For developing nations, the only sustainable and effective avenue for improving peoples’ welfare is through economic development. It is therefore imperative that a developing nation put in place appropriate policies and institutions to maximise its long-term prospects for sustained economic development. To this end, Papua New Guinea and Fiji have not been alone amongst Pacific nations, or other countries in the developing world, in making a number of moves towards this objective.

Among the more obvious impediments to development in Papua New Guinea and Fiji have been the constraints of institutions inherited from previous colonial powers, many of which are inappropriate in a developing economy. Most notable are the labour market institutions, but also important has been the structure of health and education institutions. Also representing a major stumbling block to development are the traditional systems of land ownership, which have made access...
to land for investors particularly difficult. Policy stumbles along the way included the inward-looking approach to foreign trade in the 1970s and 1980s.

It has taken some time to tackle the inappropriate wage setting and other institutional arrangements imported from more advanced economies. But even as there has been a reversal in these arrangements, there has been deterioration in other areas. Fiscal management has worsened and has contributed to the economies’ difficulties. The deterioration in law and order is adding to the risk of capital and of labour. In the case of Papua New Guinea, the non-existent policy response to the worsening law and order problem has had damning long-term implications. In both countries corruption is contributing to the poor performance of government including that of government-owned business enterprises. International and national confidence in government has deteriorated and is reflected in a decline in investment.

Overview of comparative performance

Papua New Guinea and Fiji have followed similar paths of development since 1970, despite having very different resource and skills bases. The performance of both economies in the post-1970 period has been less than satisfactory. Nevertheless, inflation management through the 1970s and 1980s in both nations was in general good, attracting foreign investment in mining and forestry in Papua New Guinea and in tourism and garments in Fiji. But this has not been sufficient to support sustained economic growth in either country.

The best indicator of improvement in peoples’ welfare through economic development is growth in gross domestic product (GDP) per capita, and to this end, Fiji’s performance has been weak, and Papua New Guinea’s performance has been particularly poor. Fiji experienced a

Figure 1  Fiji: GDP per capita growth, 1970–97 (per cent)

Source: South Pacific Economic and Social Database, The Australian National University, Canberra.
Figure 2  Papua New Guinea: GDP per capita growth, 1970–97 (per cent)

Source: South Pacific Economic and Social Database, The Australian National University, Canberra.

period of rapid growth in the early 1970s, with its real per capita GDP increasing more than 20 per cent between 1970 and 1973, but for the next two decades, Fiji experienced only two short periods of sustained growth performance—between 1979 and 1981, and from 1988 to 1990 (Figure 1). In fact, per capita GDP in 1987 was the same as that achieved in 1973. Fiji entered a period of sustained growth from 1992, before exogenous factors (the severe drought and to a lesser extent, the East Asian economic crisis) dragged the country into recession in 1997. Fiji is expected to pull out of recession strongly in 1999 on the back of export growth.

A similar story, but on a weaker scale, is evident for Papua New Guinea. After growing by 12 per cent between 1970 and 1973, Papua New Guinea entered nearly two decades of decline in per capita GDP (Figure 2). This extraordinary period of descent ended with per capita GDP 18 per cent lower in 1990 than it was in 1973. The mineral boom, driven by the Porgera and Kutubu mines, temporarily increased per capita GDP by 35 per cent between 1990 and 1994, but since then, macroeconomic mismanagement has returned Papua New Guinea to its pattern of declining per capita GDP. Real per capita GDP was lower in 1997 than it was in 1973. Evidence of poor performance and declining living standards becomes more stark when it is considered that non-mining per capita GDP declined 11 per cent between 1978 and 1997.1

Apart from the periods of oil-shocks and their immediate aftermath—that is, for 1973–75 and 1980–81—inflation over the last three decades has, until recently, not posed a problem and remained in single digits in both Fiji and Papua New Guinea (Figures 3 and 4). As a result of the 20 per cent devaluation early in 1998, inflation of 8.1 per cent was recorded by Fiji in 1998, but this was a temporary spike and inflation dropped back to 3 per cent early in 1999.
While Fiji has escaped any serious repercussions from its currency devaluations in recent years, Papua New Guinea has been far less successful in containing inflation following the 1994 devaluation and subsequent float and depreciation of the kina. Inflation reached double-digits during 1995, 1996 and 1998 after two decades of low and stable inflation outcomes. The magnitude of the poor inflation results in recent years must be understood in terms of the lowest levels of
inflation recorded by Papua New Guinea’s major trading partners since the 1960s.

