TOURISM DEVELOPMENT
IN
WESTERN SAMOA

Prepared by
School of Travel Industry Management
University of Hawaii at Manoa

EXECUTIVE SUMMARY

Project Background

This study is part of the "Multinational Corporations in the Pacific Islands Tourism Industry" research project of the Pacific Islands Development Program (PIDP) of the East-West Center. In April 1988, PIDP contracted the School of Travel Industry Management (TIM) of the University of Hawaii at Manoa to analyze tourism development in ten Pacific island destinations. The destinations covered in the first year of the project were the Commonwealth of the Northern Mariana Islands, Marshall Islands, Federated States of Micronesia, Kiribati, Papua New Guinea and the Solomon Islands. This study on Western Samoa is part of the series for the second project year which also covers the Cook Islands, French Polynesia, and Tonga.

The purpose of this study is to provide an analysis of recent trends in Western Samoa's tourism development and the implications for government policy regarding foreign investment. The analysis is based upon a review of available data, previous studies, field visit observations, and interviews of government officials and tourism industry managers contacted during the field visit conducted in June 1989.

General Overview

Background on Western Samoa

The Samoan Islands are known to have been settled by 1000 B.C. and are considered to be the first inhabited Polynesian Islands. Europeans first arrived in 1722; of particular importance was the arrival in 1830 of English missionaries, whose presence profoundly affected traditional Samoan social and economic patterns. Imperial rivalry for control of Samoa resulted in various claims over the islands throughout the late nineteenth and early twentieth centuries with Western Samoa falling first under German rule followed by New Zealand in 1920 under a League of Nations mandate. In 1962, Western Samoa gained independence, while America Samoa remained an unincorporated U.S. territory.

Western Samoa is composed of nine islands, four of which are inhabited. The nation's capital, Apia, is located on the island of Upolu; larger but less developed is the second principal island of Savai'i. Western Samoa's climate is tropical, and the islands are endowed with fertile soil, abundant rainfall, and dense vegetation.

As of 1986 Western Samoa's population was 161,039, of which 72 percent lived on Upolu. Of central importance to the fa'a Samoa, or Samoan way of life, is the aiga or extended family. Thus, patterns of Samoan life, land use, and politics are predominantly communal-based.

Tourism Development

Western Samoa's attractiveness as a tourist destination lies primarily in the continued vitality of its traditional lifestyles and customs. The government began to plan for a controlled type of tourism in its Third Development Plan (1975-1979). and provided support for the industry in 1985 through the creation of the Western Samoa Visitors Bureau (WSVB).

Visitor arrivals to Western Samoa through the 1980s have generally increased, but at an inconsistent pace, and have yet to match the 1979 peak of 55,000 visitors. Despite WSVB's promotional efforts and the 1987 upgrading of Faleolo International Airport, growth of arrivals has slowed in recent years. American Samoa, New Zealand, Australia, and the U.S. are the principal markets for Western Samoa, accounting for 82 percent of all visitors. Nearly half of these visitors are vacation travelers, while 28 percent are visiting friends and relatives. The average length of stay for all visitors is 8.5 nights, and the peak months are December and May - August.

Western Samoa's fifteen visitor accommodation establishments vary in type and style, with most of their 345 total rooms located in Apia. Aggie Grey's and the Tusitala are the only two hotels of international standard, and their occupancy rate is estimated to be in the 40-60 percent range. Several large hotel projects remain unfinished. In general, Apia's infrastructure is adequate for the current number of arrivals. While Faleolo Airport has been upgraded, air access to Western Samoa has been curtailed by recent occurrences in the airline industry. Current total inbound capacity is approximately 1,489 seats per week, which appears adequate for the islands' current level of tourism except for peak periods.

In 1988, visitors spent approximately S30.0 million tala (US $13.8 million), about 45 percent of which was retained in Western Samoa. In recent years, private investment in the tourism industry has increased, while government investment has decreased. As in many other Pacific nations, customary land ownership presents a constraint on further investment.

At its peak in 1979 the tourism industry directly employed 655 persons. Recent government estimates indicate that the current labor supply is sufficient to meet industry's needs, although many workers lack necessary skills and training. The Western Samoa Technical Institute provides technical training, but has yet to integrate a formal tourism program into its curriculum. Currently, therefore, virtually all tourism training is performed on the job.

