Economic survey

Fiji—on the way to full recovery?

Serge Belloni

The Fiji government is aware that any events similar to the 2000 troubles would jeopardise for a long time the fragile post-coup recovery. It has therefore decided to confront the key issues of investment promotion, industrial restructuring of the sugar industry, diversification of the economic base, and land issues. It is also determined to correct the social imbalances that made the coup perpetrators so popular among large sections of the population. The task is daunting and fraught with perils as Fiji braces itself to face new challenges when the old ones are not yet met to the satisfaction of all.

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The Fijian economy expanded for the third consecutive year in 2003. GDP is estimated to have grown by 4.7 per cent, outpacing the 4.1 per cent growth in 2002 and the 3 per cent growth in 2001. The economy has now completely offset the decline caused by the 2000 coup, demonstrating its remarkable resilience. Moreover, many conditions for further growth have already been met.

The political situation is becoming more stable, despite some uncertainties. The government and the opposition are pursuing the East–West Centre initiated Talanoa Process as a means of building trust, and the government continues to promote an all-out policy of reconciliation and national unity (Fiji 2003b). In July 2004, the Supreme Court ruled on the composition of Cabinet after the leader of the Labour Party initiated a court case against the Government over inclusion of his party in government. It is now a matter of political will and choice for these two protagonists to form a multiparty government before the next election.

Highly sensitive emerging social issues such as youth unemployment, squatter settlements, the informal economy, small, medium and microenterprises (National Centre for Small and Micro-Enterprise Development 2003), and white-collar crime are being scrutinised by thinktanks and committees. Initiatives are coming from civil society too. Local governments have formulated proposals and cost estimates on urban infrastructure and development issues.

There are ongoing investigations of alleged corrupt practices but, despite an reported increase in white-collar crime—due in part to a more efficient police force—there is no sign of the widespread corruption affecting other Pacific island countries ('White-collar crime rises', *Fiji Times*, 23 June 2004). The Government is committed to enacting the Financial Reporting Transaction Act and to combating money laundering. The Fiji chapter of Transparency International is active in the fight against corrupt practices, as are many other non-government organisations. An independent review has concluded that freedom of the press is well entrenched in Fiji. These are strong signs of a healthy democracy.

Finally, the normalisation of the relationships with Pacific neighbours that were alienated during and after the coup is being completed. The US Peace Corps resumed assistance projects in Fiji at the end of 2003. Recently, a visit of the Prime Minister to New Zealand marked the full restoration of ties with that country.

The political and economic climate improved dramatically in 2003. In the short term, the economic recovery should be more sustained by private investors and less by government; and there are clear indications that private sector investment is picking up. Solutions to the problem of the sugar industry are emerging and the garment industry is under study.

The year 2004 will be a year of intense preparation for the renegotiation of the US bilateral agreement and the South Pacific Trade and Economic Cooperation Agreement (Textile, Clothing and Footwear Provisions) (SPARTECA). Negotiations with the European Union on the 'New Economic Partnership' are continuing. Fiji is now bracing itself for a much more competitive trade environment.

The Keynesian policy pursued in recent years has achieved its short-term goal of boosting growth and restoring a measure of confidence. According to its budget statements, the government is determined to improve fiscal discipline further and reduce its deficit (Fiji 2003a:29).

The return of confidence should help relieve the government from pressure to pursue the expansionary budgets of the past three years. It also gives more freedom to reduce the public deficit which grew to 5.8 per cent of GDP in 2003, more than budgeted. This result can be attributed to unbudgeted work required to repair the damage caused by Cyclone Ami, additional expenses for the Suva–Nausori water project and shortfalls in the sale of government shares.

Trade and the balance of payments

Trade contributed only one per cent of the net growth in GDP in 2003. The trade deficit as of November 2003 (Table 1) was about the same as the deficit for 2002. Exports fell by 9 per cent and re-exports surged by 26 per cent. As of November 2003, merchandise exports had increased by 12 per cent against 2002 and imports by 5 per cent, leaving foreign reserves unchanged against 2002 at F$727 million, equivalent to three months of imports of goods and non-factor services and four months of imports of goods. The growth in merchandise exports was attributed to higher receipts from re-exports, sugar and garments that more than offset lower receipts from gold, timber and fish. Import growth was attributed to higher payments for machinery, transport equipment and chemicals, consistent with the increase in productive investment. Imports of consumption goods also grew rapidly.

At the time of this survey the 2003 balance of payments figures were not published. However, estimates for the first nine months show that the increase in the deficit of the current account was financed by an increase in direct investment and public debt and a decrease in foreign reserves (Table 2).

Table 1 **Fiji: balance of trade (all items), 1998–2003** (F$000)

	Imports	Domestic exports	Re-exports	Total exports	Trade deficit (–)
1998	1,434,173	905,637	110,652	1,016,289	–417,884
1999	1,778,713	947,638	252,894	1,200,532	–578,181
2000	1,756,388	1,025,532	218,126	1,243,658	–512,730
2001	1,807,860	1,007,810	216,133	1,223,943	–583,917
2002	1,953,215	943,060	251,729	1,194,789	–758,426
2003[a]	1,931,438	856,251	316,550	1,172,801	–758,637

[a] year to November.
Note: The Harmonised System of Commodity Description Classification has been adopted for data from 2000.
Source: Fiji Bureau of Statistics. Data available online at http://www.spc.org.nc/prism/country/FJ/stats/economic/trade.htm

Table 2 **Fiji balance of payments, 2001–2003** (F$ million)