Both Papua New Guinea and Fiji have been unable to implement prudent fiscal policy since their independence (Figure 5). Both countries have consistently operated budget deficits—the average annual budget deficit for Papua New Guinea has been 2.8 per cent of GDP over the years 1975 to 1998, and for Fiji, 3.1 per cent. Fiji had improved its fiscal performance since the late 1980s, but the recent National Bank of Fiji crisis, and subsequent support from the public purse, blew out the deficits for 1996 and 1997 (Figure 5). Papua New Guinea, in contrast, has suffered a deteriorating fiscal performance since the late 1980s, which culminated in the financial crisis of 1994. With the mineral boom leading to overzealous optimism, expenditures increased substantially in the early 1990s while revenues fell short. The underlying reason for the crisis was not so much the large budget deficits recorded—after all, similar deficits were recorded in the early 1980s—but the loss of credibility in the government’s management of its finances. Of particular concern were fiscal outcomes blowing way out from budget allocations and government not paying its bills (Gupta 1995). The problem continues today with the 1998 outcome likely to be 4 per cent of GDP (Curtin 1999) in contrast to a forecast deficit of 1.2 per cent of GDP. The deficit would have been around 5.5 per cent of GDP, if the government had paid all its outstanding bills.

With both Papua New Guinea and Fiji running consistent deficits, financing costs have become a burden on finances. The Fiji government has had to meet interest costs amounting to about 13 per cent of recurrent government expenditure since the late-1980s, equivalent to around 3 per cent of GDP (Figure 6). In the wake of the blow out in deficits in the early 1990s and the recent currency depreciation, Papua New Guinea’s interest payments have risen from 2.7 per cent of GDP in 1988 to 6.0 per cent in 1998. As a result of both the increasing interest costs and the need to redress the deficits since 1994, consumption expenditure has

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**Figure 5**  
Comparison of budget deficits as a percentage of GDP, 1975–98 (per cent)

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**Source:** South Pacific Economic and Social Database, The Australian National University, Canberra; 1999 Budget Papers for Papua New Guinea and Fiji.
been slashed to 20 per cent of GDP from around 25 per cent of GDP in the years before the 1994 crisis. The increasing cost of debt servicing is quickly eroding Papua New Guinea’s ability to provide basic government services.

In line with the average of their budget deficits, Papua New Guinea and Fiji have both recorded an average current account deficit of 2.5 per cent of GDP between the mid-1970s and 1997 (Figure 7). However, for Papua New Guinea, the current account deficit has been particularly volatile, ranging from a deficit of 19.4 per cent of GDP recorded in 1981 to a surplus of 13.3 per cent in 1995. The greater stability in Fiji’s current account performance is attributable to its diversity in exports and its much lower dependence on mineral exports (Figure 7). On the import side there are strong similarities between the two nations’ pattern of trade with the bulk of imports coming from Australia. Inflation in both Papua New Guinea and Fiji is therefore dependent on Australia’s inflation rate and on changes in the respective exchange rates relative to the Australian dollar.

The ongoing land tenure issue, the uncertain political environment, and the continuing weak fiscal performance have been contributing factors in the strong decline in investment in Fiji over the last 15 years (Figure 8). After peaking at 27 per cent of GDP in 1981, investment has steadily fallen to just 11 per cent of GDP in 1997. The overall investment performance in Papua New Guinea has held up better than Fiji, but this is mainly due to the strength of investment in the minerals sector. Non-mineral sector investment has been virtually non-existent in recent years and the more recent deterioration in management of government finances along with an uncertain policy environment for the mineral sector is resulting in a strong decline in mineral prospecting, portending a slump in investment in the sector in the future.

