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The Perils of Unmanaged Export Growth: The Case of Kava in Fiji

by

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The Perils of Unmanaged Export Growth: The Case of Kava in Fiji

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ABSTRACT. Small developing countries are increasingly marginalized in the global system, especially in the context of global trading. There is a fascination for “bigness” and the global system exerts pressure, at times challenging the very existence of smaller countries. However, there are several small island economies that have succeeded in formulating ingenious development policies to overcome their vulnerabilities. Numerous smaller countries have relatively higher GDP per capita or HDI compared to the rest of the world. One way of overcoming problems associated with smallness is to find niche products for a sizeable international market. This article looks into how small-scale informal sector activities in a small island country could prove to be a pace-setter for a niche product in international trade. It explores the extent to which Fiji’s small-scale farmers have contributed to the exports of kava, and discusses its impact on their livelihoods and the challenges for the kava industry. This article also highlights how success could breed failure when growth is unmanaged, quality is not guaranteed, and domestic product regulation inexistent.

SOMMAIRE. Les petits pays en voie de développement sont de plus en plus marginalisés par le système mondial, surtout en ce qui concerne les échanges commerciaux. Il existe une fascination pour la « grandeur, » et le système mondial exerce une pression qui parfois met en cause l’existence même de ces pays. Cependant, plusieurs petites économies insulaires ont réussi à formuler des politiques de développement ingénieuses afin de surmonter leur vulnérabilité. De nombreux petits pays ont un PIB ou un IDH qui est plus élevé per capita que dans le reste du monde. Une façon de surmonter les problèmes associés à la petitesse consiste à trouver des produits différenciés destinés à un marché international assez important. Le présent article examine comment dans un petit pays insulaire les activités à petite échelle du secteur non structuré pourraient montrer la voie à un produit différencié dans le cadre du commerce international. On y étudie jusqu’à quel point les petits fermiers de Fidji ont contribué à l’exportation de kava, et on y discute l’impact sur leurs moyens d’existence ainsi que les défis auxquels fait face l’industrie du kava. Cet article souligne aussi comment la réussite peut engendrer l’échec lorsque la croissance n’est pas gérée, que la qualité n’est pas garantie, et que la réglementation sur les produits domestiques est inexistante.

Introduction

Small island countries face significant challenges associated mainly with their small size, remoteness and vulnerability when trading and competing in the global market. Smallness combined with insularity has been synonymous with small domestic markets, and lack of scale economies, human capital and entrepreneurship. Recent empirical studies also show that small islands are in a disadvantaged position in doing business in the global market as a result of their inherent cost associated with smallness. For example, the cost disadvantage for (micro) islands in the manufacturing sector (clothing and electronic assembly) is 36% higher compared to a median-sized country, and 58% higher for tourism industry (Winters and Martins, 2004).

These issues lead us to ask how the business sector survives in these islands at all and the consequences that this may have on the consumer. In the South Pacific, the economy of small island countries is characterized by a large informal sector and widespread

subsistence agriculture and fishing. Cultivation and export of indigenous root crops, export of some specialized agricultural products, fishing to supply foreign fishing fleets within territorial waters, prevalent but mainly small tourist sectors, small industries manufacturing products that are costly to transport, retail outlets, and at times substantial mineral resources exploitation are common economic activities in these islands (Asian Development Bank, 2004). Discussing the private sector in the small islands can also be misleading since there are only a few “big” businesses (mostly engaged in natural resource extraction or retailing); the very large majority of firms are small or micro livelihood businesses.

Armed with such evidence, can small island countries produce and export their goods and services competitively? Or, are they doomed to failure because of their size and geography? Despite their huge cost disadvantage, several island economies have managed to survive through trade, capitalizing on preferential trading agreements, using their sovereignty, developing small transient market niches which create quasi-rents, and through support from remittances and aid (Prasad, 2004). In fact, some small islands have excelled in small-scale, high-value products and have put to good use their island identity (Baldacchino, 2002). Recently, the concept of “resourcefulness” of small island economies has drawn attention from scholars. Baldacchino (1999a, 1999b, 2002, 2005a, 2005b) has done extensive research on this concept of uniqueness of small economies and their inherent political and economic capacities. There is a shift from focusing exclusively on vulnerabilities of small islands towards a more positive element of resilience of small islands.

This article looks into how small-scale informal sector activities in a small island country can propel a niche product in international trade. It explores how Fiji’s small-scale farmers have contributed to the exports of kava in international markets and how it has affected their livelihoods. It also demonstrates how success can breed failure and why small island countries should be vigilant in order to stay competitive in the global market.

