Economic survey

Current events in Fiji: an economy adrift in the Pacific

Satish Chand

The Fijian economy has had a bumpy ride since independence in 1970; moreover, the prospects for sustained growth in the immediate to medium term are minimal. A shift in policy from import substitution to export orientation after 1987 has not delivered higher growth of output or better living standards. This is not because the new strategy has failed, rather the poor performance over the last decade is the result of policy action lagging too far behind rhetoric. This has depressed investor confidence. The challenge for the policymakers is to regain this confidence. Only then will the economy hold any hope for its people.

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Fiji is currently experiencing one of the worst droughts in the last half century, thanks to the El Niño that is playing havoc with weather patterns in much of the Pacific.[1] The dollar was devalued by 20 per cent in January 1998 to boost competitiveness and exports in the aftermath of the Asian financial crisis. Public sector unions have called on the government for a pay rise and have already taken strike action to back their threat to stall the economy should their requests not be accommodated. Finally, sugar prices are forecast to fall, further weighing down an already sinking sugar industry, with 1998 production expected to fall by 43 per cent due to the current drought. GDP for 1997 is estimated to have grown by 3 per cent, while the growth forecast for 1998 is 2.7 per cent (Fiji 1997, IMF estimates). These figures in hindsight appear overly optimistic. Given the (long-run) population growth rate of around 2 per cent, real output would have changed little in per-capita terms over 1997 and 1998. Moreover, the immediate prospects for improvements in living standards for the Fiji population are minimal.

Since independence from Great Britain in 1970, the Fijian economy has had a bumpy ride. Adverse weather conditions have contributed as much as artificial catastrophes such as military coups and labour union militancy to stalling growth and periodically throwing the economy into recession. Economic management pre-coup was largely through regulation and via active public sector participation in commerce; import substitution was actively pursued as the dominant strategy for economic development. The political turmoils of 1987 and the ensuing decline in economic activity saw a change in strategy to one of outward orientation and deregulation of the economy with an increasing reliance on the private sector for growth. The rhetoric has outpaced reality, with each budget reaffirming commitment to the new policies, while the pace of reforms has been less than impressive. The most recent example of a policy deviation from the rhetoric was an announcement in the 1997 Budget of a suspension of the tariff reduction program to allow domestic producers time to adjust. This is the 'infant industry' argument for protection in a different guise.

Average per-capita real income as of 1996 was 40 per cent above the level at independence in 1970. This translates into an average annual growth rate of a little over 1 per cent per annum, but social indicators of development, though high by developing country standards, have not changed substantially in this period.[2] A switch from import substitution to export orientation did take place in the aftermath of the two coups of 1987, but this policy shift has not as yet delivered in terms of higher growth rates. Uncertainties on the political front and with regard to property rights (land in particular) has kept investment low. The high emigration that commenced after the coups continues. It would be difficult for any country in the best of the circumstances to continue to grow while losing skilled manpower and financial capital at the rate that Fiji has over the last decade. Stemming capital flight (financial and human) and steering the economy onto a sustainable growth path is the challenge for policymakers for the foreseeable future.

David Forsyth, in the *Pacific Economic Bulletin*'s 1996 survey of current events, claimed that the Fijian economy was at the crossroads— several reforms were either completed or underway and in his view 'the direction taken in managing the economy in recent years has been appropriate and many indicators now favour growth' (Forsyth 1996:2). In hindsight, this has turned out to be an overly optimistic view. After growing some 6 per cent in 1996, the Fijian economy is estimated to have grown by 3 per cent in 1997 with prospects for an even lower growth rate in 1998. The historical pattern of staggering along with highly volatile growth continues; uncertainties over property rights and skill shortages continue to hamper investment; corruption, crime, and sectional politics continue to fuel rent-seeking activity; and the currency was devalued by 20 per cent in January 1998 in an effort to raise economic activity. Many of Fiji's problems are home-grown and therefore require action on the domestic front. The US and Australian economies are growing strongly, while the UK and New Zealand economies are experiencing modest growth. Though parts of East Asia are in turmoil, the negative impact of the problems in East Asia will be outweighed by the positive effects from the rest of the world given the minimal (albeit growing) exposure of Fiji to East Asia. While the international economy transmits mixed signals to Fiji, the net effect is still positive.

Table 1 **Fiji: basic indicators**

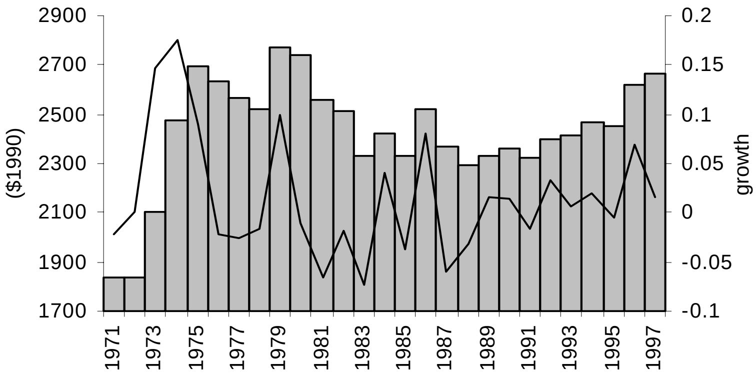
Land area	18,333 km^2
Population (1996 census)	772,655
1996 per-capita GDP (1989 prices, F$)	2,421
Life expectancy (years)	72
Adult literacy rate (per cent)	87

Source: Reserve Bank of Fiji, 1997. *Quarterly Review*, Suva:62; Summers, R. and Heston, A., 1991. 'The Penn World Tables (Mark 5): an expanded set of international comparisons, 1950–1988', *Quarterly Journal of Economics*, CVI(2):1–45.

