesses	Small tourism operators (mainly outer Islands, Yasawas)
Native Land Trust Board (NLTB)	Manage land on behalf of native landowners, negotiate with developers	Native landowners
Fiji Trade Investment Board (FTIB)	Issue investment certificate for new developments	

Source: Ministry of Tourism

While institutions create the necessary structure for microstates to fully exploit their comparative advantage in tourism, it is the evolution of mediating organizations that plays a pivotal role on behalf of both public and private interests in Fiji to promote, nurture and develop the industry. Tourism in Fiji is a complex industry with multiple stakeholders, special interests with substantial foreign and local investments in a country that has experienced significant political crisis since independence. This interlocking relationship between differentiated actors is not unique to Fiji as governments across the South Pacific have often collaborated with various representatives on issues pertaining to social and economic development. For example, land management in microstates according to Peter Lamour (Ghai 1990:27) is “managed by three methods: by bureaucracies, by markets and by communities.” In a similar study on foreign investors, Anthony Hughes examined the role that multiple stakeholders played in microstates in Oceania to create an environment amenable for investment (Ghai 1990:210).

It is a central thesis of this project that microstates have the ability to successfully construct institutions and organizations to capture the gains from tourism in order to survive in the global economy despite low administrative capacities. An examination of the principal actors that facilitate the tourist economy in Fiji will yield important insights into how small states exploit their comparative advantage and execute the policy initiatives and promote economic development and the intricate relationship between varied organizations which have a stake in tourism in Fiji.

The Role of the Fiji Islands Trade and Investment Board (FTIB)

The principle agency responsible for overseeing the investment incentives in Fiji for all sectors of the economy is the Fiji Islands Trade and Investment Board (FTIB). The agency was formally created in 1980 through the “Economic Development Board Act (EDB) No. 11 and amended in 1999 to become FTIB “to promote, stimulate and facilitate economic development in

Fiji."[35] The establishment of the FTIB signaled a systematic approach by the state to attract foreign investments through incentives across all the major sectors of the Fijian economy. The 1999 Foreign Investment Act (Amended 2004) and the current Foreign Investment Regulation (2009) provide the parameters for FDI in Fiji such as the following guarantees, competitive taxation, investment allowances, freedom to repatriate funds, investment financing and work permits:

Table 3.4: Policies and Incentives (FTIB)

Policies	Incentives
Guarantees	Protection regarding the compulsory acquisition of property.
	The right to repatriate or remit funds.
Competitive Taxation for Investors	Corporate and income tax of 28%;
	Tax holidays for a period of 13 years for NEW investments in the tax free regions;
	Exemptions of custom duty on equipments;
	Export Income Deduction of 50%;
Investment Allowances	Industry specific incentives (tourism, ICT, mining, audio visual, ship building, fishing, agriculture, bio fuel production, and the bus industry);
	Dividend exemption scheme – corporate dividends are taxed only once, avoiding the duplication involved with taxing both corporate profits and shareholder incomes.
	Double taxation agreements – Fiji has concluded double taxation agreements with major trading partners, including Australia, Japan, Malaysia, New Zealand, Papua New Guinea, the Republic of Korea and the United Kingdom. Double tax agreements with Australia, Japan, New Zealand and the United Kingdom contain specific guarantees that tax incentives and concessions granted by the Fiji Islands will not be by the other party's taxation.
	All investors are required to lodge an application for a tax identification number to the Chief Executive Officer, Fiji Island Revenue and Customs Authority. This provides the basis for investors to pay taxes on their business earnings, pay as you earn (PAYE) tax on behalf of their employees and value added tax (VAT) on the products and services it sells in the country.
Freedom to Repatriate Funds	Under the current exchange control regulations, local investors are free to remit funds abroad to meet the costs of obligations incurred overseas.
	In addition, foreign investors are able to remit profits and capital earned from its operations in Fiji. At present, there are no limits to the amount that can be repatriated as profits and earnings, subject to application to the Reserve Bank of Fiji.

[35] See website at http://www.ftib.org.fj/pages.cfm/ftiborgfj/ (accessed May 10, 2011).

	The Reserve Bank officials can readily provide investors with complete information on the requirements relating to remittances offshore.
Financing Investment	Government encourages a competitive domestic financial market. Local investors are freely able to seek finance for their investments from domestic financial institutions, ranging from fully commercial banking institutions to concessionary development financiers. Foreign investors (companies) are allowed to borrow $3 for every $1 invested in Fiji and up to a total of F$10m from local lending institutions without the approval of the Reserve Bank of Fiji. Foreign investors wishing to borrow more than this delegated limit must apply to the Reserve Bank of Fiji through their designated lending institution. Individual foreign investors may also borrow locally up to F$0.5m without the approval of the Reserve Bank of Fiji.
Entitlement to Work Permits	The Department of Immigration administers the Immigration Act, and its officers will provide investors with any information they require on its legislative provisions. All applications for work permits should be made to the Department of Immigration, in accordance with the forms and procedures specified therein. In addition, the Department of Immigration has within it a special unit that specifically handles the processing of all investment related work permits. All investors, local and foreign, may apply to the Department of Immigration for work permits to employ expatriate skilled technical personnel. In accordance with the provisions of the Immigration Act, work permits for up to a maximum of three years may be granted at any one time to expatriates, whose skills are unavailable in the domestic labor market. Investors are expected to develop and implement plans to train locals to understudy, these expatriate employees. Government therefore welcomes equally local and foreign private investors. Government is also strongly committed to stimulating and facilitating all private investment, whether from local or foreign sources.

Source: Fiji Islands Trade and Investment Board (FTIB)

The incentive policies articulated by the state through the FTIB projected the vision of Fiji as an ideal location for investment opportunities and special packages for the tourism sector (Hotels Aid Act, Short Life Investment) and encouraged foreign incursion into the tourist market. The State argued that the positive spillovers accrued in the form of employment, increased market share, improved infrastructure and destination branding[36] outweighed the fiscal

[36] See government media release at http://www.fiji.gov.fj/index.php?option=com_content&view=article&id=3624:government-to-continue-to-boost-tourism&catid=71:press-releases&Itemid=155 and National Tourism Summit report at http://www.internetpacific.com/tes/docs/speeches/tony_01.pdf. (accessed October 9, 2011).

and opportunity costs associated with the generous incentive packages, especially for the tourism sector.[37]

Five Year Development Plans

Legislatively, the government incorporated tourism into its annual development plan in recognition of its increasing role in Fiji's economic strategy. In Fiji's Seventh Development Plan (1976-1980), the government justified its direct involvement by stating that the "…contribution of tourism to the economy is substantial, some 13% in 1975…" and projected that growth in tourism will most likely outpace the rest of the economy as a whole and "…it is expected that in 1980, it will represent a bigger share of national income" (Fiji Seventh Development Plan 1975:170). The development plan in this period focused on three core areas related to tourism; encouraging the use of local products, increasing local equity and ownership and developing scenic infrastructure.

The government attempted to minimize some of the foreign exchange leakages due to high rates of food imports by boosting local producers and commodities. The agriculture and fisheries department helped local farmers and cooperatives to market their products to major hotels and resorts, as well as educate domestic producers to the needs of the industry.[38] While the tax incentive packages (The Hotel Aid Act) encouraged the construction of new tourist sites, the government began to invest in scenic infrastructure such as parks, beaches and other natural attractions and continued underwriting the promotion of tourism through the Fiji Visitors

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[37] The FTIB has a special section dedicated just to Tourism, see http://www.ftib.org.fj/pages.cfm/for-investors/sector-industry-profiles/tourism-sector.html(accessed May 10, 2011)

[38] On a personal note, I clearly recall in the mid seventies at the time of this development plan helping my Uncle on the farm to harvest local fruits and vegetables for the large tourist hotels in town. He had divided part of his land from sugar cane to planting produce for the hotels as part of a cooperative arrangement. Unfortunately, I have not been able to trace hard data that would track the scope of this policy and the precise incentive package offered to local producers.

Bureau. *Table 3.5* shows the projected size of Governments capital expenditure for the industry during the Seventh Plan period (Fiji Seventh Development Plan 1975:173).

Table 3.5: Capital Expenditure Program: Tourism (Thousands)

	1976	**1977**	**1978**	**1979**	**1980**	**TOTAL**
Resort infrastructure development	10.0	50.0	50.0	50.0	50.0	210.0
Development of beaches, scenic resorts and other natural attractions	20.0	20.0	20.0	20.0	20.0	20.0
TOTAL	30.0	70.0	70.0	70.0	70.0	310.0

Source: Fiji Seventh Development Plan

The high capital requirements posed a barrier to entry for local entrepreneurs to enter the tourism sector and could potentially create a skewed ownership of the industry. The government as part of its development plan floated the possibility of establishing a unit trust that would invest in the tourism sector with shares that could be sold to the public at a later date, however, nothing definitive was promulgated.

By 1979, tourism was Fiji's second largest industry and the Eighth Development Plan (1981-1985) looked to diversify the industry beyond its concentrated centers in the western part of the main island. According to the Central Planning Office, the tourism sector had contributed almost $16 million (1980 FD) to the regional GDP, not including the multiplier effect and other tourist related benefits such as transportation, personal services and construction (Fiji Eighth Development Plan 1980: 67). The focus was on expanding tourism to the outer islands and in areas within the mainland that could benefit from the industry. However, not all islands were determined to be adequate sites for tourism according to criteria established by the government, only "Tourist Resort Islands" and "Day Visit Islands" were designated as suitable locations for tourist development, whereas "Local Subsistence Islands" (indigenously populated islands engaging in agricultural and fishing activities) and "Island Reserves" (possessing specific and unique features of importance for the country as a whole which could be irreversibly damaged with large scale human activity) were off-limits for tourism (Fiji Eighth Development Plan 1980: 69). Similarly, tourism development in the mainland had to be sensitive to the interest of native culture, environment and government objectives. Tourist development was primarily based on the concept of "Visitor Accommodation Regions" first proposed in the 1973 UN Tourism Development Program for Fiji, where government provided the infrastructure for specific locations amenable for tourism (Fiji Eighth Development Plan 1980: 70). The time was ripe for government to consider tourism development beyond these well established areas, albeit with the following restrictions, native villages, scenic areas and country parks and national reserves were off-limits for tourist developments. The following *table* (3.6) illustrated the government's criteria for possible tourist development:

Table 3.6: **Types of Tourism Destinations**

		International Tourism Type	Alternative Low Key Tourism
Islands	Tourist Resorts	H	C
	Subsistence Islands	C	H
	Day Visit Islands	C	H
	Island Reserves	C	C
Mainland	Resort Areas	H	
	Native Villages	C	C
	Scenic Areas/Country Parks	C	H
	Reserves	C	C

Source: Fiji Eighth Development Plan

Notes: C indicates a potential conflict

H indicates the possible harmony of development

Tourism in Fiji during the Ninth Development Period (1986-1990) played an increasing role in generating employment opportunities either directly or indirectly. Government projections estimated that an increase of about 12-13 additional visitors would create one additional job in the tourism sector by 1990, an increase of almost 13,000 new employees (see *Table 3.7*).

Table 3.7: Potential for Labor Absorption in Tourism during Development Plan 9

	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
TOTAL	17,823	30,769	12,946

Source: Fiji Ninth Development Plan

Note: Indirect and induced employment shows employment generated in all the other sectors of the economy through the multiplier effect for tourism expenditure.

Driven by the exigencies of creating jobs, government in these years boosted its investment in the tourism sector through new sources of funding. The Fiji Development Bank, (FDB) which traditionally served agricultural and small business needs of locals, could now become a source of funding for tourism development and "where necessary, Government guarantee will be given for the FDB to raise the additional resources" (Fiji Ninth Development Plan 1985: 89). Also with unforeseen consequences, the government permitted funds from the national retirement scheme, the Fiji National Provident Fund (FNPF) to be channeled through the FDB to support tourist development projects. The government believed that the projected increase in visitor arrivals required the State to take a more proactive role in the construction of 3000 additional rooms during this period and therefore investment in tourism was congruent with its policy of economic development via the tourism sector.

The public face of Fiji tourism was the Fiji Visitors Bureau (FVB), from its earlier incarnation as the Fiji Publicity Board. The FVB is a statutory body operating under the Fiji Tourist Commission and Visitor Bureau Act of 1978, and administratively situated in the Fiji Ministry of Tourism. Among its key responsibilities is to promote Fiji as a tourist destination through advertising and establishing overseas linkages with firms and agencies involved in travel and tourism. While the private tourism sector in Fiji is involved in promoting its own individual brands and product, the Fiji Visitors Bureau promotes "Fiji" as a whole and is fully funded by the State to carry out its stated objectives, I was, however, unable to secure the total amount of funding that the Bureau had received from the State in the period pertinent to this project (1975-2000) when I visited the FVB headquarters in Fiji last summer (2010). I have therefore gleaned from the Government of Fiji's annual budget summaries (the only available years were from 1981-1993) of amounts given to the Fiji Visitors Bureau and supporting projects in the form of grants for the tourism sector. This provides an insight in the direct financial investment that the government undertook in the tourism industry in Fiji (see *Table 3.8*). These financial contributions by government to the industry belied the importance that the State placed in the sector and its role in the national economy.

Table 3.8: **Government Grants to the Fiji Visitors Bureau and Related Agencies 1981-1993**

Year	FVB Grant	Parks/Beaches	Media/Film/Surveys/ Tourism Council	Joint Promotion/Air Pacific/Qantas	Foreign Aid for Tourism Dev.
1981	725,000	3,500			
1982	760,000	3,500			
1983	800,000	3,500			
1984	800,000	3,500	180,000		
1985	800,000	3,500		200,000	
1986	1,000,000	10,000	20,000	250,000	
1987	1,425,000	30,000	95,000	250,000	
1988	1,300,000		66,000	1,000,000	
1989	1,300,000		66,000	1,700,000	133,000
1990	1,500,000		100,000	2,000,000	460,000
1991	1,500,000		204,000	2,500,000	
1992	2,000,000		232,700	2,277,500	525,000
1993	2,000,000		250,000	2,500,000	
Total	*15,910,000*	*57,500*	*1,213,700*	*12,677,500*	*1,118,000*
Total Government Direct Financial Contribution in the Tourism Sector 1981-1993					***30,976,700***

Source: Fiji Islands Annual Budget Summary 1981-1993
Note: All amounts in Fijian Dollars.

Brief Analysis of the Development of Tourism in Fiji

Three salient issues emerge when examining the pathways that tourism took in Fiji as it developed in to a mature industry in these years.

(1) First, the record indicates that tourism in Fiji was far from an *ad hoc* experience and that both industry and government calibrated the limits and possibilities of their involvement. However, a closer analysis of data will determine if the projections and assumptions made by both parties stand up and justify the enormous investments in the tourism industry. Furthermore, how a change in rules for capital availability led the superannuation scheme (FNPF) to invest in major tourism projects and subsequently incur heavy losses decades later. This fundamental institutional shift in the financing of tourism projects has had profound pecuniary implications, most notably the failed Momi Bay project in 2008.

(2) The optimistic projections by the government and industry failed to account for the political crisis in 1987 that devastated the tourism sector and compelled stakeholders to reexamine their strategies.

(3) Why tourism ultimately survived and became a better conduit for economic development in Fiji in comparison to the other main sector (Agriculture) despite the significant obstacles that it had to overcome.

The next chapter will examine the role that the political crisis of 1987 played and the effect it had on the industry. It is my contention that having survived the most serious challenge the country had experienced since independence in 1970, the tourism sector demonstrated a resiliency befitting society that had matured institutionally and thus overtime were able to adequately address the many post-coup challenges it faced. The Fiji Islands despite its small-state status rebounded from its political crisis and reestablished its presence in the international travel market. This is not to negate the serious challenges that political instability imposed on the industry or the subsequent collateral damage done to Fiji's image as a safe place to visit. The policy lessons drawn from this event is on *how* tourism in Fiji survived, and *why* political crisis impacts the sector more than it does other traditional industries in Fiji.

Chapter Four

Analyzing Investment Strategies in the Fiji Islands

Introduction

Unlike Sugar production in the Fiji Islands, which was a direct result of colonialism, tourism remained in the early decades an uncertain and tentative industry and essentially a geographical stopover rather than a destination for travelers. The recognition by the State over time of the economic potential of tourism ineluctably led to the evolution of institutions, investments and the organization of formal structures to make tourism the dominant sector by the beginning of the third millennium. The Fijian government by the 1990’s turned its focus on direct investments in the tourism sector with far-reaching and problematic consequences. I will explore two major investment failures by the government in its tourism ventures, but given the choices Fiji was facing it was not an entirely unreasonable course of action.

I argue that the long decline of Sugar production in Fiji increasingly focused the States attention on tourism and that the rise of the tourism industry can only be understood within the changing agricultural fortunes of Fiji, dynamics that are similar to other microstates in Oceania.

The final section investigates the impact of political instability on tourism in Fiji and the foreign policy responses from sending states. The variations in visitor arrivals as a consequence of the military coups in 1987, 2000 and 2006 in Fiji suggest the complexity of the different crises and the usefulness of the external policy responses by sending states, particularly Australia and New Zealand.

State Investments in Tourism

Microstates in Oceania often lack substantial private capital to develop the necessary infrastructure needed for economic development and investment opportunities. The imperatives of meeting the needs of an expanding tourism market compelled the Fijian government to create innovative funding mechanisms that would provide a ready source of capital for large scale tourist projects. In Fiji's Ninth Development Plan beginning in 1986, the government channeled funds through the Fiji Development Bank (FDB) out of the Fiji National Provident Fund (FNPF) for selected resort construction.[39] This institutional shift in the financing of tourism development would not be without serious consequences two decades later, and a substantial challenge to the efficacy of using public funds for private enterprise. On the western side of the main Island (Viti Levu), a comprehensive resort facility was envisioned to include private villas, professional golf course and all the amenities ostensibly demanded by tourists, known as the "Natadola Tourism Development." The Fiji National Provident Fund (FNPF) wholly invested in the project (FNPF Annual Report 2007: 13) but for reasons that remain unclear the development forced the FNPF in 2009 to write off F302 million dollars[*] from its books and prompted the FNPF board to hire Deloitte to open an investigation of these losses.[40]

The centerpiece of this troubled project was a F47 million dollar golf course designed by the Fijian golfer Vijay Singh, a one time number one ranked player in the world.[41] The project, which took ten years to design, began in 2004 and included marquee accommodations such as the five star Intercontinental Resorts and other high-end ancillary features such as spas, international cuisine and boutiques. Overseeing the construction of the project was Asia Pacific Resorts International (APRIL) with French national Louis Gerard Saliot as project manager. In May of 2007, the government of Fiji fired APRIL and its project manager which led Singh to

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[39] I am unfamiliar of FNPF investments in tourism project prior to the Ninth Development Plan (1985-1990) and nor have I been able to uncover from Parliamentary records of any serious objection to this policy.

[*] All amounts are in Fijian Dollars as of May 16, 2011 at 1.00FJD = 0.56 USD.

[40] See official FNPF media release at http://www.myfnpf.com.fj/resources/uploads/embeds/file/FNPF%20appoints%20Deloitte.pdf. (accessed May 17, 2011).

