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**conomic challenges
facing the newly elected
Fiji government**

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Key to symbols used in tables

n.a.	not applicable
..	not available
-	zero
.	insignificant

Economic challenges facing the newly elected Fiji government

Fiji enters into a new era with the May 1999 general election under a new constitution, which guarantees equality to all its citizens, unlike the previous constitution. The real challenge for Fiji and its new government now is to deliver the economic goods and services to its people. Economic prosperity and equality may be the key to creating a truly multiracial Fiji.

Current economic policy environment

Fiji seems to have come out from the economic gloom of the last two years. The drought of 1998 leading to a 40 per cent reduction in the sugar production, a 20 per cent devaluation of the Fiji dollar to enhance competitiveness due to the Asian financial crisis were some of the difficult situations to deal with. While the global economic outlook looks weak, Fiji economy is likely to grow this year. The economic outlook for Fiji's major trading partners and neighbors Australia and New Zealand also looks promising. In Fiji's case, the positive factors are the expected rise in sugar production after the drought of 1998, low real interest rates, expansionary fiscal policies and the competitive exchange rate after the devaluation.

Reserve Bank further forecasts favourable conditions for sugar production, revising it from an earlier estimate of 400,000 tonnes of sugar to about 420,000 tonnes. It also forecasts a strong performance of other sectors such as tourism, garment exports, forestry and fishing. Interest rate continued to decline with the weighted average lending rate of commercial banks of 8.8 per cent in May, 1999.

Table 1 **Commercial Banks' Lending Rates in Selected Sectors**

Sectors	April 1999 (per cent)	April 1998 (per cent)
Agriculture	9.59	10.45
Manufacturing	7.64	9.35
Building and Construction	8.85	9.75
Real Estate	9.03	10.17
Private Individuals	9.74	10.47
Housing	9.12	9.84
All sectors	8.89	9.93

Source: Reserve Bank of Fiji, 1999. *News Review*, Vol.16, No. 6, Suva.

These favourable conditions however have to be supported by consistent government policies. While the new government needs time to consider all the factors and put out

policies that redistribute wealth but at the same time promote economic growth, the signals it has given is mixed and somewhat unclear. In Fiji the confidence factor has been an important consideration since the coups of 1987. While there is elation and acceptance of a new constitution and the new government amongst the general population, the investors are still keeping their options and are holding on to their investment. They want to give themselves some time before they will begin to invest. Therefore, the policies government adopts within the 6 months following the election will determine the nature and volume of investments that are going to take place.

The new government's promises to the people

The People's Coalition comprising of four political parties in government has a very strong socialist agenda and the policies to be adopted by the government were clearly spelt out in the election manifesto. Some of the broad promises and statements are highlighted below

- the government is committed to promoting strong economic growth to deliver its promises
- promotion of the rural and agricultural development and redevelopment of the rice industry
- enhancing tourism development by encouraging large scale foreign investment
- reverse privatisation of public enterprises
- reduce housing interest rates from 11 per cent to 6 per cent
- implementation of minimum wages of F\$120 per week
- removal of VAT from
 - basic food items
 - medical charges and supplies
 - public transport
 - essential educational materials.
- increased public expenditure on health, education and social services, crime and other social ills.

Taxation policies

The new government's tax agenda can be summarised as follows

The People's Coalition recognises that taxation plays an important part in revenue collection and the distribution of wealth. However, the tax burden on ordinary people has been allowed to grow too large under the SVT government. We must provide incentives to reward individual effort, encourage people to save, invest, create employment and so generate growth in the economy (People's Coalition 1999:14).

The desirable characteristics of any tax system are

- increase in economic efficiency
- administrative simplicity
- equitable and fair
- politically responsible
- flexibility.

