CHAPTER IV

FIJI AND THE FOREIGN ECONOMIC INFLUENCES
In 1984 the head of the Fiji Employment and Development Mission uncontentiously observed that “there can be little doubt that there are very few countries in the developing world today that enjoy Fiji’s combination of relative prosperity, social harmony and freedom from repression”. Gross national product per head stood at US $1790 in 1983 compared with an average of US $1500 for middle income developing countries. Despite the numerical dominance and commercial preeminence of a culturally distinct Indo-Fijian population, there had been virtually no racial violence. And there had been political stability under a complex, through recognisable form of parliamentary democracy which, apart from a very brief interlude in 1977, generated continuous rule by the largely Fijian Alliance Party. But after the two coups in 1987, the socio-economic scenario deteriorated rapidly. Here an attempt is made to throw light on the pre and post-independence economy of Fiji. The economic condition of pre and post-coup Fiji will also be discussed. The effect of two coups on Fijian economy and the present state of economy will also be analysed.

The growth performance of Fiji’s economy in the late colonial period was strong, if uneven. Between 1950 and 1970, exports expanded at an average annual rate of 5.9 per cent (compared with 4.7 per cent in the early growth period 1883-1913); and gross domestic product per head grew at 4.5 per cent annually, despite population growth averaging 2.8 per cent per annum. Stimulated by high prices, negotiated under the Commonwealth Sugar Agreement, the sugar industry, which remained Indo-Fijian at the grower level and European at the managerial and processing level, increased its production by over 90 per cent in the 1950s alone, and in 1966 accounted for over 60 per cent of export revenue and directly employed 30 per cent of the economically active population outside village subsistence agriculture. Copra production, concentrated in eastern Fiji and coming increasingly from Fijian village groves rather than European plantations, grew more modestly - as did

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2. Ibid. p.41.
gold production by Australian capital and Fijian labour. Most significantly, distribution, finance, transport and other services, together, with the construction industry, not only grew absolutely, but increased their share of gross domestic product, from 40 per cent in 1950 to 52 per cent in 1965. The crucial factors here were, firstly, the development and growth of tourism from the late 1960s funded by foreign capital inflow; and secondly, the equally expansionary, Fiji was approaching self-sufficiency in production of beef, pork, beer, cigarettes, rice, cement and paint.

At the end of more than nine and half decades of colonial rule, then, Fiji was not poor by contemporary low world standards, as Fisk noted in a book published in 1970, the year of political independence. Fiji's GDP per head was "greater than that of any Asian country except Japan and Singapore ... about three times that of India ... and nearly twice that of Thailand." But averages can conceal important economic disparities. In particular, average urban incomes were roughly double average rural incomes; and surveys of income tax returns made in the late 1960s suggested that Fijians and Indians earned 60 per cent and 80 per cent of the national average income respectively, while Chinese earned 115 per cent and Europeans 140 per cent. This in turn reflected a continuing racial pattern of sectoral economic activities.

An Indo-Fijian population that had reached 2,410,00, or 51 per cent of the total 1966 population, had been forced by intensified population pressure on agricultural land to find alternative employment. Fifty one per cent of the 58,700 economically active Indo-Fijians were commercial farmers; but 39 per cent of Indo-Fijians lived in urban areas; and 33 per cent of the economically active were working in, and made up 61 per cent of the workforce of, the growth areas of construction, commerce, secondary industry and transport, hotels and entertainment. Just under half of these people were in unskilled or semi-skilled jobs, 28

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3 Central Planning Office. n.3, p. 12.
per cent were in skilled jobs, and 24 per cent were in the highest-paid entrepreneurial or managerial occupations. The latter were still overwhelmingly dominated by the almost entirely urbanised Europeans and Chinese, including those of mixed race, who managed the often foreign-owned large organisations. But necessity placed a premium on higher education for the Indo-Fijian population, and increasingly parents made sacrifices to allow children to qualify as accountants, lawyers, teachers and doctors.

In contrast, though Fijian society had not been stagnant, it was still relatively non-monetised and village-oriented. Seventy six per cent of Fijians lived in rural areas; 45 per cent of the economically active population of 56,200 were engaged mainly in subsistence agriculture; and just 14 per cent were in the growth areas mentioned above, accounting for 26 per cent of their workforce, but doing mostly unskilled and semi-skilled jobs. A further 20 per cent were in commercial primary industry. Given the quality of village life generally obtainable for a fairly low labour input, this was an entirely understandable outcome. But since economic growth was concentrated in the monetised and urban sectors of the colonial economy, it implied that Fijians confronted the prospect of an independent Fiji in which they would become more and more money-poor compared to land and employment-hungry Indo-Fijians and, especially, Europeans and Chinese. Fisk warned of the consequent danger to social harmony, and advocated policies designed to accelerate the pace of Fijian entry into the monetary sector, even if some growth had to be sacrificed.

POST-INDEPENDENCE FIJIAN ECONOMY

Independent Fiji's first two development plans aimed at combining the pursuit of economic growth with redistribution of income—and in general terms were not disappointing. Real GDP grew at an annual average rate of 5.8 per cent in 1971-75, primarily because of continued rapid expansion in the tourism sector in 1971-73, and with annual population growth decelerating to 1.8 per cent because of
declining fertility and largely Indo-Fijian emigration, this implied annual growth in income per head of 4 per cent. Slower real GDP growth in 1976-80 at the rate of 3.8 per cent annually was the result of a sugar boom and increased government expenditures on social services and infrastructure development, though significantly, population growth accelerated to 2.1 per cent annually as a result of a rising birth rate and a fall in emigration.6

As to regional income distribution, the Fiji Employment and Development Mission concluded in 1984 that rural incomes increased “broadly in line” with urban wage incomes between 1970 and 1981, reflecting two offsetting sub-period movements. In the first half of the 1970s the difference between urban and rural wages widened and stimulated substantial rural-urban migration from cane cutting areas and the eastern islands coconut economy, with the important consequences that by 1976, 30 per cent of Fijians lived in urban areas (against 11 per cent in 1956), and for the first time out-numbered Indo-Fijians in the Suva urban area.7 In the second half of the 1970s, relative rural incomes rose because of the sugar boom and associated institutional changes. The Fiji Sugar Corporation was established upon CSR’s withdrawal in 1973, organised an expansion that absorbed 40 per cent of new entrants to the labour market in 1976-80, and raised the growers’ share of gross sugar income from 58 to 68 per cent. With around 60 per cent of output sold at a guaranteed minimum price under the 1975 EEC Lome Convention, the latter substantially raised growers’ and cane cutters’ incomes. Significantly, Fijians had a major involvement in the expansion as farmers and cutters, particularly at Seaqqa on Vanua Levu.8

Partly related to these developments, economic disparities between the races were also diminishing. The gap between average

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6 Central Planning Office, n.3
incomes of Fijians and Indo-Fijians was “closing steadily,” and the two groups were “roughly equally represented in both wage and in salary employment,” reflecting equally represented in both wage and in salary employment,” reflecting a noteworthy increase in Fijians’ share of salaried work from 33 per cent in 1972 to 40 per cent in 1982. A racial pattern of economic activity naturally remained discernible. In tourism, for example, a group of 20 foreign, local European, and Indo-Fijian firms importing and wholesaling duty-free goods accounted for 80 per cent of 1977 tourist retail shop turnover, while Indo-Fijians dominated small-scale duty-free sales, and Fijians occupied the lowest tier as handicraft vendors. Generally, Fijians were still “seriously under-represented” in private, particularly non-agricultural medium and large-scale, business. This was dominated by expatriate Europeans and a small section of the Indo-Fijian community which had come to constitute a “second centre” of Fiji’s business culture. Nonetheless, with less than half of the Fijian population living in villages, social differentiation by class rather than race was a phenomenon of growing importance. In this context, it is worth noting that personal income distribution became more unequal in the late 1970s, the ratio of the share in national income of the poorest 10 per cent of the population to the share of the richest 10 per cent falling from 1:17.4 in 1976 to 1:18.7 in 1981.