[41] See the report at http://www.fijiworldnews.com/news/publish/News_1/Anthony_Accuses_Natadola_Chief_of_Stirring_Trouble_says_Vijay_Singh_Endorsement_No_Loss_printer.shtml. (accessed May 17, 2011).

terminate his part in the project. The government cited cost overruns, delays, design flaws, financial irregularities and newly discovered criminal complaint against Louise Saliot to justify bringing in another firm to oversee the project.[42] The Fiji government is nonetheless committed to finishing the project, albeit on a slower and smaller scale as indicated by Felix Anthony, the chairman of Natadola Bay Resort Limited at a tourism forum in Fiji in 2008.[43] The government continues to make the case for tourism as a viable mechanism of economic development, regardless of the setbacks it faced in the "Natadola Project," one of the largest tourist developments in the Pacific.[44]

A second major investment by FNPF in tourism development in Fiji was in the "Momi Bay Integrated Resort Development" with a price tag of F225 million dollars (Fiji Times June 9 2009).[45] Major investors included the Fiji Development Bank (FDB) with F18 million dollars stake, the FNPF with F112 million dollars and New Zealand based Bridgecorp at F100 million dollars (Fiji Times Online June 22 2010).[46] Bridgecorp collapsed in 2007 as a result of massive financial irregularities leading to criminal charges against its executives by the New Zealand government (New Zealand Herald Online June 5 2009).[47] The collapse of Bridgecorp led to the failure of the "Momi" project leaving both the FDB and the FNPF with massive exposure of their investments. The Fiji government in 2010 promulgated the "Momi Bay Development Decree"

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[42] "Waiting with Bated Breath" in Island Business at: http://www.islandsbusiness.com/fiji_business/index_dynamic/containerNameToReplace=MiddleMiddle/focusModuleID=18133/overideSkinName=issueArticle-full.tpl. (accessed May 17, 2011).See also http://www.radiofiji.com.fj/fiji2/fullstory.php?id=6031. (accessed May 17, 2011).

[43] See "Talking Points" at http://www.fijime.com/tourism-resources/tourism-forum/Mr%20Felix%20Anthony%20%20Chairman%20Natadola%20Resort%20Limited.pdf. (accessed May 17, 2011).

[44] See Felix Anthony at http://www.fijilive.com/news/2009/05/11/16046.Fijilive. (accessed May 17, 2011).

[45] See Fiji Times article at http://www.fijitimes.com/print.aspx?id=123145. (accessed May 17, 2011).

[46] See Fiji Times article at http://www.fijitimes.com/print.aspx?id=150577. (accessed May 17, 2011).

[47] See New Zealand Herald article at http://www.nzherald.co.nz/news/print.cfm?objectid=10576539. (accessed May 17, 2011)

after it failed to secure a buyer for the project.[48] The decree allowed the Fiji National Provident Fund (FNPF) to assume sole ownership of the project and begin strategizing on ways to recoup its losses (Island Business Online June 21 2010)[49]. The Pacific Islands Report (April 7 2011) indicated that the FNPF as of April 2011 was finalizing details on resuming development of the project through new financing partners from Papua New Guinea with a possible set of new international operators such as IHG, Marriot, Carlson, Wyndham, Accor and Anantara to manage the tourist complex after completion.[50] The decree however came at the expense of Bridgecorps overseas investors who lost up to F106 million dollars as a result of the Fiji government's action (Otago Daily Times Online June 23 2010).[51]

Preliminary Analysis

The catastrophic failure of these investments incurred by the FNPF and to a lesser extent, the FDB casts serious doubts on the governments' policy to use public funds for what are ostensibly private entities. While it is acknowledged that the availability of significant capital for large projects is beyond the reach of private actors in small island states, it does not automatically mean that the State ought to be the default lender. The argument however has been that the tourism industry in Fiji was too important to *not to* invest for two important reasons, (1) the mainstay of the national economy, sugarcane production was in a precipitous decline, and (2) that tourism would continue to be a growth industry with consequent supply demands.

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[48] At a highly publicized auction in 2009, the Momi Project failed to get a buyer even at the rock bottom price of F41 million dollars. See the National Business Review at http://www.nbr.co.nz/article/momi-bay-auction-passed-41-million-negotiations-ongoing-109039. (accessed May 17, 2011)

[49] See article in Island Business at http://www.islandbusiness.com. (accessed May 17, 2011). The FNPF justified its takeover as "mortgagee in possession" following the decision by the Board to protect its assets. See official media release at http://www.myfnpf.com.fj/pages.cfm/about-fnpf/media-centre/news/2009/ref1309-fnpf-moves-on-momi-bay-project.html. (accessed May 17, 2011)

[50] See the report at http://pdip.eastwestcenter.org/pireport/2011/April/04-08-07.htm. (accessed May 17, 2011).

[51] See article at http://www.odt.co.nz/news/business/112199/bridgecorp-receivers-stymied-fiji-move. (accessed May 17, 2011).

However my focus is *not* on how badly the government failed in its investments, as important as they are for obvious reasons, the investigations as of now are still ongoing. With the exception of key personnel involved in the debacle, nobody really knows what actually happened (I accept the publicly verified account that the collapse of Bridgecorp led to the failure of the Momi Bay project, whereas I am unable to ascertain on why the Natadola project incurred such massive losses. I await the Deloitte and Touche report as well as other FNPF enquiries to become available to piece together on how things went as badly as it did. The lack of internal data and information simply makes it impossible to develop a reasoned analysis on an extraordinary series of financial failures for a small economy. I have no doubt that this episode will yield many studies for future research and contribute to the bourgeoning literature on the subject.

Secondly, my argument thus far has been to suggest in the affirmative that national policy encouraging the development of tourism in microstates is a reasonable proposition given the intrinsic limitations faced by small island economies and the obvious geographical advantages they have. The financial failures do not negate the importance of maintaining the developmental strategy that Fiji has pursued thus far in spite of recent investment setbacks, but rather the need to come up with better funding mechanisms (rather than the public pension fund) for development projects.

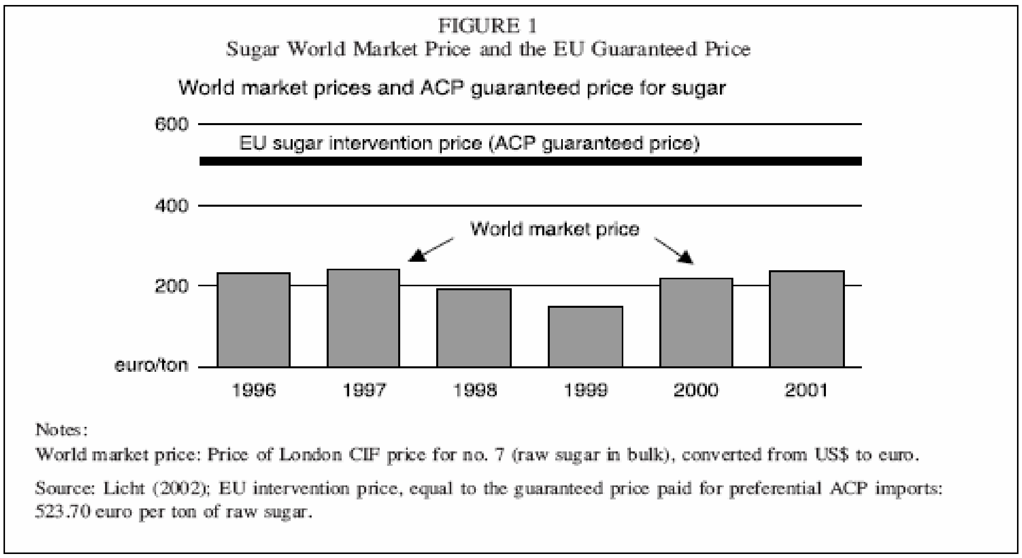
The next section will examine the role of the sugar industry in Fiji and respond to why the State felt an urgent need to ramp up its investments in the tourism sector. The political crisis of 1987 and of 2000 will severely challenge the second assumption regarding the inevitable upward trajectory of tourism in Fiji as a result of political instability and the regional response to the crisis.

The Fiji Sugar Industry

In spite of the economic and social importance of cane farming in Fiji for over a century, sugar production has been in steadily decline in the last decade. The government of Fiji has highlighted the issue of technical deficiency of the four sugar mills, which either have to be replaced or modernized in order to boost production and efficiency as well as difficulties associated with the complicated land tenure system administered under the Agricultural Landlord and Tenant Act (ALTA) in Fiji (Naidu and Reddy 2002). Economists and policy analysts have essentially focused on the system of price supports which has contributed to the lack of market discipline in the production of sugar in the Fiji Islands. From a high of 517 thousand tons in 1994, sugar production fell to around 300 thousand in 2001 and to a large extant the mills are to be blamed. The average cost of production among the four mills fell between $340 (Penang) to $160 (Rarawai), whilst the average cost of production in most mills in India was at $70 a ton. (All monies here are in Fijian dollars). Frequent breakdowns, closures and lack of adequate parts for aging machinery resulted in delayed crushing, safety concerns, wastage, and delivery backlogs. The Fijian government hired a team of technical experts from India at a cost of F86 million dollars to upgrade and modernize the four mills with hopes of lowering the cost of production.

Price support for sugar production in Fiji came under the sugar protocol agreement with the European Union. Under Article 1 of the sugar protocol agreement, the EU guaranteed according to fixed quotas imports of sugar from the ACP countries at a price that was normally set at 2-3 times the market price. For Fiji, this amounted to (2001 figures) some 195.6 thousand metric tons, roughly three quarters of the country's total sugar exports, or in dollar terms the world market value for Fiji's sugar exports in 2001 was at 62.9 million euro, but with EU preferential pricing, Fiji received 120.7 million Euros for its sugar. The EU subsidy to Fiji came at 57.8 million Euros or 2.9 percent of its GDP. *Graph 4.1* illustrates the pricing mechanism under the sugar protocol between the world market price and the EU guaranteed price:

Graph 4.1: Fiji Sugar Protocol



Source: Levantis, Jotzo and Tulpule p.895

Furthermore, sugar produced beyond the quota requirement set by the EU since 1995 received another set of preferential agreements for ACP countries under the Special Preferential Sugar (SPS) agreement where price was set at 5 percent below the Sugar Protocol pricing system. For many ACP members only after the SPS allocations were met did they sell their sugar in the open market (See *Table 4.1* on quota percentages and income transfers for the ACP countries and the economic significance of the Sugar Protocol Agreement, especially for Fiji).

Table 4.1: Quota Percentages and Income Transfers for ACP Countries

Sugar Production and Income Transfers from Preferential Access to EU Markets, ACP Countries 2001

	EU Import Quota (Sugar Protocol Quotas plus SPS basic allocations)		*Income Transfer from the EU from Sugar Trade Preferences*		
	Tons (white sugar equivalent)[a]	*Quota as a Share of Total Sugar Exports (Per cent)*[b]	*Euro Million*	*Euro Per Capita*	*Per Cent of GDP*[c]
Mauritius	580.9	>100	163.1	137.5	4.0
Fiji	***195.6***	***74***	***54.9***	***67.6***	***2.9***[d]
Guyana	188.6	78	52.9	69.6	8.1
Swaziland	169.4	59	46.9	44.9	3.4
Jamaica	140.4	94	39.4	15.0	0.6
Barbados	59.5	>100	16.7	62.6	0.7
Zimbabwe	60.8	36	16.5	1.3	0.2
Trinidad and Tobago	51.8	91	14.5	11.2	0.2
Belize	47.7	52	13.4	55.8	1.8
Malawi	34.6	63	9.5	0.9	0.6
Cote d'Ivoire	22.1	72	6.0	0.4	0.1
St. Kitts and Nevis	18.4	89	5.2	126.3	1.8
Madagascar	12.7	>100	3.6	0.2	0.1
Congo	12.1	26	3.4	0.1	0.1
Tanzania	12.1	27	3.4	0.1	0.04
Zambia	12.1	10	3.1	0.3	0.1
Total	**1,619**	**73**	**452.5**	**2.9**	**0.7**

Sources: Levantis, et al. 2001

Notes:

[a] *Preferential sugar import quotas and SPS basic allocation.*
[b] *Percentages greater than 100 imply that the quota was not filled. Statistical discrepancies are possible due to conversion from raw sugar to white sugar equivalent weights.*
[c] *GDP data (not PPP adjusted) for the year 2000.*
[d] *GDP for year 2000 based on Fiji's national accounts.*

Calculation based on a world market price of 238.78 euro per ton (2001 average price of London CIF price for no.7 raw sugar in bulk), a preferential sugar price of 523.70 euro per ton, and a minimum purchase price under special preferential arrangements of 496.80 euro per ton.

Critics of the Sugar Protocol such as Mahendra Reddy (2003), Paresh Narayan and Biman Prasad (2005), Narendra Reddy (2003) and leading institutions like the Asian Development Bank (ADB 2002) have argued that inefficiencies in production and declining productivity caused by the EU subsidies and have thwarted the ability of market forces to discipline the sugar industry. However subsidies cannot be solely blamed for the *concealing* the actual price of producing sugar in Fiji; neither the lease agreements reflected the true value of agricultural land used for growing sugarcane, nor did the costs of a largely informal labor sector reflect the real price of growing and harvesting or the actual pricing mechanism used to award the proceeds of the sale of sugar to the farmers and the mills operated by the Fiji Sugar Corporation (FSC). In Fiji, the proceeds from the sale of sugar are determined by a third party, referred to as the Master Award. During the colonial era the mill determined the pricing formula often at the expense of the farmer who received his share after deduction of all costs. In the last three decades, power has shifted towards the farmer represented by two powerful unions, and in the current collective bargaining agreement the sugar proceed has been set at 70 percent for the farmer and 30 percent for the Mill (See *Table 4.2*).

Table 4.2: **Sugar Proceed Sharing Ratios (Master Award)**

TOTAL SUGAR PRODUCED	GROWER'S SHARE	MILLER'S SHARE
Up to 325, 000 Tonnes	70 percent	30 percent
325,000 – 350,000 Tonnes	72.5 percent	27.5 percent
Tonnes in excess of 350,000	75 percent	25 percent

Source: Reddy (2003)

***Note**: These percentages are based on net proceeds on sugar and molasses sales after industry cost have been deducted. Industry costs are defined as those relating to sugar marketing, and other industry institutions such as the Sugar Commission of Fiji, and the Sugar Cane Research Centre (Source: Sugar Industry Tribunal).*

As Reddy (2003) has pointed out, it was impossible for the mills to sustain an efficient production schedule from its share of the proceeds, one could argue that as long as an artificial price kept the sugar industry afloat and third parties determined the payouts, neither the grower nor the government (the mill owner) were willing to engage in corporative behavior, (the farmer would extract the maximum proceeds possible, whilst the government had no desire or cash to modernize equipment as it had very little leverage to increase its proceeds). Price supports according to Voorend (2005) yielded Fiji triple the value of its sugar exports to the European Union under the Sugar Protocol agreement. Koen Voorend (2005:55-56) illustrates in *Table 4.3* the price mechanism; "The first column shows the world price in US Dollars. The second column depicts the EU intervention price (the price that the ACP countries receive according to the Sugar Protocol) in Euro per ton. Converting at an exchange rate of US$1.00 per Euro, which is the exchange rate in December 2002, gives the third column, (The 1.1 exchange rate of December 2002 facilitates the estimation procedure extensively and is therefore taken as Base Exchange rate)."

Table 4.3: Raw Sugar (EU Price vs. World Price)

YEAR	WORLD PRICE USD PER TONNE	INTERVENTION PRICE EURO PER TONNE	WORLD PRICE EURO PER TONNE (DEC RATE)
1991	180.8	439.4	180.8
1992	181.8	439.4	181.8
1993	200.7	439.4	200.7
1994	242.5	433.7	242.5
1995	268.7	523.7	268.7
1996	244.8	523.7	244.8
1997	241.2	523.7	241.2
1998	193.6	523.7	193.6
1999	130.7	523.7	130.7
2000	170.2	523.7	170.2
2001	182.3	523.7	182.3
2002	157.5	523.7	157.5

Source: Voorend 2005

The End of the Sugar Protocol

The World Trade Organization's (WTO) ruling on the legality of the Sugar Protocol in 2003 amplified further the existing problems of leases and tenure amongst farmers and landowners in the troubled sugar sector in Fiji (discussed in greater detail in the next section). Australia, Brazil and Thailand filed a complaint against European Commissions sugar preference agreement with the African Caribbean and Pacific (ACP) bloc of countries (see *Table 4.1*) that hurt large sugar producers like Brazil and Thailand by shutting them out of the European market (*New York Times*: April 28 2005). The WTO panel ruled that the EU subsidies on sugar exports exceeded the "commitment schedule" and thus a violation of the WTO Agreement on Agriculture (Conconi 2008: 2). Specifically, the panel findings concluded that (Oxfam 2004:2; Financial Times April 28 2005).

1. EU exports of 2.7 million tonnes of unsubsidized sugar were in fact cross-subsidized by EU support provided for the production of quota sugar.
2. EU contravened WTO commitments by subsidizing the re-export of amounts equivalent to imports of Sugar from the ACP and India, and these subsidized exports exceeded the EU's permitted level of subsidized sugar exports (see Daugbjerg and Swinbank 2009:105-120).

The European Union in response put together a monetary package to aid sugar producers affected by the cessation of preferential pricing, but the military coup in 2006 in Fiji would complicate efforts to access those funds (Levantis, Jotzo and Tulpule 2003).

The Problem of Land in Fiji

According to farmers the issue of land tenure has caused the decline in sugar productivity.[52] As a condition for Independence in 1970, the hastily arranged Agriculture Land and Tenant Act (ALTA) was enacted in 1967 to assure a 30-year lease for farmers. Great Britain with the connivance of domestic elites, crafted ALTA to satiate the immediate concerns of the landowners and the farmers under a colonial era property regime that should have been scraped in its entirety.

Not much is known about the prehistory of the Indigenous Fijian people before the arrival of the Europeans, but by the 1800's Fiji had become an active route for trade, especially sandalwood, beechdemer, and whaling. By the 1840's, a constant stream of missionaries began arriving in the islands and set up churches and convert the natives. By the late 1850's, Christianity was accepted *en masse* as the religion of the indigenous people, and when Great Britain assumed control of the Fiji Islands in 1874, contact with the outside world was already established, especially amongst the native chiefs.

To offset the cost of maintaining an empire, Great Britain would attempt to foster domestic economies to generate income for the colonies as well as the mother country.[53] The termination of the slave trade in 1835 threatened to stall the great imperial machine of the British Empire, now in her full stride. To counteract the closure of the slave trade, Britain instituted the Indentured Servitude Scheme, where labor from India would be dispersed throughout the Empire

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[52] In Fiji almost all farmland is leased from the indigenous Fijians who posses the absolute right of ownership and the refusal to renew any lease cannot be vetoed.

[53] The colonial economies of Great Britain were not particularly sophisticated, the industrial revolution was fine for London and Liverpool, but not for non-white third world outposts. Extracting raw material, producing food and meat, and ravaging forests and seas were good enough for Great Britain. Narayan, 27-60

to carry in the work of generating income and production.[54] Most of the indentured workers would be sent to work in the plantations, mostly sugar,[55] and a few lucky ones would become menial laborers and servants of the colonial masters. On May 15, 1879, five years after Great Britain officially colonized Fiji; the first group of Indians arrived on shore as indentured slaves to work in the sugar cane plantations.[56]

Soon after colonization, Fiji's first governor general, Sir Arthur Gordon codified into law through a decree that 83 percent of all land was to remain in the hands of the indigenous Fijians in perpetuity (Heath 1974). Ownership of land was to be communal rather then individual, and in later years the Native Land Trust Board (NLTB) was set up to administrate all issues related to land in Fiji. The remaining 17 percent was for use by the crown, and that Britain would be a custodian of the land until such a time when it saw fit to allow the indigenous Fijian to assume control. This strategy allowed the British to minimize transaction costs associated with ownership, contracts, enforcement, or development of land. At Great Britain's disposal were indentured workers who were housed on the edges of the fields they worked at, known as "coolie lines" in single ten by ten rooms with up to fifteen per room.[57] Since there was no possibility of ever working up to owning a piece of land, and very little education available, mobility outside the farm was virtually non-existent, and hence the regular and predictable supply of constant

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[54] This was one of the more ingenious schemes of the British to exploit free labor from its Indian colony, and keep the engine of imperialism and capitalism humming. The indentured scheme was a despicable system in application and practice and basically amounted to a kind of legalized slavery (see Vijay Naidu 1980:8).

