

13. Tuvalu

Population: 10,450 (2000)

Land Area: 26 square kilometres

Exclusive Economic Zone: 900,000 square kilometres

Political Status: independent democratic government since 1978

GNP: US\$14 million (1999)

Major Industries: fishing fees, remittances and copra

Merchandise Exports (FOB): US\$790,000 (2000)

Major Exports: copra, stamps, handicrafts and garments

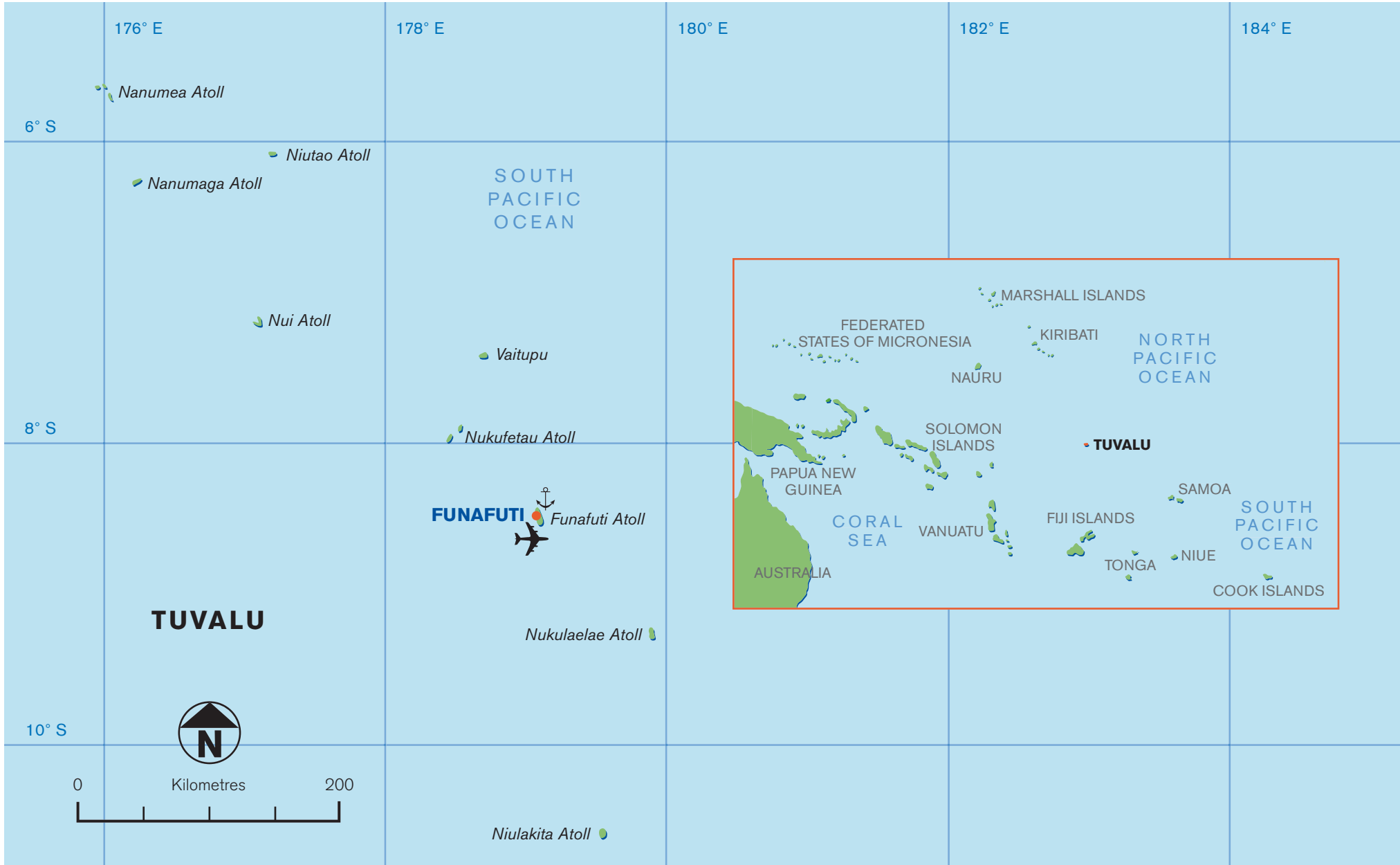
Merchandise Imports (CIF): US\$13.7 million (2000)