Moreover, as Ward notes, the forces behind class formation in urban areas were being reinforced by developments in rural areas. The spread of wage employment into rural areas, including native Fijian villages; the weakening of customary forms of labour organisation; the growing emphasis on private ownership; the emergence of greater income differentiation; and the likely restriction in opportunities in

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agriculture are all tending to increase the similarities between the conditions of the poor in both Fijian and Indian communities.

While the skewed distribution of rents from communal lands made some chiefs "very wealthy," 59 per cent of the 1979 claimants for the Destitutes' Allowance introduced with Indo-Fijians in mind were in fact Fijians, most of whom were in rural areas. For these people, as for the nation, economic circumstances in the 1980s were to worsen.

Economic reversals in the period of Fiji's Eighth Development Plan (1981-85) were caused by a combination of international economic recession with natural disasters. The effects of the recession are broadly revealed in the deterioration of Fiji's net barter terms of trade, which in 1985 were 26 per cent down on the 1980 level, largely reflecting decline in the export price of sugar. The Hurricane and drought in 1983 and again in 1985 effected sugar production and tourism of the country. As a result, export volume expansion was much less than it would otherwise have been, and Fiji's capacity to import as measured by its income terms of trade was, in 1985, 25 per cent below the 1980 level, forcing Fiji to utilise the International Monetary Fund's Compensatory Financing Facility for balance of payments support. With every dollar of sugar export revenue generating a final increase in GDP of $1.47, and every dollar of tourist expenditure generating $0.94, the upshot was slow growth, real GDP increased at an annual average rate of just 0.9 per cent in 1981-85.

Relative economic stagnation combined in turn with annual population growth of around 2 per cent to produce a fall in average living standards. In particular it combined with a rapid increase in the number of job seekers – born in the mid-1960s – to produce a rise in the open unemployment in agriculture, and a fall in wages for rural and non-union urban labour. Importantly though, after exhibiting substantial


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wage restraint in the period 1970-81, unionised urban labour was successful in negotiating real wage and salary increases despite the fall in real GDP per head. One consequence was a worsening of rural-urban and intra-urban income distribution. Another was an exacerbation of government’s fiscal problems.

As noted in the previous section, government was active in developing social services and infrastructure during the late 1970s. But sluggish economic growth in the early 1980s led to revenue stagnation at a time when operating expenditure increased dramatically because of the above-mentioned pay increases, the impact of automatic increments, promotions and regardings of civil servants recruited in the 1970s, and the increase in debt service costs. The consequent widening of the operating deficit necessitated increased borrowing largely from domestic sources, and a cutback in the capital expenditure programme. It also threatened a squeeze on development-promoting operating expenditures in health, education and agriculture. Clearly, public investment could not make up for the decline in private investment that had occurred in the face of high real interest rates, higher unit labour costs, and depressed domestic demand. Instead, withstanding government debt having risen from 30 per cent of GDP in 1980 to 40 per cent in 1984, the policy adopted was contractionary. A wage freeze was imposed from November 1984 and stayed in place throughout 1985. Thus was the burden of adjustment to the development difficulties of the early 1980s to be distributed more evenly, pending a managed return to economic expansion.

On this score 1986 was promising. An oil price drop coupled with higher sugar and gold prices significantly improved Fiji’s terms of trade; sugar production reached a record high of 502,000 tonnes which fully utilised available milling capacity tourism receipts were up as a record number of visitors arrived, though for a shorter stay than

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17 Fiji Employment and Development Mission, n.11, p. 219.
18 Fiji Employment and Development Mission, n.11, p. xxv.
previously; the inflation rate was down to 1.8 per cent and with a contribution from a 77 per cent increase in gold export revenue, the balance of payments on current account moved into surplus, permitting a repayment of the loan taken out under the IMF's Compensatory Financing Facility. Overall, real GDP was up 9.2 per cent on 1985.

There were nonetheless areas of concern. Despite the growth, formal sector employment seemed to have stagnated. Investment was still sluggish. And the government operating deficit had more than doubled. The latter in small part reflected a limited easing of the wage freeze from January 1986; but mostly reflected a shortfall in anticipated revenue. This in turn resulted from a shift towards greater reliance on indirect taxation of expenditure which had not yet felt the full impact of export growth. The growth was concentrated in the second half of the year, so it was expected that the full flow-through to domestic demand and tax revenue would occur in early 1987. As to investment, the low inflation rate and the strong foreign reserves position encouraged the Reserve Bank in late 1986 to allow an acceleration of monetary growth, and to reduce its minimum lending rate from 11 to 8 per cent. It was hoped that a sustainable fall in interest rates would stimulate investment.

The foundations for cautious optimism about the Fiji economy were reinforced in the first quarter of 1987. Though Fiji's 5 per cent devaluation in March-May 1986 prevents precise year-to-year comparisons; it is clear that a lagged increase in consumption demand occurred as expected, leading to substantial increases in manufacturing production (excluding sugar) and manufactured imports on levels in the first quarter of 1986. Sugar export revenue was up enormously; gold revenue was up; and so were gross tourism receipts as a result of a 9 per cent increase in visitors who stayed longer and spent more than in the previous year. Government revenue from customs and excise was up because of the rise in net imports, so that total revenue had outpaced

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total expenditure growth. The inflation rate seemed to have stabilised. Interest rates had fallen to a weighted average of 11.7 per cent in March from 13 per cent a year before. And though building and construction activity was drawn, net imports of machinery and transport equipment were up 66 per cent. Of course the balance of payments constraint to economic growth remained operative; but expectations in early May were for continued buoyancy, and for another year of increased GDP.

If the forecast of a 1.4 per cent expansion in real GDP in 1987 had proved accurate, Fiji would have had two consecutive years of economic expansion for the first time since 1978-79. After 14 May, this has become a might-have-been. Indeed, the immediate economic impact of Colonel Rabuka has been such that real GDP in 1987 is estimated to have fallen by 11.2 per cent, thus completely wiping out the net GDP gains of the decade.

**FIJIAN ECONOMY AFTER COUP**

In the weeks following the first coup, Fiji’s economy was hit hard by the flight of financial and human capital, a virtual cessation of foreign investment, a collapse of tourism, and a halt to the sugar harvest. The balance of payments crisis so induced, and necessitated draconian economic policy measures which added to the unavoidable, but unequally shared, hardship.

With investor confidence evaporating and expectations of a devaluation of the Fiji dollar developing virtually overnight, resident business and individuals shifted funds offshore and adopted a wait-and-see policy. Their worst fears realised, numbers of skilled Indo-Fijians left or made plans to leave. Potential foreign investors put planned projects on hold pending a “satisfactory” political outcome, only five of 35 Australian business projects developed pre-coup were going ahead.21 And further official bilateral aid was halted. Visitors arrivals, which had reached a record high by the end of April and were running at nearly

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21 *Sydney Morning Herald*, 1 August 1987.
700 per day in the first two weeks of May, fell to 400 per day in the week following the coup. Then, after the attempted hijacking of an Air New Zealand plane at Nadi airport on 19 May and the Suva riot on 20 May, there was a further fall to 105 per day. Visitor arrivals totaling 18,323 in May and June were down 49 per cent on the same period in 1986, and some duty-free dealers closed. At $15.1 million, total hotel turnover in the June quarter was down 25.5 per cent on the same quarter in 1986. In the sugar sector, Indo-Fijian growers, uncertain of the future and supportive of the ousted Bavadra government, were boycotting the harvest of a crop already affected by drought.