[55] Sugar cane as a labor intensive industry had proved to be quite a boon for the British as a cash crop. An unlimited supply of labor and land created optimum conditions for wealth; expansion and exploitation by the colonial masters (see Minitz 1985).

[56] The indentured scheme continued until 1920, after which it was abolished in the British parliament when public outcry over the brutality of the system could no longer be ignored. In Fiji, by 1921, there were more then 60,000 Indians with the overwhelming majority confined to the sugarcane fields.

[57] The indentured servitude scheme was particularly appalling for women and children. For every 100 men sent, 40 had to be women, and the devastating effect of gender disparity contributed to an increase in rape and suicides amongst the indentured population. The low percentage of women among the male population left them vulnerable in an already dehumanizing situation with very little opportunities for recourse (see Carter 1996:41).

labor. A cursory glance at the colonial policy would quickly reveal a glaring lacuna; *close to 100 percent of commercial sugar cane farming were done by Indo-Fijians in land that was not theirs, and could never be.* (By the time of independence in 1970, Indo-Fijians were about 49% of the population, indigenous Fijians comprised about 47% and the rest were Whites, Chinese and other Island groups) Therefore, when discussions about independence began in the 1960's, it was unsurprising that land quickly became the singular most vexing issue for all concerned. The Indo-Fijian tenants feared exploitation at the hands of their Indigenous landlords, as echoed by an early leader of the farmers,

> "…We were [brought] to work under a system that saved the indigenous Fijian from coming under…As a matter of fact, if anything, the coming of my people to this country gave the indigenous Fijians their honor, their prestige, nay indeed their very soul. Otherwise, I have no hesitation in saying that the native of this colony would have met the same fate that some other indigenous races in parts of Africa met. I would ask my honorable colleagues to consider the aspect of it before they condemn my people."[58]

Subsequently, in preparation for independence, the Agricultural Landlord Tenant Agreement (ALTA) was established in 1966, which would guarantee a twenty year lease to all farmers and an automatic extension of ten years. Others provisions of the ordinance included share-cropping and an assessment of the capital value of the land every five years. Understandably, the Indo-Fijian farmers feared abuse on the provisions and they were suspicious of the land owners creating artificially high land values and raising rental rates. Nonetheless, the ALTA act was passed and ratified by the legislative council and remained the touchstone for all future negotiations on the issue of land tenure between the indigenous Fijians and the Indo-Fijians.

Beginning in 1997, these leases began to expire creating a period of heightened tension and uncertainty not only in the sugar industry, but politically and socially. *Table 4.4* below

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[58] Statement by A.D. Patel, the first Indo-Fijian political leader of the National Federation Party, a predominantly farmers party. Quoted in Brij V. Lal (1992:143).

shows that only about a quarter of the expired leases had been renewed for existing tenants (almost always the new tenants were either the indigenous landowners themselves or members of their clan). Falling productivity has also being linked to inexperienced growers who lack the requisite skill of working the land with time honored techniques and knowledge (Reddy 2003:9).

TABLE 4.4: Expiring Land Leases in Fiji (1997-2001)

YEAR	EXPIRED SUGAR CANE LEASES	LEASES RENEWED		NOT RENEWED
		RENEWED TO EXISTING TENANT	ISSUED TO NEW TENANT	
1997	72	36	31	5
1998	157	45	107	5
1999	1073	350	511	212
2000	1708	311	469	928
2001	313	141	14	158
2002	457	na	na	na
TOTAL	**3323**	**883**	**1132**	**1308**

Source: Native Land Trust Board
***Note:** Totals up to 2001 only.*

As suggested earlier, the demise of the sugar industry would be devastating for political economy of the Fiji Islands. Cane Farming remains “the backbone of the Fijian economy” argues economist Narendra Reddy and not without justification. Almost a quarter of the workforce is employed in the sugar industry, 22 percent of export revenue is generated by sugar, almost 90 percent raw sugar is exported to international markets (74% to the EU alone, see Table 1 above) and as well as the survival four major urban areas outside of the capital city known as the “sugar belt” (Narayan and Prasad 2005).

The political instability following the 2000 coup thwarted any possibility of a long term solution to the problem of land tenure in Fiji and the continuing instability wrought by the last coup in late 2006 has foreclosed any immediate solutions on how to rectify the vexing issue of land and equitable distribution of resources in the Fiji Islands. It is unlikely that the internal issues (land tenure, financial compensation, low yield, or even technical efficiency) surrounding the Fijian sugar industry will be resolved anytime soon, and the cessation of preferential prices and set quotas by the EU in 2007 have only intensified the dilemma surrounding the sugar industry in Fiji (Mahadevan 2009; Oxfam 2005). The Fijian government in 2005 acknowledged that the survival of the sugar industry in Fiji was in serious jeopardy without a comparable trade package to replace the Sugar Protocol Agreement with the EU (Parliament Papers 2005).[59] However a series of political events in 2006 overtook the necessity of securing new trade pacts for the sugar industry in Fiji, the government of Lasenia Qarase abruptly called for elections in June which thrust the country into a divisive and contentious political season followed by a drawn out public conflict with the military resulting in Fiji's fourth coup in twenty years in December of 2006.

The immediate consequences of the 2006 military coup became painfully clear when the European Union suspended its "stabilization funds" in October of 2007, with a caveat that only a return to democratic rule and structural reforms in the Sugar industry would enable the release of funds (Official Journal of the European Union 2011). As part of a negotiated settlement to ease the pain of losing the highly lucrative Sugar Protocol Agreement, the European Union had promised to provide financial aid to Fiji (and selected ACP members) under the Sugar Readjustment Fund (Fiji Island Business 2007), this would amount to €60.024M (F120 million dollars) over three years, substantially less than the €161M (F350 million) requested by Prime Minister Qarase. Fiji received the fifth highest allocation after Mauritius (€127.541M), Guyana

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[59] See document at http://www.parliament.gov.fj/publications/viewResearch.aspx?research=21. (accessed May 18, 2011)

(€84.170M), Jamaica (€77.547M) and Swaziland at €69.895M.[60] According to reports in the *Fiji Sun* (8/26/2008) the EU had planned another allocation of F132.6 million for 2011-2013 after the first tranche of aid to farmers, but the failure of the Fijian government to transition towards democratic elections have forced Brussels hand to freeze all financial assistance (The Australian May 19, 2009).[61]

The declining fortunes and uncertain future of Fiji's sugar industry placed extraordinary pressures on other sectors of the economy to contribute towards development. The national focus towards tourism seemed almost inevitable given the diminished stature of cane farming in Fiji beset by intractable issues and without many resolutions in sight. The political events of 1987 and 2000 permanently shelved any steps towards solving the problem of land tenure in Fiji, and the continued political instability, which culminated in the 2006 *coup d'état* further distracted key actors in government to plan the ineluctable demise of cane farming as Fiji's bell-weather industry. Thus given the paucity of choices available to the government, it perhaps seemed inexorable that state would ratchet up its investments in the tourism sector. Rapid increases in visitor arrivals and tourism related products bore some justification for tourism in Fiji to become a conduit for development and the State obliged by creating the organizational and institutional structures to facilitate investments in tourism. The political crises that would hit Fiji in 1987 and 2000 would test these assumptions, of the desirability of investing in an image conscious industry susceptible to shocks. The following section examines both the viability of tourism under crisis and analyzes the policy response by the State, industry stakeholders and sending states, specifically the role played by regional powerbrokers, Australia and New Zealand.

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[60] The Fijian conversion is for exchange rates that existed in April 2007. The currency rate as of May 18, 2011 is 1€ = 2.557FJD.

[61] See article at http://www.theaustralian.com.au/news/eu-backs-away-from-fiji-sugar-support/story-e6frg6sx-1225713297817. (accessed May 18, 2011)

Political Instability in Fiji

Fiji has experienced four *coup d'états* beginning in May 1987 followed by a second one in late September, then the putsch in 2000 culminating in the latest military coup of December of 2006. All of these non-democratic takeovers of the State have had competing objectives with multiple objectives and allegiances. Within the parameters of this project, the political crisis in Fiji will only be examined for its effect on the Tourism sector, and the possible policy responses that were available to the various stakeholders in the industry.

The military coup in Fiji on May 14, 1987 shattered the idyllic image of the Pacific Islands as places untouched by the realities of political strife and instability (Scarr 1988; Robertson and Tamanisau 1988). The year began with general elections being scheduled for early April in a contest largely fought between the incumbent Alliance Party and the newly formed Fiji Labor Party. Fiji had undergone four previous general elections since Independence in 1970, in (1972, 1977-twice and 1982) with remarkable ease and professionalism, and the 1987 elections promised the same.[62] While it is beyond the scope of this enquiry to unravel the complicated strands of Fijian politics that may have contributed to the beginnings of a twenty-five year political crisis, the events of May 14, 1987 set it motion a series of events whose end is still not in sight.

The unexpected defeat of the incumbent Alliance Party in the general elections thrust the Fiji Labor Party into power and ushered in the first overhaul in the administration of the country since acquiring independence. The weakness of a nascent democracy became apparent when social and political events overtook the euphoria of Labor's win and set the stage for a military takeover (Lawson 1991; Kaplan 1987; Van Fossen 1987). Senior members of the losing Alliance

[62] On a personal note, I worked as a volunteer campaign staffer for the local branch of the Fiji Labor Party, the campaigns and elections were quite free and fair and nothing could portend the crisis that followed.

Party refused to concede their Party's defeat and to publicly acknowledge the legitimacy of the results of the ballot box[63], secondly, the sudden rise of ethno-nationalism among the most fervent supporters of the losing party undermined the delicate religious and racial pluralism of a multicultural society, and finally the failure of the Fiji Labor Party to assuage the fears and concerns of the fifty percent of people that did *not* vote for them.[64] Within this toxic environment, the Fijian military, which had historically remained aloof from national politics, executed the first *coup d'état* in the South Pacific.[65]

The political crisis of 1987 could not have come at a more inopportune time in Fiji, especially in economic terms. The erratic oscillations of GDP data reflected the underlying reality of an economy largely dependent on agricultural exports (See *Table 4.5*).

Table 4.5: GDP Fiji Islands 1980-1988

Year	GDP (million)	Growth Rate (%)	GDP Per Capita (thousand)	Growth GDP Per Capita (%)
1980	910.0	15.6	1421	13.2
1981	953.6	5.3	1476	3.9
1982	1020.5	7.0	1551	5.1
1983	1031.8	1.1	1535	-1.0
1984	1151.7	11.6	1678	9.3
1985	1177.7	2.3	1690	0.7
1986	1326.1	12.6	1857	9.9
1987	1329.2	0.2	1844	-0.7
1988	1433.3	7.8	1993	8.1

Source: Fiji Bureau of Statistics

[63] There is a marked variance between the leader of the Alliance Party and defeated Prime Minister Ratu Mara accepting the results of the elections and those of his Party who refused the legitimacy of the new incoming administration (Mara 1997:191). This marked inconsistency was evident when Ratu Mara happily came back into government at the beckoning of the military following the coup.

[64] The Alliance Party lost in spite garnering 48.5 percent of the vote to Labor Party's 46 percent (See Mara 1997: 190). A lamentable oversight by democracy scholars is the role played by losing parties in elections, especially in ethnically divided societies and emerging democracies. Legitimacy is not only granted through the ballot box but also by the public acknowledgement of the fact by the defeated parties and candidates. Conceding and election is often as important as winning one, as the events in Fiji in 1987 demonstrated. See Anderson et al (2005) for a current exposition on this important facet of electoral democracy.

[65] The two national newspapers chronicled the aggressive rhetoric and marches by supporters of the losing party through the streets of the capital Suva in the weeks and days leading up to the Coup on May 14, events which I personally witnessed (See *Fiji Times* April 16 1987, p. 3, *Fiji Sun* April 21 1987 p. 2; *Fiji Sun* April 22 1987; *Fiji Times* April 26 1987, p.1)

Sugar production in 1983 declined by 46 percent because of devastating hurricanes in the sugar growing regions and causing damages estimated at F150 million dollars (Lal 2010: 308). With the exception of the Monasavu Hydro-Electric Scheme[66] the government was redirected funds away from public structure development and towards relief and rehabilitation. Further austerity measures included a national wage freeze in 1984 in defiance of collective bargaining agreements and over the objections of the Fiji Trade Union Congress (FTUC) (Lal 2010: 308-309). The governments' repudiation of consensual labor relations led to the formation of the Fiji Labor Party (FLP) under the patronage of the FTUC in 1985, which would sweep into power two years later, only to be overthrown in the coup after only four weeks in office. However, neither politics nor natural disasters attenuated the flow of foreign visitors to Fiji during this period according to Sturton and McGregor (1991), and growth in the tourism sector held steady, until the political crisis of May 1987 (See *Table 4.6* on tourist arrivals to Fiji between 1980-1990.

Table 4.6: Visitor Arrivals to Fiji (1980-1990)

Year	Aust.	NZ	USA	Canada	UK	Eur.	Asia	Pac. Is	Others	Total
1980	72260	36389	30137	13386	5244	8990	7141	10137	6312	**189996**
1981	80912	32490	24164	15708	4814	6921	10606	9617	4703	**189935**
1982	95455	28304	23211	13698	4332	6111	18029	9970	4526	**203636**
1983	85027	24048	25636	13037	5888	8330	14401	10588	4661	**191616**
1984	101413	26803	37285	16522	8569	11283	14864	13178	5320	**235227**
1985	89459	19540	49557	18908	7707	12667	12601	11936	5800	**228175**
1986	86297	22720	69732	23651	9972	15088	11801	12815	5748	**257824**
1987	***65382***	***16197***	***47037***	***16819***	***8511***	***14726***	***5487***	***11217***	***4490***	***189866***
1988	75264	21507	42144	16883	8464	20498	3425	14219	5751	**208155**
1989	96992	28128	34425	16536	11404	23916	16015	18064	5085	**250565**
1990	103535	29432	36928	18438	16773	27211	27874	17528	1277	**278996**

Source: Fiji Bureau of Statistics

[66] Funding came from a combination of internal and external sources such as the World Bank, Australian Development Assistance Bank (ADAB), the Commonwealth Development Corporation (CDC), The European Investment Bank (EIB), The Fiji National Provident Fund (FNPF) and the Government of Fiji. Although initially projected at US64 million dollars (Mara 1997:190), the final cost came to F240 million dollars (See World Bank Report 1978:23).

It would be not until 1990 that visitor arrivals to Fiji would exceed pre-1987 levels as political instability disrupted tourism and stunted its growth trajectory. The Pacific Islands first *coup* had shorn Fiji's carefully cultivated image of a safe and secure haven for visitors to escape to, from a harried and troubled world. International tourism, I posit, is an industry highly susceptible to disruptions which greatly impacts societies that have a substantial stake in the sector such as Fiji. The following section will examine the relationship between crisis and tourism and the impact of political instability in the tourism sector in Fiji.

Tourism under crisis has largely been considered as a marketing problem (Beirman 2003) rather than interpreted through the lens of policy and politics. The challenge to tourism in Fiji was political, the external response to the crisis that gravely affected the tourism sector was political and therefore the domestic response by the State and industry stakeholders had to be political. I shall further argue that the articulation of policy and the organizational response by the government and the tourism sector saved the industry from irreparable damage and ensured a full recovery and demonstrated the institutional capacity of even small island states to manage severe exogenous shocks.

Tourism and Political Instability

Each successive political crisis in Fiji (1987, 2000 and 2006) triggered a series of travel warnings by foreign office with profound social and economic consequences for the tourism industry and ordinary Fijians whose livelihood depended on a thriving tourist sector. Substantial investments by the State in the sector seemed to be negated by the episodic political instability as well as Fiji's international reputation and credibility. The international reaction to the political events in Fiji illustrated the intricate web of economic relationships that small states have to negotiate in the global economy (Fletcher and Morakabati 2008; Sonmez 1998). The adverse effect of travel warnings in response to the crisis in Fiji further reinforced the ability of sending

States to influence economics and politics of host economies. The Fijian government was during the period of political crisis caught in an economic dilemma; it had institutionally organized its development priorities around international tourism with substantial investments in the industry, and therefore had exposed itself to international reactions regarding domestic events. Neither the State nor the industry could insulate itself from external backlash that ensued after each coup in Fiji (Burns 1995).

However data on visitor arrivals (*Table 4.7*) indicate that after an initial period of recovery following the coups, tourism in Fiji has generally recovered to previous levels, which suggests that (1) the nature of the crisis in Fiji has been misunderstood, (2) international response is largely driven by political concerns and therefore is not commensurate with the reality on the ground in Fiji and (3) the ability of industry stakeholders and the government to adequately respond to the challenges facing the industry through innovative policy mechanisms which enabled it to “bounce back” from fatally damaging tourism in Fiji. Travel warnings are often a brusque response to situations that often require nuance, subtlety and divers actions to events that are fluid and quite complex. They may serve to mollify partisan interests in governments that have a stake in the domestic politics of the region as seemed to be the case between Fiji and the two regional powers, New Zealand and Australia. These were also countries from which Fiji traditionally drew a significant portion of international travelers and thus the issuance of travel warnings by them significantly impacted travel to Fiji.

It is my assertion that the internal logic of travel warnings is fundamentally flawed and in the case of Fiji, was unnecessarily alarmist when compared to available data on the political situation in the ground. This is not to imply that travel advisories and warning are unjustified, only that an imprudent application of a powerful instrument is harmful if it fails to delineate the multiple permutations of foreign office announcements to the specific contexts in which they are applied. In the era of mass tourism, international travel is no longer a province of the privileged, but accessible to citizens of advanced capitalist societies many of whom have now inherited a new "culture of mobility" (Bianchi 2007). The theoretical rationale for travel warnings, if examined at all have essentially been accepted *prima facie* by sending States as a public service announcement for its citizens. An analysis of Fijian tourism during these periods of crises suggests that travel advisories can also be understood within the framework of national interests by the issuing countries and therefore interpreted as a politically motivated act, rather than a spirited act of public service.

TABLE 4.7: Visitor Arrivals during Political Instability (1985-1990; 1998-2003; 2004-2010)

Year	Aust.	NZ	USA	Canada	UK	Eur.	Asia	Pac. Is	Others	Total
1985	89459	19540	49557	18908	7707	12667	12601	11936	5800	228175
1986	86297	22720	69732	23651	9972	15088	11801	12815	5748	257824
1987	***65382***	***16197***	***47037***	***16819***	***8511***	***14726***	***5487***	***11217***	***4490***	***189866***
1988	75264	21507	42144	16883	8464	20498	3425	14219	5751	208155
1989	96992	28128	34425	16536	11404	23916	16015	18064	5085	250565
1990	103535	29432	36928	18438	16773	27211	27874	17528	1277	278996
1998	100756	70840	48390	12837	39341	29334	45154	22850	1840	371342
1999	118272	72156	62131	13552	40316	28371	47216	26090	1851	409955
2000	***76883***	***49470***	***52534***	***10532***	***29215***	***22506***	***29810***	***21534***	***1586***	***294070***
2001	98213	66472	57711	10752	30508	20917	37897	23608	1936	348014
2002	123606	68293	58815	9802	43393	21654	45740	24051	2505	397859
2003	141873	75016	58323	10990	49794	21847	43265	28167	1525	430800
2004	176195	103900	65211	12435	47668	22720	46466	26182	3298	504075
2005	203250	112932	62640	12625	44472	25123	44252	28476	11375	545145
2006*	***206529***	***107277***	***66631***	***14372***	***38239***	***26801***	***50463***	***29725***	***8552***	***548549***
2007*	***207001***	***99744***	***64687***	***16992***	***34785***	***26311***	***46975***	***34221***	***9165***	***539881***
2008	247608	100018	63667	17871	33935	29512	47246	35936	9238	585031
2009	248589	90898	51592	13452	26213	28926	40849	35078	6589	542186
2010	318185	97857	53122	12970	28813	30088	50256	39198	6379	631868

Source: Fiji Bureau of Statistics. ***Note*:** The last *coup d'état* occurred in December of 2006 and therefore visitor numbers from 2007 better reflect the fallout from the political upheavals in Fiji.