Fiji’s Experimental Economic History

Fiji, independent since 1970, is an island archipelago in the central South Pacific, with Suva as its capital city, and a total population of 846,085 (Fiji Bureau of Statistics, 2006). Since its occupation by Europeans, Fiji’s initial development has been based on the plantation colony model. Fiji had been trying to find its holy grail for exports as early as the 1850s, when it was already trading in coconut oil, tortoise shell, sandalwood and *bêche-de-mer* (Stokes, 1969). Westerners who had settled the country tried raising sheep and cattle, but cotton planting became successful in the 1860s (Seemann, 1861). It is worth remembering that Britain first became interested in Fiji for its potential of supplying cotton to the Empire as an independent source (rather than obtaining it from the United States). However, as a result of the collapse in the price of cotton, planters started experimenting with other crops such as coffee, tobacco, rice and sugarcane. For some time, coffee replaced cotton, but it was ravaged by disease in 1879. Sugarcane was grown on the islands since the 1860s, and emerged as the key export crop soon after. With the arrival of Colonial Sugar Refining Company (from Australia), indentured labour from India and the growing demand for sugar in Britain, the “experimental phase of plantation agriculture came to an end” (Stokes, 1969: 391). Sugarcane was the backbone of the country for many decades thereafter, and still remains an important activity thanks to guaranteed prices and markets in Europe. Because of over dependence on sugarcane, numerous initiatives for diversification have been undertaken, with the ginger plantation in former banana-growing

areas, cattle grazing, and pine plantation as few notable successes (Brookfield, 1987). The mahogany plantations initiated in the 1970s are expected to start yielding benefits soon.

In the mid-1800s, the major problems of the country were “distance from the European market, unreliable and expensive transport, insufficient capital, and shortage of labour” (Stokes, 1969: 387). Not surprisingly, these problems still persist together with the usual problems associated with smallness, isolation, vulnerability and the common syndromes of a developing country. Adding to these difficulties are the ethnic differences in the country, which create political tensions (Lal, 1990; Davies, 2005).

In terms of economic growth of the post-independence era, the country performed relatively well in the 1970s, averaging 4–5% annually, but the growth declined in the 1980s averaging 1–2% annually. After the military coup in 1987, the country embarked on deregulation and liberalization of its economy, which saw relatively moderate growth in the 1990s. This momentum was short-lived due to the political turmoil of 2000, reviving ethnic conflict and a period of further uncertainty from which the country is gradually recovering.

Fiji’s agriculture sector was reviewed by the Asian Development Bank and it concluded that its competitive advantage in agriculture lies not in sugarcane, but on exports of high-value niche products and in traditional food production (such as taro, kava and ginger), which were considered as the hidden strengths of the country (Asian Development Bank, 1996). Successive governments recognized the importance of traditional crops and incorporated policies for sustaining rural livelihoods and increasing agricultural exports. However, the growth framework seeks incremental expansion with the farmers having to play the key role. The rationale for investment in these sectors is that large sections of the community depend directly and indirectly on agriculture for their livelihood. Lack of institutional arrangements and seemingly low benefits due to the incremental approach are the key reasons why these programs do not appear to be very successful.

Importance of the Informal Sector and Subsistence Activity

It is widely recognized that small-scale informal activities greatly predominate over large firms around the world, both in numbers and the share of the labour force they employ. This is particularly true for developing regions, where besides the share of small-scale activities in the formal economy, the industrial structure is characterized by the high share of self-employed, and of micro and small firms in the informal economy.

Fiji’s subsistence agriculture effort is as significant as its money-based agricultural employment. It mainly consists of the commercial sugarcane and rice farmers and the indigenous Fijians living in rural villages who produce their own food. For the latter category, subsistence farming is part of their traditional life. This sector, with self-employed and unpaid family workers, occasionally sells its surplus.

In the 1960s, 45% of the Fijian workforce was engaged in subsistence agriculture (Fisk, 1970). In the 1986 census, it was reported that 24% of the active labour force were in the subsistence sector and this figure decreased to 21% in 1996 (see Figure 1). It is estimated that 23% would still be in the subsistence sector in 2006. In other words, this figure has been relatively stable for the past two decades. In absolute terms, the number of those engaged in the subsistence sector has increased from 61,191 in 1996 to 90,568 in 2006.