Tourism Growth and Problems

The government's latest tourism policies and goals, as contained in the <u>Sixth Development Plan 1988-1990.</u> call for a controlled tourism with minimal disruptions to traditional lifestyles. Currently, the WSVB is responsible for most aspects of tourism administration and planning. Several investment incentives have recently been enacted to attract foreign capital. The halting of three major hotel projects, however, has rendered previous tourism growth trends questionable. On the basis of a projected 6 percent annual rate of growth in arrivals through 1995, 74,000 visitors are expected by that year. Various promotional initiatives in Europe and Japan indicate that such a growth rate could be reasonably attained. Perhaps the primary constraining factors at this point are the country's struggle to maintain its traditions, which potentially hinders decisionmaking; the communal system of land ownership, which creates barriers for investment and development; and the lack of financial capital to support further tourism and infrastructure development. Other factors include limited human resource development, weak linkages between government and the private sector, and limited air access.

Stimulating Investment in Tourism

Government Planning

Government has planned economic development since the mid-1960s. The <u>Sixth Development Plan 1988-1990</u> calls for a sustained 2.0 to 2.5 percent real annual growth in domestic production. Despite government efforts, little improvement has occurred in Western Samoa's standard of living in the post-World War II period. The failure to produce the results sought by development planners is partly because government planning, especially in the early periods, paid little or no attention to the development of a viable market economy, and partly because Western Samoa, like other small Pacific economies, must contend with a unique set of physical and economic constraints that most other developing countries do not face. As a result of numerous constraints, the production and distribution of goods and services have not increased rapidly.

Domestic and Foreign Investment

In Western Samoa, lower standards of living do not permit the accumulation of sufficient domestic savings to finance basic capital needs. Inadequate infrastructure is a commonly found symptom of poor saving and investment conditions in most developing areas. To meet their rapidly growing capital needs, these countries turn to the rest of the world. In private world markets, optimal levels of capital can be acquired if borrowers show evidence of sufficient resources to cover their debt service costs and the repayment of principal.

Debt service problems in developing countries have sometimes derailed otherwise sound economic development programs. As a result, most countries, especially those with limited debt service capacities, turn to alternative sources of capital. In the case of Western Samoa, total net inflow of financial resources from all sources increased from US $4.8 million in 1972 to a high of US $33.1 million in 1980, subsequently dropping to US $21.7 million in 1982. However, net private inflows almost vanished during the decade, dropping from US $1.6 million in 1972 to US $0.1 million in 1982. Instead, most of the capital resources sent to Western Samoa came from official sources.

Capital inflows from official sources, primarily in the form of development assistance, have been instrumental in Western Samoa's development programs. In 1987, total development assistance to Western Samoa amounted to 39.3 million tala (approximately US $19.6 million), which represented 18.3 percent of gross domestic product (GDP) and 65.1 percent of the total development budget.

To increase capital formation, the Government of Western Samoa (GWS) has borrowed significant sums, especially from official sources. At the end of 1986, Western Samoa's total foreign debt outstanding amounted to US $65.4 million, more than four times the amount a decade earlier. Total annual debt service (interest payment and other cost) was US $5.9 million in 1986, more than five times the amount ten years earlier. Total debt service as a percentage of exports of goods and services increased from 6.9 percent in 1975 to 24.0 percent in 1986.

Reliable data on Western Samoa's private and public savings are not available. The only documented source of savings by Western Samoans is the remittances of those working overseas, especially in New Zealand and Australia. Total private transfers by Samoans overseas doubled from 31.4 million tala (@1 tala=0.46 US dollar) in 1983 to 63.5 million tala in 1986. During the first half of 1987, remittances amounted to 36.6 million tala. At that rate, the total for 1987 would have exceeded the 1986 total by another 15 percent.

Private remittances are also instrumental in the country's external accounts. Since Western Samoa's exports are basic agricultural commodities, the prices of which vary widely in world markets, export earnings are usually insufficient to pay for imports. In 1988, 47 percent of Western Samoa's imports were financed with remittances while exports paid for only 20 percent. Another 21 percent of imports were paid for with tourism receipts. The rest of the country's imports were purchased with foreign aid. In fact, foreign aid exceeded the gap between imports and exports in 1988 and resulted in a surplus in the country's balance on current account.

Western Samoa had a real gross domestic product (GDP) of 217.9 million tala in 1988. A total population of 162,200 in 1987 meant a per capita GDP of 1,343 tala or approximately US $672 per year. According to annual per capita GDP, both the World Bank and the United Nations place Western Samoa in the category of the least developed economies.

According to Western Samoan sources, real GDP increased 0.6 percent annually between 1985 and 1988. That rate of growth was an improvement over the 1979-83 period, when real GDP is estimated to have declined more than 4 percent a year. The fall in real GDP during the 1979-83 period was partly caused by a sharp decline in world agricultural commodity prices in 1980-81. Because Western Samoa receives the bulk of its foreign trade earnings from agricultural commodities, large swings in their prices cause wide fluctuations in their total value.