Table 4.7 contains an interesting variation between visitor arrivals and the coups in Fiji that challenges the uniform sanctions imposed by host countries and why travel warnings have lost its potency following the events of 2006. The fallout from the last coup (2006) was almost negligible (2% decline in visitor arrivals) compared to the previous two coups in 1987 and 2000 (30% drop in visitors). The 1987 coup as I have argued was a truly unique event, Fiji gave the Pacific Islands its first coup d'état and the shock of that event reverberated across all sections of Fijian society, and corresponding external response to the crisis which acutely affected the tourism industry with declining visitor arrivals. The second coup in 2000 took a more ominous turn unlike the previous one, which explains the significant decline in tourist arrivals; (1) the prolonged 56 day hostage of government MPs culminating in the storming of the Parliamentary Complex by the Fiji military, (2) the internal mutiny by soldiers of the Fiji military who were sympathetic to the coup plotters resulting in several fatalities, (3) the accessibility of real time information through the advent of internet technology which the 1987 coup lacked.

It has been my argument that the 2006 coup d'état was neither a unique (as in 1987) nor a violent (as in 2000) event and the subsequent consumer response vindicates it. The monolithic policy response of sending states like Australia and New Zealand towards Fiji had more to do with their own internal political machinations than with the actual reality on the ground in Fiji. It is reasonable to postulate that the national interest of Australia and New Zealand resides in *not* emphasizing the *dissimilarities* that exists between these different episodes spanning two decades, but rather project on to them a larger pattern of instability. What I aim to demonstrate within the scope of my research is (1) the negative impacts of political instability on tourism and attempts by stakeholders to minimize the collateral damage, and (2) that the tourism industry in

Fiji is a well developed, mature industry in spite of the chronic instability, remains an attractive vehicle for investments and national development.

The subtle nuances of domestic political crises were nonetheless overtaken by the quick and sharp policy reprisals from the major sending states in the form of travel warnings. State behavior in this instance, especially by Australia and New Zealand seemed largely dictated by realist assumptions, whereas consumer reaction could be properly interpreted as rational within strict epistemic limits. Island communities have long been on the receiving end of "regional realpolitik" by Australia and New Zealand who have essentially assumed "leadership" roles in governing their backyard (Dinnen 2004; Hayward-Jones 2008, 2009; Buchanan 2007; McGraw 1995, 2005; O'Connor 2004; Kabutaulaka 2005. The 'hard-line" policies pursued by New Zealand and Australia towards Fiji could only be understood within the rubric of realism, consistent with their approach in other troubled areas in Oceania. Judging from the behavior of New Zealand and Australia in the post-coup period, I can only assume that it is in their national interest to maintain a fairly belligerent and adversarial posture towards Fiji, perhaps as part of a long-term strategy of political realignment in the Pacific (Ratuva 2008). Secondly, assuming that consumers behave in a rational manner, it therefore follows that most would exercise caution when forewarned by their respective governments on traveling to an unsafe location. Individual cancellations of travel plans often rise to a "critical mass" level leading to industry wide disruptions affecting airlines, seaports, food and beverage markets, etc. While State policy and decision making may be driven by the imperatives of national interest, individual choices about government warnings are severely circumscribed, i.e. bounded by incomplete information often driven by media hysteria and State manipulation of actual events on the ground (the distortion may not be deliberate, but governments have an implicit perspective they wish to emphasize which advances their policy objectives).

Robert Young Pelton's (2000) intrepid travel guide to the world's most dangerous places is a cult favorite among travel aficionados who prefer to wake up to the staccato of gunfire rather than the languid sounds of waves breaking upon the shore. For the majority of travelers it is reasonable to postulate that they will engage in risk aversive behavior and order their preferences accordingly. Consumers who travel to new vistas will generally avoid locations that place them and their families at risk. It is in the utility of individuals to secure and prioritize their safety and well being and thus rational for travelers to eschew places where self preservation and well being is compromised (Kozak, Crotts and Law 2007; Peattie, Clarke and Peattie 2005; Simpson and Siguaw 2008; Tasci and Boylu 2010; Fuchs and Reichel 2010; Yuksel and Yuksel 2007; Lepp and Gibson 2003).

In the case of Fiji, the coups renewed the "necessity" of Canberra and Wellington to assume a more activist role in managing the "failed" microstates of Oceania. This aggressive posture seems to be driven by the "Africanisation of the South Pacific" thesis (Reilly 2000) where political crises are endemic because ethnic considerations triumph pluralist virtues (Thomas 1990; Lawson 1991). The "realism" espoused by Australia and New Zealand towards the microstates of Oceania conveniently elides over the historical legacies of colonialism, asymmetrical factor endowments, nascent institutions and uneven economic opportunities.

Tourism and the Construction of Risk

Tourism is an important industry and for many microstates an essential component of economic development (Shareef and McAleer 2005; Croes 2006; Wilkinson 1989; Taylor 2006). This has far reaching implications for all stakeholders involved in this vital sector, especially the sending nations whose actions have extraordinary consequences over the economies and livelihoods of receiving states. While travel is not a general necessity for survival, the intake of tourists for many small economies is (Wang 2009; Narayan 2005; Causey 2007). The efforts in developing a viable and thriving tourism industry among the microstates have not gone unnoticed, and governments in recent years have embarked on an ambitious effort to develop tourism within their countries.

It is often said that the first casualty of war is truth, but for the travel industry it is merely rumors of war that often damage communities that rely on trade in services. Tourism is vulnerable to political shocks and instability (Beirman 2003) since tourists leave with their resources in the event of a national upheaval or disruption (Faulkner 2001; Ritchie 2004; Wang 2009). The nature of the industry makes it impossible to be insulated from the mercurial politics of host countries and the deleterious consequences that often ensue following a crisis. The tourism sector is deeply susceptible to both internal as well as external shocks and therefore minimizing disruptions and understanding risk is a central concern of tourism. (See *Table 4.8* for a list of disruptions that occur in the tourism sector). A large body of work has been produced to isolate the complex levels of traumatic events that threaten the global trade travel and tourism (Prideaux, Laws and Faulkner 2003; Howard 2009; George 2009; Causey 2007; Bianchi 2007; Kozak, Crotts and Law 2007; Rittichainuwat and Chakraborty 2009; Lepp and Gibson 2003; Simpson and Siguaw 2008; Carter 1998).

Table 4.8: Disruptions to Tourism

DISASATER			AREA AFFECTED
	Natural	Earthquakes	Chile
		Tsunami	Indonesia
		Hurricanes	South Pacific
		Fires	California
		Floods	Tennessee (Nashville)
		Volcanic	Iceland
	Environmental	Oil spills	Gulf Coast
			Alaska
	Health	SARS	China
		H1N1	
Violence	War	Tamil Insurgency	Sri Lanka
	Terrorism	IRA	Northern Ireland
	Crime	Drug War	Mexico
Instability	Economic	Asia	Indonesia
		Latin America	Argentina
	Political	Violent	Thailand
		Non-violent	***Fiji***

Travel Warnings as Public Service Announcements

Nation-states have a fundamental responsibility to protect and warn its citizens about dangers abroad, and falling short of precluding travel, they use a variety of instruments to apprise, caution and inform its citizens about their travel destinations. Travel warnings are perhaps the most widely used informational tool sanctioned by the state to inform its citizens about dangers abroad and forewarn travelers about locations they ought to avoid, or take extraordinary health and safety measures if travel is unavoidable. Oded Lowenheim (2007:204) has argued that travel warnings can be properly understood as a heuristic device used by neoliberal societies to educate and "responsibilize" its citizens about how to manage risk in an increasingly complex and interconnected world. The modern state not only scans the horizon for possible and actual fires, it attempts to instruct its citizens on basic detection and risk management. The assumption is that the international traveler is a savvy and responsible individual who values safety and security when abroad.

Travel warnings could therefore be understood as public service announcements; the modern state with its vast intelligence apparatus and technical capabilities has at its disposal information and data that is not available to the average traveler. Travel warnings perform a vital role in democratic societies by disseminating critical information to its citizens that may not be otherwise available about places beyond their borders. There are multiple reasons for transborder travel including business, pleasure, education, family, etc, each of which involve a series of complex decision-making process (Freedman 2005). One's travel choices are often circumscribed by time, resources and available information, and given the scarcity of these goods the decision to travel will often be determined by any of these factors (Wong and Yeh 2009; George 2009). It is therefore reasonable to postulate that consumer decision to invest time and resource will be determined by the available stock of information on the destination of choice. Travel warnings play a significant role in the decision-making process for travelers to potential locations by providing cues on where to best invest their time and resources (Castelltort and Mader 2007; Uriely, Maoz and Reichel 2007).

Travel Warnings as Politically Motivated

Conversely, authors Richard Sharpley, Julia Sharpley and John Adams (1996) have argued that travel warnings should be construed as a form of trade embargo or a soft sanction. In reviewing the case of Gambia and the use of travel warnings by Great Britain following the Coup in 1994, they concluded that Great Britain used its economic leverage as a sending state to punish Gambia and transmit a message to the regime. In tracing the sequence of events in Gambia in late 1994, the authors conclude that the harsh travel warning issued by the British

Foreign Office was incongruent with the reality on the ground, the bloodless coup consisted of the "army taking over an empty State House, [while] the President and his entourage being guests at an American warship in Banjul Harbor…the trouble was restricted to one army base, all roads and airport remained open" (Sharpley, Sharpley and Adams 1996:3). Despite protests by the Gambian authorities about a realistic and truthful assessment of the situation on the ground, Great Britain persisted with its dire warnings about travel to Gambia resulting in the complete collapse of tourism, its most important industry for one of the smallest and poorest country in West Africa (Sharpley, Sharpley and Adams 1996:5).

Tourism is a fragile and volatile industry deeply susceptible to endogenous and exogenous components and often influenced by factors beyond its control. An overlooked issue that authors Bianchi (2007) and (Kim, Timothy and Han 2007) point out is the long political use of tourism by nation states in the international system. Among the more famous list includes the travel embargo on Cuba by successive American administrations and travel warnings against the Philippines by the US not because there was a threat on the safety and security of tourists, but because the Philippines had failed to renew the US Bases Treaty (Bianchi 2007).

The Case of Fiji

I argue that travel warnings are a powerful tool for governments to construct an image of a destination, not always for the purpose of safety and security but to maintain a specific policy objective congruent with its national interests. The imperative of nation-states to pursue its objectives is hardly a debatable proposition, but when it collides with interests beyond its domestic concerns, it becomes necessary to reexamine existing policies. The contention is not the issuance of travel warnings *per se*, by nation-states to protect its nationals in the event of a crisis abroad, but on the continuance of a state of hysteria and fear, once a clearer picture of events on the ground emerge. Once it has been determined that the political situation in the country under crisis does not pose a discernible danger to visitors from abroad, than travel warnings move from being a public service announcement to a politically motivated act.

In the early days of the 2006 coup, the level of alarm and apprehension was understandable, but as in the previous coups it soon became apparent that events in Suva had absolutely nothing to do with tourists, visitors, hotels and resorts. However, I do not have access to data on crime and social unrest surrounding the previous coups in Fiji (1987 and 2000), but the political events of 2006 essentially followed a similar pattern i.e. bloodless coups followed by a military junta and thus it is fair to extrapolate that the resulting political crisis would have a comparable effect on tourists in Fiji during previous periods of instability. One could therefore argue that travel warnings against Fiji was justified following the 2006 coup because of the heightened risk to the safety and security of tourists as victims of crime in an unstable environment with a weakened law and order. However as *Table 4.9* (lists all reported crimes against tourists from 34 hotels along the Coral Coast in Fiji from 2004-2009) shows, neither the safety nor the security of travelers was in jeopardy, nor did resorts become violent targets and centers of struggle. Among the possible disruptions that afflict the tourism industry (See *Table 4.8*) the events in Fiji had been benign, contained and quite underwhelming.

Table 4.9: Tourism Related Offences- Coral Coast 2004-2009

OFFENCE	2004	2005	2006	2007	2008	2009
Harassment	-	-	-	1	-	-
Indecent Assault	-	-	1	-	-	-
Robbery	-	1	1	-	1	1
Rape	1	1	-	-	-	2
Assault	1	1	3	1	1	2
Trivial (Minor offense)	23	46	34	24	27	31
Civil	4	2	3	2	2	1
Lost & Found (Property)	73	67	41	30	37	35
Theft/Breaking (Criminal offense)	20	17	9	9	11	10
Undisclosed	5	6	6	4	2	2
TOTAL	**127**	**141**	**98**	**71**	**81**	**84**

Source: Republic of Fiji Police Force, Internal Report

While a sharp drop in reported crimes from 2006 onwards could be partly attributed to a decline in visitor arrivals to Fiji following the political crisis, the apparent consistency of data does seem to suggest that Fiji was no more a risky destination following the crisis in 2006 then it was prior to the political events. The actual reality on the ground is empirically at variance with both official announcements and media portrayals about the "worsening" situation in Fiji and as risky destination for travelers.[67]

The argument thus far has not been on minimizing the deleterious effects of political instability on tourism in Fiji or the social and economic fallout as a result of the coup in Fiji. The loss of both formal and informal employment in the industry was immediate and devastating and contributed to further socio-economic immiseration of Fijian society. The difficulty is in explaining the *long-term resiliency* and *success* of tourism in Fiji in spite of the chronic political

[67] Sending nations have as much an ethical responsibility to accurately inform and educate its citizens about the risks and rewards of travel as receiving nations do to ensure the safety and security of visitors from abroad. Sending nations wield extraordinary power to construct risk and frame images of societies that lack resources to mount a counter-portrayal, especially if they have been unfairly portrayed. Image formation is not an ahistorical phenomenon, unencumbered by the realities on the ground. The travel literature is replete with narratives about exotic Asia, dangerous Africa, enchanting Oceania or the primitive Americas (Carter 1998).

instabilities that have challenged the industry over two decades. While the data on visitor arrivals to Fiji from sending states revealed the incongruence between official policy and individual choice, the deeper institutional factors have been overlooked. Microstates possess not only a greater sophistication in developing their economies than is often understood but have in the case of Fiji responded with policies to crisis that could have fatally damaged a valuable domestic industry. The survival of microstates in the global economy is not only predicated on their ability to exploit their comparative advantages, but also on their capacity to innovate and modulate to changing circumstances and political realities.

Conclusion

The tourism industry in Fiji as this case study reveals is situated within a complicated socio-political context which exposes the industry to three intractable problems. The chronic political instability is not unique to Fiji, as other Pacific Islands have undergone similar difficulties with democratization, *coup d'état*s and civil rebellions in the decades following their independence from former metropoles (McCusker 2006; Chauvet, Collier and Hoeffler 2010). There is an extraordinary variation in the nature and duration of these instabilities and the complex demographic and historical experiences of these Islands defy simple generalizations and monolithic interpretations. The "Africanization of the South Pacific" thesis (Reilly 2000) was justifiably criticized for imposing singular causal factors such as ethnicity as key drivers of conflict in the Pacific (Fraenkel 2004), and scholarship on conflicts in the region have greatly improved. Anemic central authority, geographical fragmentation and provincial autonomy doomed the prospects of the Solomon Islands to form a stable and cohesive nation-state, predicated on the Westminster Model (Dinnen 2002). The Solomon Islands comprise a chain of 1,000 Islands stretching across 1,400 km of the Southwest Pacific with a population of half million speaking some 80 different languages. In contrast, Fiji has a powerful central government, with the majority of the population of 800,000 clustered around two major Islands (the rest live in traditional villages in the 90 outer Islands) and most speak 1-2 of the three major languages (Finn and Smith 2000; Wainwright 2003). Issues of governance, corruption and rent-seeking behavior have largely contributed to the turmoil in Nauru and Vanuatu (Henderson 2003; van Fossen 2003; Firth 2001), societies that geographically and demographically different from each other.

The inapplicability of the Westminster model in nascent democracies, the embedded tribal structures of these societies, the struggle for natural resources, the legacy of colonialism and difficulties of managing multiethnic communities have all played a role in destabilizing these Island Nations. The developmental and economic costs have been severe for these small economies demonstrated by the data from Fiji that followed each of the *coup d'états.* Issues pertaining to democratization and political development are long-term projects that will not be rectified anytime soon, but these microstates do not have the luxury of waiting to develop their economies until they get their political house in order. De-coupling economic development from political development allows these microstates to increase well being and opportunity for as many people as possible at a pace not determined by political events. Investing in tourism is not an unreasonable mode for development and it is possible that within a specified set of conditions i.e. the nature of the crisis, the quality of the organizations and the depth of the industry, tourism can survive and even thrive, in spite of serious political disruptions and negative externalities such as travel warnings.

The second problematic issue highlighted in the case study is the declining sugar industry in Fiji. The collapse of the industry will engender severe socio-economic dislocations, yet there is no current discussion on how to move beyond the day of its reckoning. The only significant proposal to date was by Oxfam (2005) that suggested converting the sugar mills to produce ethanol but I have been unable to locate any official policy on the governments' response to the report. Thus far the government has been willing to prop up the sugar industry in Fiji with public funds (for 2010, the government loaned F$100 million dollars to the Fiji Sugar Corporation).[68]

Finally, the financial mishaps revealed the extent of State exposure to its investments in tourism in Fiji. This knotty issue facing tourism in Fiji is still being unraveled and remains unclear on how it will impact future investments in the tourist industry. I am skeptical about the necessary institutional changes that would prevent a reoccurrence of using public funds for private industry, especially in a small state like Fiji. These problems however do not negate the importance of cultivating tourism as a viable conduit for development in societies with deep factor limitations and lack of natural endowments.

Tourism in Fiji has had to endure twenty-five years of political turmoil as well as meet the challenges of sustainable development and the constant threat of natural disasters common to small islands in the South Pacific. The next chapter explains the resiliency of tourism in Fiji and the feasibility of microstates to organize their national priorities around the development of tourism based economy. Tourism is a complex industry and imposes extraordinary demands on host economies and while this project recognizes the limitations inherent in the nature of microstates, the case study on Fiji confirms the rationality of developing tourism as a reasonable tool for economic development.

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[68] Fijian economist Wadan Narsey argues that Fiji Sugar Corporation is an instance of "too big to fail" as it's collapse would cost the State around F300 million dollars. See report in Island Business at http://www.islandsbusiness.com/fiji_business/index_dynamic/containerNameToReplace=MiddleMiddle/focusModuleID=19417/overideSkinName=issueArticle-full.tpl?PHPSESSID=8b1b9cb01cc99e0439e9460e42478937. (accessed May 18, 2011)

Chapter Five

Policy Challenges

Introduction

This project demonstrates both the limits and possibilities in understanding the survival of microstates in the global system and fills the lacuna in our comprehension of how small states organize their economies in order to maximize their comparative advantage and fulfill the promise of sovereignty and independence. The competing hypothesis argues that these microstates in Oceania are severely circumscribed by geography, territory and demographics and therefore lack the structural capabilities needed to overcome their intrinsic limitations. Subsequently as a matter of national policy these small economies should reintegrate themselves closer to their former metropoles or regional hegemons for their survival. Scholars have therefore theorized that the continued existence and future prospects of these small islands ought to be interpreted as examples of MIRAB economies (Bertram and Waters 1985; Berno and Douglas 1998; Milne 1992) in which the political economy of microstates are primarily organized around migration, remittances and foreign aid. The case of the Fiji Islands illustrates the inadequacy of the MIRAB model to explain the permutations of policy and institutions *in* microstates which strive to exploit their comparative advantage in the global economy.