The previous government implemented the VAT of 10 per cent in 1991. This tax was seen by many as a regressive tax as indeed many of the indirect taxes are generally perceived to be. The interim government also implemented VAT in the absence of parliament and without much debate. This was one of the reasons why the VAT was seen as politically irresponsible. The concern that the poor would be affected the most was to some extent mitigated by the allocation of funds for poverty alleviation. While it cannot be denied that the VAT had an initial adverse impact of the poor, its revenue potential and contribution to government finances has been very significant. After a initial decline government revenue remained above 25 per cent of the total GDP and increased slightly in 1996 and 1997.

After the general elections in 1992, the Fiji Labour Party supported the coup leader to become the Prime Minister and one of the conditions for the support was the total removal of the VAT. However, that position has now changed and the coalition government intends to remove VAT from basic food items, medical charges and supplies, public transport and essential educational materials.

VAT was introduced largely to increase the tax base and also provide some administrative ease to collect them. It was designed to bring in a larger number of people in the tax net. From the income distribution point of view, the VAT has been a regressive tax and this is why the new government intends to reduce VAT on essential items. However, when VAT zero-rates a number of essential goods and services and taxes luxury goods the tax may become progressive. However, the administrative cost of doing this could be enormous and could create further distortions from an economic efficiency point of view. In the case of Fiji, there is already a problem of proper compliance, exemption of some goods could create further compliance problems. In some developed countries social security adjustments have been considered to take into account those at the lower income levels. The government also considers reducing the across the board VAT of 10 per cent to a lower level to reduce administrative and compliance problems. It may also be economically efficient.

Government has also given indication that a capital gains tax may be implemented. From the equity and social point of view this tax may be desirable. In the case of Fiji this may bring popular accolade from some sections of the electorate, it may not be an appropriate time and it could be inimical to economic growth. What Fiji needs now is investment from the private sector and a capital gains tax may not provide the right incentives. The anticipation of the tax itself has led to the consumption and flight of

capital. Tax revenue amounts to about 82 per cent of the total revenue for the Fijian government. Tax policies are sensitive economic issues and the review of the existing tax policies, if not done carefully can provide the wrong signals for potential investors. Table 2 shows the sources of government revenue.

Table 2 **Sources of Fiji government revenue (F\$ million)**

Year	Customs excise	Inland revenue	Non-tax revenue	Capital revenue	Grants	Total revenue and grants
1991	220.1	229.2	114.5	5.4	7.3	576.5
1992	198.3	284.4	106.3	6.3	7.2	602.5
1993	179.0	340.6	126.2	4.2	4.1	654.1
1994	190.3	375.5	123.2	4.3	4.5	697.8
1995	207.3	395.1	103.6	6.7	6.3	719.0
1996	203.8	417.9	108.0	6.3	7.3	743.3
1997	219.6	445.2	129.3	4.4	4.9	803.4
1998						
Mar.	49.8	87.8	19.8	0.7	0.6	158.7
Jun.	51.8	111.0	40.1	26.4	0.9	230.2
Sep.	59.6	144.9	27.3	0.4	0.5	232.7

Source: Reserve Bank of Fiji, 1999. *Quarterly Bulletin*, March, Suva: Table 23

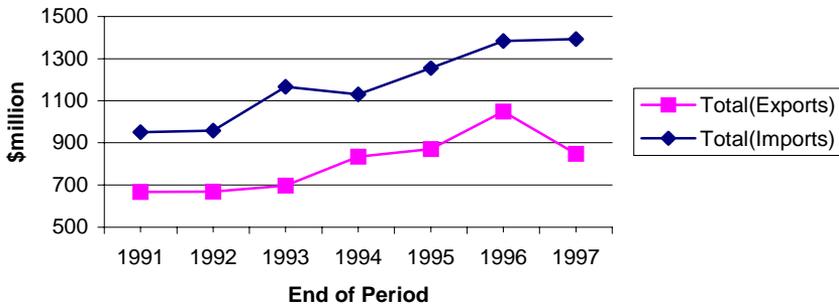
Trade and investment policies

Investment and trade policies of the new government will be a key to Fiji's economic growth. The Coalition government's statement so far has been to encourage trade and investment. How exactly this is going to be done is still to come. However, it is important to point out that Fiji's economic reform agenda for the last ten years has been to move away from a largely import-substitution policy direction to a export-oriented market economy. The economic reform agenda for the last ten years has been the following

- trade deregulation
- taxation reforms
- labour market reforms
- reduction in the size of government and managing the role of government
- public enterprises reform
- mobilisation of all sectors of the community in support of economic expansion.