Stagnation and slow growth are not Western Samoa's only macroeconomic problems. The relative shares of GDP changed little between 1985 and 1988, indicating no significant shifts in the composition of output. Agriculture dropped only slightly from 36.1 percent in 1985 to 33.9 percent in 1988. The decline in agriculture's relative share was almost entirely attributable to a drop in production. Traditional agriculture and forestry will remain the largest component of GDP in the foreseeable future.

Land Tenure System and Investment

The Samoan land tenure system suggests that land, especially <u>aiga</u> on communal/customary land, is a common property resource, whose ownership rests with the <u>aiga.</u> instead of individual members. Approximately 81 percent of total land in Western Samoa is considered <u>aiga</u> land. To ensure that customary land is held in perpetuity for the benefits of the <u>aiga.</u> Western Samoa has clearly defined laws against the alienation of lands.

According to the most recent data, 81 percent (2,300.6 sq. km.) of the total Western Samoan land area is customary land and 11 percent (312.2 sq. km.) is public (government) land. Another 4 percent (113.6 sq. km.) is owned by Western Samoa Trust Estates Corporation (WSTEC), a multicorporation holding entity owned and operated by the Government of Western Samoa. The remaining 4 percent (113.6 sq. km.) is privately held (freehold) land.

The Alienation of Customary Lands Act of 1965 prohibits the transfer or lease of customary land for any agricultural or pastoral purposes to persons who do not hold the title of <u>matai.</u> With the consent of a village and its <u>matai.</u> customary land can be leased for up to 30 years to both Samoans and nonSamoans for purposes such as hotels, given that such arrangements are approved by the Minister of Lands and Survey.

The Alienation of Freehold Land Act of 1972 requires the consent of the Head of State of Western Samoa if freehold land is to be transferred to nonSamoans or leased for more than 20 years. The Head of State reserves the right to reject any transaction on the ground of public interest. The Land and Titles Act of 1981 updates and further clarifies the definitions of the various categories of land and the means for their transfer. In essence, all Western Samoan land laws are intended, at least implicitly, to preserve and strengthen the traditional land tenure system for the benefit of the <u>aiga.</u>

The inability to use land as a means of capital accumulation is a serious obstacle in the process of capital formation. In a more practical sense, most investors would be willing to invest capital in Western Samoa only if one of two conditions can be met. First, there is reasonable potential for the projected cash flow to satisfy debt service on a consistent basis. Second, if the failure of this condition warrants discontinuation of the project, sufficient security for the repayment of principal is in place. In traditional economies where land is the only true secure asset, it is difficult to attract foreign private capital if land cannot be offered as security.

Policy Recommendations

A number of constraints on increasing investment in Western Samoa's tourism sector exist including the lack of sufficient and explicit government policies to encourage investment in the tourism sector, a shortfall in the availability of domestic capital, a perceived lack of coordination among government agencies, the requirement for local equity participation, and land ownership and customary land use policies. These constraints will need to be overcome or minimized in order to create a more positive environment for tourism development. The following policy recommendations should enhance the environment for investment in the further development of tourism in Western Samoa.

1. The Government of Western Samoa should develop explicit economic policies to encourage the development of local entrepreneurships. If the pursuit of self-interest and making a profit are legitimized, there is a good chance that more indigenous entrepreneurs will emerge to produce goods and services. Without more entrepreneurs, the traditional structure is too rigid to allow a more rapid increase in the production of goods and services.

2. The Government of Western Samoa should establish a clear, well-coordinated investment policy. Investment in Western Samoa more or less means capital inflows from overseas. If outsiders are to invest in Western Samoa, they must be welcome and given sufficient assurances of adequate cash flow and repayment of principal. The government should demonstrate that it will not only encourage but facilitate the inflow of foreign capital by providing the institutional and market support to foreign investors.

3. The Government of Western Samoa should streamline its long-term lease arrangements. In the absence of laws which facilitate land leases, tourism facilities cannot be planned in a rational manner.

4. The Government of Western Samoa should formulate employment planning objectives to reduce the emigration of skilled labor. No amount of physical capital can substitute for the continuing exodus of trained and/or educated residents that Western Samoa has experienced since the early 1960s. To the extent that Western Samoans travel abroad to do business, the government should create the conditions for keeping indigenous entrepreneurs from emigrating. If Western Samoans go overseas to seek better economic opportunities, the government should look into providing special incentives to retain trained personnel.

5. The Government of Western Samoa should facilitate additional nonfinancial incentives for tourism investment. These could include further infrastructure improvements, improvements in international air access, and additional tourism marketing efforts and programs.