



SMALL STATES IN TRANSITION – FROM VULNERABILITY TO COMPETITIVENESS

SAMOA

DEVELOPING COMPETITIVE ADVANTAGE THROUGH SERVICES EXPORT

The relevant issues:

Samoa is a small open economy highly dependent on a narrow resource base that is limited to agriculture, tourism, small-scale manufacturing and fisheries.

The country's macroeconomic performance is highly dependent on external factors in the form of commodity export prices (e.g. fisheries), crop disease (e.g. taro leaf fungus), tourism demand and weather related shocks such as those being witnessed by the savage hurricanes in February 1990 and in December 1992.

Samoa's average real rate of GDP for the year 2002 was about 2% but this is expected to be slightly higher in 2003. Fishing and agriculture account for the largest share at around 20% of GDP followed by commerce, transport, and public administration.

Since the early 1990s, the government had undertaken important economic reforms aimed at improving the efficiency of the public sector, relaxing foreign exchange transactions and interest rate controls, and developing its small private sector.

The services component of economic activity mainly relate to commission, contractors fees, advertising, royalties, real estate rentals, the expense of embassies, life and other insurance and most importantly, airline services and tourism.

Fish remains the dominant export earner and if fish were subtracted from total merchandise exports over the period 1996 to 2001, the value of total exports would have declined at an average annual rate of 10.1%.

However, in relation to imports, these frequently exceed exports by up to eight times.

In June 2003, the inflation rate was 4.3%. Currently this rate has fallen below 3% as inflation and the exchange rate have been able to be well managed.

The country's net foreign assets are equivalent to about 4.7 months import of goods and the current account has been in surplus since 1994 due to earnings from tourism, private remittances and official grants in the form of foreign aid flows. Such earnings are important sources of foreign exchange supporting the overall surplus balance of payments.

In addition, there is also a regional shipping service (the Pacific Forum Line) that offers shipping services within the region.

Now apart from tourism and airline services with receipts that contribute to the major portion of foreign exchange receipts and also rank about the same as remittances from overseas, services export is negligible. Services export is restricted to small-scale export of professional services such as accounting, auditing, IT or managerial consultancy, and legal work to neighbouring islands and for off-shore companies.

Samoa's approach to addressing the issues:

Samoa's economy has been described as being well managed in terms of Pacific Island countries and the recent reforms by Government have contributed a great deal to this achievement. These reforms have included tariff reductions, taxation restructuring, financial sector liberalization and public sector reform.

In comparison to some of the larger Pacific Island countries, the growth of the private sector has been somewhat slow and Samoa has not been successful at attracting large scale foreign direct investment despite its relatively stable political environment and efforts in reforming its economy.

For this reason, Samoa continues to face obstacles in the foreseeable future with regard to the export of services.

Of significance is the impact to the economy (as evident by Samoa's dependence on tourism) has been the relatively massive budgetary funding of the country's airline, Polynesian Airlines and Government's commitment to investing money in tourist facilities.

The country is now looking at other initiatives such as offering foreign vessels local registration to combat this problem.

Associated obstacles and constraints:

Obstacles and constraints to service exports include the following:

- Difficulties of entry into foreign countries.

These difficulties stem from other countries' priorities of according first priority to their own citizens for any services required and visa restrictions for work related entry.

- Distance between Pacific Island countries.

While Pacific Island countries are small, they are scattered over a vast sea of ocean. These distances also add to the cost of airfares.

- Lack of frequency of air services.

Pacific Island airlines are small and struggling to survive. Frequencies between these countries are therefore not regular and sometimes not reliable.

- Smallness of the Island States.

With the exception of some Melanesian countries such as Papua New Guinea and Fiji, the majority of the island countries are small both in geographical and population terms. Samoa, for example, has a land mass of 1100 sq miles and a population of only 170,000 people. Hence, its natural base for developing a competitive export service industry is severely limited.

- The inability of the country to utilize economies of scale.

A classic example is the Airline where total operations support only one jet (B737-800) aircraft. Cost inefficiencies therefore hamper the airline's operations due to its inability to spread fixed or set up costs to more than one aircraft.

- Regional and national aspirations.

While there has been regional co-operation in terms of shipping services, the same can not be said of airline services. In the latter case small island countries operate their own airlines often with heavy financial losses. The regional airline organization, ASPA (Association of South Pacific Airlines) has not been effective in setting up a regional airline.

- Customary land

Because 90% of the land is communal land, it can not be sold or leased without complicated village and traditional ownership issues being addressed. This has led to uncertainties with foreign investors especially in locating suitable sites for hotel development.

➤ Access to credit facilities/funds

Because of the high cost of borrowing, professionals such as optometrists and dentists are deterred from setting up private clinics that would enable them to offer their services to people from neighbouring Pacific Islands.

Level of success of strategic actions taken:

➤ Education

The few success stories of personal export service competitiveness has been due to the priority given by the Government of Samoa towards educating its citizens. With co-operation from its Commonwealth neighbours such as Australia and New Zealand, the country has a successful scholarship project, which enables many of its citizens to return to Samoa with tertiary qualifications and work experience.

➤ Financial services

a) Foreign exchange transactions are facilitated and no extra costs other than bank charges are levied for such transactions.

b) The recent development of the offshore industry legislation has also opened up doors for some of the professionals.

➤ Transport

Polynesian Airlines continues to sell its services to its neighbours, such as American Samoa, New Zealand, Australia, Tonga, Hawaii, Fiji and Niue and despite financial difficulties it continues to fly among and between these countries.

➤ Tourism and Infrastructure

The Government is actively involved in assisting the building of a new 140-room resort hotel and has focused also on further developing the infrastructure such as roads, electricity, water and telecommunications facilities aimed at attracting the tourist dollar.

➤ Consultancy Services

Recent moves by the International Agencies to include Samoan nationals in its main or subcontract services has also seen many Samoans providing appropriate services at the required professional and competent levels.

➤ Developing new legislation on Foreign Investment

The country's drive in promoting foreign investment has seen success stories such as Yazaki Samoa Ltd (a Japanese owned and operated car wiring assembly plant) and the Chinese cashmere garment factory that have already been set up.

Lessons learnt

For Samoa, one of the most important lessons learnt is the fact that there needed to be a strong partnership existing between the government and the private sectors. A closer relationship between the two was critical if the nation was to overcome barriers faced in light of international competition whether it relate to either the exportation of products or services.

Samoa in the recent years has managed to foster this relationship and has resulted in the transparent liberalization of its services policies and procedures that have in turn encouraged direct foreign investment to a degree as well as increase its services markets. It has also instigated a national committee consisting of members from both the public and private sector where matter pertaining to investment and trade can be discussed and consulted upon.

Samoa has learnt that in order to promote commercially realistic ventures, it has to accept that the majority of feasible projects will be, at best, medium size ventures because of the pace with which infrastructure is being developed and other inherent limitations presented by the availability of transportation and telecommunications.

Finally, it has also learnt that the competition for investors' funds is not restricted to the Pacific Islands region and in many cases, it may require a rigorous and effective marketing and facilitation program to beat the competition from other sources and by other countries.