Sectoral outlook

Fiji is still an agrarian economy, even though the composition of output has shifted rapidly in favour of manufacturing

Figure 1 **Per-capita GDP in Fiji, levels and growth rate**

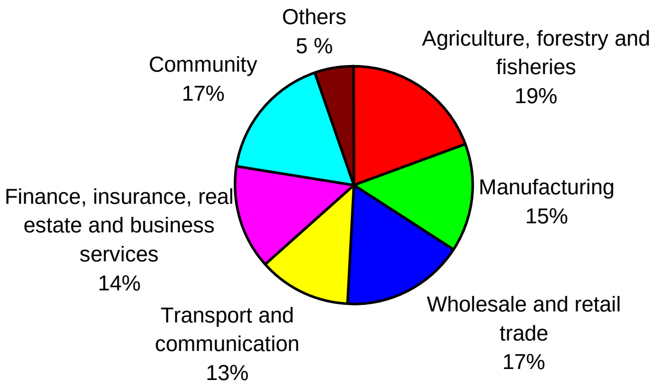


Source: Appendix Tables A1 and A2.

since 1989 (Figures 2 and 3). In 1996 agriculture, forestry, and fishing contributed 19 per cent of GDP (at factor cost), while the corresponding figure for 1988 was 23 per cent; as of 1996 community, social and personal services accounted for another 17 per cent while manufacturing had a 15 per cent share in total output.

Within manufacturing, textiles, clothing and footwear (TCF) output has grown rapidly since the policy switch away from import-substituting industrialisation in 1987. The TCF sector accounted for 23 per cent of exports in 1996. As of 1997 the sector provided 15 per cent (equal to 14,500 jobs) of total paid employment and

Figure 2 **Fiji: composition of GDP (1996)**



Source: Reserve Bank of Fiji, 1997. *Quarterly Bulletin*, Suva (December):Table 36.

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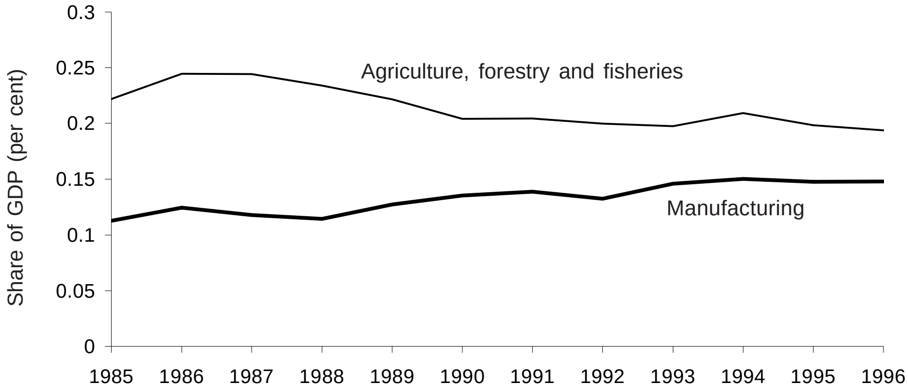
Figure 3 **Fiji: trends in shares of manufacturing and primary industries in GDP, 1985–96**



Source: Reserve Bank of Fiji, 1997. *Quarterly Bulletin*, December, Suva:Table 36.

contributed 3.5 per cent of GDP. Some 95 per cent of total exports of TCF are sent via preferential trading arrangements to Australia, New Zealand, and the United States. One of the impending risks to further growth of this sector is the erosion of preferences as a result of liberalisation of world trade through WTO and APEC commitments. Increasing exposure of producers to external competition in third country markets will necessitate improvements in productivity, and this should lead to the rationalisation of the industry with inefficient producers being driven out.

While agriculture accounts for less than 20 per cent of GDP, the sector accounts for 40 per cent of total employment; sugarcane production is the dominant activity and contributes 40 per cent of the total output of the agricultural sector while subsistence production accounts for another 30 per cent of total value-added in the sector (data for 1996 from Fiji Bureau of Statistics). The prospects for further growth of agriculture appear minimal under present circumstances. Sugar production is declining as a result of several factors including land tenure problems, primarily uncertainties with regard to lease renewals for farmers working on native land, and falling sugar prices from exports to the European Union under the Lomé Convention as a result of liberalisation of world trade. Milling efficiency has also been on the decline as indicated by data on the ratio of cane crushed to sugar produced. Investment in the sector has been declining over recent years. Fiji has an abundant supply of good agricultural land, and prospects for diversification into traditional crops such as kava, dalo and tropical fruits are good both for the domestic and export markets. Promising export markets for these agricultural products are the result of rising non-resident Fiji population in Australia, New Zealand, and the North Americas. Amongst other primary products, forestry continues to grow; harvesting of pine plantations that were planted in the early 1960s now accounts for half of the total harvest; woodchip, plywood, and veneer exports have grown to the extent

