

# Why Fiji is not the “Mauritius” of the Pacific?

## Lessons for Small Island Nations in the Pacific

Biman Chand Prasad

### Abstract

Fiji is in the midst of a consultation process for a new Constitution on which General Elections are scheduled to be held in 2014. The new Constitution is going to be the fourth one for Fiji. During the first decade of independence, Fiji's economy grew at a rate of more than 5% per annum. However, the path to economic prosperity was disrupted by the military coup in 1987 and since then we have had coups in 2000 and 2006. As a small island nation, Fiji's economic progress has been dismal and this can largely be attributed to the political instability created by the coups. Small island states like Mauritius has had uninterrupted growth rates in the same period and as a result has delivered significant improvement in the quality of life of its people. This paper discusses why Fiji could not become the Mauritius of the Pacific and points out to the lack of political stability and inclusive economic and political institutions as the major causes of poor economic performance for the last 25 years.

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## **Why Fiji is not the “Mauritius” of the Pacific? Lessons for Small Island Nations in the Pacific**

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# **Why Fiji is not the “Mauritius” of the Pacific? Lessons for Small Island Nations in the Pacific**

## **1. Introduction**

Many post-colonial countries in the Pacific, Africa and the Indian Ocean started their journey on a positive note, with a vision for shared prosperity. The colonial experiences had left an indelible mark on these countries and their societies. Independence for them meant a move away from exploitation and poverty to democracy and economic prosperity.

Since then, development progress in the decolonized and democratized countries have been uneven, as shown by the literature. Why some countries progressed and others floundered remains an intriguing issue. The questions persist: Why life expectancy increased in some countries, and declined in others? Why did household incomes increase in some, and decline in others? Likewise why did poverty decreased in some and increased in others?

Why are the differences in performance when many countries come from the same geographical region and started out with similar initial conditions? These are questions that continue to interest economists even four decades after the start of what was to become a sweeping decolonization process.

This particular paper looks at Fiji and Mauritius. While different in many respects, they also have many similarities which allow us to compare and contrast their situations, including the path to development. Fiji and Mauritius were almost at the same level of development, with similar macroeconomic indicators well into the eighties. But 1987, when Fiji experienced its first military coup, saw a parting of ways in terms of different paths taken and the outcomes for their development plans.

Fiji has recorded on average a growth rate of about 2 percent in the last twenty five years. Mauritius has spectacularly outperformed Fiji, growing at a sustained rate of

more than 5 percent in the same period. Fiji has languished in poverty, unemployment, declining quality of public services and an increasing loss of talent through migration. On the other hand, Mauritius, has continued to prosper. According to Stiglitz (2011), 87 percent of Mauritians own their own homes; there is free medical treatment for all, including heart surgery; and free education from pre-school to tertiary. Mauritius achieved independence from the British in 1968, two years before Fiji. Like Fiji, Mauritius depended on sugar as its key driver for economic growth after independence.

This paper attempts to understand why Mauritius has become prosperous and Fiji is still mired in economic decline for the last twenty five years. It explores possible theoretical rationales to make sense of the gaping disparity in growth and development. It looks at institutions and their critical role in economic growth. Apart from a brief comparative economic analysis of the two countries, the paper also looks at their histories. It concludes with a discussion of why Fiji may have failed to match Mauritius, and what are the lessons for small states, as well as policy implications for Fiji and future directions the country could take in its search for that elusive growth and prosperity.

## **2. Institutions matter for economic prosperity**

In a recent book “The origins of power, prosperity, and poverty: why nations fail”, Acemoglu and Robinson (2012) argue that it is not culture, it is not geography and it is not ignorance that determines whether a country is economically successful or unsuccessful. They contend that it’s the nature of economic and political institutions that determine the level of economic progress that a country achieves. They differentiate between the exclusive and extractive nature of institutions that determine the success and failure of nations.

The debate about ‘whether institutions matter for economic progress’ is an old one. The history of economic development in many countries can be traced through their economic and political institutions. North and Thomas (1973), North (1982), North et al

(1989a) and North et al (1989b, North 1990) provide an analysis of why institutions, both formal and informal, determine the nature of a nation's economic progress.