Inevitably, given the roles and multiplier effects of tourism and sugar, the general level of economic activity fell, raising the level of underemployment and unemployment, and putting pressure on government finances. With revenue falling, and military expenditure increasing to an unknown extent as the army moved towards doubling its size, the government's operating balance had moved from a $13 million surplus at the end of March to a $13 million deficit at the end of June, threatening a blowout in the annual overall deficit from a before-coup estimate of $77 million to $100 million. The prospects of financing the growing deficit from overseas borrowing were nil, since international financial markets had taken the same wait-and-see position as investors in the region. Borrowing from the Fiji public was not an effective option because of capital flight and the consequent tightening of domestic credit – as evidenced by the fact that a mere 10 per cent of post-coup bond issues by the Fiji Electricity Authority and the Reserve Bank were taken up. This left cutting expenditure as the only responsible and effective fiscal action for the de facto government to take, for borrowing from the Reserve Bank itself – printing money – to fund expenditures was bound to worsen the balance of payments in an open economy. But on this point the military men and their supporters

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24 Reserve Bank of Fiji 1987, n. 15.
needed educating, while it took time to negotiate and implement cuts in non-military spending (particularly in wages and salaries). So Reserve Bank credit outstanding climbed from less than $5 million in April to nearly $70 million in early August, approaching the legal limit of $95 million (equal to 30 per cent of average annual government revenue in 1983-85), and exacerbating the severe pressure on foreign reserves.

Gross foreign exchange reserves dropped from an early May level of $177.3 million to $119.7 million at the end of June and the reserves net of IMF borrowing had fallen similarly to under $110 million. Had this downward trend continued, Fiji would have exhausted available supplies within four months. The Reserve Bank was therefore compelled to devalue the currency, impose exchange controls, and adopt restrictive monetary measures. As from 29 June, a Fiji dollar was worth 17.75 per cent less in terms of foreign currencies (thus discouraging capital flight and import expenditure), or conversely was 17.75 per cent cheaper to buy (thus encouraging exports and tourism). Overseas portfolio investment was no longer permitted; emigrant transfers were limited to $4,000 per household head and $2,000 per spouse and child; and allowable gift remittances were reduced from $500 to $100. The Reserve bank already had increased its minimum lending rate from 8 to 9 per cent in accordance with the fall in cash reserves caused by the worsening balance of payments situation. Early in August it reinforced this move by increasing the commercial banks' statutory reserve deposit ratio from 5 to 6 per cent.26

These policies were successful in temporarily arresting, and then slowing the rate of, the decline in foreign reserves and were aided by initiatives in the tourist industry. Operation Bounce-back offered potential visitors airfares from Australia and New Zealand and hotel accommodation at 60 per cent of normal rates. Numbers picked up, so that by late August the expected total for 1987 was 225,000, compared

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26 Reserve Bank of Fiji 1987, n.15.
with a before-coup forecast of 287,000. But in addition to the ultra-low prices paid for travel and accommodation, the visitors were proving to be small spenders on food, entertainment and duty-free goods, and predictions were that gross receipts for the year could be as low as half of the amount originally anticipated. In the sugar industry, harvesting of the cane crop commenced in August in response to a plea from Dr. Bavadra; but forecast sugar production was down from 480,000 to 350,000 tonnes as a result of the late start and the continuation of the drought which was turning out to be the worst since 1942.

The fact remained that the trend in foreign reserves was still downwards in early September, and would have been worse but for Reserve Bank prevention of some “very large” capital outflows. A further tightening of credit conditions was indicated by the introduction of credit rationing by the Fiji Development Bank from the first of the month, and by an expected $32 million shortfall in meeting the usual September-December Statutory Bodies’ Borrowing Requirement. And while sugar receipts were concentrated in the latter half of the calendar year, there was no sign of any pick-up in investment. Asian Development Bank and World Bank loans of $10 million and $23.4 million, respectively, were going ahead, but as exceptions to the rule. Indeed, investor confidence was further shaken by the September 4th, Taukei assault of Dr. Bavadra’s spokesman in the Suva Travel lodge bar, an assault tacitly condoned by the de facto authorities and therefore especially likely to intensify feelings of insecurity. On the same day, the Secretary of the Public Service Commission announced a civil service pay cut of 15 per cent backdated to August 21.

Because of the deteriorating state of the economy the Government is compelled to take immediate steps to introduce further cost cutting measures ... Unless such measures are implemented forthwith, all Governmental activity will in the near future be rendered impossible on account of shortage of funds ... The Personal Emolument Vote ... makes up almost 54 per cent of our Operating Budget. A 50 per cent cut with
effect from 6.8.87 would balance the budget but this was considered undesirable ... An immediate 15 per cent cut whilst relatively small was considered more acceptable for the time being although Government would still have a large deficit of $17.84 million in its operating budget by the end of the year for which it has to find finance.27

Thus, in economics jargon, restrictive monetary and fiscal policies were to assist in the restoration of external financial stability at a low level of economic activity. This meant that the price of the coup to be paid in 1987 – beyond the arbitrary arrests, harassment and so on – was a sudden and substantial deterioration in general economic and social conditions. For visitors holidaying in the environmental bubble of a tourist resort things may have appeared “normal.” But residents knew otherwise. The Reserve Bank reported that “a substantial proportion of the labour force has been affected by shorter working hours and/or pay cuts, and redundancies.”28 After five years of decline which had continued in January-May, the rate of inflation – driven by a rise in the price of foodstuffs which account for around 16 per cent of Fiji’s imports – had reversed direction and was on its way to an annual 1987 rate of 5.7 per cent. This meant a drop in living standards for employed middle income civil servants of around 20 per cent in real terms, and a larger drop for the unemployed and the already destitute of both major ethnic groups, for the one urban household in ten living below the poverty line.29 Robberies in January-August were up to 281 from 120 in the same period in 1986, providing additional stimulus to the only conspicuous growth industry in the private sector – security services. In Suva, St Vincent de Paul reported that in the period 14 May – 31 August 304 families over and above the usual 82 “regulars” had sought assistance from the Society, while the Bayly Clinic added that the numbers seeking food rations had increased from 500 to 700.30

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27 Fiji Times, 4 September 1987.
28 Reserve Bank of Fiji 1987, n. 15.
hit of all were the single-income families relying on women’s employment as domestic servants.

Nor was the hardship confined to urban areas. Village-based Fijians had lost jobs in hotels, and landless Indo-Fijian cane cutters had gone further into debt alongside tenant farmers. The improvement in domestic currency prices of export goods made possible by devaluation was partially offset by cost rises: the price of cane increased from $25.50 to $36 per ton, but tight government finances caused the removal of a subsidy on fertiliser prices which were 80 per cent up on pre-coup levels. Additionally, of course, there was the general decline in the quantity and quality of services in both private and public sectors as a result of financial stringency and the acceleration of the brain drain.

Emigration of skilled and experienced Indo-Fijians increased significantly from the late 1960s, once the transition to political independence and a communal voting system had begun in earnest. An approximate average of 1800 left each year in the period 1971-84, and in the 1980s constituted 83 per cent of all emigrants. Unimpeded in their departure by any government restrictions, most of those leaving have been young, frequently in a professional, managerial or technical occupation, and North America - or Australasia-bound. One rough estimate suggested that one in every six skilled Indo-Fijians working in Fiji in the early 1970s was working in Canada at the end of the decade.31 In the three months after the first coup, the flow took on the dimensions of an exodus: the Fiji Sugar Corporation lost 12 senior managers and 35 skilled tradesmen; one major accounting firm lost 14 qualified staff; lawyers, doctors, dentists, teachers, technicians, engineers and other professionals were leaving, including staff at the University of the South pacific; and in early September passport applications were still running at 175 per day. Posts and Telegraphs, which had seen its trucks commandeered by the military, now saw seven senior engineers and 36

middle managers depart. Similar fates befell other government departments. The Reserve Bank itself lost four of its 88 staff. Overall, in the two months of August and September, 936 citizens left Fiji, of whom 767 were Indo-Fijians, 59 were Fijians, and 110 were from other ethnic groups.\textsuperscript{32}

For those Indo-Fijians remaining in the bureaucracy there was bound to be a loss of motivation at precisely the time when the need for economic recovery demanded a greater work effort. And if any of them drew confidence in mid-September from the prospect of a bipartisan government, it was short lived. On 25 September, the second coup made it perfectly plain that emigration would be the only way for Indo-Fijians to match economic success with what they regarded as acceptable political rights.