Table 2 **Fiji: visitor arrivals, 1987–96** ('000)

Year	Number of arrivals ('000)
1987	189.9
1988	208.2
1989	250.2
1990	279.0
1991	259.4
1992	278.5
1993	287.5
1994	318.9
1995	318.5
1996	340.5

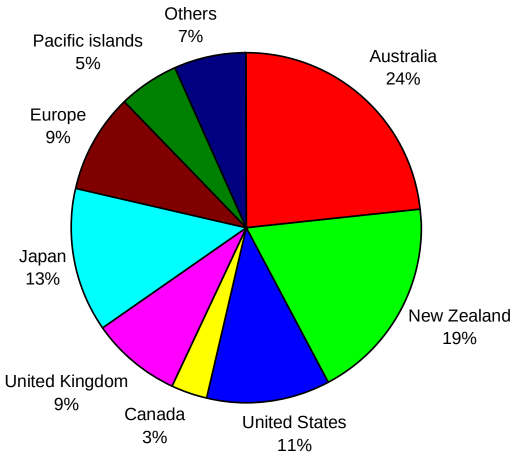
Source: Reserve Bank of Fiji, 1997. *Quarterly Economic Bulletin*, Suva.

that wood products now rank amongst the top five export items. Fisheries and mining remain to be fully exploited. The recent downturn in East Asia and the consequent fall in commodity prices have dampened growth in these two sectors in 1997. While the immediate prospects are not very promising, the longer term prospects seem more favourable.

Tourism seems to have the best prospects for growth. Fiji is well positioned both in terms of geography and natural endowments to benefit more from this industry.

A better indicator of tourism receipts than data on tourist arrivals is provided by the number of visitor days spent in the country. This can be computed as the product of the average length of stay and the number of departures. This figure, calculated using monthly data on average length of stay and number of departures, shows that for the first 11 months of 1997 a total of 2.7 million visitor days were spent in Fiji—5 per cent above the corresponding figure for 1996. Such growth in tourist numbers, particularly when East Asia is in turmoil and Fiji is losing competitiveness due to substantial falls in exchange rates of the East Asian tourist destinations (Bali, Indonesia in particular), is an encouraging sign for growth prospects of this industry.

Figure 4 **Fiji: source of tourists, 1996** (per cent)



Source: Reserve Bank of Fiji, 1997. *Quarterly Bulletin*, December, Suva:Table 38.

Policy switch of 1987

The economic strategy adopted after independence was one of protection, import substitution, and regulation of factor and product markets. A fundamental shift in policy stance was made in the late 1980s when an outward-oriented strategy to development was pursued (Manueli 1992).[3] Economic reforms involved liberalisation of trade, privatisation of several public enterprises, deregulation of the labour market, and the announcement of a reduction in the active participation of the public sector in commerce. As part of the reforms, interest rate controls were relaxed in 1988, and wages can now be set at the enterprise level as against being centrally determined.[4] Value-added tax has been introduced with accompanying reductions in income tax rates in the hope of reducing the distortionary and disincentive effects of taxation.

In recent budgets, the government has declared a commitment to reduce the size of the public sector, to remove all quantitative controls on imports, reduce tariffs, privatise or corporatise several government-owned enterprises, and diversify the economy away from sugar and into manufacturing and services. All of the above constitute a 'market-friendly' approach to development. But while the aim has been to create an outward-oriented, private sector-led economy, progress down this path as against the rhetoric has been mixed. The share of manufacturing in total output increased from 12 per cent in 1986 to 14 per cent in 1996; the 1997 Budget has announced a freeze on tariff reductions; and the budget deficits and public debt have grown rapidly in the last two years—neither of these can continue to rise at this pace indefinitely. Governance issues, particularly allegations of corruption and nepotism, and abuse of office in the public service continue to surface regularly. Lack of transparency and clear accountability of policy decisions to the electorate continue to hamper the economy's progress towards openness and competitiveness.

Unemployment

Unemployment remains one of the greatest challenges for policymakers. Fiji does not have a social security system. The aged and the young, together with the disabled, are cared for by family; some, albeit very few, receive support from government on a regular basis. Long-term unemployment, at least, is not an option for most of the working-age population. But formal employment at less than 100,000 suggests that a large proportion of the workforce is in search of more work than is currently available. The subsistence sector acts as a reservoir for the underemployed; many of those engaged in the sector would join the formal workforce should employment be available. The large number of rural women who took up employment in the garment sector over the last ten years supports the claim that rural workers work less, not by choice but because of unavailability of work.