The Fiji Islands as typical microstates have taken advantage of their location, size, and even low population density to construct a fairly sophisticated tourism industry within the global travel market. Tourism is by now deeply integrated into the Fijian economy and will remain so for the immediate future and carries important political and social consequences for these small islands. The tourism industry in Fiji has been surprisingly resilient despite the extraordinary challenges it has faced over the past twenty years and this section posits that the success of tourism in Fiji cannot be overstated for its economy (see *Table 5.1*). I will further explore the political and environmental challenges facing the industry and the policy responses formulated to meet those challenges. *Ceteris paribus*, the Fiji Islands as a typical microstate in Oceania made a calculated decision within the limits of its resource capabilities and national priorities to invest in tourism. This case study on Fiji affirms the efficacy of comparative advantage as a better explanation of the survival of microstates than the prevailing MIRAB model.

Table 5.1: Comparative Gross Foreign Earnings 1975-2009 (FJD Millions)

		MAJOR DOMESTIC EXPORT
YEAR	**GROSS TOURIST RECEIPTS**	**SUGAR**
1975	69.0	94.7
1976	76.0	67.7
1977	80.0	93.6
1978	86.0	83.3
1979	102.0	117.0
1980	108.0	174.2
1981	122.0	131.6
1982	142.0	125.1
1983	135.0	111.9
1984	161.0	110.0
1985	168.7	111.8
1986	185.0	133.7
1987	148.0	186.1
1988	186.0	198.3
1989	269.6	228.3
1990	294.6	223.7
1991	286.3	220.4
1992	328.1	221.3
1993	347.4	230.7
1994	392.5	252.2
1995	405.0	276.1
1996	414.5	301.7
1997	446.7	213.4
1998	482.5	244.2
1999	558.6	263.2
2000	397.0	237.1
2001	464.0	225.2
2002	563.0	234.4
2003	646.0	225.7
2004	725.0	209.2
2005	813.0	223.7
2006	823.0	215.1
2007	784.0	185.0
2008	854.0	248.2
2009	817.0	187.1

Sources: Fiji Bureau of Statistics; The Reserve Bank of Fiji

The growth of tourism occurred beneath the long shadow of sugar production and while the sugar industry retained its political and historical importance for the Fijian economy and society, it had nonetheless steadily lost its role as an income generator as the data on gross earnings in *Table 6.1* demonstrate. Beginning in 1989 receipts from tourism eclipsed earnings from sugar exports and by 2009, gross dollars from tourism were four times that of sugar cane and remained ahead of sugar production even after the serious political crises of 2000 or 2006 when visitor arrivals plunged and revenues declined. The Fiji Islands would increasingly become a tourist based economy and its success would depend on the States ability to adequately respond to challenges unique to that sector.

The chronic political crises that afflicted Fiji since 1987 validated the MIRAB hypothesis of microstates as intrinsically unstable, but it couldn't explain the sophisticated policy response by the state and industry stakeholders in sustaining tourism through periods of political instability. The ability of Fiji to successfully respond to a crisis that could have been fatal to tourism challenges the MIRAB model of microstates as fundamentally weak and lacking the institutional and organizational capabilities of larger and more complex societies. The policy response by the Fiji Islands following the 1987 and 2000 coups therefore provides valuable insight on how small states in similar situations could respond to crisis that affect their tourism sector. This section explores the three policy challenges facing Fijian tourism as a test of institutional and governance capabilities and provides a reasonable assessment of the future trajectory of tourism in Fiji. Political crises till now remain the most severe external challenge to Fijian tourism and an important case study for the rest of Oceania. Neither grave natural disasters nor public health outbreaks have threatened the tourism sector in Fiji or in the South Pacific (with the exception of civil conflict in Vanuatu and Solomon Islands, both of which have a vastly underdeveloped tourism industry). Two further issues explored here which are intrinsic to the political economy of tourism in microstates are the high costs infrastructural development and environmental diversification in order to promote sustainable development. This section explains how Fiji has responded to each of these issues and opens pathways for other Island economies facing similar development challenges.

Policy Response to Crisis

I have argued that the external response to the crisis in Fiji was unjustified and incommensurate with the reality on the ground. I postulate that much of the public posturing by regional powers (Australia and New Zealand) had much to do with internal politics of the region, and the perception of Oceania as intrinsically unstable and turbulent. One could argue that there was an asymmetric imposition of responsibility against micro-states like Fiji to demonstrate its commitment to democratic ideals or face severe consequences while larger states often violated international norms with impunity but the international system is neither fair nor altruistic and realism dictated that Fiji needed to move quickly to protect a valuable industry.

The exigent circumstances brought on by the coups necessitated a coordinated response by the state and the industry in Fiji, to minimize further collateral damage. The effect of *coup d'états* on tourism according to Teye's "impact model" (1988: 344-345) is seen in three significant areas:

(1) The effectiveness of the National Tourism Organization (NTO), in the case of Fiji, the efficacy of the Fiji Visitors Bureau and the Ministry of Tourism to respond to the crisis.

(2) The flow of international tourists (demand for the tourism product), measured in visitor arrivals.

(3) The development of tourism resources and attractions (supply and delivery of tourism products).

For non-contiguous locations like Fiji, with one international airport and two passenger wharves for cruise liners, it was crucial to maintain the flow and delivery of tourists and related products. Besides the adverse publicity resulting from *coup d'états,* other impacts on tourism included damage to parks and recreation areas, closure of entry points, violence against tourists and the subsequent degrading of tourist infrastructure (Teye 1988: 346). Professor Teye however attributes the collapse of tourism in Africa and specifically in Ghana following *coup d'états* as a consequence of anemic and ineffective management structures overseeing tourism (Teye: 234, 244). National Tourism Organizations (NTO) argued Teye were largely underfunded and hostage to the political fortunes of the changing political climate which left them vulnerable to the frequent ebb and flow of policy, politics and leadership. In contrast, changes in the political landscape in Fiji have at least to my knowledge never had any bearing on the organization or management of the tourism sector in Fiji. Secondly, the Fijian government immediately stepped in to protect the industry and insulate it from possible negative externalities of the coups in Fiji by challenging the premise of travel warnings and providing additional security for resorts and hotels to assure guests and staff of their safety during the time of transition. The Republic of Fiji police officers had traditionally assisted tourist facilities security personnel as needed but by 1998, the Cabinet approved the establishment of a Tourist Police Unit (TPU) in conjunction with the Fiji Visitors Bureau (FVB) to ensure the safety and security of tourist facilities, staff and visitors in Fiji. In 2004, the TPU became a full fledged Tourism Police Division (TPD) funded by the government of Fiji to ensure that the tourism sector would not be any more victimized by the political upheavals wracking the country.[69]

All manner of disasters have a way of testing the resolve and institutional capabilities of governments including microstates. The islands of the Pacific have an intimate familiarity with natural disasters and as shown in *Table 5.1*, governments and agencies have collaborated in formulating a fairly sophisticated response to climatic disruptions, just as it did when confronted with political trauma. This section provides an overview of state response to both *natural* and *political* crises and illustrates the institutional and organizational capacities of even small countries to manage disaster. Crisis often exposes institutional and organizational weakness (see Gros 2011) in societies ill-prepared to timely and effectively deal with traumatic disruptions with severe consequences. The empirical expectation under the MIRAB hypothesis would have seen a sharp degradation in the ability of microstates to adequately respond to crisis (natural or political). The experience of the Fiji Islands challenges the MIRAB assumption of institutional fragility, especially when the state is really needed.

(a) Responding to Natural Crisis

The literature on disaster management at the *macro-level* is as expansive and specialized as the capability of international organizations, national governments and non-governmental organizations to respond to crisis anywhere in the globe today (Coppola 2007; Pirotte, Husson and Grunewald: 1999; Granger 1999; Brecher: 2008; Bremmer and Keat 2010). The global network of disaster relief agencies collaborate with national governments to secure supplies and in some cases technical expertise for people and places that are stricken and in need of assistance. The tourism industry in Fiji has a fairly comprehensive natural disaster preparedness

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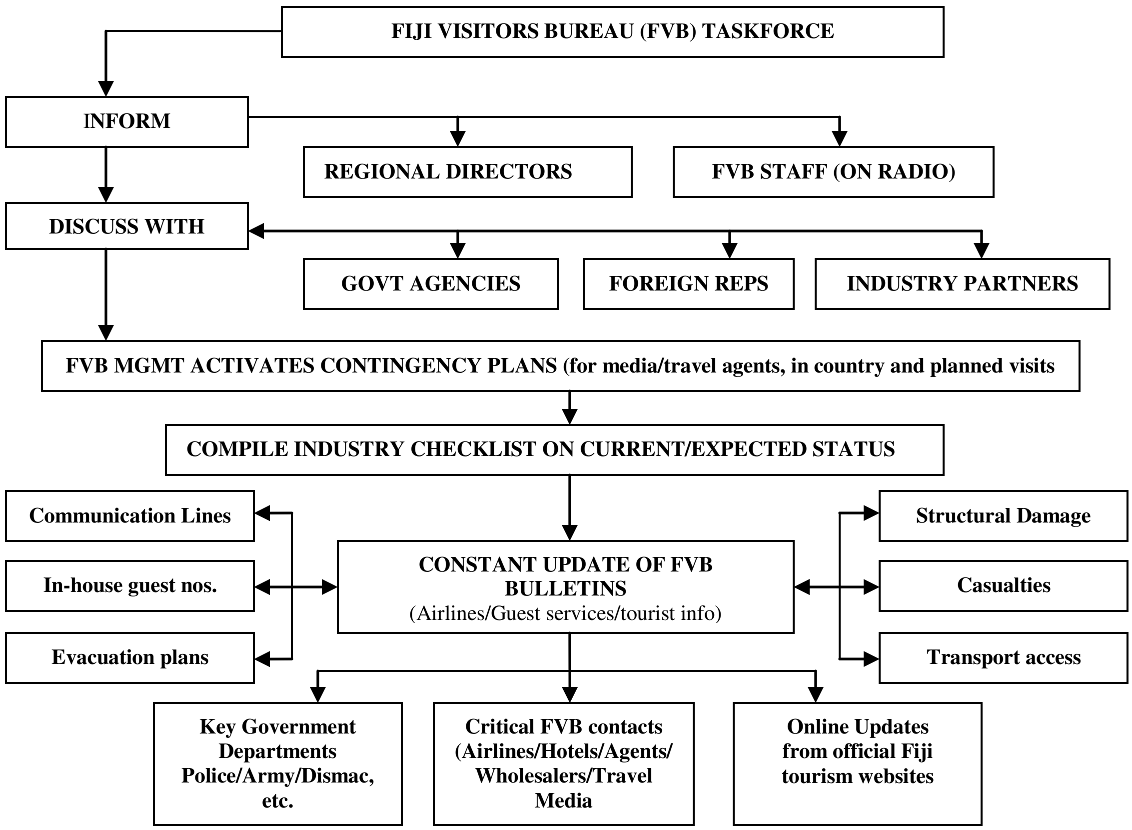
[69] See article at http://www.fiji.gov.fj/cgi-bin/cms/exec/view.cgi/12/1294/printer. (accessed June 4, 2011).

plan to cope with natural disasters managed by the Fiji Visitors Bureau (FVB) and the Disaster Management Office in cases of weather related emergencies (see *Diagram 5.1*).

Diagram 5.1: Fiji Tourism Natural Disaster Management



Source: Fiji Visitors Bureau

The exigent circumstances of geography have made natural disaster management a national priority for Pacific Island countries that have to respond to tropical cyclones on a seasonal basis. The human dimension of tourism makes it imperative for host governments to effectively and quickly respond to the needs of visitors from abroad who may be vacationing in fairly remote and inaccessible areas. The safety and security of travelers enhances the intangible attributes necessary for host communities in the Pacific Islands to market themselves as the last bastion of safety and placidity amid the troubles and trauma of this world, and tourists trapped in a hurricane on a remote island is hardly the image they would like to project. (Daily Mail Oct. 22 2005; Telegraph Oct. 4 2011).[70]

(b) Responding to Political Crisis

Missing from the puzzle is the institutional and organizational ability of microstates to effectively respond to disruptions caused by *political events.* This study provides an important insight in crisis management at the *micro-level* which required a set of effective political strategies by the State to minimize irrevocable damage to a vital domestic industry. The policy response by Fiji fills another gap in the existing literature on disaster management, albeit by small states that may not have the luxury of a "fallback" industry (Faulkner: 2001; Evans and Elphik 2005; Faulkner and Vikulov: 2001).

Three weeks after the first coup in Fiji in May 1987, the government announced an extra F500, 000 dollars to the Fiji Visitors Bureau in marketing, promotion and crisis management. The Fiji Tourism Convention which was slated for late June 1987 went ahead as scheduled to provide a sense of normalcy and business as usual. The then Governor General of Fiji (the Titular Head of State) addressed the convention highlighting the importance of the industry, the active role of the state in protecting the industry, and the formation of a Tourism Action Group (TAG) comprised of government and industry stakeholders to oversee the industry during this perilous time. The sole objective of the TAG group was "to arrest the decline of visitor arrivals to Fiji as effectively and quickly as possible" (Rao 2002: 421) and included four critical components (Berno and King 2001: 79),

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[70] See http://www.dailymail.co.uk/news/article-366221/Britons-trapped-Hurricane-Wilma-strikes.html http://www.telegraph.co.uk/travel/travelnews/8418356/Thailand-floods-stranded-tourists-criticise-lack-of-information.html(accessed June 4, 2011).

(1) The removal of travel warnings and union bans in Australia and New Zealand

(2) A doubling of the marketing budget for the Fiji Visitors Bureau

(3) Familiarization visits from the main markets for trade representatives; and

(4) Marketing of special airfares and packages to those markets.

The Fiji Visitors Bureau (FVB) meanwhile targeted a marketing drive for the Australian market to revive Fiji's image as a safe place for tourists, negotiated fare specials with the national carrier Air Pacific from Australia and developed a training program aptly called "Partners in Recovery" with the Fiji School of Hotel and Catering. The training program administered by the Fiji National Training Council and supported by the Fiji Hotel Association (the main trade group) took advantage of the downturn in the industry to assist managers and staff on how to negotiate in the changed climate. Within three months of its genesis, the Tourism Action Group (TAG) closed shop, secure that it had successfully prosecuted its core mission of retarding the negative consequences of the coup and its effect on the industry. Visitor arrivals in 1988 (See Table 5.7) were significantly up from the two target countries (Australia and New Zealand); although it would not be until 1990 that tourist arrivals would exceed pre-coup levels. The Fijian experience emphasized the active role of the state in responding to crisis with focused set of goals that could be realistically achieved.

The template established by the Tourism Action Group (TAG) would again prove invaluable during the protracted political instability in 2000 following another *coup d'état.* The 2000 TAG team included representatives from the Fiji Visitors Bureau (FVB), Air Pacific, Air New Zealand, the Fiji Hotel Association, and the Society of Fiji Travel Associates. After a successful lobby effort by TAG to the military government, it was able to secure F5 million dollars for a promotional campaign to militate against the damage done to the industry (Rao 2002:422). These efforts included;

(1) Seeking the services of a public relations and media management consulting firm to assist in the management of the recovery program;
(2) Lobbying the governments and unions in Fiji's key markets against sanctions and travel warnings on Fiji;
(3) Coordination on advertising and promotional activities in proven media outlets in Fiji's key markets of Australia and New Zealand, and North America, Europe and Japan; and
(4) Devising special recovery fare packages.

One notable strategy employed in 2000 which was not included in 1987 was the utilization of the internet as a marketing tool by the tourism industry in Fiji to promote and preserve its image as still an ideal place to visit (Beirman 2003:148). Rao (2002: 423) synthesizes the action plan formulated by TAG in response to the political events in Fiji in 2000 (see *table 5.2*)

Table 5.2: TAG Action Plan following the 2000 Coup

May 19 2000	Attempted coup and seizure of Parliament
May 20 2000	Crisis meeting of Fiji Visitors Bureau (FVB), Air Pacific and industry representatives to discuss the crisis. The decision is taken at this meeting to form the Tourism Action Group (TAG) and appoint Damend Gounder as Chairman. The first course of action for TAG is to seek international expertise on media management through the appointment of an international PR company.
June 7 2000	Appointment of Hill & Knowlton, an international public relations consulting firm based in Australia to provide PR consultation for TAG.
June 9 2000	Presentation to the Interim Military Government (IMG) formally seeking its assistance and support.
June/July 2000	Monitoring of overseas media by Hill and Knowlton and lobbying with key union leaders in Australia and New Zealand to reconsider trade embargoes on Fiji. Circulation of accurate weekly news updates from TAG via FVB on the current situation to overseas media organizations along with positive experience statements from tourists who had stayed in Fiji during the crisis. TAG meeting with Fiji wholesalers to determine a recovery campaign in all the key source markets and to seek financial support from wholesalers for cooperative recovery marketing.
August 2000	End of consultancy services by Hill & Knowlton. Continued lobbying of embassies by TAG to

	revise travel restrictions for the Western region of the Fiji Islands, which had remained calm and peaceful throughout the crisis.
September 2000	Capture and arrest of coup leaders. Modification of travel warnings by the Foreign Offices of the UK, the USA, Australia and New Zealand. Travel restrictions eased for the Western regions of the Fiji Islands. TAG meeting with the Interim Minister for Tourism and Transport to secure funding support to TAG and FVB in 2001. First phase of the TAG Recovery Campaign is launched in Australia and New Zealand with special recovery airfares and land content packages.
October 2000	TAG continues lobbying through embassies to downgrade travel warnings on Fiji and to urge overseas unions to remove trade embargoes.
November 2000	Announcement of FVB 2001 Marketing Budget of F11 million dollars. A total assistance package of F16 million dollars is announced by the Interim Minister of Finance as part of the Interim Government's assistance in the revival of the local tourism industry. TAG launches the second phase of its Recovery Campaign, with emphasis on efforts in Fiji's long-haul markets of Japan, North America, and Europe. Travel warnings on travel to Fiji were downgraded by the Foreign Offices of Australia, New Zealand and North America.
December 2000	Second phase of TAG Recovery Campaign in full swing. Provisional results from the first phase indicate a good success rate in terms of visitor arrivals. TAG makes a presentation to the Fiji Tourism Forum with a summary report on its activities and the recommendation that TAG be disbanded. TAG Boxing Day Specials are launched in Australia and New Zealand to stimulate travel during this low season.
January 2001	TAG Committee votes to keep TAG active through monthly meetings with a focus on assisting the Fiji Visitors Bureau (FVB) in its destination marketing efforts.