Major Imports: food and live animals; manufactured goods; mineral fuels; and machines, transport and equipment

Currency: Australian Dollar

Average Foreign Exchange: US\$1 = A\$1.7248





Location

Tuvalu is a small country comprising nine low-lying atolls, with a total land area of 26 square kilometres. The total population is approximately 10,450 people and the country has an extremely limited resource base. Each of Tuvalu's eight inhabited islands is based around a single village and has a distinct sense of community and identity.

Tuvalu is approximately 1,000 kilometres north of the Fiji Islands, just west of the International Date Line. The country's Exclusive Economic Zone (EEZ) covers 900,000 square kilometres of ocean.

Tuvaluan is the indigenous language but English is the official language in Tuvalu and is spoken widely throughout the country.

Government

The government of Tuvalu is a constitutional monarchy, with Queen Elizabeth II as the head of state. A Governor-General represents her in the country. Tuvalu, the former Ellice Islands, became independent from the United Kingdom in 1978.

The government consists of a 15-member, single-chamber parliament. Elections are held every four years. There are no political parties but parliamentarians have very close links with their island constituencies. The Prime Minister is elected by members of parliament.

Each of Tuvalu's eight inhabited islands is based around a single village and has a distinct sense of community and identity. Traditional councils of chiefs work with the elected government and are the authorities on matters of custom. To ensure continuity of traditional customs, a council of chiefs operates alongside the official system at the local level. Under the *Falekapule Act 1997*, increased powers were given to the island councils to prioritise local development needs within the framework of the central government's overall development objectives.

The central government's development goals include public-sector reform, human resource development, improvement of the country's economic and education infrastructure and the further development of its capacity to manage its limited resource base.

Economic Profile and Performance

Most of the population of Tuvalu is involved in subsistence fishing and agriculture, while the commercial economy is dominated by government activity. Remittances from seamen working on overseas vessels are a significant source of income for many families. Income is also derived from licences issued to foreign fishing vessels, the Tuvalu Trust Fund, and more recently Tuvalu's highly marketable Internet domain suffix '.tv'.

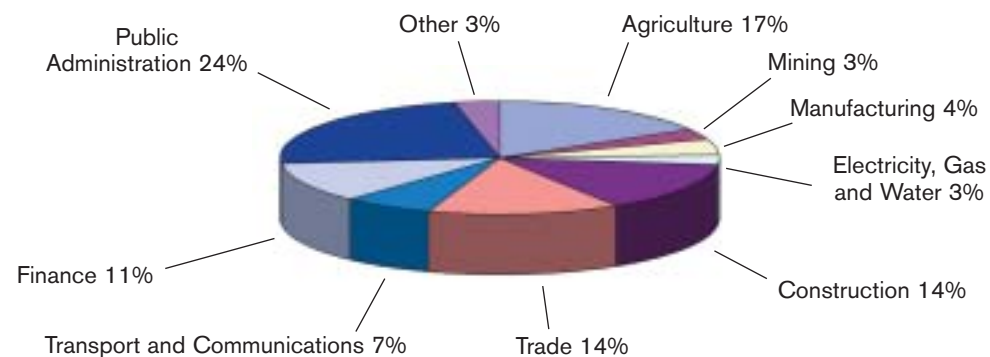
Real GDP grew by 3% in 2000. A windfall payment from the lease of the country's

Internet domain address, strong growth in returns from the Tuvalu Trust Fund and stable revenue from fishing licence fees, led to government revenues totalling approximately US\$25.5 million in 2000.