Trade deregulation was designed to increase competition and encourage investment in sectors where Fiji had a competitive edge, for example the garment industries. As part of these policies barriers to trade such as tariffs were reduced gradually. The labour market also underwent reforms. Whether the new government is able to change the overall direction of the deregulation policies is a matter of time. It is highly unlikely that the new

Figure 1 **Fiji's merchandise exports and imports (F\$ million)**



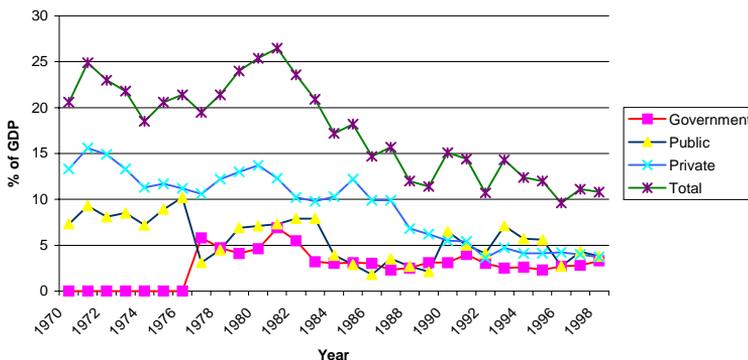
Source: Reserve Bank of Fiji, 1999. *Quarterly Bulletin*, March, Suva: Tables 31&32

government would radically change the deregulation policies, but they may be able to slow the process. The challenge of the new government would be to harmonise these policies with the changing world market conditions to that promised in their election manifesto. Fiji's exports increased between 1995 and 1996 but declined dramatically in 1997 and 1998, while imports continued to increase.

Private investment seems to be the key factor in the economic growth in Fiji in the long run. However, the level of private investment has remained weak and below 5 per cent of the GDP since 1992. Public sector investment while strong between 1993 and 1995 has declined since 1996. Therefore, the total level of investment in the country has declined over the last few years. Figure 2 provides the trend in investment levels in Fiji since 1970.

The construction sector has also been relatively weak and this can also be attributed to low private sector investment. There is however, potential for growth in the construction sector as work on few of the up-market hotel facilities is likely to commence.

Figure 2 **Investment in Fiji, 1970–98 (per cent of GDP)**



Source: Reserve Bank of Fiji, 1999. *Quarterly Bulletin*, March, Suva: Table 21.

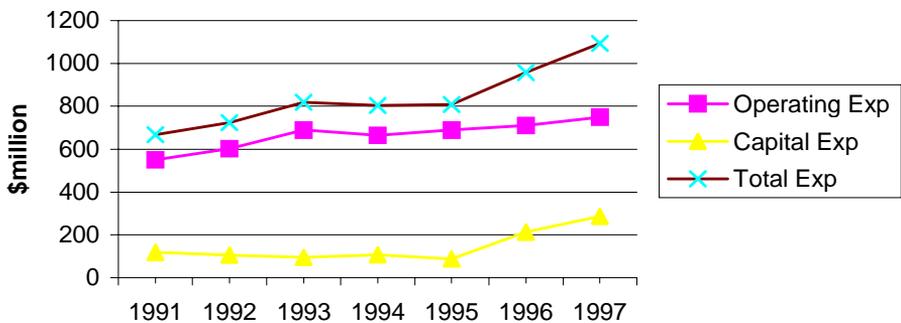
Role and size of government

The basic philosophy of Fiji's coalition government is that the role of the government in managing the economy must also include the provision of essential services. It also believes that the government must actively pursue policies for the redistribution of wealth in the country through deliberate fiscal policies. One of the platforms on which the new government was elected included the reduction in wastage and proper management of the state's resources.