Of a total population of 772,655 (1996 census), approximately 440,000 fall within the 15 to 59 year age group. This figure is arrived at by assuming that the demographic structure has remained as in 1990; that is, the 1990 census figure of 56.9 per cent in the 15–59 year age group has been used to arrive at the quoted size of the workforce. Paid employment as of December 1995 stood at 98,686 (Reserve Bank of Fiji 1997:60); this leaves some three times as many out of paid employment. If we assume another 100,000 workers are self and fully-employed,[5] an overly optimistic assumption by any standards, then half of the workforce is willing to work more than they are able. Again, assuming an 'under-employed rate' of 50 per cent and a 100 per

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cent female participation rate[6] the unemployment figure for the country is around (probably a minimum of) 25 per cent.[7] Reducing the female participation rate to 50 per cent by assuming that some 50,000 females do not participate in the workforce gives an unemployment rate of around 20 per cent. Getting these people into work will raise GDP, reduce poverty, and most probably lower crime. Employment is the best form of social security and insurance against poverty any government can provide. It adds to output and allows workers to sell the labour that all of them possess (Chand 1997).

Disappearing prerequisites for sustained growth

Prior to the coups of 1987, Fiji was held up as exemplifying a harmonious multicultural society with stable government and a convertible currency. The labour force was skilled and literate, the communications infrastructure amongst the best in the developing world, and the judicial and legal system was identical to that in Australia and New Zealand. All the ingredients for growth except an open trading regime were present, but growth had stalled after the small domestic market was saturated with heavily protected production. The country has had strong labour unions, particularly in the public sector. As a result, wages have remained high relative to similar developing economies such as Mauritius (Chand and Falvey 1996) and unemployment has also been high as a consequence. An open-trading regime with wage flexibility would have enabled the country to specialise in labour-intensive manufacturing and the provision of services (tourism in particular).

The coups have seen the vaporisation of many of the above prerequisites for growth. Literacy rates are still high, given the lag before reductions in investment in education are reflected in lower literacy rates, but there is concern that the quality of education is declining. This decline is worrying given that the demands for skills and education in order to participate in international commerce are rising over time. Prior to the coups of 1987, the country had an excess supply of qualified teachers, graduates from tertiary institutions within the country, medical personnel were abundant and skills shortages were rarely heard of. Fiji has historically been very receptive to foreign direct investment, hence even though the savings rate was low compared to that in fast-growing East Asia, investment rates were high as a result of capital inflow. Much of the foreign direct investment took place in tourist related activities; such investments tend to generate skill-intensive and high wage employment. But the political turmoil and uncertainties in property rights—land, in particular—has reduced foreign investments considerably.

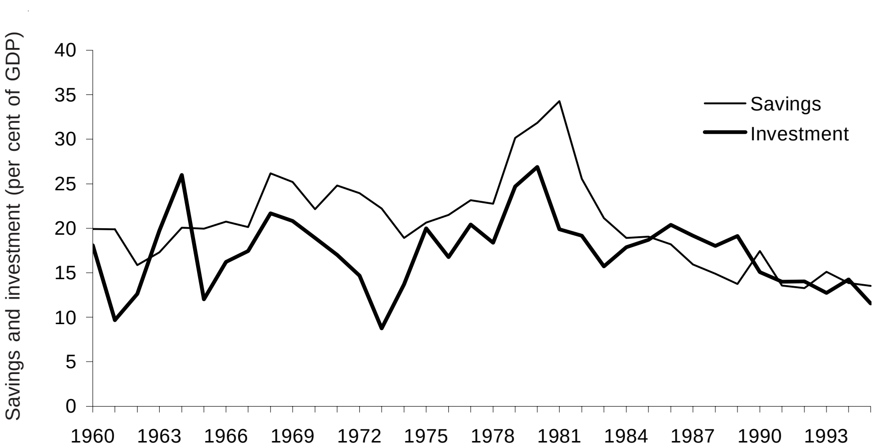
High rates of emigration since the coups has seen a rapid depletion in professional and skilled labour. For the two years for which data is available, 1994 and 1995, the Fiji Bureau of Statistics records reveal that 12 per cent of the total labour force in agriculture, forestry and fisheries, another 11.6 per cent of total administrative and managerial workforce, and a further 6 per cent of all the professionals and technical workers were lost to emigration. Given that most who emigrated were those with experience and skills far above the average in their respective categories, the loss of human capital is much larger than is revealed by such simple counts. Emigration creates a momentum of its own, slowing this outflow of the best in the workforce and replenishing stocks to pre-coup levels will take considerable time and effort. Loss of financial capital is even more difficult to quantify given the paucity of data, but this would have been at least as large. A country that has lost its human and financial capital at the rate that Fiji has over the last decade cannot be expected to do much better. The country cannot afford to continue to run down its capital stock if an economic turnaround is to be made.

Poor investment and low savings, and a deteriorating trend in both, are a worrying sign for future prospects. Low budget priorities on public investment and rising outlays on salaries and wages, debt service and support to failing public enterprises has seen an increasing amount of public investment expenditure crowded out by recurrent outlays. One positive development on the support to ailing public enterprises has been a decision by the government that from January 1998 no new guarantees or other indemnification will be given to borrowing by any public enterprise, statutory authority or non-government entity—the government is learning from the difficult experience of the bailout of the National Bank of Fiji.

Unemployment and crime are on the rise. The crisis in East Asia could exacerbate these problems if tourist numbers fall with Australian and New Zealand tourists substituting East Asia for Fiji as a tourist destination. Such an outcome is, as yet, not evident in the data on tourist arrival, but substantial advertising campaigns are already in place.