Poverty in Fiji increased and the distribution of income, especially in urban
areas, worsened over the 1977 to 1990 period (Prasad and Asafu-Adjaye 1998); though it is probable that some reversal of this process has occurred with the improved economic performance in the 1990s. Data on the distribution of income for Papua New Guinea is not available, but given the stagnation in formal sector employment and the strong declines in non-mining (including petroleum) per capita GDP, it is highly likely that poverty and income distribution has worsened significantly.

Explaining poor performance

A general explanation of Fiji and Papua New Guinea’s unsatisfactory economic performance lies in the transfer and adoption of inappropriate institutions and the subsequent vicious circle which traps them. Most important for the impact on economic performance are those institutions which deal with the labour market and with the way scarce capital is used. In the early 1970s both Fiji and Papua New Guinea adopted concepts of the living wage and cost of living adjustments. These were applied to formal sector employees in urban centres and were at odds with the level of economic development of these nations. In industrialised countries, the concept of a living wage applies to low-income earners and so has merit on grounds of equity. But for Fiji, and especially Papua New Guinea, the opposite is the case. Institutions of wage regulation have acted only to improve outcomes for the well-off in the community—that is, those fortunate enough to hold formal sector jobs. The poor in Fiji and Papua New Guinea are those reliant on rural or informal activities for survival. Strong labour unions in both countries have added to the difficulties of the respective labour markets. Rising wages and increasing inflexibilities in labour arrangements have hampered business and so contributed enormously to weakness in employment growth, and in turn, weakness in economic development.

Generous terms and conditions of employment in Papua New Guinea and Fiji

Figure 7  Comparison of current account deficits, 1976–97 (per cent)

Source: South Pacific Economic and Social Database, The Australian National University, Canberra.
have not only hampered private sector development but have frustrated the extension of public services. High wages and on-costs have affected the cost to the respective governments of providing services and added to budgetary pressures, while the short working year and overtime loadings and restrictions have contributed to an underutilisation of scarce capital and skills. Budgetary pressures are manifested in an increasing debt-service ratio for the government, which, in turn, may reflect and contribute to governance issues, such as mismanagement and corruption. The mismanagement of government finances in both countries has been a big factor in constraining economic development.

Weakness in employment growth gives rise to a whole new set of institutional pressures, and in particular, provides justification to introduce and increase protection for new and existing industries. This, in turn, erodes the competitive position of industries already exposed to international competition but not in receipt of similar preferential treatment, and erodes the international competitiveness of the traded sector in general. Ultimately, instead of promoting employment growth, protectionist policies impede employment growth. Inevitably, conflicting views about protection and preferential treatment come from departments with a broad-based view of the economy, such as Finance (or Treasury), and those with a specific industry view, such as Industry and Agriculture. More recently, the sustained weakness in employment growth has enabled the departments with a broad-based view of the economy to prevail over the others and succeed in reversing the process of regulation and protectionism.

There are other factors that have impeded the economic performances of Fiji and Papua New Guinea, most notably the inherent institutions which restrict access to land, and institutions contributing to inflexibility in the structure of production. But these are not likely to be helped by the inability of the state to expand the quantity
and quality of its services. A high incremental capital-output ratio (ICOR)—that is, the ratio of the value of accumulation in capital to the incremental increase in GDP—is a manifestation of underutilisation of capital. Without implying causality, it has to be observed (see Table 1) that the average ICOR is low during periods of respectable growth (1970s and 1990s) and high during periods of poor growth (such as the 1980s).3