Public construction was significantly stronger than in 1999, but expenditure on public administration changed little. The government budget emphasises the difference between core (recurrent) and non-core (infrastructure and other capital item) revenues and expenditures, with specific allocations to the Tuvalu Trust Fund so that the benefits can be enjoyed in the future.

Total government revenues were almost double the budget estimate for 2000 as a result of the lease of the Internet address. Total government expenditures amounted to US\$22 million, an increase of about US\$5 million, compared with 1999. Expenditures on infrastructure and other capital projects in 2000 rose to a record US\$4.75 million.

Figure 13.1: GDP by Industrial Origin (%) Calendar Year 1998 (At Current Factor Cost)



Source: Asian Development Bank: *Growth and Change in Asia and the Pacific Key Indicators 2001*.

Table 13.1: Total GNP (US\$ Million) and GNP per Capita (US\$)

	1997	1998	1999
Total GNP (US\$ million)*	13	13	14
GNP per Capita (US\$)	1,320	1,300	1,360

Source: Asian Development Bank: *Growth and Change in Asia and the Pacific Key Indicators 2001*.

*Data are in terms of GDP converted from national currency to US\$ using the average exchange rate for the year.

Table 13.2: Growth Rates of GDP and Major Sectors (%)

	1995	1996	1997	1998	1999	2000*
GDP	-5.0	10.3	3.5	14.9	3.0	3.0
Agriculture	0.6	-16.2	5.8	0.7	-	-
Industry	-13.0	85.5	4.0	21.5	-	-
Services	-4.8	2.6	2.7	16.0	-	-

Source: Asian Development Bank: *Growth and Change in Asia and the Pacific Key Indicators 2001*.

*Provisional/Preliminary/Estimate/Budget figure.

Table 13.3: Annual Average Consumer Price Index (1990 = 100)

	1998	1999	2000
Consumer Price Index	123.9	132.5	-
Annual Change (%)	0.6	6.9	-

Source: Asian Development Bank: *Growth and Change in Asia and the Pacific Key Indicators 2001*.

In 2000, inflation rose to 5% from around 1% in 1999, partially due to increased costs of imports as a result of higher transport (mainly air) costs. The trade deficit remained high, due to the fact that most agricultural production is consumed domestically, and due to the absence of any significant manufacturing activity. However, the external position is sound overall because of remittances, returns from the Tuvalu Trust Fund, the Internet lease, and aid agency disbursements.

The construction sector will see strong growth in 2001, due to the largest civil works project undertaken in the country: the Funafuti roadway will be reconstructed and the airstrip will be repaired. The large scale of these projects, in the context of Tuvalu, suggests GDP growth for 2001–2002 of 5–6%.

After a very strong performance in 2000, returns from the Tuvalu Trust Fund are forecast to decline to around US\$1.7 million in 2001. This is based on the expectation that the Australian equities market will experience lower returns associated with an anticipated global slowdown in economic growth. Inflation is likely to ease in 2001 and 2002 to around 1–2%, reflecting lower inflation in Australia, and lower world fuel prices.

The 2001 budget includes expenditures of US\$15.6 million, comprising non-core expenditures of US\$4.99 million and core expenditures of US\$10.61 million. Revenues are expected to be US\$15.77 million, and hence the budget shows a small surplus of

US\$0.17 million. Also, the budget provides for additional capital projects totalling US\$9.62 million, subject to the availability of development funds from aid agencies. Recurrent expenditures of US\$9.8 million in 2001 represent an increase of around 20% over the 2000 level, due to the opening of an embassy in New York, a 100% increase in politicians' salaries, and a 6.8% increase in the number of civil servants.

A new policy is being drafted that will lead to the signing of new licensing agreements for fishing in the country's fishing grounds. However, after record revenues in 1999 and 2000 from fishing licence fees, these revenues (when translated from other currencies) may decline if the Australian dollar strengthens.