As of 1 January 1999, an interest withholding tax on all bank deposits will apply at the top marginal income tax rate of 35 per cent unless the deposit holders provide their tax identification number to their banks. This tax has been introduced in several industrialised countries, including Australia. The problem in its application in Fiji is two-fold; first, deposits are generally small and often below F$100 for a large proportion of the depositors. Hence collection costs may end up being large compared to the amount of tax revenue raised. Second, a large proportion of the self-employed, including those engaged in subsistence agriculture, do not lodge income tax returns and therefore do not have a tax identification number—these small savers will now be dissuaded from

Figure 4 **Fiji: savings and investment, 1960–95** (per cent of GDP)



Source: Summers, R. and Heston, A., 1991. 'The Penn World Tables (Mark 5): an expanded set of international comparisons, 1950–1988', *Quarterly Journal of Economics*, CVI(2):1–45.

holding savings in a bank. The policy is a tax on interest income, but some have interpreted this policy action as amounting to the government taxing 35 per cent of savings held in the bank: such misinterpretation could play havoc with savings deposits prior to the new year. For a country that has a low and declining savings rate, the costs of the proposed tax on interest could far outweigh the revenue generated. Given that Fiji already has a consumption tax in the form of a value-added tax, the need for yet another income tax is hard to justify. Finally, if the above tax leads to reductions in savings held in banks then the tax may become a tax on financial intermediation, the cost of which will be on growth.[8]

Fiscal position

Government revenues have been rising over the last four years, but expenditures have raced ahead, resulting in increasing budget deficits. One important reason for the larger deficits has been the inability of the government to contain salary and wage costs within budgeted targets. Further price rises from exchange rate pass-through will see further demands for higher wages and salaries, particularly by the unionised public sector. Should the government be unsuccessful in holding back demands for wage increases, particularly for its own employees who then act as wage setters in the economy, the gains in competitiveness from the devaluation will be undone by the appreciation of the real exchange rate. This could lead to a cycle of devaluations for real exchange rate correction followed by wage rises and inflation.

Bailing out government business enterprises, including the National Bank of Fiji, Viti Corporation, and the Pacific Fishing Company has put undue strain on the budget. Such bailouts can only be made by crowding out other budgeted expenditure. The most attractive option politically is to cut public investment, the costs of which are borne in the long term. The financing of these deficits, mostly from domestic sources, has led to rising government debt. Fiji appears to be in a fortunate position in that its foreign debt as a proportion of GDP at 6 per cent in 1996 has been falling over time, but this has been the result of switching the financing of deficits from foreign to domestic sources. Excess liquidity in the domestic credit market has helped in this regard, but subdued credit demand suggests an unhealthy investment climate, the penalties for which are long term, and ultimately in terms of a lower growth rate of output.

Fiji introduced its value-added tax in July 1992 as part of tax-base broadening. This saw a rise in total tax revenue of 24 per cent in 1992 relative to 1991, and a further rise of 23 per cent in 1993 relative to the level in 1992; total revenues to government from 1992 to 1996 have on average increased by F$37 million annually. But government expenditure, totalling some 40 per cent of GDP as of 1997 (Table 3) has raced ahead.[9] On a sectoral basis, the two big expenditure items in the budget are social services and administration, accounting for 29 and 20 per cent, respectively, of total outlays in 1996.

Infrastructure outlays have remained constant while outlays on economic services have declined since 1992. Since 1995, all of the deficit has been financed domestically; this has been possible due to subdued demand for credit in the domestic economy. As of 1996, the Fiji National Provident Fund, the statutory superannuation authority that has legislative mandate to collect contributions from all wage earners, had lent some 65 per cent of its deposits to the government—a rise of 10 percentage points from the corresponding figure of 1990 (Reserve Bank of Fiji 1997:32). A flat economy with subdued private sector credit demand, coupled with

Table 3 **Fiji: government finance, 1994–97** (F$ million)

	1994	1995	1996	1997
Total revenue and grants	697.8	718.9	743.3	798.2
Total expenditure	741.7	734.2	981.8	992.5
Deficit	43.9	15.3	148.5	194.3
(deficit as per cent of GDP)[a]	(2)	(1)	(6)	(8)
Net foreign financing	8.2	-5.1	-2.2	-7.0
Net domestic financing	36.5	20.4	150.7	201.3

[a] calculated using Reserve Bank of Fiji data.
Source: Reserve Bank of Fiji, 1997. *Quarterly Bulletin*, December, Suva:62.

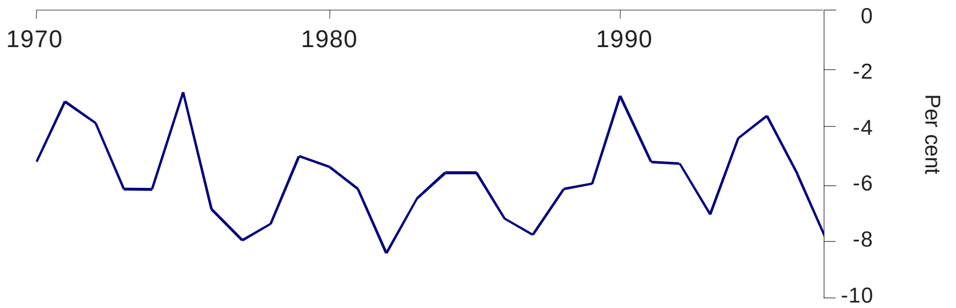
the government sector taking up all excess liquidity, which in turn is spent on recurrent outlays, is not healthy for growth of future output. Moreover, such an expenditure pattern is inconsistent with generational equity.