Institutional failure in Papua New Guinea

Increases in wages and salaries, and improvements in conditions of employment

From the post-war period, until the early 1970s, Papua New Guinea’s minimum wages were set so that urban minimum wages were not out of line with the supply price of labour. But between 1972–75 there was an extraordinary three-fold increase in urban minimum wages under the auspices of the newly introduced Minimum Wages Board (McGavin 1991: Tables 1.2 and 1.3). At the same time, the standard industrial working week of 40 hours came to be accepted. This is in contrast to much longer working hours in developing countries of neighbouring East Asia, particularly in the early years of development.4 Labour market developments between 1972 and 1975 had severe consequences for Papua New Guinea. They had an immediate detrimental impact on urban employment and created long-term structural implications that would reduce the rate of growth of future employment. In the aftermath of the wages explosion, formal private sector employment in urban centres fell more than 15 per cent by 1976. In line with the performance of GDP growth, private sector employment growth has virtually been stagnant in Papua New Guinea since the late 1960s, and only an increase in public sector employment had enabled total non-agricultural formal employment to increase since (Levantis 1997).

In the public service and parastatal organisations, national employees have used the principle of ‘equal pay for equal work’ to obtain some increases in wages and salaries, and in the case of some organisations, home passages to their villages. Given the disparities between national and expatriate pay scales, the pressures for upward increases in salaries have been evident since the 1960s. But the more serious outcomes were substantial improvements in working conditions for all those on the public service payroll. The working week was reduced to 36 hours and 45 minutes in the mid-1970s. Apart from four weeks of annual leave, public servants also became entitled to sick leave, special leave and long-service leave—that is, terms of employment similar to those prevailing in Australia and other industrialised nations. Since the public

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Source: South Pacific Economic and Social Database, The Australian National University, Canberra.
sector was the wage leader, pressure was passed onto the private sector to emulate it. By the time of independence, Papua New Guinea had trapped itself into adopting a working year and labour market conditions suited to an industrialised country.

Unemployment and crime
In the aftermath of the wages explosion of the early 1970s, urban unemployment quickly became a serious problem which was fueled by rural to urban migration that in turn was sparked by the urban wage explosion. The urban unemployment problem gave rise to Papua New Guinea’s renowned law and order problem as the displaced sought alternative means of earning an income. In raising the cost and risk of doing business, the growing law and order problem has had a profound adverse affect on investment, especially non-mining investment, and has been a major impediment to growth and development since the mid-1970s. Although the new and growing law and order problem had its foundations in the wage explosion, the benefit to law and order of reversing the wages policy is limited because crime has now become a way of life for many (Levantis and Fane 1999). Dealing with law and order has demanded a substantial upgrade in the effectiveness of law enforcement agencies and an increase in public outlays from the outset, but this was never delivered, allowing the problem to spiral completely out of control.

Poor utilisation of capital
Papua New Guinea has recorded high average ICORs in the 1970s and 1980s, and a particularly high average ICOR of 14.7 for 1977–83 (Table 1). This is indicative of significant underutilisation of capital by both the public and private sectors—the accumulation of capital has had a weak sustained effect on GDP. It is important to note that the non-mineral sector has had a much higher ICOR than the mineral sector (McGavin 1993:97, Table B15).

Epitomising the attitude in the public sector towards utilisation of scarce capital resources is the education sector where industrial country standards of construction and of class-room size were adopted. In the 1960s, in order to accelerate primary or community school enrollments and to improve literacy, class-room sizes of 45 were common in Papua New Guinea (Gupta 1992:182). But during the 1970s, average classroom sizes had fallen to 30 for primary schools. This reduced the intensity in the use not only of scarce capital, but also of scarce skills. In addition, unlike South Korea and Singapore, Papua New Guinea has not adopted double and triple shifts in schools so as to use scarce capital stock more intensively. A similar story developed in the tertiary education sector. A number of tertiary education and training institutions, each catering for a small number of students, came into being over the 1965 to 1975 period. The combination of the short working year and the small number of students per teaching staff (a student–staff ratio of 6.5) has meant under-utilisation of skills and capital stock and resulted in high operating costs. By 1978, 42 per cent of the total education budget went to tertiary education (Gupta 1992). In health, the emphasis has always been on costly infrastructure for cure, rather than extension services for prevention.