According to Acemoglu (2008) traditional growth or endogenous growth theories explain why savings and investment are important for growth, and why investments in human resources also matter. However, he points out that these theories do not explain why some countries have high investments or savings rates, or why some invest more in human resources. He considers the geographical hypothesis versus the institutional hypothesis. The geographical hypothesis attributes the success and failure of countries based on the availability or non-availability of natural resources, climatic environment and other geographical factors that can determine development. However, Acemoglu argues that it is the institutional factors that help explain the differences in performances of countries. According to the evidence produced by Acemoglu and Robinson (2012), many of today's developing countries had their fortunes changed, for the better or worse, based on the kind of institutions they adopted. They point out that some countries which were rich before colonization became poor because of the imposition of colonial institutions, which were neither inclusive nor beneficial for the people. Many colonial powers set up extractive institutions, which in many cases after independence, were retained. The actors in the institutions changed from colonizers to the local elite who maintained the extractive institutions to further their narrow economic and political agenda.

## **2.1. Political Instability, Democracy and Economic Growth**

The link between political instability, democracy and economic growth is an important institutional determinant for explaining the differences in growth amongst countries. Political instability and stability have direct relationships with the form of government. There is plenty of evidence in the literature that democracy may be the best form of government when it comes to providing stability and certainty regarding economic policies. Generally speaking, democracy is also good for developing inclusive economic institutions. However, according to some theories, the effect of democracy on growth is

ambiguous (Barro 2008). Even in a democracy, political power may be wielded very strongly by special interests groups such as business, religious groups, environmental groups and civil society organisations.

Barro (2008) goes on to suggest that autocracies or dictators may avoid some of the pitfalls of democracy and may be able to provide better political stability and certainty in a country. He provides examples of dictatorial regimes in South America and Asia such as in Peru and Chile, and Indonesia respectively, which achieved economic progress before transition to democracy under 'benevolent' dictatorships. In the same vein he also talks about the dangers of autocratic regimes where dictators rampantly plunder and mismanage the economy, as in some African and Latin American nations. Many economists insist that economic institutions such as property rights, rule of law and regulatory mechanisms best work in a democratic environment (see for example, North & Thomas 1973, North and Weingast 1989; North 1981, 1990, 1991, 1993,).

Some detailed empirical studies have shown that there is an acceptable link between democracy, political stability and economic growth (see for example, Landau 1986, Pourgerami 1988, 1991; Remmer 1990, Sculli 1988, 1992; Gupta et al 1998; Tavares & Wacziarg 2000).

According to Borner, Brunetti and Weder (1995) the link between political instability, democracy and economic growth is about systems of governments and how they may determine economic growth. They point out that political systems definition is too broad and there is a tendency to interpret them differently in attributing its impact on growth. Some talk about the pros and cons of democracies, dictators, voting systems, constitutions and so on. They argue that the most important property of a political system is its political credibility. The political credibility of governments is based on the how they formulate rules and how they are bound by it. According to Borner et al (1995) lack of political credibility can plague both democratic and non-democratic systems of government.

Many developing countries in the 1980s and 1990s pursued structural adjustment policies based on the 'Washington Consensus', vigorously promoted by the International Monetary Fund, World Bank and other regional organisations. The overwhelming emphasis was on 'getting the prices right', with efficiency considerations deemed paramount in policy making. However, as pointed out by Rodrik (1989), the reason why some of the structural adjustment policies failed was because the policies themselves lacked credibility.

The credibility of government rests on its ability to ensure that all laws relating to property rights, policies etc. are enforced in an impartial manner. When there is a lot of discretionary power with the state, it is tempted and bound to engage in discretionary policy decisions and law-making, which may distort the efficiency of the market and create uncertainty in the minds of the economic entities.

Borner et al (1995) clearly point out the dangers of less credible governments. The private sector is very responsive to the issue of credibility of policies and regulations. If the private investors feel uncertain, they are likely to hold back investment. Even if they do invest, it will mostly be in movable assets, thus 'maintaining liquidity', which allows assets to be freed quickly. Borner et al (1995) in their empirical studies find that political credibility is a robust determination of growth.

In the case of Fiji, both political instability and political credibility can be partly blamed for the country's sustained poor economic performance. Military coups since 1987 have also led to increasing levels of corruption and mismanagement which have contributed to lack of credibility in the political system (MacWilliam 2002). Based on a number of empirical studies (Mauro 2002, 1995; Kaufmann et al 1999; and Keefer & Knack, 1995) have concluded that the economic costs of corruption and weak governance are significant in developing countries.