There is a mechanical link between growth in the debt to GDP ratio on the one hand and the growth rate of output, inflation, interest rate, and the primary deficit (defined as the conventional deficit less interest expense on debt) to GDP ratio; that is,

$$\Delta b = b(r - y) - z \qquad (1)$$

where b is the debt-to-GDP ratio, r is the real (inflation adjusted) interest rate, y is the growth rate of output, z is the primary budget surplus as a ratio of GDP, and Δ denotes a change. Even if the government runs a balanced budget (that is, $z = 0$), real GDP would have to grow at the rate of real

Figure 5 **Fiji: budget deficits** (per cent of GDP)



Source: Appendix, Table A4.

interest to hold the debt to GDP ratio *b* constant. If current inflation and interest on government bonds are used as predictors of the respective variables (see Table 4), then real output would have to grow in excess of 3 per cent per annum to result in a lowering of the current debt-to-GDP ratio of 40 per cent. Should real GDP fail to rise by this amount, a rise in inflation and / or in taxes will have to take place to contain further rises in the debt-to-GDP ratio. Given that most of the debt is domestic and none is indexed to movements in the CPI, use of unanticipated inflation may be an attractive option for future governments to meet domestic debt obligations; a large and an unanticipated devaluation would do the trick, but this would be detrimental to monetisation of the economy and to the maintenance of confidence in the currency.

Monetary policy

The Reserve Bank of Fiji targets interest rates; but with an open capital account and a fixed exchange rate regime such a policy objective is not achievable without shifting the peg or controlling capital flows.[10] In spite of the above, monetary policy has remained relaxed with interest rates being low by historical standards. Low inflation has meant that real interest rates have remained positive over the last decade.

Given the devaluation early in 1998, inflation will likely be in the double digits this year; this is assuming a minimum of 50 per cent exchange-rate pass-through. The longer-term outlook for inflation and interest rates are low given that these variables in industrial countries are likely to remain low and stable for some time yet; and that long-term domestic rates track rates in major trading countries.

The external sector

The current account, historically, has been in deficit due to large deficits on the merchandise trade account. The surpluses in 1996 and up to October 1997 were the result of abnormally high travel receipts, mostly from tourism earnings. The capital account has recorded deficits since 1994, which has been due to rising negative net investment inflows.

The pattern of short-term capital flows, in net terms, has shown a shift: in 1994 the capital account recorded an outflow of short-term capital of F$10 million, but in the subsequent two years short-term capital has flowed in; in 1995 some F$22.5 million was received while an additional F$15.2 million was received in 1996. But for the year up until October 1997, there has been an outflow of F$1.5 million. Foreign direct investment, again in net terms, has been negative but rising since 1994; for the year to October 1997 the figures stood at a net outflow of F$36.5 million (Table 5). The pattern of capital flows recorded as errors and omissions is equally alarming. The 300 per cent jump to October 1997 compared to the annual figure for 1996 (Table 5) suggests that the financial markets were spooked well before the East Asian crisis.[11]

It would be of interest to know the proportion of total in-country capital that has flowed out since 1995; a greater reliance on such capital for domestic financing would have precipitated a crisis in 1997. Despite the volatility in the balance of payments, Fiji's reserve position has remained stable since 1987. Foreign reserves peaked in 1992, sufficient to cover 7 months of imports, but since have dropped to around 5 months of import cover.

Conclusions and policy recommendations

Fiji's economy has shown volatile but limited growth; the economic performance after the shift in economic policy from one of import substitution to outward orientation has seen some improvement, but this has not been sufficient to deliver noticeable gains in employment and living standards. Two developments of concern to policymakers should be the decline in investment (and savings) rates, and rising public sector debt that is not sustainable over the medium to long run without increases in the rate of growth of output, tax rates, and / or inflation. Several market-friendly reforms have been either put in place or are in the process of being implemented, but the results of these reforms are as yet to be seen. Uncertainties on the political front have dampened investment and economic activity.

Low public investment as a result of rising recurrent expenditure and consequently the inability to maintain fiscal infrastructure will reduce the economy's capital stock. This, combined with the loss of human and financial capital to emigration, will work against Fiji's growth prospects. Unless credibility in the continuation of reforms is established and confidence in the political process restored, an economic turnaround with increased investment and reduced emigration is not likely.

The short to medium-term prospects for growth will be dependent on two factors: first, a continuation of reforms promised in the 1997 Budget, including deregulation of the economy and privatisation / corporatisation of public enterprises; and second, the adoption of the new constitution, responsible governance, and resolution of land lease issues. Credibility on policy reforms is crucial for success.