Management of government finances
Improved public sector wages and conditions in the early 1970s put a severe constraint on the task of extending public services. This difficulty was compounded by the fact that while Australian budgetary aid and revenues from the minerals sector remined the major components of the Papua New Guinea government’s budget, both declined in real terms from 1974.
onwards (Gupta 1995). Since the mid-1980s, the quality of budgetary management in Papua New Guinea has deteriorated. It worsened in the 1990s, leading to the 1994 foreign exchange and cash flow crisis (Gupta 1995). Since 1997, the rate of decline in the standard of the budgetary processes appears to have accelerated, contributing to a further drop in credibility and, in turn, to a further depreciation in the kina and to a jump in inflation to 22 per cent in 1998 (Curtin 1999).

Also, since the mid-1980s, political and government processes and systems have noticeably deteriorated amidst a growing problem of corruption. Accountability is becoming non-existent, demonstrated by the establishment of a ‘slush fund’ providing each politician with free rein to allocate a specific allotment as they please. This amount has now increased to the equivalent of 6 per cent of government consumption expenditure—more than the entire allocation to police (Papua New Guinea 1998). Increasingly poor management has led to a rapid increase in corruption and the general acceptance of corruption as the normal way of doing things.

The shift towards protection

From being an open economy at independence, Papua New Guinea steadily shifted towards protecting its industries. A number of commodities including sugar, cement and most fresh fruit and vegetables have been protected by import bans. Processed timber, matches, poultry, fruit juices, beverages and tobacco have had particularly high tariff rates imposed (PNG Internal Revenue Commission 1997).

Reversal of policies in Papua New Guinea

Given the constraint on the revenue side and in the context of the need to increase primary and secondary school enrolments, and the need to improve the delivery of health services, it was inevitable that reversals in some of the above policies would occur. But most of these reversals did not happen until some years after the Bougainville crisis and until after the onset of the cash flow problems of 1994.

Minimum wages tended to be indexed to inflation, although there was a slight decline in real urban minimum wages in the period 1975 to 1991 (Gupta 1992:110, Table V2). Labour market reforms introduced late in 1992 jettisoned urban minimum wages and introduced flexibility in the labour market. What has followed has been a sharp drop in urban real wage rates (Levantis 1997), a result compounded by weakness in the economy caused by severe macro-economic mismanagement. Despite Papua New Guinea’s poor economic performance in general, growth in private sector employment has averaged 2.1 per cent since the labour market reforms, as compared to the average growth rate of 1.2 per cent between 1975 and 1992 (Figure 9).

There is evidence that there has been some recent improvement in capital utilisation. The average ICOR dropped to 3.9 for the 1989–95 period (Table 1) and to 3.5 for the 1992–95 period. Primary school class sizes have increased somewhat during the 1990s to an average of 33, but these are still considerably smaller than those which prevailed in the 1960s. Double shifts are still rare and while the overall primary school enrolment rates increased until 1989, they have stagnated since, while the retention rates have declined in the 1980s and in the 1990s. Some rationalisation of tertiary education had begun after the 1981 National Manpower Assessment Report (PNG National Planning Office 1981). But in the aftermath of the Bougainville crisis, pressures on tertiary education have intensified with substantial cut-backs in government funding of the tertiary institutions. Further rationalisation
of the administrative and teaching structures of the four universities appears inevitable following the 1999 Budget.

Following the completion of the Uruguay Round, pressures on Papua New Guinea to cut back on protection have intensified. In response, in 1995–96 Papua New Guinea moved to tariffication of some products, such as sugar, cement, vegetables and batteries, which had import bans, and beef, where import quotas applied (PNG Internal Revenue Commission 1997:11). Nevertheless effective rates of protection for these as well as for processed timber, matches and poultry remain high, although they are expected to decline in the five years following the introduction of the value-added tax (PNG Internal Revenue Commission 1997:66).