The coup immediately intensified the economic reversals caused by the first coup. If any local and overseas investor confidence remained in September, it was shattered. Indo-Fijians, who were to lose any meaningful political rights, were asked to believe their property rights would be protected by a Colonel who in the same breath removed the right for Hindus to picnic or play sport on the Christian Sabbath. Australian business projects reportedly worth $200 million, and including a tourist resort, were shelved; and a six month moratorium was placed on new investment.\textsuperscript{33} Potential tourists were still being offered travel at a (lower) discount after 1 October, and were assured by the Pacific Asia Travel Association that Fiji was safer than most tourist destinations. However, the Australian government advised against a Fiji holiday and the Business Insurance Council of Australia was not prepared to write travel insurance of Fiji; and though some were not deterred, there were cancellations.\textsuperscript{34} The level of economic activity declined further, with obvious implications for employment – as

\begin{footnotes}
\item[32] Reserve Bank of Fiji. 1987, n. 15.
\item[33] Australian, 8 October 1987.
\item[34] Sydney Morning Herald, 29 September 1987.
\end{footnotes}
evidenced by a 55 per cent fall in the turnover of Burns Philip (South Seas) in the week after the second coup, and a subsequent 28 per cent fall in its staff.\textsuperscript{35} The Indo-Fijian search for the exit became even more desperate, with October departures of 768 doubling the September figure.\textsuperscript{36} The balance of payments and associated liquidity crisis worsened; and on 7 October, after a week in which it had seen foreign reserves fall by $30 million (or 23 per cent), the Reserve Bank was forced into a second defensive devaluation of the Fiji dollar – by 15.25 per cent.\textsuperscript{37} While the military continued to absorb foreign exchange and burden the government budget, further civil service pay cuts were mooted; and pressure increased for more credit-creation by the Reserve Bank.

Then, in response to the military's repression of domestic trade union activity, and in the context of Fiji's expulsion from the Commonwealth in the mid-October, the Australian Council of Trade Unions (ACTU) announced that in addition to the reimposition of maritime trade bans lifted in July, a ban was to be imposed on air travel to Fiji from 1 November – unless trade union rights were restored in the interim. Given that in 1986 Fiji obtained one-third of its imports and one-third of its tourists from Australia, the effect of cutting Australian traffic by itself promised to be devastating. But the air ban potentially affected not only Qantas and Air Pacific, but also Canadian Pacific, the last airline connecting with Canada and the United States – which together supplied 36 per cent of visitors in 1986. Air New Zealand flights, due to have resumed on 22 September, were still suspended, and Japan Air Lines were to withdraw at the end of October, thus ending direct connections with two countries supplying 13 per cent of 1986 visitor arrivals. Forecasts of tourist arrivals and receipts revised downwards after the first coup suddenly seemed grossly over-optimistic.

\textsuperscript{35} Australian, n.33.  
\textsuperscript{36} Reserve Bank of Fiji 1987, n..15.  
\textsuperscript{37} Reserve Bank of Fiji 1987, n.15.
Nor were Australian trade unions the only source of international reaction against the Rabuka regime. Aside from the expressed outrage of the western democracies and expulsion from the Commonwealth, the European Parliament condemned the creation of a "racist dictatorship" and called on the European Commission to suspend purchases of Fijian sugar, a recommendation which, though unlikely to be acted upon because of British and French opposition, would cripple the Fiji economy since two-thirds of its sugar is sold to the European Community at three times the world market price. The government of New Zealand already had decided not to renew a $10 million contract to purchase Fiji sugar at above market prices, thus eliminating approximately 7 per cent of the established sugar export market.

In sum, one month after the second coup, and just days after Colonel Rabuka was reported as saying "I believe very firmly that the economic crisis is only short-term," the Fiji economy was apparently moving from crisis to catastrophe at a pace which international sanctions threatened to accelerate. Galvanised into action by this prospect, the 50 per cent Taukei "Military Government of the Republic of Fiji" repealed the decree that had abolished trade union rights, thereby persuading the ACTU to call off the air travel ban on 29 October. A few days later, Australian and New Zealand maritime bans were lifted. Perhaps encouraged by this response, Colonel Rabuka soon made other changes designed to increase the chances of restoring international government recognition and investor confidence. The Fiji Times was permitted to resume publication on 6 November; a six-week curfew was lifted on 12 November; the new judges of Supreme Court were sworn in; 2,000 soldiers were to be demobilised; and tax-free zones and factories - discussed in the next section - were to be established.

Most importantly though, Rabuka - self-promoted to Brigadier -
announced his intention to stand down as head of the state in order to allow establishment of a "civilian" government. Some expressions of sympathy and offers of aid had already been received from foreign groups and governments. Melanesian and Polynesian political leaders “understood” the reasons for the coups; and some black radicals from Australia and New Zealand paid homage to the military man they saw as a protector of a minority indigenous population. France, with its own minority Kanak population in New Caledonia, saw political advantage in offering assistance, as did Libya. There was reported recognition from Israel, a strengthening of ties with Indonesia, an offer of humanitarian aid from Malaysia, and substantial interest from the USSR. But Rabuka needed renewed support from Fiji’s traditional major partners in trade, aid and investment, just as these partners’ governments, notably the Australian and American, wanted to protect their economic interests and to pre-empt any growth in Tripoli/Paris/Moscow-based influence in the Pacific. The promise of a return to civilian rule carried with it the hope of a return to business-as-usual in these respects.

The promise also carried with it the related hope of improvements in domestic administration and economic management and, consequently, in investor confidence. For under the military government, Fijinization of key civil service and statutory body positions had proceeded with scant regard for the managerial consequences, while the Indo-Fijian brain drain and low moral continued, and government actions and policy statements showed a lack of purpose and consistency partly reflected in the inability to bring down an expected budget for 1988. However irreparable much of the damage to Fiji’s human resource base was, Brigadier Rabuka was evidently forced to the conclusion that the country needed, and needed to project an image of, experienced, responsible and stable leadership. Not surprisingly, the Brigadier turned to Fiji’s two elder statesmen. On 5

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December he appointed the ex-Governor-General, Ratu Sir Penaia Ganilau, as president, and the elected prime minister of the "interim Civilian Government of the Republic of Fiji." In the cabinet announced four days later, Rabuka had taken responsibility for home affairs (including security), three other military officers had taken portfolios, and 16 Alliance supporters and former MPs (including two Taukei activists) had been appointed. Most of the Taukei members of the Military Government had been excluded.42

A military-Alliance government, then, was to restore Fiji's international credibility and manage its economic recovery, while working towards the introduction of a constitution ensuring permanent Fijian rule. Given the strategic and political interests of Australia in particular, and the fact that government-installed-by-gun was common place in the Third World, the former task promised to be substantially easier than the latter. The lowest cane; raw sugar ratio since 1968 saw sugar output exceed September expectations and reach 401,100 tonnes for 1987. The associated seasonal surge in sugar export receipts eased the pressure on foreign reserves, contributing $40.3 million of the $60.8 million increase between end-September and end-December, the rest being the revaluation effect of the second devaluation. But this was a seasonal phenomenon, and sensible economic management required its monetary impact to be neutralised in order to avoid an unsustainable expansion in import spending. Accordingly, the Reserve Bank sold public sector securities, thus maintaining in the December quarter the tight credit conditions of the September quarter which had seen commercial interest rates around 13.7 per cent. Significantly, commercial lending was below the average level of the September quarter, which had been set as a ceiling level by the Reserve Bank in October. Also, tourist arrivals for 1987 fell below post-coup expectations to 190,000 - 26 per cent down on the 1986 level - so that, even with the revaluation effects of a 33 per cent devaluation of the currency, foreign reserves were $5 million lower at year's end compared with 1986. The flight of human
capital continued through December, bringing total departures of Fiji citizens since 1 August to 2,561 of whom 2,126 were Indo-Fijians heading mainly for the open doors of Canada. Amongst them, no doubt, was significant proportion of the 600 Indo-Fijians who had left the civil service; while domestically, data on Fiji National Provident Fund special payments to workers laid off between July and November suggested 1600 members had joined the ranks of the unemployed.43

Clearly, facilitating and managing economic recovery was to be a slow, difficult process, even granting political stability. But on this score 1987 ended with little comfort for those placing their faith in the military-Alliance government.