Source: Rao (2002:423)

The latest *coup d'état* in December of 2006 re-activated the Tourism Action Group (TAG) to ensure that the tourism industry had the resources to manage the fallout from the ensuing political instability. Official reports from the government indicated that TAG was able to secure an initial tranche of F3.8 million dollars for marketing costs soon after the coup.[71] Included in the TAG team for 2006 was the Australian airline Qantas as the core target according to the *Fiji Times* report was the Australian market, a traditional sending state for Fijian tourism.[72] A slight decline in total arrivals in 2007 (see *table 4.7*) was effectively reversed and by 2010, tourist arrival in Fiji showed sustained growth across all major markets, especially Australia which accounted for almost *fifty percent* of all tourists to Fiji. The main stakeholders in Fijian tourism have thus far been successful in interrupting the deleterious effects of the *coups* on the

[71] See the news release by the Fijian Embassy in Washington D.C. at http://www.fijiembassydc.com/default.asp?contentID=695 (accessed June 6, 2011).
[72] See article at http://www.fijitimes.com/story.aspx?id=55033 (accessed June 6, 2011).

industry. However, the perpetual cycle of crisis and reaction obscures more pressing issues facing the industry, its ability to diversify and adapt to the environmental challenges and demands imposed by an expanding tourism sector.

Building Infrastructure

The expanding market in tourism in Fiji ineluctably increased transaction costs and externalities as it strove to meet the supply conditions demanded by the industry. Tourism in Fiji increased six-fold, from 110, 042 visitor arrivals in 1970 to 631,868 by 2010 imposing extraordinary demands on resources, manpower and infrastructure even when population only expanded from 520,304 to 883,125 during the same period. Following the criteria stipulated by Gearing, Swart and Var (1976: *Table 3.2*), host economies must satisfy the infrastructure criteria required by the tourism sector. Both the *enclave* and *functional models* of tourism generate resource constrains on host economies according to the unique attributes of the specific structural development. Large scale projects are biased towards resort type structures inside confined geographical locations often disconnected from host communities (such as the troubled government funded tourist projects in Fiji) and cater to a segment of the tourism market that favors comprehensive enclave types of structures. The more open functional model of tourist development caters to down-market travelers, adventure seekers, urban tourists and transient visitors and opens up opportunities for the tourism industry in Fiji to diversify its portfolio of alternative products to meet a wide range of consumer demands. But transitioning from only enclave types of resort developments puts pressures on host communities to engage in tourism that is sensitive to the environment, geography and culture requiring the implementation of new policies, institutions and political hurdles to overcome.

Three ways in which Fiji attempted to equitably distribute the burden of infrastructural provision was through *incentives, partnerships* and *diversified ownership*. The report on infrastructure development by the Fiji Ministry of Tourism (2004) acknowledged the physical impact that tourism had on communities, both structurally and aesthetically. Baseline requirements for water, electricity, telecommunications, and waste management were necessary to *prepare* sites for tourist development and public utilities had yet to reach many rural and outer Island communities in Fiji. The government as part of its incentive package encouraged hotels and resorts to generate their own electricity and sell excess wattage to the Fiji Electricity Authority. Furthermore, the Fiji Tourist Development Plan (1998-2005) broadened the partnership between developers and Government to share in the costs of utility provision for new tourists sites. *Table 5.3* shows that in the construction of water and waste management facilities for new developments as of 2004, 35% was funded by the state, 34% of costs were borne by the private sector and 31% of utilities construction was jointly financed.

Table 5.3: Water and Sewage Construction for Tourist Sites-2004

DEVELOPMENT	WATER	SEWERAGE
Raffles Tradewinds	Public Works Department (Govt.)	Private
Taunovo Bay	Public Works Department (Govt.)	Private
Waidroka Bay	Private	Private
Crusoe	Private	Private
Warwick	Private	Private
Mango Resort (Proposed)	Private	Private
David Miller	Private	Private
Naviti	Private	Private
Hideaway	Private	Private
Sovi Bay	Private	Private
Malaqereqere	Public Works Department (Govt.)	Private
Vuvale Resort (Proposed)	Public Works Department (Govt.)	Private
Fisher Corporation	Private	Private
Fijian Hotel	Public Works Department (Govt.)	Private
Y.P. Reddy-Cuvu (Proposed)	Public Works Department (Govt.)	Private
Natadola Marine Resort (Proposed)	Public Works Department (Govt.)	Private
Momi Bay	Public Works Department (Govt.)	Private
Sonaisali Island	Public Works Department (Govt.)	Private

Vulani Island (Proposed)	Public Works Department (Govt.)	Private
Anchorage	Public Works Department (Govt.)	Private
First Landing	Public Works Department (Govt.)	Private
Saweni Resort	Public Works Department (Govt.)	Private
Yaqara Studio	Private (Initial)	Private
Rakiraki Hotel	Public Works Department (Govt.)	Private
Wananavu Resort	Private	Private
Reddy-Volivoli	Private	Private
Harper Estate-Nananu I-Ra	Public Works Department (Govt.)	Private
Mokusiga	Private	Private
Morgan-Dawasamu (Proposed)	Private	Private
Naigani Island	Private	Private
Savusavu Bay and Buca Bay	Private/PWD	Private
Taveuni Island	Public Works Department (Govt.)	Private
Mamanuca Group	Private	Private
Yasawa Group	Private	Private
Wakaya Island	Private	Private
Koro Island	Private	Private
Kadavu Island	Private	Private
Beqa Island	Private	Private
Ugaga Island	Public Works Department (Govt.)	Private
Vatulele Island	Private	Private
Katafaga Island	Private	Private
North Fiji Group ltd, Naduri, Macuata	Private	Private

Source: Department of Town and Country Planning, Suva Fiji Islands

Developing tourism to meet demand conditions is an expensive undertaking for most economies especially for small islands in the Pacific. Host nations like the Fiji Islands are meeting some of the challenges of an expanding tourism sector by creating incentives that promote collaborative partnerships between private and public entities to meet basic infrastructure needs (see Table 6.3). Furthermore, while the Fijian government has never discouraged enclave tourist structures especially in the outlying islands, it has in recent years encouraged private operators to become responsible for their own water needs. The provision of water in Fiji is a difficult public problem and very cost prohibitive for the outlying islands (Asian Development Bank 2002; South et.al. 2004), as is common with other islands in the Pacific (See *Table 5.4*). Ancillary to the debate on the ability of small economies to meet the high capital requirements needed for infrastructure in order to meet demand conditions of international tourism is the question of ownership. Why should public funds go towards basic infrastructure in projects with a largely foreign ownership when access to clean water and sanitation facilities remain beyond the reach of inhabitants of these small islands? Establishing collaborative partnerships for basic projects with tourism developers allows the state to promote tourism without circumventing its obligations to develop its own communities and peoples. As *Table 5.4* demonstrates, meeting basic infrastructure needs for its own people is a difficult proposition for Pacific Island governments who must take innovative measures to balance investments and economic development with the legitimate needs of its citizens.

Table 5.4: Selected Islands in Oceania with Access to Piped Water (% of Pop-1990, 2000, 2008)

Countries	Year	Urban Pop	Rural Pop	Urban Piped Water (% of Pop)	Rural Piped Water (% of Pop)	Total Piped Water (% of Pop)
	1990	42	58			
Fiji	2000	48	52	32	7	19
	2008	52	48			
	1990	35	65	48	13	25
Kiribati	2000	43	57	47	21	32
	2008	50	50			
	1990	15	85	61	4	13
PNG	2000	13	87	59	3	10
	2008	12	88	57	3	10
	1990	21	79			
Samoa	2000	22	78	75	52	57
	2008	23	77			
	1990	14	86	77		
Solomon Islands	2000	16	84	77	1	13
	2008	18	82			
	1990	23	77			
Tonga	2000	23	77	70	77	75
	2008	25	75			
	1990	19	81	79	27	37
Vanuatu	2000	22	78	80	31	42
	2008	25	75	80	33	44

Source: WHO and UNICEF http://www.wssinfo.org/fileadmin/user_upload/resources/1278061137JMP_report_2010_en.pdf. (accessed July 27, 2011).

Building Accommodations

Hotel accommodations argue Sinclair (1998: 19) "are characterized by fixed capacity, associated fixed costs and economies of scale." The globalized nature of international tourism and the high capital requirements associated with tourism infrastructure often make it cost prohibitive for entrepreneurs in host communities to become operators (UN Report on Transnational Corporations in International Tourism 1982; Sinclair 1992; Cavlek 2002). The problem of ownership and control of hotels and resorts in international tourism validates many of the criticism against a tourist based economy particularly in the developing world (Husbands 1981; Britton 1982; Brohman 1996; Shaw and Williams 2002). Data from individual websites and industry news release (see *Table 5.5*) show the global reach of hotel chains that dominate the accommodation component of tourism. Sinclair (1998: 19) posits that “the existence of economies of scale at the group level provides a rationale for horizontal integration in the form of common ownership or management control of hotels, while franchising arrangements provide a means of transferring specialist knowledge across the group of franchisees.” Furthermore, hotels in the developing world tend to also be more vertically integrated with airlines, rental cars, travel agents and other related products (Sinclair 1998: 20; Bryden 1973), especially with the phenomenon of enclave development and all inclusive resorts.

Table 5.5: Ten Largest Hotel Groups (2010)

NAME	HEAD OFFICE	OWNERSHIP	COUNTRIES
InterContinental Hotel Group	UK	Public	100
Wyndham Hotel Group	US	Public	50
Marriott International	US	Public	68
Hilton	US	Private	76
Accor	France	Public	100
Choice Hotels	US	Public	40
Best Western	US	Cooperative	80
Starwood Hotels & Suites	US	Public	100
Carlson	US	Private	150
Global Hyatt	US	Public	45

Sources: http://www.tourism-review.com and individual Hotel websites.

Developing countries have a mixed record in penetrating the market for accommodations which has historically been dominated by transnational conglomerates (UN Report on Transnational Corporations in International Tourism 1982:9). Well established tourism based economies like Jamaica have not had it any easier in retaining market dominance in tourism ownership which dropped to 40% in 2009 from a majority position a decade earlier (The Gleaner Oct 25 2009).[73] In country case studies by the United Nations Commission on Trade and Development (UNCTAD 2008) did show robust local ownership of hotels in three African countries (see *Table 5.6*) with varying levels of foreign and joint ownership. However, significant disparity exists between both sizes and classes of accommodations in these countries indicative of the disparities that exist in international tourism. Domestically owned hotels in this study were generally smaller and inexpensive whereas the larger high-end although fewer hotels were either foreign owned or in a partnership with local investors. It was not specified in the report regarding the nature of joint partnerships or the level of management control and decision-making assigned to the parties.[74] In the case of Namibia, according to the Southern Africa Documentation and Cooperation Centre (SADOCC), only 90 out of the registered 1,361 tourism establishments were owned by Black Namibians while rest was either owned by White Namibians (927) or foreigners (344).

Table 5.6: Hotel Ownership in Africa (2006)

COUNTRY	LOCAL OWNERSHIP	JOINT VENTURE	FOREIGN OWNERSHIP
Botswana	247	128	81
Kenya	107	38	23
Tanzania	338	33	105
Namibia*	90/927	na	344

Source: UNCTAD at http://www.unctad.org/en/docs/diaeia20086_en.pdf(accessed August 22, 2011).
*SADOCC at http://www.sadocc.at/news/2010/2010-155.shtml(accessed August 22, 2011).

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[73] See http://jamaica-gleaner.com/gleaner/20091025/business/business4.html (accessed August 22, 2011).
[74] See Lin and Thomas (2008) for an analysis of management outsourcing in international tourism at http://poole.ncsu.edu/documents/thomas-paper.pdf. (accessed August 22, 2011).

Building accommodations together with basic infrastructure is a necessary precondition for any host community that embarks on developing a tourist based economy. The Fijian government has employed a number of strategies to meet these challenges in the last few years with mixed results. *Table 5.7* outlines the institutional response to the specific policy challenges regarding the infrastructural and accommodations needs in the tourism sector in Fiji;

Table 5.7: State Response to Problems of Infrastructure Development in Tourism

PROBLEM	INSTITUTIONS	POLICIES
Tourism Development -accommodations, activities, entertainment, transportation	Hotel Ordinance Act (1964) Hotel Aids Act (1976, 1981, 1986, 1996, 1999)	Incentives, subsidies, tax abatements
Scenic Infrastructure	Fiji Seventh Development Plan 1976-1980)	Direct investments in State Parks, Beaches
Expanding Tourism in Fiji	Fiji Eighth Development Plan (1981-1985)	State incentives for developing tourism in the outer Islands
Capacity Enhancement	Fiji Ninth Development Plan (1986-1990)	Government directly funding tourism projects
Utilities -electricity	Fiji Tourist Development Plan (1998-2005)	Operational license to generate and sell access electricity for resorts
Basic Infrastructure -water, waste management	Infrastructure Development Plan (2004)	Shared costs/Partnerships with tourism developers

Given the limitations unique to Small Islands in the Pacific, the Fijian government has quite successfully developed an institutional regime capable of meeting most of the infrastructural requirements necessary for tourism through partnerships and incentives between the State and the private sector. The most pronounced policy failure thus far is in the publicly funded tourism development projects it undertook in Natadola and Momi Bay with losses that are still under investigation but the underlying rationale for State investments in the projects was to enhance capacity and quality in the tourism sector and given the unavailability of private sources of capital compelled the government to become a direct investor in tourism development. Meeting the accommodations needs of travelers as a key component of global tourism poses significant challenges for host economies and the integrative nature of the industry exacerbates disparities in ownership and management. Comparable data from other tourism based economies in Africa and Jamaica suggest variations in ownership and control of the accommodation component of international tourism and evidence from the Fiji Islands shows a similar distribution of ownership and international penetration in the tourism sector (see *Tables 5.8* & *5.9*).

Table 5.8: Hotel and Accommodation Ownership in the Fiji Tourism Industry

	LOCAL OWNERSHIP	FOREIGN OWNERSHIP
HOTELS	187	179
Beds 1-50	152	117
Beds 51-100	20	22
Beds 101-200	12	18
Beds 201-300	3	9
Beds 301+	0	13

Source: Office of the Attorney General, Suva.

Table 5.9: Ten Largest Hotels in Fiji

NAME	BEDS	PARENT COMPANY	HEAD OFFICE
Shangri-La	913	Shangri-La	Hong Kong
Radisson	860	Carlson	USA
Sofitel	598	Accor	France
Naviti	598	Warwick International	France
Warwick	529	Warwick International	France
Worldmark Denarau	478	Wyndham	USA
Hilton	447	Hilton Hotels	USA
Sheraton	420	Starwood Hotels	USA
Westin	383	Starwood Hotels	USA
InterContinental	366	InterContinental Group	UK

Source: Office of the Attorney General, Suva.

It is unlikely given the globalised nature of the tourist industry to foresee an abatement of multinational penetration or even the desirability of pursuing a policy that would restrict their presence in overseas markets. Data from Fiji suggest that even though local incursion in the tourism sector is confined to smaller down-market properties, there is a fairly equitable distribution in ownership between foreign investors and domestic entrepreneurs. I do not have access to data to determine the distribution of incentives between national and international investors but evidence regarding ownership does imply that government policies has thus far created a diversified ownership in the tourist sector. Secondly, the robust penetration by international conglomerates situates Fiji within the global tourism market and signals to potential investors that Fiji is an attractive host community for travelling and investing.

Meeting the physical demands of tourism will remain a significant challenge for small economies with limited resources. The high capital requirements needed to construct acceptable accommodations and develop basic infrastructure will remain beyond the reach of many local investors. Government underwriting of major tourism development projects with public funds has not yielded the desired results when compared to incentives mechanisms and partnerships for tourism development in Fiji. A delicate balance will have to be maintained between large-scale projects and smaller locally owned initiatives, giving host communities a stake in the tourism sector and evidence suggests that opportunities exists across a range of proprietary possibilities. One avenue in which to involve local entrepreneurs in the tourism industry in Fiji and elsewhere in the Pacific that does not require substantial capital intake is through nature based ecotourism.

Alternative Tourism

Minimizing the negative externalities associated with large influxes of people in small communities is a fundamental concern for Pacific Island communities engaged in the tourism industry (Fagence 2001; Stronza 2001; Tucker 2001). Commensurate with large-scale tourism projects are the associated costs of environmental degradation, pollution, waste management, resource allocation and physical vulnerability on fragile ecosystems. All the major industries in the Pacific Islands such as tourism, agriculture, forestry, mining and fisheries generate waste either as a byproduct of activity or a necessary part of the product stream in a UNESCO study (2008: 27) by the Pacific Centre for Environment and Sustainable Development. Regional waste composition is broken into the following categories (see *Table 5.10*) from selected urban centers in four Pacific Island countries from 1990-1994.

Table 5.10: Characteristics of Solid Waste in Selected Pacific Island Countries (1990-94)

Waste Classification	Honiara (Solomon Is.)	Nukualofa (Tonga)	Lautoka (Fiji Is.)	Port Villa (Vanuatu)	Average Weight%
Paper	5.9	31.3	15.7	11.4	15.8
Plastic	16.8	5.2	8.1	7.7	9.5
Glass	4.5	3.3	2.7	3.3	3.5
Metals	6.1	8	3.2	3.6	5.2
Biodegradable	64.6	47.2	67.8	71	62.7
Textiles	1.8	3.7	3	1.6	2.5
Potentially hazardous	0.1	<1	0.2	0.7	0.5
Construction & Demolition	0.1	1	0	0.7	0.5
Other	0	0.3	0.2	0	0.1
Total	**100%**	**100%**	**100%**	**100%**	**100%**

Source: UNESCO (2008:27)

Preventing environmental degradation and managing pollution is an essential requisite for Island economies venturing into the tourism sector because it is the *aesthetic packaging* and *promotion* of the *destination product* which brings visitors to host communities. The image of Fiji and other pacific islands as a largely unspoiled and pristine environment is what brings travelers to these shores and consumers to buy the product. The Pacific Islands have a long awareness of the unique nature of their societies and its natural endowments, and minimizing the ecological footprint while engaging in tourism is an issue at the forefront of their development agenda (Cater 1993; Craig-Smith 2005; Crosby 2002; Schellhorn 2010). Microstates in Oceania have enthusiastically participated in regional and international forums concerning the environment in lieu of their own vulnerability and fragile status (see *Table 5.11-5.12*).

Table 5.11: Regional Agreements/Conventions

PACIFIC ISLANDS	WAIGANI CONVENTION	SPREP CONVENTION	WHALING TREATY	APIA CONVENTION	PACIFIC TUNA CONVENTION
COOK ISLANDS	R	R		R	S
FIJI	R	R		R	S
KIRIBATI	R	R			S
MARSHALL IS.	R	R			S
FSM	R	R			S
NAURU	R	R			
PNG	R	R			
SAMOA	R	R		R	S
SOLOMON IS.	R	R	R	R	
TONGA	R				
TUVALU	A	R			S
VANUATU	R	R			S

Source: UNESCO 2008:77

R = Ratified; S = Signed; A = Acceded

Table 5.12: **Global Agreements/Conventions**

PACIFIC ISLANDS	Ramsar	World Heritage	MARPOL	CITES	Migratory Species	UNCLOS	Ozone Layer (Vienna)	Montreal Protocol	Basel Convention	Rotterdam Convention	UNFCCC	Kyoto Protocol	CBD	Cartagena Biosafety	UNCCD	POPs (Stockholm)
COOK ISLANDS						R	R				R	R	R	S	A	
FIJI		R		A		R	A	A			R	R	R	R	A	R
KIRIBATI		R					A	A	A		R	A	R	S	A	S
MARSHALL IS.		R	R			R	A	A	A	A	R		R	A	A	A
FSM		R				R	A	A	A		R	R	R		R	S
NAURU						R	A	A	A		R	R	R	A	A	R
PNG	R	R	R	A		R	A	A	A		R	R	R		A	S
SAMOA		R				R	A	A	A	A	R	R	R	R	A	R
SOLOMON IS.		R				R	A	A			R	A	R		A	
TONGA			R			R	A	A			A		R		A	S
TUVALU			R	A		R	A	A			R	R	R		A	
VANUATU		R	R	A		R	A	A			R	A	R		R	S

Source: UNESCO 2008:77

R = Ratified; S = Signed; A = Acceded

Domestic institutions regulating the physical environment such as the situation in Fiji many which date from the colonial era fell within a patchwork of rules organized around natural resource extraction and agriculture rather then a centralized regime sensitive to new modes of development or concern for future inhabitants of these islands (see *Table 5.13*). Only in recent years has the traditional awareness for the environment translated into a formalized regime of rules that stipulates the proper use and care of the physical environment and the resources that it contains.