The informal sector contributes to over 17% of the GDP (Lal, 2004). The informal activities in the agriculture, forestry and fishing sector account for 32.5% of this sector’s

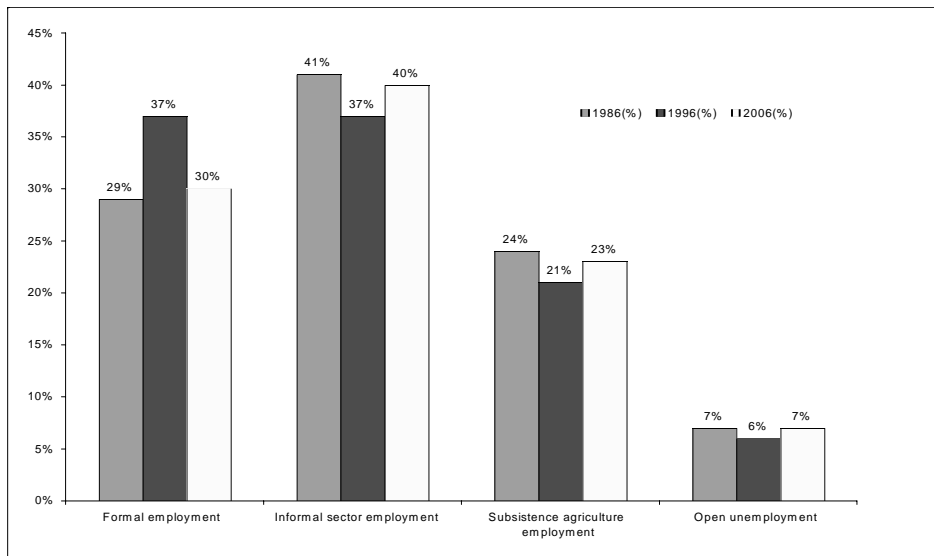


Figure 1: Employment structure in Fiji: 1986 to 2006. Sources: Fiji Bureau of Statistics (FBS), Report on Fiji Population Census 1986, and Results of 1996 Population Census, Labour Force Estimates, and personal communication in 2006 from FBS.

output. In terms of employment, the informal sector provides around 40% of the total employment in the country (see Figure 1).

This considerable informal sector and subsistence activity, particularly in the primary industry, has made some significant contributions to Fiji's economy. In the past years these activities have helped in the emergence of fish, taro, kava, fresh fruits and vegetables as major domestic export commodities. In this paper we focus on the kava industry and discuss its emergence as a significant domestic export product.

A Case Study: Kava Industry in Fiji

Kava is the dried root of the pepper plant (*Piper methysticum forster*). This opaque russet drink is prepared by squeezing the fresh roots, or crushing the dry kava roots into powder, and then mixing it with water or some fruit drinks as a base. The drink gives a slight narcotic and anesthetic sensation, and the product is increasingly used for medicinal purposes on a commercial scale.

Kava is an important element in Fiji's socio-cultural life and economy. It has been the central traditional drink in Fijian ceremonial rituals, an item of exchange as a means of strengthening social ties, a beverage to affirm social ranks, and a communal activity to facilitate communication and camaraderie. In earlier days, there were restrictions on who could drink kava. Yet, the current use of kava has extended far beyond the tightly defined traditional setting. This traditional drink has become popular and various Pacific island communities have adopted it as a social drink. Reddy et al. (2003) suggest that the 3rd highest expenditure item of urban households in Fiji was kava (after food and transport costs). Other studies, like McDonald and Jowitt (2000) have highlighted social problems due to over-consumption of kava.

Emergence of the Kava Industry

The development of the kava plantation started without any deliberate government

initiative or policy. Given its traditional value, kava was a “commercial” product even prior to the colonial era. It was grown mainly in the wetter fertile soils of the eastern part of the country (Brookfield, 1987). The growth accelerated as a result of the popularization of kava as a social drink, especially amongst the Fijians of Indian descent. In the 1930s, a few European and Chinese cultivated kava to cater for the local demand in the Suva market. After 1965, commercial cultivation accelerated in Fijian villages on the wetter side of the country, especially on the volcanic islands south of Vanua Levu and Kadavu where more rapid plant growth, higher yield and higher quality were attained. It is argued that the kava business was the most successful of all new enterprises in the 1970s. As a result of increased income, demand in Fiji increased and kava started to be grown in many other parts of the country.

Initially, kava was mainly exported for consumption by some 1.25 million Pacific Islanders settled abroad, mainly in the USA, Australia, New Zealand and Canada. Migration from Fiji started in the 1970s and accelerated after 1987 due to political turmoil, remaining constant throughout and reaching its peak after 2000. Together with this, in the late 1990s the pharmaceutical industry created a major demand for kava, leading to export opportunities for a number of South Pacific islands, including Fiji.