In Fiji the relative size of government to GDP has been a major issue. The previous government relied heavily on borrowing and ran a deficit budget of more than 5 per cent of the GDP. The rationale behind the reduction of the size of government has been to free up resource for growth in the private sector. While the previous government's stated objective was to reduce the size of the government, the progress towards that was less promising. The composition of the total expenditure as seen from Figure 3 has been moving towards more consumption-related operating expenditure. The productive capital investment expenditure has relatively remained weak in the last 8 years. Figure 3 shows the total operating and capital expenditure.

The total expenditure as a per cent of GDP has declined from 35.5 per cent in 1991 to 30.9 per cent in 1995. This trend has continued in the last 3 years. While total revenue has continued to increase the total debt has also increased. The breakdown of the total debt shows that while the external debt has not increased too much the domestic debt has continued to increase in the last few years. Table 3 shows the total domestic and external debts.

Figure 3 Fiji government expenditure, 1991–97 (F\$ million)



Source: Reserve Bank of Fiji, 1999. *Quarterly Bulletin*, March, Suva.

Table 3 **Fiji's total external and domestic debt** (F\$ million)

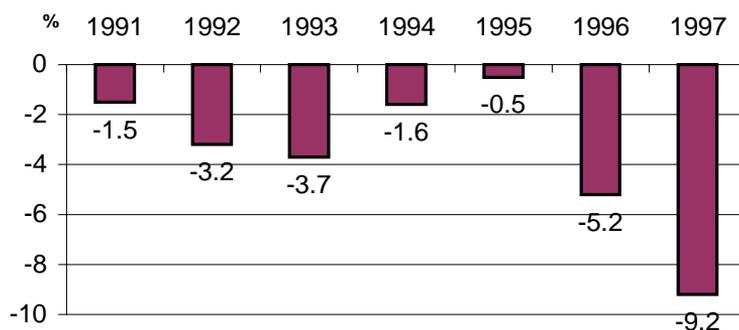
Year	External debt (F\$ million)	Domestic debt (F\$ million)
1992	499.07	638.2
1993	449.98	733.5
1994	399.17	792.3
1995	384.70	807.3
1996	353.64	942.8
1997	352.11	1156.0
1998	394.29	1060.6

Source: Reserve Bank of Fiji, 1999. *Quarterly Bulletin*, March, Suva: Tables 25&26

Figure 4 shows the net deficit as a per cent of GDP. The former government managed to reduce the deficit through strong revenue from tax to as low as 1.6 and 0.5 per cent of the GDP. However, unexpected commitments such as the bailing out of the National Bank of Fiji led to an increase in the deficit in 1996 and 1997 and a projected decrease in 1998 and 1999. The Reserve Bank of Fiji's projected reduction in deficit in 1998 and 1999 may not be correct, given the increase in public expenditure promised by the new government.

The previous government had undertaken deliberate policies to do away with losses of F\$11 million dollars per year through its public enterprises. The previous government undertook major reforms of its public enterprises. These reforms included the corporatisation and privatisation of publicly owned enterprises. The labour party and its trade union movement in Fiji opposed a lot of these reforms. One the main issues in the opposition to these reforms was the job losses and the increase in the cost of services. The government owns 31 commercially-oriented public enterprises with a total equity exceeding F\$600 million (Fiji Government 1997). The previous government policy was to slowly privatized these enterprises. For example, shares have already been sold in Fiji national airline; Air Pacific and others were in the process of being negotiated.

Figure 4 **Fiji's net budget deficit** (per cent of GDP)



Source: Parliament of Fiji, *Development Strategy for Fiji*, Suva: Table B7.