	2001	2002	2003[a]
Current account			
Trade balance	–410.4	–593.2	–590.9
Balance of goods and services (net)	–177.8	–242.0	–324.7
Investment income (net)	–169.6	–170.3	–208.0
Goods, services and incomes (net)	–347.4	–412.3	–532.7
Transfers			
Private (net)	92.6	115.4	73.3
Official (net)	129.3	151.9	130.4
Current account balance	–125.5	–145.0	–329.0
Capital account, excluding reserves			
Direct investment	96.8	48.6	280.7
Government and statutory agencies debt	–16.5	–10.0	–8.4
Bank and others	98.1	33.5	–32.4
Total capital excluding reserves	178.4	72.1	239.9
Errors and omissions[b]	–83.1	–15.6	13.3
Overall balance	–30.2	–88.5	–75.8
Reserve: change in official balance before valuation adjustments	30.2	88.5	75.8

[a] to third quarter.
[b] Errors and ommisions include unrecorded or incorrectly recorded transactions including payments or receipts made in a different periods to that which the transactions take place.
Source: Fiji Bureau of Statistics, 2003. *Statistical News*, Balance of Payments Statistics, Quarter 3, No. 69, Government of Fiji Islands, Suva.

Public expenditure is most likely to exceed the budgeted figure while revenues should be lower than expected. As a consequence, the fiscal deficit for 2003 should also be higher than expected. Government will have to finance it through the issuing of government bonds, treasury bills and overseas borrowing.

Knowing that such trends have inflationary consequences, the government's policy is to reduce the cost and to improve the quality of its operations so as to be able to invest more in infrastructure building and maintenance, in private investment facilitation activities, and in human capacity building. However, considering the difficulty of and resistance to reforming the public service, it is safe to say that this shift from operating to capital expenditures will be slow, limiting the government's capacity to finance new infrastructure and shorten the maintenance cycle for existing public infrastructure.

Investment, consumption, loans and savings

Interest rates on savings and time deposits, loans and advances declined for the eighth consecutive year. However, broad money grew by 2.5 per cent as individuals and businesses built up savings and demand deposits. Under the circumstances, the preference for liquidity increases the volatility of resources, in turn increasing the risk of hastening a downturn in the economy, exposing the financial institutions to mismatches.

Between 2002 and 2003, commercial bank loans to the private sector enterprises and to individuals increased by 17.5 per cent and 16.3 per cent. Loans to agriculture declined by 4.9 per cent. The profitability of commercial banks before and after tax improved at the end of 2003 despite a 0.15 per cent decline in the interest rate spread. The quality of their assets improved over the period September 2002 to September 2003, while impaired assets and past due loans as a percentage of gross loans declined from 6 per cent to 4 per cent and from 3.3 per cent to 2.3 per cent, respectively.

Credit institutions followed a similar trend towards better profitability and better quality of assets. Life insurers recorded a solvency surplus and a profit. Insurance brokers posted a F$0.9 million profit by comparison with the $0.07 million loss in 2002.

Consumption expenditures have been robust, reflected in the increase in revenues from value-added tax and customs duties. Over the past 15 years, the economy has been driven by consumption, in a pattern of dependence on imported goods and foreign trends over which Fiji has little or no control. At the end of May 2004, the Reserve Bank considered that the negative consequences of the 2000 coup on the level of consumption had been absorbed and it raised the official interest rate from 1.25 per cent to 1.75 per cent to curb credit and to contain inflation, especially in the wake of persistently high international oil prices. In the short term, this interest rate increase should reduce the import of goods and services and have a positive effect on the balance of payments. In the long term, it can hamper growth rates if it discourages investment and if exports cannot balance the less buoyant domestic consumption.

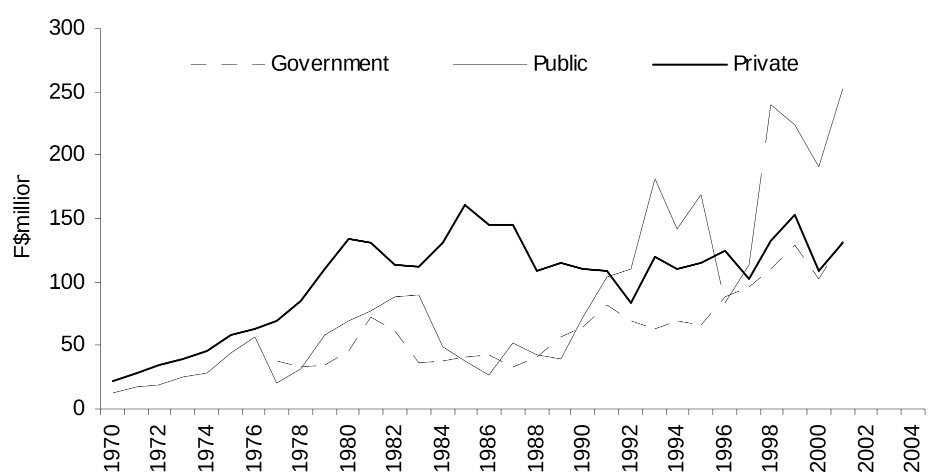
Conversely, since the 1980s, the inflow of foreign direct investment has been about 1 per cent of GDP on average. This is proof that Fiji has not been able to provide the kind of investment environment foreign investors require. The major factor that determines the choice of location of investors is competitiveness with other countries in terms of friendly economic policies, political and social stability, and cultural and technical achievements. Domestic investors have become less interested in investing locally. Domestic investment declined from 16 per cent of GDP in 1986 to 13.7 per cent of GDP in 2001, compared with the annual average of 20 per cent of GDP from 1970 to 1985. From 2001 to 2003, the investment to GDP percentage increased to slightly above 16 per cent. So, despite signs that bank credit is now growing at a quicker pace than before, and that investment could continue to increase slowly, there has been little improvement in the lacklustre image of Fiji among foreign investors. Although there have been encouraging signs that private investment has been picking up since mid 2002, the Fiji government cannot afford to relax its efforts to encourage both domestic and foreign investors. It is too early to say that the long-term decline of private investment is over.