Kava Production

It is worth noting that, unlike sugarcane which was introduced by the colonial powers as a “transnational agro-corporate capitalism” (Akram-Lodhi, 1997: 43–44), kava is a native plant and dominated by small-scale farmers. It is first of all a cash crop for these farmers who also cultivate other crops such as coconut, taro, rice, vegetables, or even sugarcane. The kava plant matures in 3–5 years. It is not a seasonal plant and therefore could be planted any time during the year. It is also speculated that kava is an environmentally-friendly plant in terms of low demands on soil ecosystems (Murray, 2000). The labour cost is relatively cheap since all it requires is planting, weeding and harvesting. Other costs relating to transportation, fertilizer and pesticides are minimal. The net returns in terms of cost and production are therefore relatively high.

The total kava production area in Fiji has been around 2,000 hectares since the 1970s. However, the number of farmers has been increasing constantly over time. There were 9,280 farmers growing kava in 1978, reaching 10,843 growers in 1995, and almost doubled to 21,596 by 2004 (see Table 1).

Following the upsurge of kava exports in 1998 leading to significant increase in the

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Number of kava farmers	10,843	10,795	11,662	11,936	6,104	12,929	n/a	n/a	18,554	21,596	14,118
Yearly change in number of kava farmers		-0.4%	8.0%	2.3%	-48.9%	111.8%	n/a	n/a	n/a	16.4%	-34.6%
Kava production (tonnes)	2,619	3,329	3,310	3,204	2,980	3,084	5,161	4,039	2,691	2,149	2,260
Yearly change in production		27.1%	-0.6%	-3.2%	-7.0%	3.5%	67.3%	-21.7%	-33.4%	-20.1%	5.2%

Source: Personal communication from Ministry of Agriculture, Sugar & Land Resettlement, Fiji, 2006.

disposable income of kava farmers and lack of supply of mature crop for 1999, farming activity dipped initially and then increased again, reaching the 1998 level within a year. It increased steadily until 2004 and then dipped in 2005, mainly due to international market uncertainty.

According to Murray (2000), the average plantation size was around 0.17 hectares in the late 1990s, reflecting small semi-subsistence farming. Based on the latest figures, the average size of farms has decreased even further, indicating that many small farmers have been drawn into this business. In 2004, 1,676 hectares of land were used by 21,596 kava farmers, giving an average plantation size of just 0.08 hectares. Due to the significant subsistence activity in the kava industry, it is difficult to calculate local kava production accurately. The existing statistics reveal that the total production of kava has been relatively stable since 1995, except for the peak production level in 2001 which may be a result of the maturing of replanted kava after the major harvest in 1998. Production levels have been between 2–3,000 tons, except for 2001 and 2002 when they reached 5,161 and 4,039 tons respectively (see Table 1).

Unlike the “agrarian relationship of the past which was embedded within ethnic identity” (Akram-Lodhi, 1997: 45), kava is transcending the ethnic divide in Fiji. It is mainly grown by the indigenous Fijians, but other communities are increasingly cultivating the plant. The national average kava production per farmer decreased from 268kg in 1998 to 160kg in 2005. As for the marketing of kava, both domestically and overseas, newcomers are entering the industry, with indigenous Fijians becoming increasingly involved.

The economic importance of kava has been recent, starting in the 1970s. Fiji was a net importer of Kava in the 1970s, but its exports started to grow from the 1980s (Mangal, 1988), increasing substantially in the 1990s. There are certainly positive macro-economic impacts of kava exports such as increase in foreign exchange, economic multipliers in terms of purchasing power of the farmers and increased material well-being. More importantly, it provides the poorer farmers with cash to meet their daily costs and generates employment for village youth (*Fiji Times*, 2005a). In some cases, the sale of kava is even used to pay for children’s school fees (*Fiji Times*, 2005b). It is estimated that its value is around 4% of GDP (Murray, 2000), and kava exports as a percentage of total domestic exports has been less than 1% (except in 1998, when it reached a high of 3.8%).

Kava Trade in International Markets

Kava exports grew significantly in the late 1990s because of demand from overseas, especially with the call for alternative remedies in the developed countries. Consequently, other kava-producing islands like Hawai’i, Tonga, Samoa, Vanuatu, and the Marshall Islands have also profited from this boom. Fiji’s dominant trade infrastructure compared to other, smaller Pacific island countries, allowed it to capitalize on this opportunity, mainly due to its initial production capacity, experience and export linkages in terms of transportation and marketing. However, the unstructured production capacity development of Fiji’s kava industry has seen the country gradually become a net importer of kava since 2002, with Vanuatu being the main source market. In addition, the kava import ban imposed in 2001 by the key export destinations has suppressed production capacity due to uncertainty about eventual supply to these markets.