Table 4 **Fiji: inflation and key interest rates, 1990–97** (per cent)

	Inflation[b]	RBF minimum lending rate	Commercial banks		Average government bond rate
			Lending rate[c]	Deposit rate[d]	
1990	8.2	8.0	12.3	8.5	7.3
1991	6.5	8.0	12.4	8.5	7.8
1992	4.9	6.0	12.5	8.0	8.4
1993	5.2	6.0	11.6	7.0	7.0
1994	1.2	6.0	11.3	6.7	6.8
1995	2.2	6.0	11.1	6.8	not issued
1996	2.4	6.0	11.57	7.0	7.5
1997[a]	2.9	5.47	10.88	6.56	7.47

[a] simple average up until November; [b] this is the annual change in the CPI, data for 1990 to 1993 drawn from IFS while that after 1993 is from Reserve Bank of Fiji, 1997; [c] weighted average excluding staff loans; [d] one year deposit of less than F$ 250,000.
Source: Reserve Bank of Fiji, 1997 (various issues) *Quarterly Review*, Suva.

Table 5 **Fiji: balance of payments** (F$ million)

	1994	1995	1996	to Oct. 97
Current account	-109.9	-63.5	260.8	348
Merchandise trade balance	-274.8	-237.3	-263.8	-340.7
Services (net)	244.5	265.5	567.2	717.5
Overseas net invest. income	-33.4	-47.1	-1.4	-12.5
Unrequited transfers	-43.1	-44.6	-41.3	-16.2
Capital sccount	-62.3	-21.5	-64.6	-51.2
Short term capital (net)	-10.0	22.5	15.2	-1.5
Direct investment (net)	-3.1	-24.3	-61.4	-36.5
Errors and omissions	122.1	201.6	-114.4	-346.8
Overall balance	-47.0	-116.6	84.8	-49.9
End of period reserves	258.0	340.0	384	n.a.
(months of import cover)	(4.0)	(5.0)	(5.5)	n.a.

Source: Reserve Bank of Fiji, 1997. *Quarterly Bulletin*, December, Suva:Table 33.

Potential investors will be keenly watching the process and outcome of fresh elections as a signal of the determination on the part of government in pursuing its declared policies. At the sectoral level, the greatest potential for growth is in tourism and tourism related activities. Employment opportunities for skilled labour in finance and other information-technology industries has the potential to grow should the country be able to attract outsourced business from Australia and New Zealand. The day begins earlier in Fiji relative to Australia and New Zealand, and confers some advantage to Fiji-based business serving these industrial-country markets. The share of agriculture in GDP will fall as premiums above world prices paid for Fiji sugar sold in the EEC market erode. Other sectors will have to grow to absorb the large fraction of the labour force engaged in the sugar industry. Some growth in niche markets such as those for kava and traditional crops will occur with rapid growth of the Fiji population abroad, but real economic activity will only rise sufficiently to reduce unemployment and raise living standards when investor confidence returns. One hopes that this happens soon.

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Notes

Helpful comments by Ron Duncan on an earlier draft of this paper are acknowledged; the usual disclaimer applies.

[1] As of late April 1997, Suva was declared a drought area; the water level in the Tamavua reservoir was less than a metre above the point at which the reservoir would have to be closed. The situation in the rest of the country was as bad if not worse.

[2] Data on GDP per capita drawn from Reserve Bank of Fiji (1997:55) while CPI data (with 1990 as base year) extracted from International Financial Statistics.

[3] This shift in the development paradigm was driven as much by the success of East Asia as by the economic crisis at home.

[4] The Remuneration Order which mandated all wage outcomes to statutory guidelines was lifted from August 1, 1991. Unions were also made liable for damages arising out of unlawful action.

[5] A small percentage of these potential workers would be engaged in full-time education.

[6] The seasonality of employment in agriculture, sugarcane harvesting in particular, may make this assumption realistic. Note that sugarcane harvesters have continuous, but not full-time, employment in the harvesting season. Similar arguments can be made for all of the agricultural crops.

[7] The IFS reports an unemployment rate for 1994 of 6 per cent; this figure cannot be right.

[8] Bank finance and financial intermediation in an economy are analogous to oil and the oil-pump in an international combustion engine; reductions in the amount of oil (finance) and / or malfunction of the oil-pump (financial intermediaries) could cause the engine (economy) to seize.

[9] This is in contrast to a promise, made in the 1992 budget, of moving towards a balanced budget in the immediate future. Another promise made in the 1992 budget but not kept was to raise the share of capital outlays in future budgets (see Manueli 1992).

[10] Note that in the Mundell-Flemming world an open capital account with a fixed exchange rate regime makes money supply and domestic interest rate determined by international reserves and world interest rates, respectively.

[11] I argue in a separate paper in this issue that the markets were expecting a devaluation well before early 1998 when the currency was devalued, hence the large capital outflows.