This afterward began with a quotation from a 1984 report in which Fiji was described as a country notable for its "combination of relative prosperity, social harmony and freedom from repression". That same report went on to express the hope that, despite the real development difficulties to be met, this heritage would be preserved. In May 1987 Colonel Rabuka destroyed the hope by ousting Dr. Bavadra's mildly reformist, multi-racial Coalition government - a government which would have maintained a balance of ethnic and sectional interests under a 1970 Constitution that adequately protected Fijian land rights, and which could easily have lost office through due parliamentary process, given the smallness of its majority. Under a nominally civilian, but effectively military regime, Fiji is well down a familiar Third World path of repression, comparative economic stagnation and rising unemployment.

It appears now that there will be no backtracking.

CURRENT ECONOMIC PROSPECTS

Diminished political uncertainty in Fiji will pave the way for a gradual increase in economic stability, but it will take time to change Fiji's reputation in the region as a divided and contentious economy.

Meanwhile, restructuring Fiji's economy to become more market-driven remains a challenge. If the government of Fiji invests as much in economic restructuring as it did in political reform, Fiji will have the means to achieve a much higher standard of living than it now enjoys.

Revising the laws governing long-term sugar land leases under ALTA is a critical test facing the government. Most of the 30-year land lease is expiring in 2000-2001. The government has already taken the first step by creating a parliamentary committee to address ALTA. Since forming this committee has involved the same steps that led to the one that successfully achieved constitutional reform. Perhaps there is a good chance the government will resolve ALTA. If it does, the macro-economic uncertainty will diminish significantly.

Fiji's macro-economic uncertainty has two sources. First, there is a lack of confidence in public enterprises because a large, inefficient and communal public sector controls many of these enterprises. In 1996, the total market value of public enterprise assets including power plants, airlines, banks, telecommunications and agriculture was, in Fiji dollars, F$2.049 billion, or 68.7 per cent of GDP. While Fiji's public sector included enterprises which normally belong to the private sector, it did not include national parks, historic sites and other assets of similar character that are generally maintained by national or state governments.

Because of its communal roots, the government's main goals in owning and managing these public enterprises are to ensure steady and reliable service while providing a more equitable distribution of income to all. However, as a Ministry of Finance report says, "there is also the implicit expectation that Government will not allow public enterprises to fail, should they get into financial difficulties. As a result, lenders do not have adequate incentives to properly assess credit risk when lending to
public enterprises, and management have the expectation that they will receive Government funding if they experience financial problems."  

There are various proposals to privatize these enterprises. Government may feel that given the changes that have been made and those that are underway it may not have the public support to undertake a major privatization scheme. However, the ongoing economic downturn and the structural problems that need to be readdressed properly to make the economy more efficient may be the grounds for seeking outside aid to carry out an effective privatization scheme. This assistance may be in the form of loans from the global organizations such as the World Bank, International Monetary Fund (IMF), Asian Development Bank (ADB) and others.

The second source of uncertainty in Fiji arises from its basic private sector structure, with its dependence on commodities, lower-value manufacturing (e.g. garments and sugar processing) and tourism which is volatile and influenced by the regional financial conditions. Reducing uncertainty from this end of the economic makeup is a long-term proposition that requires decreasing dependence on commodities, increasing export of higher-value products and diversification of the economy. However, given Fiji's relatively large labour force and basic infrastructure, it is in a better position than most developing Pacific Island economies to achieve its goals.

PRIVATE AND PUBLIC INVESTMENT

While the production side of the national output remained relatively consistent through much of 1990-97, the spending mix of GDP changed significantly. As noted in Bank of Hawaii's 1996 Fiji Economic Report, total private and public investment has dropped as a share of GDP since the mid-1980s. Total private investment alone as a share of

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44 Ministry of Finance and Ministry of National Planning. 'Supplement to the Budget Address', 7 November 1997, p. 58.
45 Ibid. p.62
GDP fell from 16.9 per cent in 1990 to 10.7 per cent in 1996, the lowest so far. In 1997, the trend seemed to reverse when private investment spending rose slightly to 11.3 per cent. Since 1997, practically all data are subject to revision, the small gain last year cannot be established as the beginning of a trend until further evidence emerges. Still, passage of the new constitution and government's commitment to other reforms may be defined as the critical turning point.

In contrast, investment in public enterprises rose considerably in 1985-95, reaching as much as 8-10 per cent of GDP, perhaps in an effort to offset declining private investment. Given Fiji's mix of communal and market cultures, the investment of a large share of national output in public enterprises is not unexpected.

While basic utilities such as power, water and telecommunication services in the Pacific Islands are generally provided by public enterprises, it has been clear from the experience of large developing economies that public enterprises do not attract as much capital as private firms. Most of the large developing economies have recognized this as an economic inefficiency and in recent years have privatized utilities. Even the People's Republic of China, the only major command economy in the world, has adopted a restructuring program aimed at large scale privatization of hundreds of thousands of state-owned enterprises.

The drop in private investment as a per cent of GDP over the last decade will have important consequences for Fiji in the years ahead. Even at 16.9 per cent of GDP, total private investment was not high enough to generate the kind of robust growth typical of growing economies. Fiji's total investment as a share of GDP is more like that of mature economies such as the United States and Western Europe, rather than that of a dynamic developing economy.
LABOUR FORCE AND EMPLOYMENT

Fiji's labour force and employment figures differ from those of the United States and Western Europe. In most economies, one must attain the age of at least 14-16 years to be considered in the labour force. In 1996 (the most recent year for which such figures are available), 281,000 people or 35 per cent of Fiji's population made up its labour force (as compared to 51 per cent in the United States and 45 per cent in Western Europe). According to the Ministry of Finance, of the 281,000 in Fiji's labour force, 265,000 were employed and the rate of unemployment was 6.0 per cent. In terms of persons, those out of work numbered 16,860. Of those employed that year, 98,686 were on payroll, while the remaining 165,414 were self-employed.

Even without applying the US labour force, employment and unemployment rates and standards to Fiji, it is clear that unemployment and underemployment are far more serious than formal labour force figures show. The untapped resource of Fiji's labour force makes Fiji potentially a far more prosperous economy. The economic downturn underway exacerbates present labour force problems, but Fiji's long-term potential as a growing economy lies in the dynamism of its labour force and its ability to make better uses of all of its resources.

FISCAL MANAGEMENT

Fiji's large recurrent fiscal deficits of the 1990s reflect the government's inability to manage effectively its fiscal resources and its numerous public enterprises. Deficits have ranged from a low of 3.4 per cent of GDP to as much as 9.2 per cent. Deficits of any amount reflect poor fiscal discipline, but if governments justify them on the grounds of public capital formation, shortfalls of up to three per cent of GDP are considered routine.