Due to the sudden surge in demand in 1998 from the pharmaceutical industry, the farmers uprooted as much kava as they could, compromising the sustainability of the industry. The kava prices were the highest ever in 1998 and everyone involved in the kava

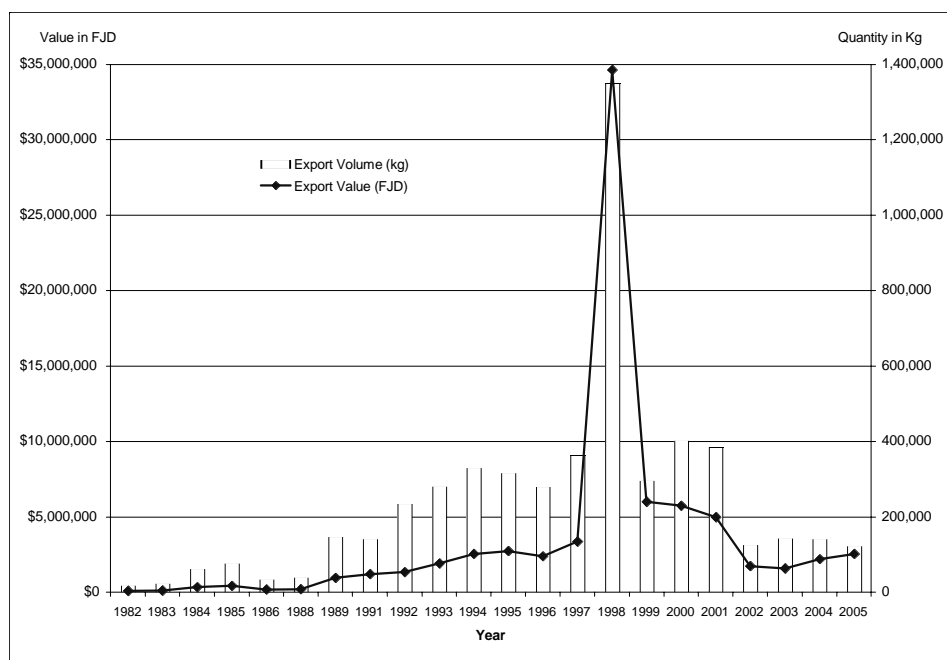


Figure 2: Kava Export Trends in Fiji. Source: Personal communication dated 2006 from Fiji Bureau of Statistics; and Muray (2000).

trade tried to make the most of the opportunity without having product quality considerations. To their peril, growers exploited this increased demand by exporting low-quality product. This unstructured management of the crop led to decline in production in the consecutive years, and then an increase in 2001 mainly due to replanting of kava after the massive 1998 harvest. Since then the kava production has been declining due to the import ban in the export markets, but also due to the entry of more competitive kava from Vanuatu in the domestic market. In addition, kava plants in some areas of Fiji are also plagued by the *die-back* disease which affects the production in a significant way (*Radio Fiji News*, April 26, 2005). While there are indications that this industry still has significant potential, the question is whether Fiji can restructure its kava industry and make it internationally competitive.

Based on prices over the last decade, imported kava remains significantly price competitive (see Figure 3), to the extent that a number of exporters are able to use their marketing network to import kava and re-export to more lucrative markets. Also, domestic consumption of kava is as much as 21 times higher than exports for some years. This increasing demand and lack of supply of quality kava from the local farmers is pushing the kava price up, while also opening export opportunities for other Pacific island countries which can take advantage of the Pacific Island Countries Trade Agreement and supply Fiji's local market without any import restrictions and duty.

The import of kava to Fiji increased significantly after the late-1990s dynamism in this industry (see Table 2). The import of Vanuatu kava to Fiji has become a serious threat to Fiji's kava industry, in light of the suppressed international demand due to continuing import bans in some of the key export markets. A trade dispute between Fiji and Vanuatu actually triggered a retaliatory measure in 2005 that imposed a 4-month import ban on