Two further prospects, both uncertain, may also affect government revenues in 2001 or 2002. First, the government is a significant minority shareholder of the company that leases the Internet country address, with a 20% holding of the company's common stock. If the company seeks a public listing, the market value of this holding may well exceed the value of the Tuvalu Trust Fund. Listing the company is likely in either 2002 or 2003 and would clearly represent another – extremely large – windfall gain. Second, the government is in exploratory talks with an Australian firm on setting up an international shipping registry in Tuvalu, to register merchant vessels under the Tuvalu flag. This, too, could result in substantial revenues.

Industry Sectors

Apart from the important government activities the main economic ventures in Tuvalu are:

Subsistence Agriculture and Farming: Most families undertake subsistence agriculture and farming. There are no large-scale agricultural projects or any local commercial fishing operations. There are several piggeries close to the main urban area.

Construction: A small number of local contractors are engaged in house construction, road maintenance and other infrastructure projects.

Wholesale and Retail: Almost all of Tuvalu's requirements are imported and there are several companies involved in importing/wholesaling. Small retail shops are located throughout the islands and these are mostly locally owned.

Manufacturing: There is only a very limited manufacturing sector in Tuvalu. The main industries are small-scale timber processing and handicrafts. Timber is sourced from the limited local resources or from overseas, mainly New Zealand.

The **tourism industry** in Tuvalu is practically non-existent. There is only one hotel and the great majority of visitors are on business or government-related projects. Likewise there is no **forestry industry** because of the shortage of local timbers and no **mineral or petroleum resources** have been discovered.

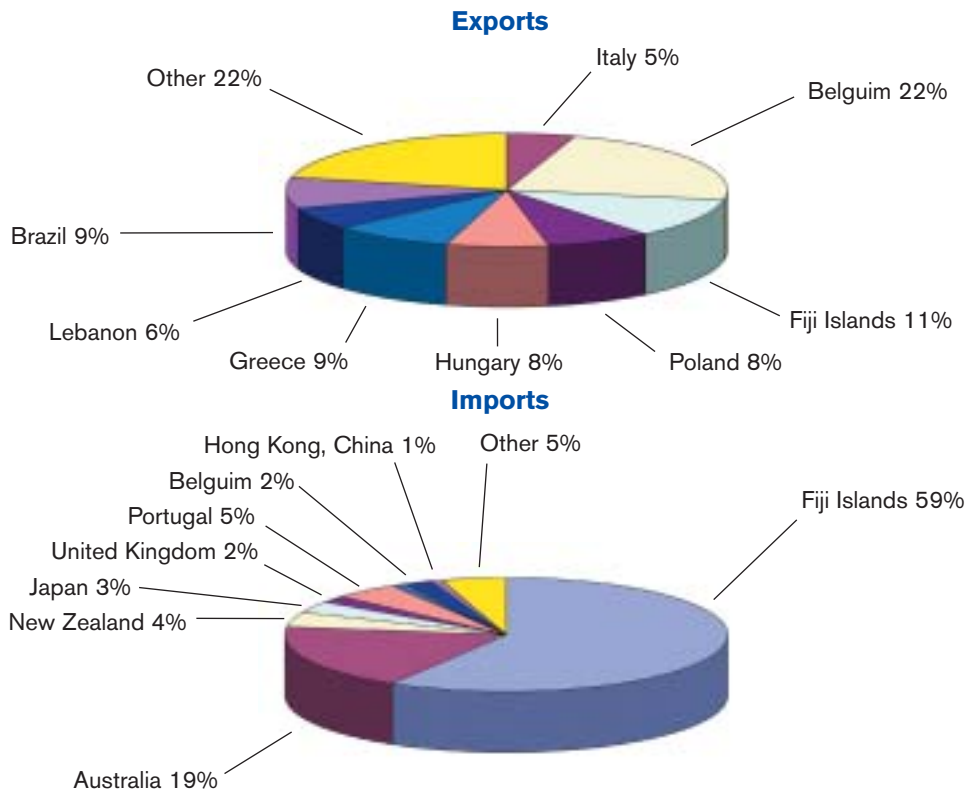
Imports/Exports

Total exports from Tuvalu amounted to US\$790,000 and were limited to the sale of copra, stamps, handicrafts and garments. Imports in 2000 were over US\$13.7 million, comprising food and live animals; manufactured goods; and machines, transport and equipment.