Fiscal deficits as large as 5-9 per cent of GDP are considered to be

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problems rather than fiscal stimuli. Fiji's fiscal deficits became progressively larger in the late 1990s, rising from 3.4 per cent of GDP in 1995 to 9.4 per cent in 1997. Recurrent large deficits cause many difficulties, the most serious of which is crowding out, when the public sector absorbs resources that would normally go to the private sector.

A fiscal deficit amounting to 9.4 per cent of GDP is too high by any standard. However, without funding for the National Bank of Fiji, the ratio would have been 2.5 per cent. A government committed to creating private sector enterprises out of public resources is a problem in Fiji that needs solution. With the NBF on its way to better management, the budget deficit as a share of GDP should be down to 4-5 per cent of GDP in 1998, which would still be high for a small developing economy such as Fiji. The current economic downturn makes it unlikely that Fiji will have a balanced budget soon.

MONETARY POLICY

Monetary policy appears to have been alternately accommodative and restrictive, depending on circumstances. The recent economic downturn has made achieving an optimal balance between combating price inflation and keeping sufficient liquidity in the financial markets a challenge for the Reserve Bank of Fiji. Increases in so-called narrow money (M1) averaged 8.8 per cent in 1992-97, which is considered reasonable. In early 1998, the rate of increase in M1 was down to 2.2 per cent, following a decline of 2.4 per cent for all of 1997.

In January, the Reserve Bank devalued the Fijian dollar 20 per cent in response to regional competitive pressures partially linked to the Asian financial crisis. As a result, inflation began to rise. In the second quarter of 1998, consumer price inflation was 5.8 per cent, up from the first quarter's rise of 4.3 per cent. These increases were in
contrast to 2.9 per cent for all of 1997 and 2.4 per cent for 1996. In 1994-95, inflation was even lower.

Fiji is not as dependent on foreign labour paid in foreign currencies as are other economies in the region, thus the total impact of devaluation on inflation will be relatively mild. However, since Fiji imports a wide range of goods and services, inflation arising from devaluation may increase further in the second half of this year. As a share of GDP, imports of both goods and services amounted to 58.0 per cent in 1997, a figure consistent with the rest of the late 1990s. Because imports are so important to the economy, an increase in their prices of as much as 20 per cent (assuming the full impact of devaluation is passed on to consumers), would cause higher price inflation during the rest of the year.

At the same time, Fiji’s goods and services sold abroad are cheaper by 20 per cent, causing increased demand for them. Fiji would presumably export more and thus earn more to pay the higher import prices. As experience elsewhere has shown, it takes time for major changes in exchange rates and their total impact to be absorbed by the economy. Fiji’s economy will need perhaps until the middle of 1999, to absorb the total impact of devaluation.

As expected, the pressure arising from higher inflation will cause interest rates to increase. However, given the weak economy and weak demand for credit, interest rates may not rise much, and the Reserve Bank may maintain its accommodative posture until the impact of devaluation works its way through the system.

Apart from devaluation and monetary policy, another notable change of some consequence in Fiji has been a large drop in the so-called quasi money (the combined total of time and savings deposits) which peaked in the first quarter of 1996 at F$1.125 billion. At the end

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Ibid. p.19.
of the first quarter of 1998, quasi money was down 24.2 per cent from its peak. The drop was caused by a loss in time deposits, which declined from F$808.7 million in the first quarter of 1996 to F$554.3 million in the first quarter of 1998.

It is not clear whether the deposits withdrawn went to other financial assets or were converted to real assets. It is possible that some may have left Fiji. Of particular importance, however, is the fact that the money and credit markets in Fiji still show signs of volatility, and devaluation has added to it.

**BALANCE OF PAYMENTS**

In the context of balance of payments (transactions with the rest of the world), Fiji has had a less precarious record during the 1990s, mainly because this is an open and globally-connected economy. In 1997, total market value of exported goods and services amounted to 55.7 per cent of GDP as opposed to imports at 58.0 per cent. The overall balance of payment has ranged from a deficit of F$70.4 million to a surplus of F$109.0 million, for an average surplus of F$19.6 million in 1991-97. To the extent that balance of payments accounts are influenced by external economic and financial changes (e.g. exchange rates) over which a country has no control, Fiji has had its share of uncertainty. The most demonstrable example of a change caused by external factors in Fiji as well as the rest of the Pacific over the last year has been devaluation brought about by the Asian financial crisis. It can be said, then, that Fiji's 1997 deficit of F$48.8 million in overall balance of payments, following two years of notable surpluses (F$109.0 million and F$97.4 million) was caused more by external conditions than internal ones. Thus Fiji will benefit when stability returns to the Asian markets.\(^2\)

FOREIGN AID AND INVESTMENT

Australia has been the major source of aid to Fiji with Japan providing an increasing share. However, the position changed dramatically following the two coups as most countries suspended aid. A new group of countries - France, Indonesia and Malaysia - were quick to offer financial assistance. France announced a package worth A$16 million in 1988. With the formal resumption of civilian government in December 1987 the traditional donors have gradually started to resume aid, led by Australia which has offered A$7 million (US$ 5 million) for 1988. Although, the volume of country programmable aid was reduced from $20 million to $ 13.4 million in 1987-88, Fiji was still the largest recipient of Australia aid, after Pupua New Guinea, in the Southwest Pacific. Multilateral aid, however, to Fiji is mainly project related and varies considerably from year to year.

Like in several other developing island nations foreign direct investment has played an important role in Fiji. It has been directed towards forestry and the tourist sector which flourished in Fiji during the late 1970s. The foreign direct investment in Fiji as suggested by the United Nations is US$ 220 million. Some of the manufacturing in which foreign investors have been active are cigarettes, matches, beweries, copra-oil processing, canned fish, light engineering products among others.

DEBT AND PAYMENTS

Fiji's total public debt has risen rather rapidly in recent years, mainly as a result of accumulating fiscal deficits. Total outstanding public debt was F$1.40 billion in 1997 (60.0 per cent of GDP), up from F$1.13 billion in 1996. It was expected to rise to F$1.45 billion in 1998. As a share of GDP, Fiji's total public debt is not expected to change

much this year. Change will require serious fiscal discipline, which is unlikely to be in place soon because of the worsening economy. The burden of a growing public debt is the servicing cost which requires the commitment of resources that might otherwise be put to more productive uses.

Total external debt in 1997 was F$349.7 million of which public debt was F$222.4 million and private debt was F$127.3 million. Both amounts were small shares of GDP and, therefore, of no great concern.

**ECONOMY BY SECTOR AND MAJOR INDUSTRY**

**AGRICULTURE, FORESTRY AND FISHING (AFF)**

More than 75 per cent of all Fiji households engage in some way in crop production, livestock, forestry or fishing. Despite its importance to the Fijian economy, agriculture is declining as a share of total income principally because of low productivity. Since the labour share of agriculture has remained high, especially in rural areas where no other alternatives for work exist, income from agriculture has fallen in relation to other sectors. The continuing drop in incomes has deterred investment in farming, which in turn has led to lower productivity.

In an effort to help agriculture preserve its income level and thereby make it an attractive occupation, the government has attempted price supports, protective trade policies and subsidies, all with limited results. Raising productivity and restoring the opportunity to earn competitive income in agriculture will require a thorough assessment of the sector's place in the economy and its contribution to Fiji's lifestyle and social and political stability. Since Fiji already has the land, labour and markets, a highly productive and efficient agriculture sector, especially in sugar, appears to be justified.

An important step in that direction was a 1996 study done jointly by ADB and Fiji's Ministry of Agriculture, Fisheries and Forests, that
outlined a strategy for growth and development. Reviewing AFF production and policy in the 1985-95 period, the report's most important conclusion was that Fiji's AFF must now operate in a free trade environment, which makes market reform and efficiency more critical than ever before. This trade environment has come about following the Uruguay Round of international trade talks to reform tariffs worldwide.