The new government has a platform, which intends to reverse these process of privatisation and corporatisation. It believes that public utilities such as water, electricity, telecommunications and civil aviation facilities must remain in public hands. As a matter of priority the new government has already reversed the reforms instituted in the civil aviation authority of Fiji and the Fiji Electricity. The new government will have to carefully consider the issue of budget deficit in view of its commitment to increased expenditure and at the same time reversing the privatisation process of public enterprises. The issue with regards to corporatisation and privatisation is that there are enterprises, which have not been profitable for many years, and these may be the drain on the public purse, but there are enterprises, which have been very profitable and could contribute to the government revenue. However, the previous government did not make that distinction and went ahead to sell shares in enterprises, which were making profits and contributing to government revenue. The new government will have to strike the right balance in its approach to the management of the public enterprises.

Employment and wages policy

The provisional 1996 census report shows that the population has increased from 715,375 in 1986 to 772,655 in 1996 (Fiji Government, 1997). The annual average growth rate between 1986-1996 is about 0.8 per cent. Population declined in 1987 for the first time due to a high emigration rate amongst Fiji's Indian community. Fiji's population is projected to reach 821,000 in the year 2000, representing an annual average growth rate of less than one per cent. Fiji Islands has a relatively young population with about 53 per cent of the population below the age of 25 years.

Table 4 shows the official unemployment rates between 1983 and 1995. These rates do not reflect the actual level of unemployment that may exist in the economy. For example Chand (1998) points that the actual level of unemployment may be around 25 per cent assuming an underemployed rate of 50 per cent and a 100 per cent female participation rate. The current situation with regards to employment in Fiji is serious. The previous government estimates that there are 15,000 school leavers who enter the market every year in search for jobs. Of these 5,100 are females and 9,900 males. The minimum qualification of the majority of these school leavers is the Fiji School Leaving Certificate. These levels do not equip the persons with appropriate skills to enter the job market easily. Apart from the school leavers, the government has identified another 2,000 persons entering the job market every year. These include about 500 females and 300 youths who have no formal qualifications and about 1,200 who are the victims of the downsizing in the government sectors and the laying off of workers by commercial enterprises.

The real problem of finding jobs for about 17,000 persons annually has to be urgently addressed to counter the growing problems of poverty, crime and other social ills. Most of these unemployed people are likely to look for jobs in the formal sector. Even with a very optimistic estimate by the previous government on the ability of the formal sector to create jobs, it can only generate about 8,000, which includes attrition rates due to retirement and

Table 4 **Unemployment rates in Fiji, 1983–95** (per cent)

Year	Unemployment rate (per cent)
1983	6.9
1984	7.4
1985	7.9
1986	7.5
1987	10.2
1988	11.0
1989	6.1
1990	6.4
1991	5.9
1992	5.4
1993	5.9
1994	5.7
1995	5.4

Source: Bureau of Statistics, *Current Economic Statistics*. Suva (various years).

emigration of the labour. It is estimated that only 3000 new jobs are created annually through increased investment and economic growth.

According to the 1996 census there is a backlog of about 17,300 unemployed persons who are also seeking formal sector employment. Unemployment problem in Fiji can not be addressed in a way that it may be done in countries where there is social security. In the case of Fiji, only those who can afford to be unemployed do so. This implies that people can be idle if they have others in the family who can support them. However, there are many who engage themselves in very low paid part-time employment. While there is no official estimate of underemployment, it could be a major portion of those not included in the official unemployment statistics provided by the government. Table 5 shows that the job growth has approximately kept pace with the population growth, however, the official unemployment rate given in Table 4 does not represent the true picture of the level of unemployment in the country.