Exports are largely to Belgium-Luxembourg, Belgium, the Fiji Islands, Poland and Hungary. Imports are sourced from the Fiji Islands and Australia.

Tuvalu does, however, enjoy a positive balance of payments as a result of the income from fishing-licence fees, remittances from seamen working offshore and the income generated from the 'dot tv' contract.

Figure 13.2: Direction of Trade, Calendar Year 2000



Source: Asian Development Bank: Growth and Change in Asia and the Pacific Key Indicators 2001.

Labour and Human Resources

Unemployment remains high with less than 20% of Tuvaluans employed in salaried positions; over 65% of the population are employed in subsistence activities.

Most people in Tuvalu speak English and many have been educated overseas, mainly in New Zealand. While there are local schools, there are no technical training colleges. The Tuvalu Business Centre undertakes specialised training courses and will tailor courses for particular requirements.

There is a plentiful supply of unskilled labour in Tuvalu; however, shortages of semi-skilled, skilled and managerial workers exist. Permits are granted to investors involved in any project and for expatriate personnel where comparable local staff are not available.

Most wage rates in the private sector are based upon the government salary scale. Hourly wage rates for unskilled casual labour vary from US\$0.66 to US\$1.10, with US\$0.66 being fairly typical.

The salary scale for clerical to managerial levels are as follows:

Salary Range (Per Annum)	
Higher Managerial	US\$8,810 – US\$9,628
Managerial	US\$6,151 – US\$8,652
Technical	US\$6,344 – US\$6,371
Clerical	US\$1,714 – US\$4,011

Infrastructure

The infrastructure in Tuvalu has been improved over recent years but it is still not highly developed.

Electricity is generated by imported petroleum products and is available on the main island and in all the outer islands. There are no rivers or lakes and the country relies on limited tank storage for water. In relation to **telecommunications**, Tuvalu is linked to the world by both telephone and Internet facilities.

An **international airport** is located on the main island of Funafuti, with twice weekly services to and from Suva by Air Fiji. The airport cannot handle 737 jet aircraft and the freight capacity on the aircraft used by Air Fiji is limited. Tuvalu does not have its own airline but owns the majority of Air Fiji, which provides its only air service.

There are **two established ports** in Tuvalu, located in Funafuti and Nukufetsu. The main port in Funafuti is capable of handling 20-foot containers. The international shipping services are limited to monthly calls by two companies, Oceanlink and Pacific Direct Line. Shipping services also operate between the various islands but the services to the smaller areas are not always reliable.

Reasonable-standard **roads** connect the main centres but none of these are sealed and there can be difficulties in wet weather.

The government is renovating and expanding the system of water catchment and storage, and embarking on a programme of providing electricity to the outer islands. Nonetheless, the infrastructure in Tuvalu will present challenges for some new ventures.

There is one commercial bank in the country – the National Bank of Tuvalu. It provides a comprehensive range of personal, business and international services. The Development Bank of Tuvalu provides finance for a commercially viable business ventures at concessional rates.

Investment Policy and Regulations

The Tuvalu government welcomes foreign investment and recognises the substantial contribution foreign investment can continue to make to the development of Tuvalu's industries and resources. Investor behaviour must comply with the *Foreign Direct Investment Act 1996*.

Foreign investment proposals are dealt with on a case-by-case basis with the government generally being accommodating regarding the terms and conditions under which overseas firms can operate.