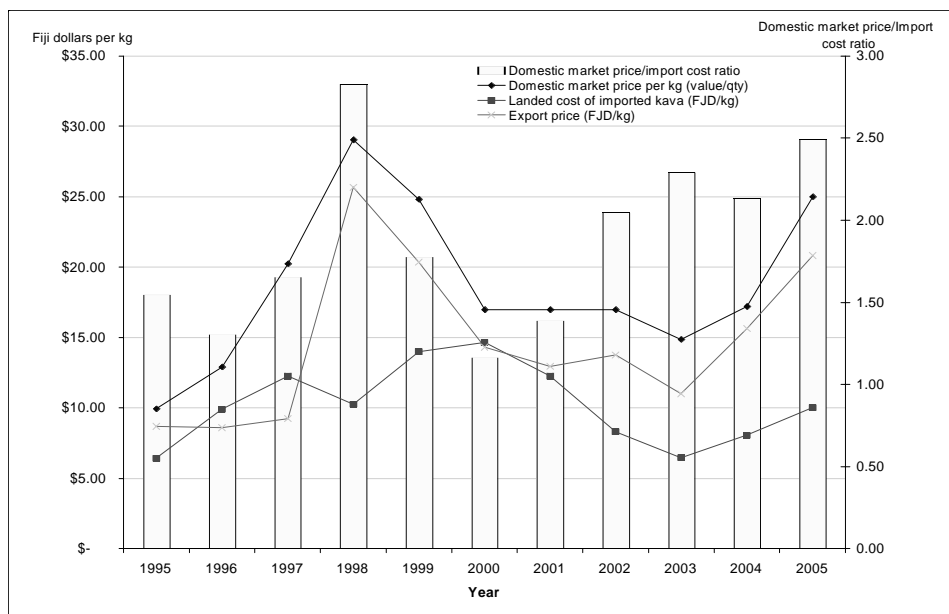


Figure 3: Kava Price (domestic/export/import) Trends in Fiji. Sources: Fiji Bureau of Statistics and Ministry of Agriculture, Sugar and Land Resettlement, Fiji, 2006.

kava from Vanuatu during 2005 (*Fijilive*, 2005). Yet, such bans were not very effective, given the well-established dealership between the kava traders of the two countries. Kava imports from Vanuatu did not dip during the 4-month ban period, since deals made in earlier months and shipments which had departed prior to the ban were still allowed.

Export Markets for Kava as a Health Product

The key kava export markets catering for pharmaceutical needs are Europe, North

	Kava Export Quantity (kg)	Kava Imports Quantity (kg)	Kava Export/Import Ratio by Quantity
1995	315,893	11,582	27.27
1996	279,103	104,749	2.66
1997	363,709	89,266	4.07
1998	1,349,685	40,600	33.24
1999	295,456	21,503	13.74
2000	401,658	107,013	3.75
2001	385,070	188,762	2.04
2002	125,632	180,666	0.70
2003	142,445	261,454	0.54
2004	141,042	624,089	0.23
2005	122,619	473,915	0.26

Source: Personal communication, Fiji Bureau of Statistics, 2006.

America and Australia. Kava is a drug with narcotic, hypnotic, diuretic and muscle relaxant effects (McDonald and Jowitt, 2000). Kava in various forms—such as tablets, powder, fruit-based drinks and pills—is sold in many countries under such brand names as “Bio-organics” or “Nature’s Own” (Murray, 2000). Kava in western countries is usually dried ethanol or acetone extract, and not the muddy drink which is consumed in Fiji. It was in 1989 that the first batch of kava for pharmaceutical use was exported to USA and Australia, and it has been growing ever since (Moulds and Malani, 2003).

Kava exports were relatively stable in the 1980s but started increasing in the early 1990s (see Figure 2). As a result of the demand for kava as a health and pharmaceutical product which opened the European kava market in 1998, exports skyrocketed in that year to over FJ \$35 million in value (from FJ \$3.4 million in 1997). This was the peak of kava exports in terms of value and volume: a Fiji dollar fetched 67¢ and 51¢ in 1997 and 1998 respectively (Fiji Bureau of Statistics).

In 1998, the four major export destinations of Fiji’s kava for health and pharmaceutical products were USA, Germany, Spain and France. From 1999 to 2001, Germany was the biggest market for Fiji kava (refer to table 3). In 2001, exports to Germany represented 41% of total kava exports followed by USA representing over 22% of exports, and Spain representing 13%. Exports to Germany and Spain practically halted following the import ban on kava and kava products imposed in 2001 by the developed countries. Switzerland and Germany first started the ban on the basis of reports that indicated that there might be serious side effects, in particular liver toxicity, on the health of consumers of kava-derived products (Gruenwald et al., 2003). The volume of kava exports and the export market share changed considerably following the kava import ban, as depicted in Table 3.