What next for Papua New Guinea?

The state of governance is now such that the combination of corruption, poor financial management, poor policy in the allocation of scarce public resources, and frequent changes in ministers and senior bureaucrats managing the affairs of government—leading to changes in arrangements between business and government—has substantially increased uncertainty and risk for the private sector. The weak revenue base and the sharp increase in debt servicing costs has forced sharp cut-backs in important services in the 1999 Budget. Despite such cutbacks, the ‘slush-fund’ administered by the national parliamentarians has been
increased to 1 million kina each. Law and order has worsened and resources allocated to countering the law and order problem have declined sharply. Crony capitalism is on the rise. The working year remains short. The supply of government services deteriorates with periodic bouts of excesses followed by cutbacks. The investment climate has reached new lows and the outlook for Papua New Guinea is one of pessimism. Barring an increase in mineral sector activity, and in the absence of an improvement in the management of government finances along with an improvement in the law and order situation, Papua New Guinea's per capita GDP and its economic development is set to deteriorate further.

Institutional failure in Fiji

Increase in wages after independence

In the ‘honeymoon period’ following independence in 1970, wages in general and public service wages in particular increased substantially and legislation was steadily introduced to improve the terms and conditions of employment—much the same as occurred in Papua New Guinea over the same period. Between 1970 and 1975 real wage rates increased about 50 per cent and the share of wages and salaries in total government expenditure increased from 23 per cent in 1970 to 34.8 per cent in 1975. Thereafter, the labour market in Fiji was highly regulated with a centralised wage fixing process. Wage indexation since 1975 in the most part maintained real wages until the coup of 1987. For the public sector, unions were able to win substantial improvements in terms and conditions (Leckie 1990).

As was the case in Papua New Guinea, employment growth stagnated in the aftermath of the jump in real wages. In fact employment growth post the wages boom, and until the loosening up of the labour market after the 1987 coup, averaged just 1.2 per cent per annum, the same as that recorded for Papua New Guinea over the post-1975 regulated period (Figure 9). But protectionist policies would also have played an important role in restricting employment growth in this period. For a developing nation, improvements in welfare through economic development require employment growth rates beyond the rate of population growth, but during the post-1975 period of tight regulations with high indexed wages, employment growth in Fiji fell well short.

Capital utilisation

Fiji’s average ICOR has followed a very similar pattern to that of Papua New Guinea (see Table 1). As union strength and inflexibility in the labour market increased through the 1970s and early 1980s, so too did the average ICOR. The high ICOR recorded in this period is indicative of poor utilisation of capital.

Average primary school class sizes dropped slowly in the 1970s from 32.17 in 1970, but more sharply in the early 1980s to 27.92 in 1983. Whereas small class numbers led to composite classes in the pre-independence period (Whitehead 1981) and thus improved the utilisation of scarce skills and capital, there were pressures to reduce their use, because communities which experienced them were seen to perform poorly. Phased free primary education was introduced from 1973 onwards (Whitehead 1981). This reduced the responsibility of the communities in providing resources for education, lifted the cost to government and eventually created a problem in the maintenance of school buildings as resources for the latter were reduced. While tertiary education institutions did not proliferate in Fiji and
unit costs at the University of the South Pacific were considerably lower than at universities in Papua New Guinea, staff–student ratios were low and unit costs were somewhat higher than those in nearby East Asian countries.

**Protection**

As wage employment stagnated, protection of existing and new industries proliferated. Before the coup of 1987, Fiji adopted a progressively inward-looking policy towards foreign trade. At the time of the coup, protection of domestic industries was particularly strong with over 50 per cent of imports into Fiji subject to licensing requirements (Economic Insights 1995).