The Ministry of Tourism, Trade and Commerce will provide information on investment opportunities. Proposals or applications relating to potential investments and requests for information should be directed to the Foreign Investment Facilitation Board (FIFB). An applicant must complete the Foreign Direct Investment Questionnaire (FDIQ). Information requested includes the size and nature of the project, its projected costs and benefits, land requirements and any other pieces of information that may be helpful in assessing a particular project.

The Board will appraise the proposal and make a report with appropriate recommendations, including the granting of concessions. The Board may also seek advice from the Development Bank of Tuvalu as well as other ministries and government departments before presenting their report to the minister. The minister has 30 days in which to accept or reject the recommendations of the report. Large investment projects may be referred to the Cabinet for consideration and approval.

The relevant stages in the investment approval process are:

- initial submission of Foreign Direct Investment proposal to the FIFB;
- review and/or negotiation of the Foreign Direct Investment proposal by the Board;
- report to the minister;
- post-report activities of the Board.

Foreign companies may carry on business in Tuvalu provided they are registered with the Registrar of Companies.

No specific or fixed set of incentives currently exists for investment in general. In most instances incentives are granted on a case-by-case basis. Certain types of industries, including tourism, qualify for 'pioneer' status, which gives them the opportunity of applying for tax exemptions. Under this category, the Minister of Finance can, at his/her discretion, grant exemption for any concession period. Incentives are currently being reviewed to make them more attractive.

Land

Land is scarce in Tuvalu and the government does not own any land – it leases land for its own purposes from traditional owners. The government can acquire land for any 'public purpose' but is usually required to pay compensation to the traditional owners.

Foreign investors also have to lease land from the traditional owners. Experience has shown that mutually beneficial leases can be arranged. Presently the government pays a rate of approximately US\$1350 a year to traditional owners for each acre of land that the government leases.

The Ministry of Natural Resources has the responsibility for lands in Tuvalu. Non-citizens can only access land on a leasehold basis, and then only with the approval of the Minister for Natural Resources.

Taxation and Other Regulations

Taxation of **foreign resident companies** is 40% on net profit.

Personal income tax is levied at a flat rate of 30% with a tax-free threshold of US\$2,220. Company tax rates on all chargeable income are also set at 30%. **Non-resident individuals** are taxed at a flat rate of 40% of income.

A variety of **sales taxes** are applied to different goods and services.

Most capital items, including plant, machinery and vehicles for newly established businesses, are exempt from duty upon application. All building materials are imported duty free.

Investment Opportunities

While the small and fragmented local market and Tuvalu's limited land resources place some constraints on industry development, there are prospects for foreign investors in the following growth areas:

Fishing and Seafood Processing: A key priority is to develop the potential enormous wealth of the 900,000 square kilometres of ocean in the EEZ. While the income generated by the licences granted to foreign fishing fleets is welcomed, the government would like to secure greater benefits for the economy through export-orientated fishing operations based in Tuvalu. The proven resources in the EEZ offer good opportunities for fishing and processing ventures focused on exporting.

Tourism: The relatively unspoilt nature of Tuvalu makes it an attractive location for niche tourist facilities, especially those related to diving and water sports. There are numerous locations that offer an idyllic environment and the government would provide technical support and full assistance to any tourism project. Potential also exists for a small apartment complex to cater for business visitors and tourists – there is currently only one (two-star) hotel in the country.

Small-scale Hydroponics Project: There is a constant shortage of fresh green vegetables and fruits in Tuvalu and a small-scale hydroponics project would almost have a 'captive market'. The disposable incomes of the local population would ensure a profitable return for such a small-scale project.

Specialist IT Services: Tuvalu has become well known as a result of its 'dot tv' business and there is an opportunity to take advantage of this promotion through the provision of associated web design and networking services. The country's well-developed communications infrastructure would facilitate such a venture and an increasing number of local school leavers are undertaking related training overseas.

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