Many competitor countries with similar economic structures do better than Fiji: in Malaysia (31 per cent), Mauritius (25 per cent), Jamaica and Panama (28 per cent), Australia (23 per cent), New Zealand (21 per cent) and Tonga (21 per cent) investment as a percentage of GDP is much higher.

A substantial part of the Fijian economy relies on subsidised industries, which are doomed if subsidies are removed. Thus, the sugar industry may lose the benefits from the European Union Sugar Protocol even before the next round of negotiation with the European Union in 2007; and the garments industry may lose the benefits from SPARTECA and US preferential treatment in 2004.

On the positive side, the government intends to do more and better. The government aims to reach and maintain a 0.25 investment to GDP ratio, that is, an increase in investment of F$400 million per annum at current prices. To achieve this goal, it plans to remove some of the present impediments to investment. It has reduced the cost of doing business in Fiji, offering employment and company extension tax concessions and accelerated depreciation allowances; it has also reduced the number of import tariff

Figure 1 **Gross fixed capital formation in Fiji, 1970–2004** (F$ million)



Source: Reserve Bank of Fiji, 2003. *Quarterly Review*, Output/Investment, December, Reserve Bank of Fiji, Suva. Available online at http://www.reservebank.gov.fj.

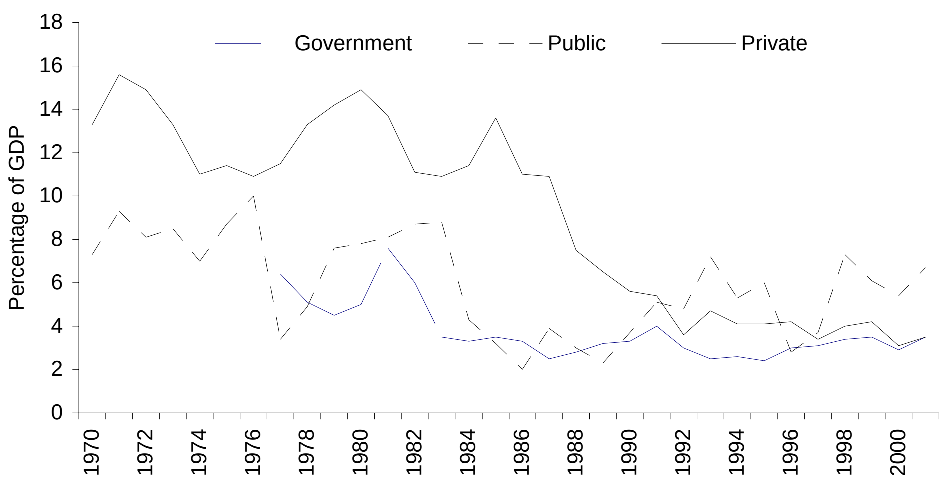
bands and lowered the sugar export tax. The law and order issue is being tackled through rehabilitation of the police force under an experienced Australian Police Commissioner, the willingness of the state to bring the perpetrators of the 2000 coup to justice, and the secured return to a normal functioning of the judiciary. The government has established a Financial Intelligence Unit to fight money laundering and the financing of terrorism. The 2004 budgets for the judiciary and the police have been increased to strengthen the criminal investigation department, the staffing and equipment of prisons, and the prosecution of offenders (*Fiji Times*, 25 June 2004:1).

Red tape and bureaucracy within the public service are being challenged through the contracting of CEO positions, through better strategic planning, modernisation of operations (most recently in Fiji Islands Revenues and Customs Authority and in the judiciary), and through the prospective introduction of a performances assessment system in the civil service. Another interesting development is the slow switch from consumer-driven growth to investment-driven growth. Consumption has been accounting for about three quarters of the growth of GDP. In the long term, excessive reliance on consumption to generate growth will crowd out productive investment. This will render the country's productive capacity obsolete, inadequate and uncompetitive. It is a risk that Fiji cannot take.

Unemployment and the labour market

The labour market improved in 2003. Compared with 2002, the number of registered taxpayers increased by 14.3 per cent and, according to a survey conducted in December 2003, job advertisements increased by 9 per cent. The following sectors tapped into the pool of unemployed people: transport and storage, communications, finance, insurance and real estate, community, social, personal

Figure 2 **Gross fixed capital formation, 1970–2002** (per cent of GDP)



Source: Reserve Bank of Fiji, 2003. *Quarterly Review*, Output/Investment, December, Reserve Bank of Fiji, Suva. Available online at http://www.reservebank.gov.fj.

and business services, wholesale and retail trade, and restaurants and hotels.

These improvements have not been sufficient to stem the growth of unemployed who are regrouping in urban squatter settlements, where some become perpetrators and others victims of violence and criminal activities. Government and the private sector recognise that the formal economy cannot absorb the totality of the incoming workforce. Migration does not solve the problem as skilled labour continues to leave when they are most needed, while unqualified labour arrives on the market. The supply of skilled labour has been eroded by the emigration of about 5,000 persons per annum in the past 10 years, most of them being teachers, accountants, architects, engineers and technicians, and medical, dental, veterinary and nursing professionals. Increasingly, Fijians are joining the Indo-Fijians leaving for the United States, Australia, New Zealand and Canada.

Although replacements can be found for those who leave the public service, especially in health, the brain drain is unlikely to cease soon. The 2002 Diversity Visa program, which awards US immigrant visas through a lottery system, attracted 200,000 applicants from Fiji, showing a worrying urge to leave the country (although there are usually multiple applications from individuals in such lotteries). The continuing depletion of scarce skills is adversely affecting the expansion of business.