Table 5 **Population and employment, 1990–97**

Year	Population (000's)	Population growth (per cent)	Paid employment (000's)	Employment growth (per cent)
1990	736,000	1.4	90,023	
1991	746,000	1.4	91,729	1.9
1992	758,000	1.6	93,494	1.9
1993	771,000	1.7	95,254	1.9
1994	784,000	1.7	96,336	1.1
1995	790,000	0.8	98,686	2.4
1996	803,000	1.6	100,660	2.0
1997	815,045	1.5	102,170	1.5

Source: Fiji Government (1998)

Labour force participation

More insight on the causes of unemployment can be obtained by examining the labor force distributions by sector and time period. The labour force participation rate (LFPR) for males has remained relatively unchanged. For example the LFPR for males only increased from 84.6 per cent in 1976 to 86.0 per cent in 1986 and the provisional census report of 1996 does not show much increases. However, LFPR for women has been increasing in the same period. For example it increased from 17.2 per cent in 1976 to 23.5 per cent in 1986. The LFPR's for women has continued to increase and Fiji's Ministry of National Planning has estimated a net increase in the labour force between 1986 and 1996. It is estimated that the total labour force in the Fiji Islands grew at an annual average rate of 2.3 per cent over the 1986–96 period compared to the population growth rate of 0.8 per cent.

In terms of the sectoral distribution of the labour force, the formal sector represented 36 per cent of the total labour force (Table 6). The formal sector includes employment on regular salaries and wages. The informal and the agricultural sector comprise 58 per cent and the balance of 6 per cent is classified as open unemployment.

Table 6 **Labour force distribution by broad economic sectors, 1990, 1993 and 1996**

Employment sector	1990		1993		1996	
	Number	Per cent	Number	Per cent	Number	Per cent
Formal sector	84,000	31.9	102,000	36.2	109,000	36.2
Informal sector and agriculture	162,800	61.7	163,400	57.9	174,400	57.8
Open unemployment	16,900	6.4	16,600	5.9	18,100	6.0
Total	263,700	100	282,000	100	301,500	100

Source: Fiji Government (1998)

One of the key issues that needs to be considered in view of the large percentage of labour force is in the informal and the agriculture sector. Yet government policies in the last ten years have been largely geared towards the urban manufacturing sector. It has been more concentrated in creating formal sector jobs. It must be pointed out that, given the economic structure of the Fijian economy, the informal and agricultural sector is likely to be the key sector for future employment and particularly those with out appropriate skills.

The challenge for the new government is to reduce unemployment and at levels of wages that put individuals and families above the poverty line. The Coalition government in its manifesto clearly indicated that an income level below F\$120 per week would put families in poverty. It gave an impression that once in power they would institute a minimum wage of F\$120 dollars. However, recent statement by the Prime Minister indicates that the government has no intention to impose a minimum (*Fiji Times*, 16 June, 1999). This announcement would come as a surprise to thousands of workers earning less than F\$120 dollars a week. In fact, the minimum wage would have affected very few industries such as the garment industries. Companies in these industries initially would see a squeezing of profits but in the long run could have gained through increased labour productivity.

Sectoral policy and challenges

The new government has undertaken to increase public expenditure in virtually all other economic and social sectors. In the agriculture sector it has promised to reestablish the rice industry and provide more services to other crop sectors. It has already announced that sugar cane farmers would not have to pay back the crop rehabilitation loan provided by the government. In other social service sectors, it plans to increase budget for the police, social welfare department and pension payments for the aged. All these are going to entail increased public expenditure. The government is yet to come up with the costing of its promises, but it is clear that a substantial increase in revenue or borrowing would be needed to fulfil these expenditure promises.

Other challenges

One of the key obstacles to the performance of the Fijian economy has been the uncertainty of property rights in land in Fiji. There is no doubt that this uncertainty has affected production and efficiency in both the agriculture sector and the tourism sector (Prasad and Tisdell 1996). Under the Agricultural Land Lord and Tenants Act (ALTA), native land leases had been granted to tenants for 30 years. The legislation provided the mechanisms through which rent was determined and the relationship between tenant and landlords have been regulated. However since 1997 the land leases have begun to expire. Over the last few years a lot of uncertainty has been created in the minds of the tenants and which has caused the decline in productivity and efficiency. Landowners have been demanding compensation for public infrastructure on native land and government has to deal with more of this in future.