Because isolation from markets adds to production and distribution costs in economies like Fiji, its AFF may never be as efficient as that of China, Mexico and other large developing economies where economies of scale make it possible to overcome these problems. But that same isolation has helped to preserve Fiji's natural tropical beauty and its relatively pest-free, unpolluted environment. It has also bolstered the Fijian farmers' ability to produce a variety of foods and fiber for both domestic and overseas markets.

Sugar is still the backbone of Fiji's commercial agriculture, accounting for 40 per cent. It directly employs a quarter of Fiji's labour force, with the typical sugarcane farm averaging 4-5 hectares. In 1995 some 22,400 small holdings cane growers worked in sugar production and processing. The average cane farmer harvested 183 tons of cane and received F$9,810 in 1995. The average cane farm harvest was 3.3 hectares and the average cane yield was 55.1 tons per hectare. More than 60 per cent of all cane growers produce less than 150 tons a year, and 25 per cent produce less than 50 tons a year. In 1995, a total of 454,000 tons of raw sugar was produced and 98 per cent of it (445,000 tons) was exported, earning F$276.1 million. In 1996, Fiji's total export value rose to F$301.7 million, but fell to F$213.4 in 1997.

Because of its dominant position, Fiji's sugar industry is more than a segment of Fiji's economy. An institutional structure is in place that gives the government a strong role in every aspect of the industry.

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Ibid.
The Sugar Industry Act of 1984 governs the industry through the Sugar Commission of Fiji, the Sugar Industry Tribunal, the Sugarcane Growers' Council and the Mill Area Committees. All these operate independently of the FSC. The Act also created provisions governing the rights and obligations of FSC and the growers. The 19-member Sugar Commission serves as the industry's coordinating body.

The Fiji Sugar Corporation (FSC), a quasi-public entity, produces the raw sugar. The Fiji Sugar Marketing Company, a subsidiary of FSC, markets the sugar. Virtually all raw sugar goes to export markets, roughly half of which goes through the UK to EU at preferential prices. A small amount also goes to the United States under quota at preferential prices (1.5 to 2 times the world price). The remainder is sold in open markets.

Sugar is among the world's most protected goods because it is a universal sweetener. Retail prices in the United States and EU are 2-3 times world market prices. This discourages consumption, promotes inefficient resource allocations and causes distortions in markets. Yet all the global trade talks concerning general agreement on tariffs and trade have left the sugar-marketing arrangements of the US and EU practically untouched. As a result, the global sugar market may remain as distorted in the near future as it has been in the past, directly benefiting Fiji.

How long the United States and the EU will pay 2-3 times the world price for sugar from Fiji and other developing markets is uncertain, but these pacts allow producers like Fiji the time to become more efficient and more diversified. The Lome Convention allows Fiji until 2004 to sell sugar to EU, while the US quota, reviewed annually, is likely to remain unchanged in the next few years. The pressure in the United States and EU to end foreign sugar subsidies will more likely come from domestic dialogues concerning subsidies in general rather

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9 Reserve Bank of Fiji. 1998, n. 49.
10 Ibid.
than from global trade pressures, because sugar represents a relatively small share of world trade.

Given these conditions, it would be advantageous for Fiji to give higher priority to sugar. Increased production in sugar would make its contribution to the economy much higher, raising local incomes and living standards overall. Yet, as the ADB and the Ministry of Agriculture, Fisheries and Forests's study finds, agriculture's contribution to the economy remained practically unchanged in this period (1985-95) at 16 per cent of GDP (F$487 million in 1996).

**POTENTIAL FOR GROWTH**

About one million hectares can potentially be cultivated in Fiji, but only slightly more than a quarter of that is used for crops. With agricultural production below its full potential, production and exports can both rise. With its resources of land and labour, Fiji can achieve higher productivity in existing crops and can produce new ones including cash crops for export markets, by giving agriculture more support.

In addition to sugar, other opportunities for agricultural growth exist in irrigated rice, dairy, beef and poultry products, high-value fruits and vegetables such as ginger, pineapple, taro, kava and squash for export. Further markets can be developed for processed fruit and vegetables. Some efforts in crop production other than cane have so far failed to adapt to local climatic and cultural conditions. Fertilizer and other agricultural chemicals are still rarely used. Agricultural research and extension have been weak in promoting and marketing new crops. By giving a higher priority to diversified agriculture, the government will support a sector in which Fiji has a relatively strong comparative advantage. Also, world aid organizations are amenable to assisting in achieving the agricultural production goals.
An important issue in the current debate is that how the agriculture is crucial to the growth of tourism in Fiji. Tourism is a growing global industry and its supporters argue that it should receive more attention. While this argument has a merit, but it ignores the reality that not all Pacific Islands share the same attributes of successful destinations. Of equal importance is that relying on tourism without the balance of domestic productive resources leaves an economy vulnerable to external events such as the current Asian financial crisis and the recent devaluation.

Fiji’s large unspoiled and unutilised land area, small population and relative closeness to large markets are advantageous attributes for developing tourism. But tourism’s advantage and that of agriculture are not mutually exclusive. Rather, they are complementary since agricultural operations such as botanical gardens and exotic crop plantations can be tourist attractions, and an environmentally safe agriculture can be critical to a destination’s appeal. An economy such as Fiji’s that is potentially strong in both agriculture and tourism will benefit much more in the long run from developing both.

TOURISM’S POTENTIAL

All indications are that Fiji’s tourism will grow. How much and how fast it will grow depends on many factors, both internal and external. Australia and New Zealand have so far been Fiji’s major markets, supplying over 40 per cent of tourists as recently as 1997. Expanding those markets should be relatively easy because of their proximity and close economic ties to Fiji. Expanding markets in Japan and North America, however, will remain a bigger challenge but one that is critical to diversification. One way that will help Fiji expand and diversify its tourist markets, especially in North America and Japan, is to attract more global and regional hotel chains. Secondary activities that arise from the presence of major hotel chains can also be significant contributors to the local economy.
As the Asian economies recover from their current downturns and others such as North America continue to grow, the demand for travel to tropical markets should rise. This holds true for Asia-Pacific travelers not only to Fiji, but also to other island destinations such as Guam and Hawaii. Fiji has a better combination of resources and infrastructure than some of its neighbors, which makes it a more desirable tourist destination. The question of how much tourism is optimal and what other industries can benefit from tourism is yet to be answered.60

All indigenous resource owners may gain from the development of tourism along with agriculture and other means of production. Fiji's relatively large land mass and numerous potential resort locations make it possible to develop competing industries without serious problems of encroachment. Development of multiple industries in turn creates work for the largest possible proportion of the labour force.

With political and economic uncertainty diminishing as a result of the government's commitment to reforms, tourism can certainly be one of the major beneficiaries. Unlike some of the smaller island economies where even the basic infrastructure is rudimentary, Fiji has reasonably good physical facilities that can easily be upgraded and expanded.61 By unveiling the Fiji Tourism Development Plan: 1998-2005 (FTDP), both the industry and the government have shown their enthusiasm for developing tourism. Fiji's potential as a destination and what it will take to reach that potential can now be identified.