Government is turning to micro, small and medium enterprises to offer alternative sources of employment and income and to coordinate action among the stakeholders. The Micro-Finance Unit claims to have 2,300 clients at the end of 2003 and plans over the next three years to reach, directly and indirectly, some 20,000 people on low income through the operations of its small savings and credit schemes (National Micro-Finance Project 2004).

In 1997, the United Nations Development Programme in Fiji extensively surveyed poverty (UNDP 1997). It was estimated that around one-quarter of households in Fiji were poor (the basic needs poverty line was defined in 1991 dollars at F$83 per week), while a further 20 per cent were believed to be in danger of sliding into poverty were their circumstances to change. If valid, these estimates have probably taken a turn for the worse since the 2000 coup. The increasing number of squatters and squatter settlements is a worrying sign. The government recently estimated that there were 82,000 squatters in the Suva–Nausori corridor, with numbers about equally divided between Fijians and Indo-Fijians. Squatter numbers have also been increasing in the major sugar cane areas, where Indo-Fijians make up a larger proportion of the total, most likely because of the loss of cane leases.

When economic growth generates social inequalities, it can cause political turmoil if the frustrations of the people match the agenda of unscrupulous demagogues. The government is fully aware of this predicament and has decided to address the issue through friendly policies for investors, the restructuring of the sugar industry, and assistance to small and medium enterprises (*Fiji Sun*, 1 July 2004:12, Kumar and Prasad 2002). It is also implementing controversial affirmative action policies for Fijians and Rotumans (Fiji 2002a). If successful, however, these policies could help maintain the socio-political stability required for economic growth. But failure would damage the government's credibility and benefit extremist parties.

To retain the qualified labour that has been seeking better living and working conditions abroad, Fijian companies have to offer more attractive remuneration. At the same time, they have to reduce the cost of labour and increase labour productivity. More flexible labour, lower minimum salaries and more business-friendly labour laws are economic options that could expose the nation to more socio-political conflict, however. None of them can guarantee the creation of jobs.

Exchange rate, inflation, money market and capital market

During 2003, the US dollar and the yen weakened against the Fiji dollar, while the euro and the Australian and New Zealand dollars strengthened against the local currency (see Table 3). On the whole, the marginal rise of the nominal effective exchange rate (NEER), which measures the value of the Fiji dollar against a basket of currencies from Fiji's main trade partners, indicated an appreciation of the local currency, while the real effective exchange rate index of the Fiji dollar (which is the NEER adjusted for inflation differentials across Fiji trading partners) rose by 3 per cent, indicating deterioration of Fiji's international competitiveness.

Table 3 **Fiji: annual average inflation rate, 1994–2003** (base year 1993)

	Annual average inflation rate
1994	0.8
1995	2.2
1996	3.1
1997	3.4
1998	5.7
1999	2.0
2000	1.1
2001	4.3
2002	0.8
2003	4.2

Source: Fiji Bureau of Statistics. Available online at http://www.spc.org.nc/prism/country/FJ/stats/economic/cpi.htm

The demand for funds on the inter-bank market fell at the end of 2003, indicating that the commercial banks felt that they had sufficient liquidity. The yields on short-term paper declined despite an increase in Treasury Bill issues by the Reserve Bank and the issue of promissory notes by the Fiji Development Bank, the Fiji Electricity Authority, the Fiji Sugar Corporation and the Public Rental Board.

Inflation was higher in 2003, up by 4.2 per cent (by comparison with an increase of 0.8 per cent in 2002 and 4.8 per cent in 2001), with the highest increases being in transport, food, alcohol and tobacco. However, inflation is anticipated to fall in 2004, as the US dollar (implying cheaper imported oil) and the yen remain weak, and the euro strong (higher value of sugar exports). The strong Australian and New Zealand dollars should also boost tourist arrivals, while imports from these two major suppliers will cost more. In 2003, the Prices and Incomes Board continued to monitor price-controlled items and to review the prices charged by some monopoly suppliers. In 2004, the review and the renegotiation of energy prices with oil companies should be an opportunity to contain the increase of the prices of energy, a key factor in attracting investments.

The volume and value of transactions on the South Pacific Stock Exchange declined in 2003 by 5.4 million units and F$4.5 million respectively, and the Kontiki Index fell from 113.7 to 110.6. These figures are difficult to interpret as the base of the market is still very small and the volatility relatively high. Government plans to deepen the market through selling its shares in selected enterprises in 2004 and lowering the cost of being listed on the exchange through tax breaks and tax deductions.

Other developments include the oversubscription of long-term government bonds issued to finance the public deficit, despite lower yields than a year before, and the rise of secondary market activities.

The 2004 Budget

The 2004 Budget had a slight decline in expenditure (0.8 per cent) and an increase in revenue over 2003 figures, leaving a net deficit of 3.5 per cent of GDP—a marked improvement over the average of 6 per cent of recent years. The expected 2004 deficit is to be mostly financed by domestic loans (96.2 per cent) (Fiji 2003c).

Expenditure cuts mainly affected special expenditures (F$10 million down), which include compensation, conferences, reviews, training and legal fees, capital construction (F$23 million or about 17 per cent down), including a decline in funding for public works—new roads and bridges, road upgrading projects and urban and regional water supplies—capital grants and transfers (F$21 million down). The major increase is for the improvement of the sewerage system (F$9 million). Cuts in capital construction may slow the growth in this sector. Part of the shortfall should be met by the commercial and residential projects of the private sector.