Table 3. Kava Exports to Key Markets by Volume (in kg)

Country	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Australia	26,042	2,595	4,199	15,483	17,142	24,950	25,453	21,191	26,108	26,751	33,977
Canada				2,200	84	1,821	5,878	5,625	845	561	200
China				48,111							
France		5,500	12,600	225,736	2,100				3		
Germany	169,400	99,448	169,628	243,270	165,602	192,451	157,500	6,018	32	12,032	
Italy				252	1,970	1,000					
Kiritabi	690	2,616	2,170	615	1,150	3,950	1,157	7,930	8,680	14,116	13,619
New Zealand	12,456	16,233	6,244	40,554	3,805	15,451	34,997	19,819	33,531	17,571	16,983
Spain	38,800	67,372	67,499	245,643	32,580	30,021	50,653		31		
Tonga					5,680	3,705	2,800	1,650	400		
United States	52,098	79,930	90,473	437,099	63,341	122,475	85,858	60,210	70,606	67,292	57,356
Others	16,407	5,409	10,896	90,722	2,002	5,834	20,775	3,189	2,210	2,719	484
Total	315,893	279,103	363,709	1,349,385	295,456	401,658	385,070	125,632	142,445	141,042	122,619

Source: Personal communication, Fiji Bureau of Statistics, 2006.

In recent years, kava exports dropped from FJ \$5 million in 2001 to just FJ \$2.5 million in 2005 (see Figure 2). Small-scale farmers’ income must have been drastically reduced as a result of the ban. As for the USA market, it has been declining since 2000, but still represents around 50% of the total Fiji kava exports by volume. Australia and New Zealand have been stable export destinations, while kava exports to Kiribati, albeit relatively small, have been increasing over the years.

In 2005, kava was the 9th export commodity of Fiji by value after sugar, garments,

fish, mineral water, fruits and vegetables, woodchips, taro and footwear. In order to satisfy the growing demand, poor-quality kava (immature, rotten or adulterated with other products) has been exported and hence tarnished Fiji's reputation (Murray 2000). The international buyers are now shifting towards other Pacific island countries such as Vanuatu, Samoa and Tonga. Other countries such as Mexico, Chile, Australia (Queensland), and Hawaii are also starting to grow kava.

The Pacific islanders have contested the import ban on the basis that there is no hard evidence which can demonstrate that the specific product that would cause health risk is indeed kava. In addition, they claimed that *Tu dei* kava, a specific banned grade from Vanuatu, is believed to cause liver problems (*Fiji Times*, 2004); this is not the kava commonly grown in most Pacific islands. A study commissioned by the European Union reported that kava products are safe as herbal remedies and that restrictions imposed by certain countries were unjustified (Gruenwald et al., 2003). Following this report, some European countries have lifted their import ban on kava. The government officials are confident that the German ban will be lifted in 2006 and that kava exports to that country would then resume (*Pacific Islands Report*, 2005). They expect that this trade will provide an extra FJ \$100 million for Fiji compared to the current annual average kava exports of approximately FJ \$2 million, and the highest ever annual export value of FJ \$34.6 million. This shows the high degree of optimism that the Pacific community has in terms of the potential of kava as an export commodity.

Policy Measures to Support the Development of Kava Industry in Fiji

Following the identification of kava for health and pharmaceutical usage at industrial levels, other potential kava export countries like China, India and Australia have been experimenting with large-scale production, and hence kava exports are expected to become highly competitive. The discussion on the side effects of kava is still very much alive, but there have also been recent reports of additional curative properties of kava. Researchers at the University of Aberdeen in Scotland and the Laboratoire de Biologie Moléculaire du Cancer, a medical school in Luxembourg, have declared that kava compounds inhibit the activation of a nuclear factor important in the production of cancer cells (*Fiji Times*, 2006).

Small islands are faced with two sorts of economic challenges, one of which is inherent and largely fixed (such as location, smallness and islandness), and the second of which is contingent, arising mainly from governance practices (e.g. Pace, 2006). The latter can be addressed through appropriate policies. In light of this, can Fiji reorganize its kava industry, regain competitiveness and claim a decent share of the international kava market? In order to do so, there are several areas where the Fijian Government and the kava industry stakeholders will need to focus on. Some of the broad measures that the Fiji Government could take in order to alleviate the problems faced by Fiji's kava industry include:

Supply Issues: Since Fiji has now become a net importer of kava, more emphasis should be placed on augmenting domestic production capacity and improving its quality. It entails a temporary shift of focus from export orientation to import substitution strategies. Measures aimed at increasing productivity in kava farming are imperative. There needs to be a coordinated approach with investments in research and development to ensure strict quality control, and that the right disease-resistant species and correct farming methods are used to yield optimum outputs for the various demand groups of kava.