Table 5.13: Rules Regulating Physical Development in Fiji

INSTITUTION	YEAR
Crown Land Act	1946
Native Land Trust Act	1946
Town and Country Planning Act	1946
Land Conservation and Improvement Act	1953
Forest Act	1953
Drainage Act	1961
Land Development Act	1961
Mining Act	1966
National Trust Act	1970
Irrigation Act	1974
Agriculture Landlord and Tenants Act	1976
Fisheries Act	1978
Environmental Act	*2005*

Source: Parliamentary Reports

The institution of the Environment Management Act of 2005 codified the rules regarding prudent use of natural resources and its impact on the environment and established the regulatory framework to oversee sustainable development specifically in key sectors like tourism.[75] Building on the 1995 Government White Paper on current trends in ecotourism in Fiji (ESCAP 2003: 14), the new Act promulgated important changes that directly impacted the tourism industry in Fiji, including rigorous environmental impact assessments (EIA) before undertaking any commercial projects involving hotels, resorts, airports in environmentally sensitive areas

[75] A copy of the Act can be accessed at http://www.environment.gov.fj/pdf/Policies/Acts%20and%20Regulations/Environment%20Management%20Act%202005.pdf(accessed August 22, 2011).

such as coastlines, beaches and foreshores that measured soil erosion, plant and marine life, water quality, pollution, etc. The Act specified the formation of an Environmental Trust Fund to pay for monitoring and enforcement, hire technical experts, environmental rehabilitation work, undertake research projects and if necessary for the repayment of environmental bonds. Funding for the trust fund would come from government appropriations, bonds, donations, penalties and fines or from other sources as directed by the government. The government also made it as a matter of national policy to promote and develop opportunities for environmentally sensitive tourism in Fiji in communities through an initial grant of F$500,000 dollars in the 2006-2007 budget for the Tourism Ministry (Ministry of Tourism Corporate Plan 2006).

Sustainable Tourism Projects

Fiji Islands is uniquely positioned to develop a robust ecotourism industry as it "represents a microcosm of the whole spectrum of the South Pacific island environments. It contains high volcanic islands...intact and eroded limestone islands and cliffs…caves, islets, coasts and coral atolls…Fiji has been called the 'ecological theatre'(Ayala 1995:42)." Ecotourism, even while a fairly niche product, has been implemented in a diversity of regions with a large tourism sector such as Tanzania (Charnley 2005), Thailand (Kontogeorgopoulos 2005), India (Sonak 2004), Nepal (Zurick 1992) and Colombia (Ospina 2006). The collaborative aspect of ecotourism involving local communities has made it an appealing model of sustainable development. A successful example of an ecotourism project is the Shark Reef Marine Reserve venture in the Fiji Islands which began as a private initiative by a local entrepreneur who compensated local villages not to fish in a specific area in order to maintain and replenish Bull

Shark populations for his dive operations over a number of years (2006-2008).[76] The total levies paid to the villages and the contractual operator according to Brunnschweiler (2010:29-42) up to 2008 was US$58,040 and will rise to US$100,000 in the next five years. In addition to the monetary benefits for these villages, the contract also stipulates a sponsorship program in which (1) the dive operator every year trains one person from each village up to the level of a dive master, (2) the dive operator acts as the mediating agent between the villages and the government, (3) the dive operator is responsible for all technical details such as required moorings and markers, (4) the dive operator assists the villages in monitoring the marine protected area and (5) the dive operator collaborates with the Department of Fisheries to train volunteer Fish wardens that provide oversight in the marine reserve (Brunnschweiler 2010:33).

The size of the stakeholders (three villagers and one private dive operation) have made this a manageable and successful project, but it does expose some limitations in sustainable modes of development such as ecotourism. Chinese scholars (Guangming et.al. 2008) in their study of Panda nature reserves in China discovered that the distribution of benefits and opportunities from ecotourism were quite disparate among local communities as it simply reflected the inherent disparity in the distribution of natural resources. But because ecotourism is a localized bottom-up project (Gatzweiler 2005; Stone and Wall 2004), communities feel a sense of entitlement because it is *their* resources and *their* management of it. It was a matter of luck that a very small collection of villages in Fiji discovered in their traditional fishing grounds marine life highly desirable to adventure divers and erodes communal linkages and traditional obligations (Crosby 2002; Schellhorn 2010). This will remain an issue among communities who

[76] A comparable project elsewhere in the Pacific Islands is in Moorea, French Polynesia. See Boutillier and Duane (2006).

benefit from the governments renewed emphasis on ecotourism and those who live away from areas not deemed suitable for tourism projects.

Besides the abundance of marine resources that make Fiji a suitable site for ecotourism development is also large tracts of pristine tropical forests institutionally protected from commercial development for decades (see *Table 5.14*). These areas are divided between forests reserves where tourist activity is permitted and nature reserves that do not allow any tourist or commercial activity. The only forest reserve that has been developed for ecotourism thus far is the area known as Colo-i-Suva containing barbeque spots, walking trails, sheds and toilet amenities for visitors and both areas have been regulated under the *Forestry Act of 1953* and the recent *Environment Management Act of 2005* (Waqaisavou 1999:97).

Table 5.14: Selected Forest & Nature Reserves in Fiji

FOREST RESERVES	SIZE (ha)	RESERVED	NATURE RESERVES	SIZE (ha)	RESERVED
Taveuni	11,290	1914	Nadarivatu	93.1	1956
Buretolu	1197.9	1926	Naqaranibuli	279.2	1958
Nadarivatu	7400.7	1954	Tomaniivi	1323.4	1958
Maranisaqa	77.3	1955	Ravilevu	4018.7	1959
Qoya	67.2	1955	Darunibota	2.2	1959
Vago	24.6	1959	Vuo Island	1.2	1960
Korotari	1046.9	1961	Vunimoli	20.2	1968
Yarawa	161.9	1962			
Colo-i-Suva	369.5	1963			
Savura	447.6	1963			
Saru Creek	3.2	1973			

Source: Waqaisavou (1999: 99)

Communities located in the villages of Taveuni began in the late 1980’s with the assistance of the Native Land Trust Board (NLTB), the Forestry Department, the Fiji Museum, the Ministry of Fijian Affairs, the Department of Tourism and the New Zealand Government to begin a four phase ecotourism project in Bouma covering 1,603 hectares from the coast of the island to the mountainous central plateau, which included Fiji’s largest lake. Most of the area is covered under a tropical rainforest and already designated as a forest reserve (Crosby 2002:373). The first two phases of the development opened in 1991 and 1993 and included of walking trails, lodges and visitor amenities around the Tavoro water falls. The later two phases minimizes physical development inside the forest reserve and only is open to guided tours to Lake Tagimoucia and a hiking along a heritage trail through the lush tropical forest (see *Table 5.15* and Crosby 2002: 373-374).

Table 5.15: Bouma Forest Reserve Ecotourism Project

PHASE	ATTRACTION TYPE	AREA (ha)	Tribe/Villages
1	Forest based, Waterfalls, Natural Attractions	535	1
2	Coastal based, Coastal Walks, Marine Attractions, Trekking	645	1
3	Forest and Culture based, Cultural sites, lodges, etc.	423	2
4	Forest based, Inland hiking, Bird watching	603	4

Source: Seroma (1995) at http://www.fao.org/docrep/X5336e/x5336e0b.htm(accessed August 22, 2011).

Unlike the Shark Marine Reserve Project, the Bouma ecotourism development has been a top down initiative for obvious reasons, it covers a very large geographical area, the project is situated on a small island of the mainland, and the land is designated as a forest reserve and hence falls under the jurisdiction of the Forestry Department. The New Zealand government underwrote the initial two phases of the project while the villages provided much of the labor (see *Table 5.16*).

Table 5.16: Summary of Costs of the Bouma Ecotourism Development

	PHASE 1 ($)	PHASE 2 ($)
Voluntary labor provided by villagers	(4,450 hrs-$1.98/hr) 8,678	(8,900 hrs-$2.48/hr) 22,072
Materials/Equipment	23,564	16,994
Labor	17,275	9,091
Services	16,921	15,391
Allowances & Subsistence	2,230	4,524
TOTAL	**68,668**	**68,072**

Source: Seroma (1995) at http://www.fao.org/docrep/X5336e/x5336e0b.htm (accessed August 22, 2011).

Prices range between five to sixty dollars a day for visitors depending on the level of activity and have been a commercial success for the villagers in and around the ecotourism project (see *Table 5.17*). The low cost of ecotourism development has also been advantageous for local communities with little capital who are the traditional custodians of the land in the island (Turnbull 2003; Scheyvens and Momsen 2008). This is not to begrudge the good fortune of these villages, but to highlight the criticism by Guangming et.al. (2008) that localized tourism disproportionately benefits communities who find themselves in the enviable position to having ownership of desirable sites with a high potential for diverse development projects.

Table 5.17: Income and Expenditures at Tavoro Falls in Bouma Forest Reserve (1/7/93-30/6/93)

INCOME	VISITORS	REVENUE (FJD)	EXPENSES (FJD)	PROFIT (FJD)
Park	3735	15,978	6,814	9,165
Refreshments		292	60	232
TOTAL	**3735**	**16,270**	**6,874**	**9,397**

Source: Seroma (1995) at http://www.fao.org/docrep/X5336e/x5336e0b.htm (accessed August 22, 2011).

These two projects demonstrate the potential for sustainable tourism in the Pacific Islands which a richly endowed with natural beauty and ecological diversity and within the resource parameters can either originate from local initiatives or State directives. Gains from sustainable remain fairly modest and remain a very small part of the overall portfolio of the tourism market and whether it is able to increase its market share remains to be seen. The lone dataset of ecotourism visitors from 2003 to Fiji show that out of the annual 430,800 arrivals (see Table 5.7) only 20,249 tourists engaged in nature-based tourism which amounts to less then 5% of travelers that year (see *Table 5.18*). Interestingly, visitors from Australia and New Zealand which comprise a majority of travelers to the Fijian market represented a much smaller percentage of ecotourists when compared to countries outside the region.

5.18: Ecotourism Visitor Arrivals (2003)

COUNTRY	ARRIVALS
Australia	2106
New Zealand	972
United Kingdom	6888
Ireland	954
Continental Europe	1716
USA	3203
Canada	786
Japan	293
Others	2093
TOTAL	**20249**

Source: Fiji Bureau of Statistics

Mainstream tourism will in the foreseeable future control the lion's share of the tourist market, but it does not mean that local communities cannot find a foothold in the sector, and given their modest beginnings, ecotourism project can only increase their opportunities. The institutional challenge lies in the ability of local and national actors to create rules that collateral damage in the communities where the projects are undertaken while maximizing the benefits beyond the immediate beneficiaries.

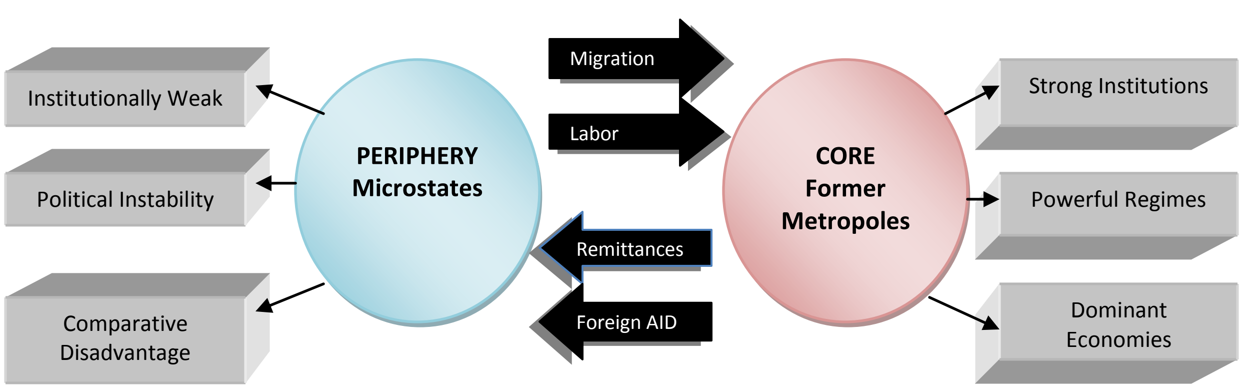
Conclusion

The success and failure of tourism in Fiji is largely predicated upon the State's ability to respond to three serious challenges, two of which were intrinsic to the industry per se, namely the cost prohibitive aspect of infrastructure provision demanded by tourism and the environmental externalities imposed by the arrival of large groups in small societies with limited resources. The external challenge to Fijian tourism over the past twenty-five years has been the periodic political instability that has inflicted severe costs on the tourism sector from loss of visitors to the negative image of the country and damage to its international reputation.

This section has demonstrated the *institutional capabilities* of Fiji as a typical microstate to articulate policies in response to these challenges and successfully prosecute its development objectives via the tourism sector. While it is undeniable that State underwriting of tourism projects has been a financial failure, the underlying concern of moving beyond sugar production is a legitimate issue that has to be resolved, and given the limited options Fiji has as is the reality with the other island economies, tourism provides a reasonable opportunity for development.

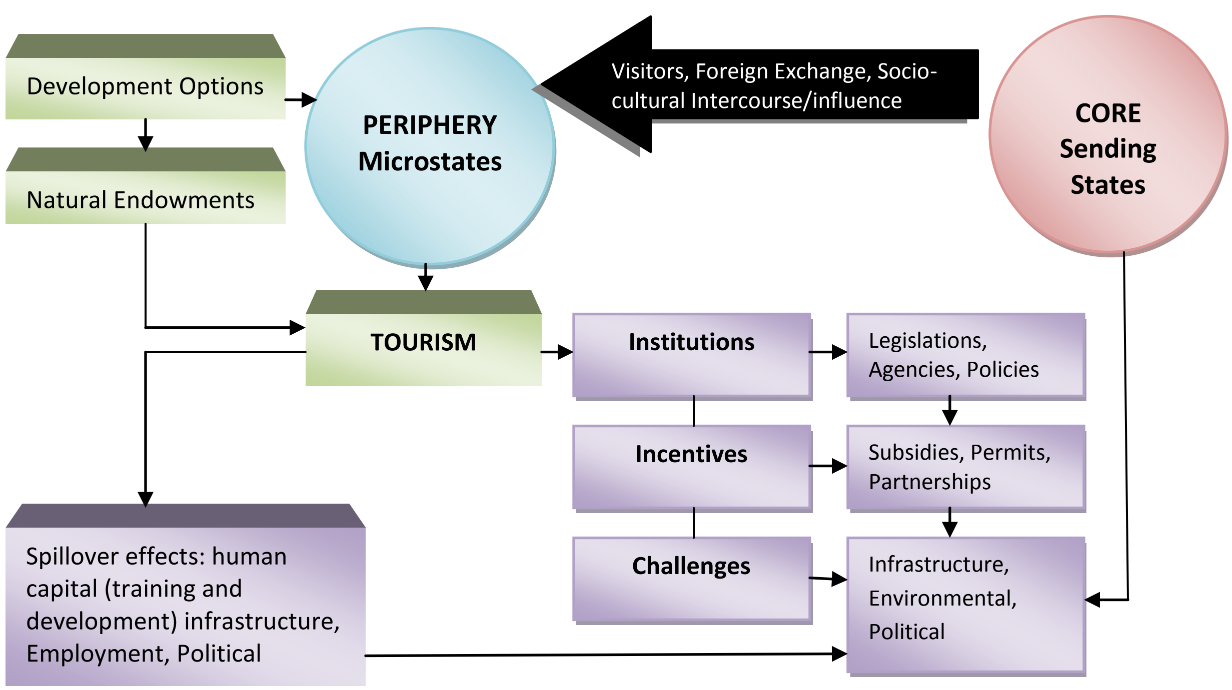
I have also argued that Pacific Islands are justifiably concerned with the environment and have taken commendable steps to ensure that they are able to contain degradation as much as possible within their means. An attractive way to meld development and tourism has been to encourage ecotourism projects in areas with the participation of local communities. While ecotourism remains a niche product with modest returns, it has nonetheless provided communities with a source of income and a stake in the developments of their region. It remains to be seen if the projects can be replicated on a much wider scale and if the benefits can be dispersed in a more equitable manner. However the policies put in place by the government in response to the specific challenges contradict the assumptions of the MIRAB model (see *Diagram 5.2*) that these islands are fundamentally incapable of organizing their societies in lieu of their size, resource limitations and historic metropolitan relationships.

Diagram 5.2: Model of a MIRAB Economy



The concluding chapter of this project will examine the following issues regarding Fijis place in the global economy, why tourism is a reasonable conduit for development and the future of the industry for Fiji and other island economies. This project has argued that comparative advantage (see *Diagram 5.3*) is a better theory that explains the survival of microstates in the global economy and that these small islands have the ability to create the institutional structure necessary to exploit their natural endowments and develop a tourism industry. The evidence presented in this project testifies to the theory of comparative advantage as a sufficiently better explanation than are model predicated on colonialist assumptions of dependency, helplessness and patronage. Small states do not have the resources to engage in speculative investment strategies and investment policies in microstates therefore reflect industries best able to fulfill its development priorities. The Pacific Islands because of their natural endowments have a comparative advantage in the tourism sector and have developed policies to benefit their societies and allow them to thrive in the global economy.

Diagram 5.3: Comparative Advantage and the Political Economy of Tourism



Chapter Six

Conclusion

Introduction

The route to developing tourism as a viable sector in Fiji has neither been facile nor restrictively arduous for a small economy with limited resources in the midst of substantial political and social change. The complex and unwieldy nature of international tourism demanded that Fiji over time create structures and institutions conducive to the growth and nourishment of tourism as a viable industry and its eventual role in national development. The pivotal role of tourism in enabling the state to engage in institutional formation is an area of inquiry overlooked by scholars and which this project has endeavored to rectify. The tourism sector has made significant contributions to the political economy of the Fiji Islands under less then ideal conditions, demonstrating both the limits and the potential of microstates to successfully negotiate through the global economy. In this chapter I employ a basic SWOT analysis to examine both the contribution and threats to the tourism industry in Fiji and enquire into the future of the industry in the Fiji Islands (see Table 6.1 on a SWOT analysis of tourism in Fiji)

One of the crucial contributions of tourism in Fiji has been in providing employment opportunities for the people of Fiji and analysis of data from the Fiji Bureau of Statistics reveal that the "employment effects" of tourism development is a significant benefit (Elkan 1975: 129) and justified the strategy pursued by the state in building the tourism sector. Secondly, the tenuous political climate in Fiji has remained the principal threat to tourism and I have outlined specific policy challenges facing the tourist industry in Fiji but to propose policy on the *political* situation in the Island, or proposals for land reform is beyond the scope of this project. Thirdly, the long denouement of sugar production has provided an occasion for tourism to climb to its ascendant position as the country's leading sector and inadvertently exposes a central weakness of small economies where a single sector dominates the socio-economic landscape and should be a legitimate concern for the state and the stakeholders. Finally the willingness to invest in training and education in order to develop a diversified workforce inside the tourism sector as well as beyond it is a challenge and an opportunity for the state and the industry and is a harbinger of the future direction of tourism in Fiji. The concluding section reiterates the importance of institutions and the role of the State to ensure the survival and flourishing of small islands in the global economy and adumbrates issues that would benefit from further enquiry.