The salaries of established and non-established staff have increased within a 0.5–2.0 per cent range as government paid the remaining 2002 cost-of-living adjustment in September 2003. The 2004 Budget freezes wages for non-essential services and forecasts a slight increase in established staff and no change in unestablished staff. The policy of containment of operating expenses needs to be implemented despite the pressure on Government to provide jobs (Fiji 2004).

However, the unions are resisting the introduction of a performance management system in the public service, as it would mean the end of the payment of cost of living adjustment for public servants. The reversion to a cost reduction policy would send a clear signal that government is returning effectively to a sounder fiscal policy. However, the proposed downsizing will not be easy to implement in the well-unionised public service.

Income taxes and value-added taxes increased by about 1.1 per cent and 32 per cent respectively in 2002 and are expected to increase by another 4.3 per cent and 14.9 per cent in 2004, on the assumption of sustained growth and better tax collection, allowing Government to reduce the public deficit. The cost of collection declined in 2003 and the amount collected broke a record at F$938 million. For 2004, the one billion Fiji dollar benchmark is in sight.

Table 4 **International finance, 1990–2003** (rate per F$)

	GBP	US$	A$	NZ$	Yen
1990	0.3559	0.6991	0.9036	1.1438	90.03
1995	0.4485	0.7017	0.9396	1.0739	71.46
2000	0.3073	0.4391	0.8422	1.0384	53.53
2001	0.3044	0.4376	0.8456	1.0495	53.52
2002	0.3186	0.4741	0.8432	0.9576	57.55
2003					
Quarter 1	0.32	0.50	0.84	0.90	59.80
Quarter 2	0.33	0.53	0.81	0.91	61.94
Quarter 3	0.33	0.53	0.81	0.90	62.73

Note: Rates as at last month of quarter.
Source: Fiji Islands Bureau of Statistics. Available online at http://www.spc.org.nc/prism/Country/FJ/stats/Key%20Stats/Money%20&%20Banking/6.11_International_Finance_pdf.pdf

Sectoral performances

Tourism

Unlike most of its Pacific neighbours, Fiji has experienced a strong resurgence in its tourism industry over the past three years. Throughout 2003, the number of tourist arrivals was consistently higher than in the two previous years, except for the month of March when tourist arrivals underperformed due to the SARS scare and preparations for the Iraq war. The year 2003 was a record year for visitor arrivals (430,800) and revenues earned by the tourism industry.

American and Japanese tourist arrivals declined, probably as a result of the fall of the US dollar and the yen against the Fiji dollar. Conversely, arrivals from Australia, New Zealand and continental Europe were likely boosted by the appreciation of their respective currencies against the Fiji dollar, which was reflected in the costs of air travel and accommodation. The United Kingdom continued to lead the growth in tourist numbers. Fiji also attracted more visitors from other Pacific islands nations for the South Pacific Games and visitors from East Asian countries such as Korea, Taiwan and Malaysia also increased. The diversification of the origins of tourists is welcome as it lowers the sensitivity of the industry to the vagaries of a single source.

Heavily booked hotels with peaks of 100 per cent in occupancy rates could not satisfy the demand. The expected arrival of Virgin Airlines that promises to slash prices between New Zealand and Australia and Fiji has already triggered competition with the carriers that fly these routes. Such competition should be a favourable development for Fiji tourism, but its fulfilment will require investments in hotel accommodation. Although the uncertainties surrounding land tenure cast a cloud over such investments, some large projects have been officially announced.

In June 2004, Interpol dismantled a clandestine laboratory, equipped to produce 500 kilograms of crystal methamphetamine, before it commenced production. Though such news is unwelcome publicity for Fiji, its impact on tourism tends to disappear quickly. Even the upgrading of immigration checks for travellers coming from and going to Fiji should have little impact on tourism.

The continued support of the tourist industry by government through the Fiji Visitors Bureau, the Fiji Travel Association, and airline companies is bearing fruit. The F$15 million spent on advertisement campaigns has been effective in restoring the image of the Fiji as a safe haven. Major towns and cities of Fiji, which have put tourism at the core of their development strategy are actively pursuing beautification policies and prospective investors, now also embrace the efforts of government.

While government does not see tourism as a panacea for all economic ills, it has generally recognised its potential. Major public investments such as the renovation of the Nadi International Airport and the intended construction of the FIT Hospitality and Tourism Studies School in Nadi demonstrate the government's commitment to creating a favourable environment for the private operators who are making a slow comeback. There are many infrastructure projects at the conceptualisation stage but, as is usually the case in this industry, they will take some time to materialise. The largest hotel management company in the world, the group Accor, is projected to build a 300-room, four-star hotel on Denarau island that could employ 500 people upon completion. Outrigger Hotels and Resort senior management has visited Fiji to look at possible expansion. The Sheraton Resort is about to complete its F$5.2 million refurbishment program. Tabua Investments is building 44 self-contained apartments. The Chinese

Janfull Group has bought the Grand Pacific Hotel in Suva for F$35.7 million (*Daily Post*, 17 April 2004:11). Meanwhile, the government is supporting the participation of Fijians and Rotumans in eco-tourism and small-scale village resorts, as a means of increasing their incomes.

The South Pacific Games did not trigger a major inflow of tourists, but it helped promote Fiji's presence in the regional media and restored the image of Fiji as a safe destination. The choice of Fiji by a Hollywood film company also indicates the attractiveness of Fiji's natural environment to operators in the leisure and entertainment industry (*Sunday Times*, 4 April 2004:15).

Each of these developments taken separately does not look impressive but in aggregate they indicate the great many opportunities that Fiji can exploit in terms of tourism development, provided that the current stability of the country can be maintained. Contributing as it does about 30 per cent of GDP, tourism is now firmly established as the most important sector in the economy.