The resolution of the ALTA legislation and the provision for the renewal of the leases is now an immediate priority for the government. Apart from the uncertainty in the farming sector, other sectors such as investment in fisheries development, forestry and tourism are also waiting for a satisfactory resolution of the issue of property rights in land.

Fiji's sugar industry is passing through a critical period. First, there is insecurity of land tenure and the threat of non-renewal of leases after 1997. Second is the exposure of the industry to the changing global economic conditions. Currently the bulk of Fiji's sugar is sold under the Lome Convention. This provides preferential arrangements for Fiji's sugar to be sold at more than the world market price in the EU. With the increasing globalisation of the world economy and the successful conclusion of the GATT, price received for Fiji sugar may not be sustainable in the long run.

These circumstances have called for reforms within the sugar industry. With the increasing surge towards freer trade world-wide, the EU preferential price for Fiji sugar may end sooner than later. The reforms in the industry cannot proceed without any solution to the property rights structure in land. Reforms to increase efficiency and productivity without corresponding reforms in the system of land tenure are unlikely to yield desired results.

The productivity in the sugar industry depends on many factors. These include the production cost, milling efficiency, availability of labour, fertiliser input. Increasing farmer indebtedness is also affecting investments in productivity. While these factors are an important consideration, the overwhelming concern of the farmers is about the tenure of their leases. So long as the lease question hangs in the balance any reform process designed to increase productivity could be counterproductive. The major concern of the tenants is insecurity of their tenure and that the renewal of the leases will involve much higher rents. Table 7 shows the number of leases that expire in each year from 1997 to 2005.

Table 7 **Expiration of agricultural farm and cane leases in Fiji, 1997–2005**

Year	Number of farm leases	Number of cane leases
1997	45	26
1998	189	129
1999	231	168
2000	1828	1215
2001	1808	1536
2002	479	325
2003	645	466
2004	332	231
2005	288	244

Source: World Bank, 1995. *Fiji: restoring growth in a changing global environment*, World Bank, Washington, DC.

After the adoption of the 1997 constitution, the then Prime Minister and the leader of the Opposition had worked towards setting up of a committee which was in the process of working out the best possible arrangement to resolve the native land lease problems. The previous government in consultation with the NTLB had agreed to renew about 90 per cent of the leases and out of 134 expiring leases, 104 had already been renewed.

The challenge for the new government would be to create the same kind of climate to continue the negotiations for a satisfactory resolution of the land lease problem. The new government proposes to establish a land use commission to identify unused land. Inevitably, the government has to allocate extra resources if the majority of the land leases are not renewed. This will put further strain on the tight budgetary conditions that the new government would have put itself as a result of the expenditure promises already made.

Conclusions

The new government's orientation towards a strong social agenda is laudable. However, the signals of the first month in government point to the fact that the economic policy direction may not be changed too radically after all. This may be a realistic situation given the world economic policy environment and the dependence of the Fijian economy on few of its main partners, such as Australia, New Zealand and the United States. The new

governments may ultimately prove to be a capitalist government in a socialist garb, like many labour government in other parts of the world.

Economic growth would be a the key to the delivery of social services promised by the new government. And for economic growth to occur the new government will have to promote the private sector as the engine of growth, as public sector expenditure would be limited given the government current financial position.

The issues that would need to be considered carefully for sustained levels of growth include the following

- a consistent investment policy with appropriate incentives for the private sector
- a competitive and productive labour force
- development of appropriate public infrastructure
- satisfactory resolution of the property rights in land generally and the more specifically the resolution of expiring native land leases under ALTA
- sound monetary and exchange rate policy to ensure that Fiji's export are competitive in the world market
- a competitive and productive labour market
- stability in government and the reduction in the crime rate.

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