The first step is to determine the optimal number of tourists annually. This number is a function of air service and lift capacity, infrastructure on the ground and, of course, the disposable income of potential tourists. The experience of other destinations in the Pacific, especially Hawaii and Guam, should offer some useful directions. Hawaii, one of the world's major destinations, received nearly seven million tourists at the peak of the cycle in the early 1990s when Japan

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61 Ibid. p.24.
became a far more important market than before. While that momentum has not continued, Hawaii is still a destination of seven million visitors a year. Guam has received up to 1.4 million a year and aims for 2.0-2.5 million as its optimal market size. It will most likely achieve that number in the next 5-10 years.62

The optimal visitor count for Fiji is dependent on not only the market forces but also the degree of Fiji’s desire to develop tourism. The FTDP suggests Fiji’s optimal tourist count may be 600,000 over ten years. Achievement of that goal is likely even without any special effort since the current rate of 5.6 per cent growth a year (excluding extraordinary years such as 1997-98 that are shaped by global financial crises) is sufficient. At this rate, Fiji’s tourists will total about 620,000 in 2009.63

Fiji can, however, reach its optimal tourist level sooner if it puts in place both the institutional and physical infrastructures to facilitate the growth of a world class destination. The government not only needs to encourage tourism, but make investing in tourism facilities more attractive. Streamlining the permit process, lands lease issues and offering other incentives may be necessary to expand tourism more rapidly.

Regardless of the development pace, Fiji has to compete for capital in a highly competitive global market. The market for capital is now shrinking rapidly because the Asian financial crisis has turned economies with capital surplus to economies with serious capital shortfalls. The usual market conditions (e.g. production and distribution trends returning to normal as a result of the so-called business cycle) no longer apply. The stock of capital is shrinking, but the demand for higher investments (higher levels of income) is rising. Only the most reliable and potentially most profitable markets will receive this scarce capital. Fiji

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63 Ibid. p.241.
can compete in capital markets on the strength of its resources and by adopting a new attitude toward foreign capital.

**TOURISM STATISTICS**

Fiji's tourism has grown over the last decade to become a major source of income, exceeding agriculture as a source of foreign exchange earnings. Estimated tourist spending of F$479.1 million in 1997 would make tourism the largest industry. However, since a large portion of tourist spending leaks out of the economy as payments for imports, the net economic impact of tourism is smaller than that implied by tourist spending numbers. Still, tourism is a critical source of jobs and foreign exchange and is a means of access to the rest of the world.

In 1991-97, total annual tourist count increased 38.6 per cent from 259,350 to 359,441, with an average annual gain of 5.6 per cent. During that time, total arrivals to Fiji dropped only once in 1995 by 0.1 per cent, following the decade's largest gain of 10.9 per cent the year before.  

In 1997, tourist arrivals to Fiji totaled 359,441, up 5.7 per cent from 1996's total of 339,560. Total tourist spending of F$479.1 million was up a healthy 11.4 per cent from 1996. In the first half of 1998, total arrivals were up 2.4 per cent from the same period in 1997, but notable changes occurred in the relative shares of tourists from the various markets. Most of these shifts resulted from the devaluation of the Fiji dollar and the Asian financial crisis.

Between January and June, tourists from Australia increased the most, by 29.2 per cent, and their share of the total rose from 22.4 per cent for all of 1997 to 28.1 per cent in the first six months of 1998. Devaluation of the Fiji dollar, along with concerns about other destinations where domestic unrest prevails (such as Indonesia), caused the increase in tourists from Australia. Declining the most in the first

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half of 1998 were tourists from Japan, down 23.2 per cent from the same time in 1997. This plunged the Japanese tourists' market share to a single digit (9.2 per cent) for the first time in the 1990s. The main cause of the traffic drop from Japan is the deteriorating Japanese economy.

Also declining in the first half of 1997 were tourists from Canada, whose count was down 9.5 per cent from the previous year, although their share of the total was unchanged at 3.8 per cent. In 1991-97, Canadian tourists dropped both as a share of total arrivals (from 5.9 per cent to 3.8 per cent) and in total numbers (from 15,242, to 13,359). Not even the cheaper Fijian dollar did much to attract more tourists from Canada. The enormous distance to Fiji and the high cost of travel seem to be the major factors.65

While devaluation of the Fiji dollar worked visibly to attract more tourists from Australia, it has done little thus far for tourists from New Zealand. New Zealand visitors were up only 5.2 per cent in the first half of 1998 over the same period in 1997, but at that level of arrivals, they represent a smaller share of the total this year than in 1997. Last year, New Zealand tourists accounted for 19.0 per cent of total arrivals. In the first half of 1998, they were down to 17.4 per cent of the total.

Rising in numbers but not in relative share of the total in the first half of 1998 were tourists from the United States. The number of American tourists was up 8.5 per cent in the first half of 1998, but remained unchanged as a share of the total at 12.6 per cent. A more positive trend for tourists from the United States can be seen in their numbers for the entire 1991-97 period when they increased 39.4 per cent from 31,631 to 44,376. Again, the relative share of American tourists did not change during the period, averaging 12.9 per cent. The

closest in market share to American tourists in 1991-97 were tourists from Japan who averaged 12.7 per cent of the total.\textsuperscript{66}

The static shares of American and Japanese tourists in 1991-97 indicate that no special efforts were made to increase lift capacity beyond the natural market progression. By making special efforts such as creating chartered flights or acquiring more aircraft to generate new lift capacity, the market shares from both Japan and North America can be expanded since the potential tourist pools in those markets are much larger than those in the Pacific region.

Based on 1995-96 data, the average length of stay was 8.5 days for all tourists, 10.5 for Australians, 9.2 for New Zealanders, 7.4 for Americans, 11.7 Canadians, 8.0 for those from UK and other Europeans and 5.1 days for Japanese tourists. The total hotel and motel inventory was 5,770 rooms in 1996, slightly lower than the early 1990s. Overall occupancy rate averaged 53.9 per cent, again only slightly down from the early 1990s.

MANUFACTURING AND MINING

Economic diversification in Fiji has been hampered by political and economic uncertainty over the last decade. However, one area of significant gain during the last few years has been garment manufacturing. Garment exports, according to the Reserve Bank, increased from F$131.1 million in 1991 to F$200.1 million in 1997. In 1998, further gains in exports are expected as a result of favorable price conditions caused by devaluation of the Fijian dollar. Garment manufacturing now employs 17,000 people (over 90 per cent female), more than half of the estimated total manufacturing employment. A total of 104 registered garment manufacturers operate in Fiji.

Fiji's comparative advantage in manufacturing, as in agriculture, lies in its low-cost labour. But mass production such as

\textsuperscript{66} Ibid.
garment making can be accomplished at even lower cost in economies with large populations and large pools of unemployed labour as China, the Philippines, Indonesia and Malaysia. Another aspect of manufacturing that affects Fiji’s comparative advantage is preferential access to markets. Like Fiji’s sugar sales to the EU, goods manufactured in Fiji can enter Australia and New Zealand under a non-reciprocal compact called the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA). The main purpose of the agreement is to foster trade in the region and to give Fiji’s manufacturing the advantage to get established and grow.

SPARTECA has helped Fiji’s export sales in Australia and New Zealand grow, but this and all other regional trade pacts will change in the years ahead because of global and regional economic and trade changes, especially in manufacturing. The disadvantage inherent in small isolated markets is the limited labour supply, especially of skilled labour.67

The question for Fiji is what manufacturing activity will generate the most benefit in both the short and long terms? The answer is that which is most efficient, allowing production at competitive cost whether or not preferential terms exist. Economies such as Fiji need time to become efficient to compete with large producers such as China and other major labour-surplus economies in Asia. Areas other than garments in which Fiji may have comparative advantage include other light manufacturing and assembly and food processing, particularly of high value products such as preserved tropical vegetables and fruits.

Mining currently accounts for less than one per cent of GDP and is dominated by one gold mine employing some 2,000 workers. At current extraction rates the mine is expected to last about 10 years. According to AusAid, , another body of 930 million tons of copper and gold deposits has been proven, the development of which could produce

as much as F$400-500 million a year for 30 years, expanding Fiji’s economic base both directly and indirectly. To make such a project work and undertake more explorations, however, Fiji would require large sums of capital.