Sugar

The decline of the sugar industry continued in 2003 and, while government has accepted that the present structure of the industry is no longer viable, it also recognises that its demise would have a high social cost for the country, as it employs a large number of sugarcane farmers who have few or no other skills and little or no financial, economic and social safety nets of their own. The influx of squatters in urban and peri-urban areas, and the otherwise worsening plight of those whose leases were not extended, is an indication of what the future could hold.

Sugar is still a major export earner and the economy's biggest job provider, which partly explains its low productivity and low profitability and its inability to compete on the free market. Caught between high-technology, capital-intensive and heavily subsidised sugarcane producers like Australia, the United States and European countries, low-technology labour-intensive and low-cost producers, like Cuba and some African countries, and giant, low-cost producers like Brazil, Fiji labours under various handicaps: a low-technology transport and milling system that is poorly maintained and managed, a low-productivity, yet well-unionised and expensive labour force; labour-intensive harvesting techniques on small plots; damaging practices such as cane-burning; and great uncertainty over land leases.

The industry could not survive if the European Union Sugar Protocol was not guaranteeing artificially high prices. According to the figures provided by the Fiji Sugar Corporation and Bloomberg, at the end of 2003 the European Union price was about 29 cents per pound compared with the New York Number 11 price (essentially the free market price) of 7 cents per pound (see Table 6). Furthermore, European Union prices have increased in US dollar terms due to the depreciation of the latter. The price increase helped reduce the fall in revenues earned by the Fiji sugar industry in 2003.

The time left to restructure the industry before the renegotiation of the Sugar Protocol is short. The renegotiation of the agreement is likely to lead at best to the erosion of the preferential treatment and at worst its elimination. The European Union has little strategic and commercial interest in the *status quo*. Unlike in 1973, when Britain negotiated the preferential position for Fiji while joining the European Economic Community, the European Union is now a net exporter of sugar and under international pressure from major producers to dismantle the African, Caribbean and Pacific–European Union trade preferences (ACP–EU). The outcome of

Table 5 **Sugar industry production and prices, 1975–2003**

Season	Sugar cane: Number of contract/growers	Sugar cane: Area harvested ('000 hectares)	Sugar cane: Production ('000 tonnes)	Sugar cane: Average per hectare (tonnes/ hectares)	Sugar cane: Prices paid to growers (F$/ tonnes)	Exports of sugar: Input of cane per tonne (tonnes)	Exports of sugar: Sugar production ('000 tonnes)	Exports of sugar: Molasses production ('000 tonnes)	Exports of sugar: Quantity (f.o.b.) ('000 tonnes)	Exports of sugar: Value value (F$'000)	Exports of sugar: Unit (F$/ tonne)
1975	16,995	44	2,160	49.1	32.12	7.94	272	76	246	94,718	385
1980	19,567	64	3,360	52.5	35.19	8.5	396	129	461	174,775	379
1990	21,334	70	4,016	57.4	41.30	9.8	408	164	394	223,669	568
1995	22,449	74	4,110	55.5	50.98	9.1	454	181	445	276,112	620
1996	22,304	74	4,380	59.2	53.78	9.6	454	186	500	301,731	603
1997	22,100	73	3,280	44.9	44.82	9.5	347	139	308	213,449	693
1998	22,146	57	2,098	36.8	50.07	7.9	266	96	237	244,246	1,031[a]
1999	22,178	65	3,958	60.9	81.79	10.5	377	159	355	263,200	741
2000	22,179	63	3,786	60.1	50.76	11.1	341	164	317	237,523	749
2001	21,882	66	2,805	42.5	44.01	9.6	293	106	248	175,856	709
2002	21,246	65	3,423	52.7	60.43[E]	10.4	330	149	289[E]	239870[E]	830[E]
2003	21,253	61	2610	42.8	38.80	8.9	294	107	271	230720	851

[E] Estimated figures

[a] Year of severe drought, most of sugar was exported to the European Union at preferential prices, increasing the unit value of a tonne.

Source: Fiji Sugar Corporation. Available online at http://www.spc.org.nc/prism/country/FJ/stats/Key%20Stats/Production/4.7_Sugar_pdf.pdf.

the future negotiation is most uncertain, which makes the reforms urgent and potentially traumatic.

In 2003, the Fiji Sugar Corporation produced less sugar of better quality. Sugarcane production declined by 19 per cent to 2.5 million tonnes, and sugar production declined by 7 per cent to 288,000 tonnes (see Table 5). The poor performance in 2003 was attributed to the same factors as in the previous years, largely milling and transportation problems. Poor weather conditions also contributed to the lower output.

The world price on the free market fell by 10 per cent over the last quarter of 2003 to a three-year low, mainly due to higher supply from Brazil and Thailand. The prospect of Russia eliminating its quota to comply with World Trade Organization requirements should boost its imports, but Brazil's production has already been increased to meet their demand.

In order to implement a quality-based cane payments system, a better and more accessible cane transportation system, and more efficient sugar mills, the government has obtained help from the Indian government to have Indian experts formulate, implement and finance a turnkey project. The government has not yet released the project document. However, the project will focus on growers, millers and the transportation system and will cost F$170 million to be funded by a soft loan from the Indian government, which is charging 1.7 per cent per annum over a period of eight years (*Daily Post*, 17 April 2004:11).