Table 6.1 SWOT Analysis

Strengths	**Weakness**
Employment Institutions	Sector domination State Investments
Opportunities	**Threats**
Diversification Human capital	Political instability Land tenure

Tourism and Employment

Increased employment opportunities proffered by a bourgeoning tourism sector has been compelling enough for the government to channel resources and advocate the desirability of Fiji having a robust tourism industry (Fiji Development Plan 2007; Fiji Times November 24 2009; November 28 2009)[77] a perspective echoed by external agencies such as the Asian Development Bank (ADB).[78] The strength of the tourism industry in Fiji has been to provide employment opportunities for people of a small island economy with limited resources and declining options.

[77] http://www.fijitimes.com/story.aspx?id=134204 http://www.fijitimes.com/story.aspx?ref=archive&id=134434 (accessed October 11, 2011).
[78] http://www.adb.org/projects/pres/pres_case_05.pdf (accessed October 11, 2011).

However the salutary benefits of employment though tourism tend to be eclipsed by the fuzzy measurement of those directly employed by the tourism industry and the low wages they receive. Because the tourism sector provides both direct and indirect employment within the broad spectrum of services, distinction is made between employment in tourism *related* industries and employment in tourism *enabling* industries (Johnson and Thomas 2001: 39-41). The former includes people directly employed in hotels, restaurants, clubs, bars, museums etc, while the later classification comprises individuals providing ancillary services such as transportation, retail, etc (Johnson and Thomas 2001: 43-44). Leiper (1999) has argued in an Australian case study that confusion regarding direct and indirect employment leads to an exaggerated and misleading relationship between the tourism sector and its impacts on job creation. Leiper concludes that official government figures may have inflated jobs in the tourism industry by as much as three times the actual employment on a full-time regular basis comparable to other sectors (Leiper 1999: 606). The second problem associated with employment in tourism is the low wages and benefits for work that is demanding, stressful and public requiring the cultivation of a certain image and composure. Studies from tourism intensive States like Montana and Utah[79] and municipalities such as Los Angeles[80] as well country studies from the Cayman Islands (Amit 2001) and Central America (Ferguson 2010) as well as analysis by the International Labor Organization (ILO)[81] all concede that poor wages is endemic to tourism.

The problem of low wages in the tourism sector makes it difficult to defend the efficacy of investing in the development of the industry as a vital part of national development. However

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[79] http://www.itrr.umt.edu/research/WAGES.pdf
http://travel.utah.gov/research_and_planning/special_reports/documents/BEBRWageStudy.PDF (accessed October 11, 2011).
[80] http://articles.latimes.com/2009/jun/25/business/fi-tourism25 (accessed October 11, 2011).
[81] http://www.ilo.org/global/about-the-ilo/press-and-media-centre/news/WCMS_007840/lang--en/index.htm (accessed October 11, 2011).

the tourism industry in Fiji emerged not from a denuded industrialized economy with previously high levels of income, but from a largely agricultural economy with significant levels of informal and irregular paid employment. Analysis of employment data (*Table 6.2*) will therefore reveal that the tourism sector has actually been one of the better paid industries in Fiji when compared to both agriculture and manufacturing. A reasonable case can be made for the positive role of tourism in Fiji as a net generator of employment and one of the main strengths for the development of the sector.

Beyond the problem of measuring who directly benefits from tourism and how much they are being compensated is the deeper issue of skill formation and the development of human capital. Thomas (1980), in her study of the impact of tourism on Gullah Blacks from the islands of South Carolina, derisively labeled the employment effects as one of "a chambermaid-caddy economy"(Thomas 1980:11). In a study of the Cayman Islands whose economy is dominated by tourism and the financial sector, Amit (2001) discovered that most natives eschewed working in the tourism industry and opted for either fishing or working in finance (585-586) leaving temporary workers from the surrounding Caribbean Islands to fill demands in tourism. Alternatively a number of scholars such as Levy and Lerch (1991), Jenkins and Henry (1982), Narayan (2000), Shaw and Williams (2002) and Richter (1989), even while acknowledging the low-skilled aspect of tourism related work, argue that it provides economic opportunities for individuals and communities who would otherwise have been excluded from the formal economy such as women, tribal communities, rural inhabitants and other groups. The development of sustainable tourism, which requires minimal skill formation and technical expertise, is an example of previously excluded groups being able to participate, albeit with modest financial rewards when compared to economies of scale in the global tourism market.

A cursory examination of the relationship between tourism and employment exposes problems of measurement, compensation and skill formation which are unlikely to be resolved anytime soon and beyond the limits of this project. I have only endeavored to argue that tourism in Fiji has made positive contributions to employment and data from the Fiji Bureau of Statistics (see *Table 6.2*) confirms my position that the employment effect has been one of the strengths of tourism in Fiji.

Table 6.2: Sectoral Comparison of Paid Employment and Wages in Fiji (1975-2004)[a]

Year	Agriculture/Forestry/ Fishing (Employees)	*Mean Daily Wage (FJD)*	Manufacturing (Employees)	*Mean Daily Wage (FJD)*	Retail/ Hotels/ Food (Empl.)	*Mean Daily Wage (FJD)*
1975	2,845	*4.98*	13,185	*6.19*	10,319	*5.68*
1976	2,599	*5.03*	11,444	*6.64*	11,701	*6.54*
1977	2,441	*5.76*	11,253	*6.87*	12,117	*6.89*
1978	2,787	*6.67*	13,484	*8.10*	12,778	*7.26*
1979	2,303	*6.88*	13,948	*8.48*	13,099	*7.85*
1980	2,627	*7.44*	15,413	*9.52*	13,378	*8.88*
1981	2,509	*6.24*	14,223	*10.56*	14,140	*10.24*
1982	2,274	*6.16*	13,522	*11.20*	13,878	*10.32*
1983	2,517	*6.96*	14,702	*11.92*	14,888	*11.04*
1984	2,238	*8.64*	14,184	*12.00*	14,904	*11.20*
1985	2,577	*8.32*	14,057	*12.16*	14,805	*11.36*
1986	2,165	*8.24*	13,973	*11.84*	14,100	*11.28*
1987	1,986	*8.64*	13,680	*12.32*	12,024	*11.68*
1988	2,004	*8.56*	14,040	*12.56*	11,864	*12.00*[b]
1989	2,130	*11.92*	19,666	*11.36*	14,330	*12.08*
1990	2,312	*10.96*	21,051	*11.44*	14,849	*12.80*
1993	1,881	*13.28*	24,882	*13.92*	17,880	*15.76*
1996	1,980	*15.68*	24,634	*16.32*	20,730	*20.00*
1997	1,925	*12.88*	27,039	*15.12*	20,888	*16.96*
1998	2,202	*13.36*	29,200	*14.48*	21,025	*17.60*
1999	1,647	*16.77*	29,202	*15.15*	20,337	*18.38*
2000	1,776	*16.95*	28,536	*15.97*	22,097	*18.58*
2003	1,670	*19.44*	25,467	*17.91*	25,781	*20.89*
2004	1,570	*19.50*	25,011	*18.95*	26,684	*20.56*

Source: Fiji Bureau of Statistics Annual Employment Survey

[a] Data is missing for years 1994-1996, 2001-2002

[b] Data is inconsistent and unexplained in official records

Analysis of Employment in Fiji

Table 6.2 above charts paid employment (formal) with the mean daily wages in dollar amounts in three sectors from 1975-2004 (minus the missing years) and provides a glimpse of the political economy of employment in the Fiji Islands and situates the relationship between tourism and labor. The most significant exclusion is employment and payments in sugar production which dominated vast sections of Fijian society for decades and ancillary industries, many of which would fall under and informal economy. Secondly, the sudden expansion of the manufacturing sector from the late eighties should not be interpreted as a positive turn towards a more technical/industrial pathway to development as almost all the jobs in manufacturing had to do with the establishment of sweatshops in the garment sector where average wages ranged from $0.78 in 1988 to $1.36 an hour in 1999, or daily wages on an eight hour shift ranged from F$6.24 in 1988 to F$10.88 in 1999 (Prasad, Ram and Marr 2009:755; Oxfam 2003). Accordantly the problem of measurement as emphasized by Leiper (1999) is evident in data on labor in the retail, hotel and restaurant industry which agglomerates employment in tourism *related* industries *with* employment in tourism *enabling* industries (Johnson and Thomas 2001).

Without eliding over the reservations noted here regarding the data on employment and wages in Fiji, two observations are salient to the relationship between tourism and labor within the context of the Fiji Islands. First, I concur with the general assessment that service sector jobs in general and tourism industry work in particular a mostly low-wage employment (Kim 2000; Iverson and Wren 1998; Albrecht et. al. 2000; Howell and Wolff 1991; Choy 1995; Gladstone and Fainstein 2001; Szivas, Riley and Airey 2003; Faulkenberry et.al. 2000) even though the tourism industry may occasionally attract a thin strata of specialized personnel demanding higher wages (Liu and Wall 2006; Szivas and Riley 1999; Baum 2007).

The problem of low wages within the *Fijian* context as the data demonstrates is not unique to tourism but has been an issue across major sectors of the economy. In fact wages in the retail, hotel and restaurant industries have paid slighter *better* than either agriculture or manufacturing since 1989, and no perceptible decline in wages occurred after the first coup in 1987 but a lack of data from 2001-2002 and from 2004 onwards disallow any comparative assessment of political crises and wages. Secondly, employment in agricultural related industries has continued to decline since 1975 and manufacturing since its peak in 1998 while employment in retail, hotels and restaurants have increased two-half times from 10,319 in 1975 to 26,684 in 2004 corresponding to the increase in visitor arrivals to Fiji from 161,707 in 1975 to 504,075 in 2004. It is reasonable to postulate that a vital contribution of tourism in Fiji has been the creation of much needed jobs in the absence of other more desirable alternatives and though these jobs were not as highly remunerative, they were in comparison to the other sectors a better option for the people of Fiji.

Another issue that has plagued the tourism sector besides low-wages is the low-skilled nature of work in the service sector (Bluestone and Harrison 1988; Jovanovic and Nyarko 1997; Szivas, Riley and Airey 2003) and remains a challenge for governments to move employees up the skill ladder. In Fiji, the state through its investments in post-secondary education has fairly well established institutions in both the University of the South Pacific[82] and the Fiji National University[83] in developing a better trained and internationally qualified workforce for the tourism industry. Investments in training and education whether through formal or informal institutions allows an equitable dispersal of goods and services and creates opportunities for skill formation,

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[82] See USP website at http://www.tourism.fbe.usp.ac.fj/ (accessed October 12, 2011).
[83] http://www.fnu.ac.fj/ (accessed October 12, 2011).

literacy and development which is a necessary condition for success as tourism becomes more internationalized in the global economy.

The state has played an active and successful role in establishing tourism as a viable industry in Fiji but there is a noticeable absence of collaboration between the state and the tourism industry in elevating the training and development of workers in the sector. Incentive structures set up by the institutions and administered by the respective agencies are preponderantly biased towards the infrastructural demands of creating tourism in Fiji, whereas there are no comparable mechanisms to incentivize the industry in investing in human capital to ensure that Fiji is not reduced to a "chambermaid-caddy economy" (Thomas 1980:11). Baum and Szivas (2008:791-792) present the case of tourism in Ireland and suggest that state engagement in tourism moved in three different stages of human resource development, immature, intermediate and mature. In the initial phases, the government was reduced to providing enough training for personnel to work in the tourism industry in accordance with sectoral demands. In the intermediate stages, greater stress was placed on individual skills after careful national assessments of the labor market, the development of national curricula and accreditation of training programs. In the final phase of state involvement in tourism in Ireland, the government has created a development agency that coordinates all training in tourism[84] which prepares a national human resource development strategy for tourism on behalf of the government and delivers senior management and post-graduate programmes for people in leadership positions and those who are entering into management in the industry.

Fiji is comfortably moving towards the later stages of the industry and it would behoove the government to take a more active role in the development of human capital and to build

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[84] See http://www.failteireland.ie/ (accessed October 16, 2011).

institutions that would engage the industry to become a more active partner in building human capital and contributing towards skill formation (Fidgeon 2010; Baum 2007).

The Future of Tourism

The optimistic projection by the government of a consistently expanding sector is neither warranted nor guaranteed in lieu of the complicated political situation in Fiji over the last twenty-five years which inevitably pose a significant threat to tourism in Fiji. Unfortunately this optimism has encouraged the state to invest with public funds in tourism development projects that have accumulated deep losses that are currently under investigations. This financial mismanagement does not bode well for the industry in Fiji and reveals a potentially serious weakness in which the government has created a "champion industry" and placed its bets on a single sector. Cutter, Boruff and Shirley (2003:12) suggest that a "singular reliance on one economic sector for income generation creates a form of economic vulnerability" that is unhelpful for communities whose fortunes rise and fall with those of the industry. The disproportionate allocation of resources into one sector by the state to the exclusion of other vital industries will create a clientelist relationship between the state and the tourism industry and in which productive cooperation degenerates into one of entitlement as the tourism industry becomes "too big to fail."

Secondly as Leiper (2008) and Berno (2001) have argued tourism is a composite product that ranges across the entire cross-section of society. Investment strategies that are merely focused on building accommodations or developing golf courses will overlook productive uses of valuable capital in other less visible areas such as training, education, environment, culture, food etc, all of which are impacted by tourism in host communities. It is recommended that the state divest itself from its substantial investments in the tourism development projects in Fiji and resume its positive role as a builder of institutions rather than resorts.

The most serious threat to tourism in Fiji is the chronic political instability that has continued to disrupt the industry since 1987. The travel warnings triggered by the successive coups have heightened the tension between the tourism industry in Fiji and the intractable political problems that has beset Fijian society for the past twenty-five years. The tourism industry had a fortunate escape after the political crisis of 2006 when visitor arrivals only registered a 2% decline unlike the 30% drop in arrivals following the events of 1987 and 2000. It is likely that future outbreaks of instability will significantly erode its market share and further damage Fiji's image as an ideal travel destination.

The external fallout as a consequence of political instability is not sustainable for microstates that must by necessity forge interdependent relationships within their region. The ongoing political maneuverings have heightened the divisions between the Melanesian bloc[85] (Vanuatu, Solomon Islands and Papua New Guinea) which favor a more conciliatory policy response towards Fiji and the Polynesian group (Niue and Tonga)[86] led by Samoa[87] and supported by Australia and New Zealand, who insist on maintaining a more aggressive posture towards the political situation in Fiji[88]. For example, the Australian sanction regime places Fiji in the unenviable company of Myanmar, North Korea, Yugoslavia, Iran, Libya, Syria and Zimbabwe which makes the Fiji Islands a dangerous and rogue nation on par with some nuclear

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[85] See website at http://www.msgsec.info/ (accessed October 19, 2011).
[86] See the Report by Graham Davis at http://www.pmc.aut.ac.nz/articles/playing-fire-are-australia-and-nz-using-samoa-stalking-horse-regime-change-fiji (accessed October 19, 2011).
[87] The Samoan policy on Fiji is at http://www.radioaustralia.net.au/pacbeat/stories/200907/s2628104.htm (accessed October 19, 2011).
[88] For the official New Zealand Policy on Fiji see website at http://mfat.govt.nz/Foreign-Relations/Pacific/0-Fiji-FAQ.php (accessed October 19, 2011). For the official Australian Policy on Fiji, see website at http://www.dfat.gov.au/un/unsc_sanctions/fiji.html (accessed October 19, 2011).

armed states! (See the Australian Department of Foreign Affairs website). The political damage to Fiji's credibility as a reliable center for Pacific leadership is threatened by the ongoing political instability with unforeseen shifts in alliances and relationships that could be detrimental to Fijian interests, especially its economy.[89] The changing political dynamics in the South Pacific is a fertile area for future research by scholars probing the behavior of microstates that are jostling for power, resources and influence in the shadow of a regional hegemon.

I have only responded to the political situation in Fiji within the context of its impact on the tourism sector and the threat that periodic crises poses to the industry. Resolving the political crises in Fiji would not only attenuate the chronic political instability that has damaged Fiji politically and economically but would ameliorate the negative fallout in the tourism sector in which the government has made substantial investments over many years. The four *coup d'états* since 1987 have economically cost the country a combined F$9.4 billion dollars in investments and lost revenue (Fiji Times December 10, 2007; The Australian November 9, 2009)[90] adding to the already discussed political consequences of instability. Fiji has a well developed tourism industry with an established consumer base that bodes well for its future but until it resolves its political situation that future will remain tenuous and perhaps thwarted.

Microstates in the Global Economy

Global economic realities dictate that societies regardless of size or resource capabilities develop institutions to help navigate them through the international system or fall further behind, as is the unhappy fate of states that fall in the United Nations category of least developed

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[89] See http://www.theage.com.au/world/fiji-remains-an-outcast-in-pacific-20110908-1jzte.html (accessed October 19, 2011).

[90] http://www.fijitimes.com/story.aspx?ref=archive&id=76233 (accessed October 19, 2011), http://www.theaustralian.com.au/news/nation/coup-culture-risks-starving-people-of-fiji/story-e6frg6nf-1225795565541 (accessed October 19, 2011).

countries (LDC) [91]and specifically the four microstates in Oceania (Vanuatu, Solomon Islands, Samoa and Kiribati, see *Table 1*) that form part of the LDC group. Collectively all the small islands in Oceania share certain attributes that make their survival as independently thriving communities highly improbable, which has led scholars to search for a theory that best explains the endurance of microstates in the global economy. The flow of foreign aid, remittances and labor migration, which is not unique to the South Pacific, nonetheless led theorists to build a model of a MIRAB economy that best explains both the structure and the survival of microstates.

This project has alternatively argued that the theory of comparative advantage best explains how the small islands in Oceania organize their state and economy to maximize their natural endowments instead of being merely passive actors that are wholly reliant on the goodwill of regional powers and former metropoles for their livelihood. One of the ways in which the Fiji Islands as a typical microstate in Oceania has overcome the limitations of size and resources is to exploit its location, scenery and climate by developing a robust tourism industry. The transition from sugar production to tourism services seemed a natural evolution within the circumscribed limits of Fiji's resource capabilities as both sectors are labor intensive and low skilled (Katouzian 1970).

The MIRAB model is in essence a philosophical argument regarding the existence and structure of microstates in the international system and rests on a series of questionable and unsustainable assumptions. The fundamental postulate of the MIRAB hypothesis is that microstates are *institutionally failed* societies and therefore lack the organizational and political capacity needed to construct and develop economic policy. The level of sophistication and expertise required for institution building is beyond the ken of these small islands and the best

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[91] For a complete list of LDCs see UNCTAD website at http://www.unctad.org/templates/Page.asp?intItemID=3641&lang=1 (accessed October 19, 2011).

that they can do is to ingratiate themselves with either their former metropoles or regional hegemons who would than ensure their survival in the global economy (Baldacchino 1993). The development of tourism in the Fiji Islands demonstrates that microstates are quite capable of building institutions and formulating policy to meet the challenge of social and economic development even in the midst of political upheaval and crises. This project advanced the hypothesis through a case study of the Fiji Islands that comparative advantage was a better explanation for the endurance of microstates in the international system than one predicated on a subservient and dependent relationship and the evidence articulated thus far preponderantly favors the hypothesis. The hypothesis once established as Lijphart (1971: 692) proposed can now proceed for either confirmation or disconfirmation with further comparative analysis and study. The peoples of the Pacific deserve nothing less.

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