**Reversal of policies in Fiji**

A wages freeze was planned from time to time after 1975. Given the strength of and opposition from the unions, such plans were abandoned until 1984 when a wages freeze was imposed. In the aftermath of the economic crisis, which followed the coups in 1987, wages, including public service wages, were cut despite inflation hitting double-digit levels due to the 33 per cent devaluation of the currency. Real wages fell about 17 per cent between 1987 and 1990. Rigidity in the labour market were reduced following labour market reforms in 1991, allowing for greater emphasis on negotiation of wages and conditions at the enterprise level. Real wages have since slowly increased, but in 1996 were still 8 per cent below those which prevailed in 1987. Employment has responded with substantial increases since 1987. The average annual rate of employment growth between 1987 and 1996 was 4.1 per cent (Figure 9).

Much of the impetus for this growth would also have come from the move away from protectionism. From being strongly inward looking, reforms after the coup quickly turned Fiji’s approach to trade to one of export orientation. Free trade zones, where deregulated labour markets operated, were created. After 1989 import licences were phased out and replaced with tariffs. These were set initially very high, but were rapidly reduced. The drop in government revenues due to the cut in tariff rates necessitated the introduction of the value-added tax in 1992. In the 1999 Budget, the top tariff rate was reduced further to just 27 per cent.

The utilisation of capital has improved in the post-coup period as evidenced by the drop in the average ICOR to 3.2 in the period 1989–95 (see Table 1). Since 1983 there has been a slow reversal in the average student–teacher ratio to more than 31. But more importantly, labour market and trade reforms have improved the utilisation of capital. In addition, the big falls in investment due to the loss of investor confidence following the coup of 1987 and the increasing land tenure concerns since then have also led to more intensive use of existing capital.

**What next for Fiji?**

Such reversal of policies offset the adverse effect of capital and skills flight, which followed the coups. But the coups have also increased crony capitalism, reduced the respect for law and order and increased problems of access to land. Poor lending policies were pursued by the government-owned National Bank of Fiji in the aftermath of the coups. This in turn has created pressures on the budget and has affected the credibility of government and finance in Fiji. More land has been put under customary control and the issue of the extension of leases for farmers has not been resolved. Fiji has consequently become less attractive to international and national capital.

But with the introduction of the new constitution and improvements in the
political system, and with the current program of upgrading standards and accountability in management of government finances, Fiji’s future prospects look bright due to the reform process since the coup. But there is some risk to this optimism, with current concerns that the newly elected government will backslide on reform. Moreover, the prospect for Fiji to enter onto a path of strong and sustained growth is contingent on land tenure issues being resolved and the worsening law and order situation being contained. In contrast to Papua New Guinea, where the police numbers have been cut by 1,000 in the 1999 Budget, Fiji has substantially increased its 1999 police budget. In addition, unlike Papua New Guinea, there is a steady reform of government businesses and improvement in their performance.

Conclusion

Despite the reversal of some of the policies which led to poor performance in Papua New Guinea and Fiji, there remains pessimism about the future for Papua New Guinea and only qualified optimism for Fiji. This is because reversal of such policies remains incomplete. In addition, crony capitalism is on the rise, budgets, especially in Papua New Guinea, have become poorly managed, law and order has worsened and access to land remains difficult and in Fiji has worsened. International and national confidence remains low. Average investment ratios in Papua New Guinea have continued to slide in the post-1975 period and in Fiji in the post-1981 period. While the paths of development for Fiji and Papua New Guinea have been similar since independence and up to the 1990s, they appear set to diverge in the future. Fiji’s capacity and commitment to tackle problems has been strong, as has been demonstrated with recent electoral reforms. The contrast to Papua New Guinea is stark.

Notes

1 1978 is the earliest available year for non-mining GDP.
2 For a discussion on the National Bank of Fiji crisis, see for example Siwatibau (1996).
3 Some caution should be used in interpreting the ICOR because of problems of imputing values to capital inputs.
4 For example, despite growing affluence in South Korea, the average working week was 53.3 hours in the late 1970s and early 1980s (Amsden 1989:205).

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