During the Talanoa sessions mentioned above, progress was made towards the resolution of the highly sensitive land issue through the establishment of a committee of prominent politicians. The Committee will report to government before September 2004 after consultation with provinces, the Native

Table 6 **Average world market prices of sugar, copra and gold, 1994–2002**

	Sugar[a] (F$/tonne)	Copra[b] (F$/tonne)	Gold[c] (US$/fine oz)
1994	451.23	337.77	384.08
1995	469.31	435.78	384.11
1996	416.57	400.65	387.79
1997	398.24	400.65	331.43
1998	420.90	459.07	294.19
1999	282.94	526.54	278.70
2000	411.10	377.90	279.14
2001	455.35	358.33	271.05
2002	381.35	406.25	309.47

[a] prices of sugar are obtained from the Fiji Sugar Marketing Company Limited.
[b] Suva prices are based on the Philippines F.M. (fair and merchantable) prices. The Coconut Board sets the Reserve Bank of Fiji prices after various deductions for freight and wharfage, shrinkage penalty and taxes. An additional premium is paid when copra is crushed locally. The above prices relates to first grade copra only. All calculations to arrive at the Suva basic price per tonne of copra are made by the Auditor-General of the Government of Fiji. The average prices quoted relate to actual prices per tonne copra.
[c] prices quoted are the averages of the daily (London) afternoon fixing.
Source: Fiji Sugar Marketing Company Limited; The Coconut Board; Available online at http://www.spc.org.nc/prism/country/FJ/stats

Land Trust Board, sugarcane growers, opposition party leaders, and other stakeholders. The law governing the relations between landowners and tenants is also being reviewed to accommodate the contradictory claims of the Fijian landowners and the predominantly Indo-Fijian tenants, in order to defuse the lingering tensions between them that hamper the recovery of the industry.

Government has promoted a bipartisan solution with the main opposition party to minimise the impact of the now inevitable reforms that require more time than is seemingly left to the stakeholders (*Fiji Sun*, 17 April 2004:5). A highly critical problem anticipated long ago is now becoming a matter of urgency to be solved under the least favourable conditions.

The NLTB recorded a decline in the collection of rents in 2003 caused by the non-renewal of expired leases. From 1997 to 2003, 4,177 leases expired, of which 19 per cent were renewed to sitting tenants, 46 per cent were leased to new tenants, and 35 per cent were not leased for cane growing. The number of unresolved land disputes increased in 2002 and 2003 but they are still less than 5 per cent of the total number of leases. The population of cane growers has fallen from 22,179 in 2000 to 21,253 in 2003. The government and the Asian Development Bank are about to launch an Alternative Livelihoods Project to provide opportunities for improved incomes for those exiting the sugar sector and additional incomes for those who remain in the sugar sector.

Other agricultural crops

Copra is important to Fijian farmers. However, in 2003, production was down to 8,800 tonnes, a 33 per cent decrease due to the destruction of coconut trees across the major copra-producing island of Vanua Levu by Cyclone Ami. The minimum mill gate price remained unchanged at F$500 per tonne of which government subsidises F$193.17 per tonne (cumulative to October 2003). The plan to increase copra output to 10,000 tonnes seems ambitious at this stage.

An increase in fruits and vegetables, *yaqona* (kava) and *dalo* (taro) exports is expected over the next three years. However, production of yaqona will remain depressed until European companies lift their ban. Cassava exports to New Zealand, Australia, United States, Tuvalu, Canada and Kiribati increased from 465 tonnes in 2002 to 2,648 tonnes in 2003, while total production rose from 35,300 tonnes to 41,420 tonnes over the same period (*Fiji Times*, 30 June 2004:18). Fiji cassava has more end uses than other root crops as it can be processedas dried chips or animal feed.

Fisheries and forestry

Fish exports declined in value by almost 5 per cent in 2003 to F$78 million. Overfishing within Fiji's exclusive economic zone, adverse weather conditions, and industrial disputes contributed to this decline.

An argument developed between the Fiji authorities and the Secretariat of the Pacific Community over the sustainable level of catch that Fiji waters can absorb, the number of fishing licenses that have already been issued (101), the number of new applications being processed (13), and the necessity of quotas to prevent overfishing. A review was tabled in Cabinet in December 2003 with answers to these questions. The Ministry of Forests and Fisheries has drafted a Fisheries Management Bill to replace the 1945 Fisheries Act, in order to improve the monitoring and control of non-customary fishing grounds.

The timber industry earned F$31.9 million of revenues during the first eleven months of 2003, a decline of 12 per cent against the same period in 2002. Parliament has passed the Fiji Mahogany Bill, which empowers the government to privatise the Fiji Hardwood Corporation, secure a strategic partner to commercialise the valuable wood, and to fund the establishment of a Fiji Mahogany Trust (*Fiji Times*, 17 April 2004:10). Government allocated F$0.5 million in its 2004 Budget for the preparatory works for a port in Bua that should stimulate pinewood processing in the north of the country.

Garment manufacture

The garments industry recorded a slight increase in export receipts in 2003. However, the upturn may be short lived as the SPARTECA and the Textile and Clothing Bilateral Trade Agreement between Fiji and the United States expires at the end of 2004 and the beginning of 2005 respectively. These two agreements allow duty-free imports of Fiji's garments into Australia and preferential access in the US market under a quota system.

Australia is pursuing closer links with Asia and this could mean further reduction in Australia's protection of its textile, clothing and footwear industry—the basis of the SPARTECA scheme. An extension of the agreement with the United States is unlikely. Therefore, the industry must improve its competitiveness to survive. Its strength is in proficient expatriate and family management systems, in the efficiency of its labour, and its profit margins of 8 to 10 per cent.

The issue yet to be resolved is the pace at which it should be exposed to international competitors. By 2010, it will have to be a market-oriented industry and have secured niches in new product lines and top service quality. The government may provide skills and management-improvement programs, tax relief and rebates. It should also seek duty-free status with the United States and the European Union. Around 10,000 jobs are at risk if the Australian and US markets that generate respectively 62 per cent and 32 per cent of the employment in the industry are lost.