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Appendix

Table A1 **Fiji: CPI, GDP and per capita GDP levels, 1970–96**

	GDP (F$ million)	GDP / POP	CPI (1990=100)	GDP (1990 prices)	Per capita GDP (1990 prices)
	(a)	(b)	(c)	(a / c)	(b / c)
1970	168.9	324.2	17.3	976	1874
1971	184.7	346.5	18.9	977	1833
1972	238.5	423.7	23.1	1032	1834
1973	300.6	540.6	25.7	1170	2104
1974	410.5	726.5	29.4	1396	2471
1975	515.4	894.8	33.2	1552	2695
1976	570.6	975.4	37.0	1542	2636
1977	605.7	1016.3	39.6	1530	2566
1978	642.9	1059.2	42.0	1531	2522
1979	779.4	1255.1	45.3	1721	2771
1980	901.0	1421.2	51.9	1736	2738
1981	953.7	1476.2	57.7	1653	2558
1982	1020.5	1550.9	61.7	1654	2514
1983	1031.8	1535.3	65.9	1566	2330
1984	1151.7	1678.9	69.3	1662	2423
1985	1177.7	1689.7	72.4	1627	2334
1986	1326.1	1857.3	73.7	1799	2520
1987	1329.2	1843.6	77.9	1706	2367
1988	1433.3	1993.5	87.0	1647	2291
1989	1558.0	2151.9	92.4	1686	2329
1990	1728.0	2360.7	100.0	1728	2361
1991	1834.8	2472.8	106.5	1723	2322
1992	2019.0	2681.3	111.7	1808	2400
1993	2170.7	2837.5	117.5	1847	2415
1994	2268.9	2912.6	118.2	1920	2464
1995	2351.3	2961.3	120.8	1946	2451
1996	2523.6	3264.7	124.5	2027	2622

Source: GDP and per-capita GDP from Reserve Bank of Fiji, 1997. *Quarterly Bulletin*, December, Suva:55; CPI numbers from IFS.

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Table A2 **Fiji: CPI, real GDP and real per capita GDP growth rates, 1971–96**

	CPI	GDP (per cent)	Per capita GDP
1971	9.25	0.10	-2.17
1972	22.22	5.65	0.05
1973	11.26	13.29	14.68
1974	14.40	19.37	17.47
1975	12.93	11.18	9.07
1976	11.45	-0.66	-2.19
1977	7.03	-0.82	-2.65
1978	6.06	0.08	-1.73
1979	7.86	12.40	9.86
1980	14.57	0.90	-1.17
1981	11.18	-4.79	-6.57
1982	6.93	0.07	-1.75
1983	6.81	-5.34	-7.32
1984	5.16	6.14	3.99
1985	4.47	-2.12	-3.67
1986	1.80	10.61	7.98
1987	5.70	-5.17	-6.09
1988	11.68	-3.45	-3.18
1989	6.21	2.35	1.64
1990	8.23	2.48	1.37
1991	6.50	-0.30	-1.64
1992	4.88	4.92	3.38
1993	5.19	2.21	0.60
1994	0.60	3.90	2.04
1995	2.20	1.40	-0.52
1996	3.06	4.14	6.97

Source: calculated from data in Table A1.

Table A3 **Fiji: savings and investment, 1960–95** (per cent of GDP)

	E46T Gross domestic investment	E70T Gross domestic savings
1960	19.92	18.11
1961	19.89	9.68
1962	15.83	12.62
1963	17.29	19.74
1964	20.07	25.97
1965	19.97	12.01
1966	20.75	16.20
1967	20.15	17.45
1968	26.18	21.68
1969	25.17	20.79
1970	22.15	18.92
1971	24.82	17.03
1972	23.95	14.65
1973	22.22	8.75
1974	18.91	13.68
1975	20.62	19.98
1976	21.49	16.76
1977	23.17	20.42
1978	22.77	18.35
1979	30.14	24.71
1980	31.83	26.89
1981	34.29	19.88
1982	25.55	19.15
1983	21.14	15.71
1984	18.91	17.85
1985	19.07	18.69
1986	18.20	20.39
1987	15.92	19.17
1988	14.86	18.01
1989	13.75	19.12
1990	17.45	15.06
1991	13.55	13.97
1992	13.27	14.04
1993	15.11	12.71
1994	13.84	14.25
1995	13.50	11.54

Source: Summers, R. and Heston, A., 1991. 'The Penn World Tables (Mark 5): an expanded set of international comparisons, 1950–1988', *Quarterly Journal of Economics,* CVI(2):1–45.

Table A4 **Fiji: budget deficits as a percentage of GDP, 1970–97**

	Budget deficit (per cent of GDP)
1970	-5.3
1971	-3.2
1972	-4.0
1973	-6.3
1974	-6.3
1975	-2.9
1976	-7.0
1977	-8.1
1978	-7.5
1979	-5.1
1980	-5.5
1981	-6.3
1982	-8.5
1983	-6.6
1984	-5.7
1985	-5.7
1986	-7.3
1987	-7.9
1988	-6.3
1989	-6.1
1990	-3.0
1991	-5.3
1992	-5.4
1993	-7.2
1994	-4.5
1995	-3.7
1996	-5.8
1997	-8.0

Source: for 1970 to 1997, IFS; from 1973 to 1995, Forsyth, D.J.C., 1996. 'Fiji economy at the cross-roads', *Pacific Economic Bulletin*, 11(1):1–30; for 1996, calculated from data Reserve Bank of Fiji, 1997. *Quarterly Bulletin*, December, Suva; figure for 1997 is author's own estimate.

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