Market Issues: A well-structured proactive marketing approach is required to find the

best markets in which the Fiji kava could be sold competitively. Such market intelligence would also contribute towards determining the product variation needed from the supply side. Due to the geographical structure, schemes aimed at reducing the internal and international transportation cost to maintain international competitiveness are necessary.

Vertical Expansion: The research and development effort should also concentrate on increasing the value adding to kava within Fiji. Identification of appropriate kava products and organizing international patenting would assist immensely in expanding the range of products originating from Fiji. There is also a need to develop scientific capacity which protects such crucial markets from the admonition of other industry groups which may be threatened by the development of new competitive products. Strategic partnerships with universities and laboratories are required to create a continuum of frameworks for analytical results in defense of the properties of kava.

In such types of emerging markets faced with stiff international competition, there is bound to be immense pressure on the government to introduce protective measures. Before any political moves are done to hastily protect a growing industry and insulate it from the competitors, careful consideration ought to be given to the long-term consequences of such measures on its competitiveness.

There is also an opportunity for a major Pacific islands' cooperation program to build the kava industry on a region-wide basis. Yet, while several initiatives have been undertaken, progress has been slow. For instance, the Prime Minister of Fiji suggested "the harmonization of kava legislation in the region to ensure that export market requirements are fulfilled by producers and exporters in the Pacific..." at the International Kava Conference held in Suva in December 2004 (IKEC, 2004). This, however, is yet to materialize. Similarly, a number of resolutions and actions agreed upon at this conference are yet to be implemented.

No serious attempts have yet been made to diversify the nature of the kava product, or to enhance its domestic value added via state-supported research and development. The policy effort is targeted to boost demand, rather than strengthen supply: in the March 2006 meeting of the Pacific International Kava Executive Council (IKEC), Pacific Island countries recommitted themselves to continued lobbying with the governments of the key markets where the ban on kava imports remains in place (*Fijilive*, 2006).

The one piece of good news to speak of is the repeal of the ban (introduced in June 2002) of registered kava drug products in Germany in May 2005 by the German Federal Institute for Drugs and Medical Devices, following IKEC submissions (Blumenthal, 2005). Yet, in spite of this decision, the import of kava products in Germany is still not allowed.

Conclusion

A developing country like Fiji, with its huge subsistence economy, can channel its excess labour into productive activities such as specialized cash crops. Fiji has benefited enormously from the kava boom. It created employment opportunities for rural people, much needed cash for rural producers, a significant multiplier effect into the economy, and extra foreign currency in terms of exports, while improving the balance of trade and helping in the reduction (if not stabilization) of rural poverty. It is unfortunate that the kava industry was not strengthened at its prime in 1998. Whether it was lack of vision or feelings of guaranteed assurance on the potential of kava at the time is difficult to conclude; but today, the additional factor is that Fiji has to defend the product and compete with emerging exporters.

Like other Pacific Island countries, Fiji still does not seem to have any structured development plan for the kava industry. The kava growers have been disappointed with the government's inaction (*Fiji Times*, 2005c). As demonstrated in this article, kava has immense potential as a niche export product for the country. Even smaller economies, such as Vanuatu, have developed higher levels of efficiency and productivity in their kava industry and are competitive at international levels.

It should nevertheless be noted that the exportation of agricultural niche crops such as kava into the global market is full of problems and could be a double-edged sword. Scholars have argued that this outward orientation of seeking opportunities in the international market leads to loss of self-sufficiency, decreasing food security and erosion of subsistence economy (Fisk, 1964; Overton and Thaman, 1999). Subsistence production is replaced by local mono-production of cash crops for export markets, such as fruits in the Cook Islands, vanilla and squash in Tonga, kava in Vanuatu and, to some extent, ginger in Fiji (Overton et al., 1999). Murray (1999) also documents the environmental problems associated with such practices and the increase in economic inequalities. In studying Tonga's squash export, Murray and Storey (2001) show that there are indications of associated regressive impacts, especially allowing the privileged to capture the benefits. In an earlier study, he also discussed the negative impact of kava exports from Fiji (Murray, 2000). Imported inputs also tend to increase as a result of increased consumption of goods (vehicles for the case of Fiji and Tonga in Murray's cases).

This case study demonstrates the perils of unmanaged exports and highlights the difficulty that small island economies face in overcoming misapprehensions of early stages of industry intensification.

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