Mining and quarrying

Annual gold production declined by about 6 per cent to 113,140 ounces and annual gold earning by 5 per cent in 2003, despite gold prices reaching a 15-year high on the international market in December 2003. The poor quality of ore is held responsible for the lower than expected results.

Emperor Gold Mine Limited expects a boost in production as a result of its multi-million dollar investments in exploration and extraction equipment and in the exploitation of a new mine. Its 3-year F$90 million investment program started with a F$21 million investment in the purchase of cooling plants, ventilating fans, underground vehicles, a F$16 million expenditure on the tunnelling and detonating of the new mine, and F$0.8 million expenditure on exploration work. However, since 1996, output has been oscillating downwards and the earnings in real terms have been constant only because of the increasing price of gold and the containment of production costs. An increase in gold output and earnings cannot be expected until 2007. Beyond that date, an increase in production is possible if the Millenium Mining Fiji Limited prospecting company can confirm the profitability of gold deposits discovered near Nadi in the Kuro ni Koula (Pot of Gold) (*Fiji Times*, 7 July 2004:11).

Construction

The construction sector performed strongly in 2003, with major commercial projects in Lautoka and Nasinu. Government spent an estimated F$111 million on construction projects in 2003, an increase of 4.5 per cent against the F$106 million spent in 2002. Lending to the real estate sector picked up in March and ended the year with a slight increase.

In the first eleven months of 2003, fewer permits were issued to build private buildings

(9 per cent down), but their value increased by 37.7 per cent compared to the same period in 2002; more permits were issued to build additions (1.85 per cent) at higher value (60 per cent increase). The projected value of new and additional industrial building rose sharply (up 320 per cent and 46.7 per cent, respectively). The number of permits for new industrial buildings declined by 11.63 per cent and increased by 10 per cent for additions. This pattern of investment shows willingness both to expand existing private, industrial and commercial premises and to build new ones. If 2002 was a year of growth in repairs and maintenance and 2003 a year of growth in additions, 2004 may be the year of growth in new buildings. The surge in value may be seen as the product of speculation and vertical development pressure on scarce freehold land.

Some large projects will be completed in 2004, and others are at later stages of development. The Great Council of Chiefs plans to build a multi-million dollar headquarters on the Nasese waterfront. The F$4 million Colonial Centre project was launched in December 2004. The town of Sigatoka plans a F$1 million investment in infrastructure and the building of the new Rewa bridge should begin soon. According to the Reserve Bank of Fiji, the outlook for construction is buoyant for 2004, despite a 17 per cent cut in planned government expenditures on construction. According to a study by the Fiji Local Government Association, the towns of Fiji need F$70 million of urban infrastructure over the next five years (Fiji Local Government Association 2003). Lack of funding is the main problem, but a solution could be to have the private sector build and run some of these new facilities.

Beyond 2005, prospects are less clear. Construction is a cyclical industry with booms and busts that lag behind the rest of the economy, partly because of the length of the development phase. In 2003, government increased expenditure on infrastructure. Commercial banks and credit institutions sitting on comfortable amounts of liquidity were lending to corporations and private individuals for commercial and residential purpose. This growth should subside as the backlog of projects is eliminated and demand satisfied.

Other industries

Diversification of the industrial base of Fiji will reduce the impact of cycles in specific industrial sectors. It is a long hard road to diversify a small economy, however, 2003 recorded a few positive signs. The information and communication technology industry is taking shape with a US company call centre employing 350 people and the proposal for a tele-business park being studied by government. The recent proposal by Telecom Fiji for rebalancing tariffs is primarily meant to reduce the cost of international communication to business. However, many users are now petitioning for lower prices for international and local calls and competitors such as Telpac and E-Com International are challenging the monopoly of Telecom Fiji.

The agro-business industry will receive a major boost with the F$20 million expansion program of the Natural Water of Fiji Limited bottling company.

Conclusions and recommendations

In the past three years, economic growth has been achieved at the cost of an increasing public deficit and public debt. The year 2003 showed that confidence and investors are returning. Whether they can fully replace government as the driving force of the economy is not clear. But the government is taking their return as encouragement to tread a narrow path carefully: returning gradually to fiscal discipline, while not undermining the present growth. This policy explains the mix of tax incentives to investors, better tax collection and public expenditure containment, and its efforts to address impending social issues. Its major challenge is to prevent a return to the cycle of political instability, lacklustre economic performance, and social problems. Success can only be achieved through carefully balancing economic growth, social justice and political ambitions and convincing the nation that the mix of production and redistribution of wealth need to be fine tuned.

Of the factors identified as impediments to investments, the inherent cost disadvantages stemming from remoteness, smallness and natural disasters cannot be removed, but there are some over which the government has control or influence: problems over access to, and security of tenure of land and inshore waters, legal framework to resolve disputes, facilitate transactions, and protect property rights, policy inconsistency and corruption, security concerns, the brain drain and the quality of labour, and the lack of infrastructure are manageable issues. Government has recognised and is addressing these issues. It may be argued that more could be done more quickly, but steps are being taken and the proposed actions are pointing in the right direction. The negotiation of new land-lease agreements, the improvement of basic infrastructure, the establishment of an investor-friendly business environment, the fight against corruption, the fight for higher industrial productivity and a more efficient public service, and the actions taken in favour of the poor should continue to be at the core of the preoccupations of government and its economic and social partners.

In conclusion, there is no definitive answer to the question posed in the title of this article. Fiji is gradually recovering from the coup. Future growth will depend ultimately on the private sector's willingness to invest in Fiji, which depends in turn on the government's ability to deliver business-friendly policies and, at the same time, secure stability in the Fijian society. Setting the economy right may be a long hard slog.

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