**Table 1: Fiji's History of Political Institutions and Credibility**

<b>Fiji's Government</b>	<b>Political Instability and Credibility</b>
1874-1970 Colonial government	Lacked credibility
1970- 1987- Alliance government based on the 1970 Constitution	Credible from the point of view of the people
1987 May-September Military Government lead by Coup Leader Sitiveni Rabuka	Period of extreme uncertainty and instability for the people of Fiji and especially the indo-Fijian population
September 1987- May 1992. Interim government led by Ratu Sir Kamisese Mara- Prime Minister for 17 years since	Brought some semblance of credibility and stability- period of economic reform based on the 'Washington Consensus' regarding structural adjustment policies.
1992-1997; government led by Sitiveni Rabuka, the coup leader	The general election on the flawed 1990 Constitution in 1992 brought the parliament back
1994-1999 Constitutional Negotiations between the leaders of the two ethnic communities	The process of the Constitutional negotiations brought a lot of credibility and stability. In fact there was a lot of confidence in the process and that helped increase investment and economic growth. By the time of the 1999 General Election under the new negotiated Constitution, economic growth was more than 8%.
Interim Government May 2000-September 2001 after coup of 2000	Extreme situation in the country. Major riots, looting and instability in the rural agricultural sector. This was combined with the non-renewal of agricultural land leases which were granted by the Native Lands Trust Board.
September 2001-May 2006-New government under SDL- a new Fijian Political Party	Political stability seem to be there but political credibility was eroded due to the nationalist policies of the SDL government and its refusal to work within the means of the Constitution to have the mult-party government operate
December 2006 to Present- Military backed government led by the Military Commander, Commodore Frank Bainimarama	Economic growth over the last 5 years has been less than 1%. There have been some positive reforms such as breaking telecommunication monopolies and streamlining of institutions to support economic growth as well as dismantling of some of political and economic institutions which were exclusive. The current consultation for the new Constitution has brought back some confidence in the economy. Political credibility, however, remains elusive.

Table 1 show the chronology of political events in Fiji for the last 25 years and how these have affected the situation in relation to political stability and political credibility. Except for the first 16 years, the rest of the 25 years out of 42 years of Fiji's political independence has been turbulent. As a country Fiji is still searching for an acceptable Constitution. As will be shown later, economic growth in the last 25 years has been poor.

### **3. Comparative Economic and Political Progress of Fiji and Mauritius**

Fiji was a British Colony for almost 100 years. It was ceded to Great Britain in 1874 and gained independence peacefully in 1970. It achieved its independence based on a negotiated Constitution which provided a west-minister style of government. By the time of independence the ethnic composition of Fiji had changed, with people of Indian origin representing about 50 percent of the population. Like Mauritius, people of Indian origin were brought to Fiji to work on the sugarcane plantations by the British Colonial government<sup>2</sup>.

The independence (1970) Constitution was not considered to be an ideal Constitution for the situation in Fiji. It was in many ways an extractive Constitution where political power was supposed to reside with the indigenous Fijian population. The Constitution allowed for 52 seats in Parliament, with 12 seats allocated on a communal basis to ethnic indigenous Fijians and ethnic Indian population. Eight seats were allocated to the General Electors<sup>3</sup> and the rest equally divided as Indian and Fijian national seats, allowing cross voting. Essentially, this meant that power theoretically should have always rested with the indigenous Fijian population with the support of the General Electors. However, the assumption that indigenous Fijians would always be united politically did not hold after the 1987 General Election where a coalition of progressive

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<sup>2</sup> For details on the history of the arrival of Indian indentured labourers to Fiji see Lal (1992a, 1992b, 1997, 2000) and Naidu (2004)

<sup>3</sup> Category of voters that represent people of part-European, Chinese, Banabans and other communities in Fiji.

indigenous Fijians with Indian political parties came into government. However, within a month, the new government was overthrown by the indigenous Fijian dominated military. This was the beginning of coups in Fiji after which there was one in 2000 and the most recent one in 2006.

At the time of Independence, Fiji was considered to be on a growth trajectory that was expected to deliver significant economic progress. Economic policies were based on inward-looking, import-substitution strategy, in line with the policy approach undertaken by many newly independent countries in the developing world.

The Sugar industry was the mainstay of the Fijian economy for almost three decades since independence. After the 1987 coup, the sugar industry went into a decline that has continued. Sugar's contribution is down to 7% of GDP only. The political economy constraint has been the biggest constraint to the development of the sugar industry (Prasad 1997). The industry remained an extractive one for the government, which relied on it for foreign exchange, but did not do much to support efficiency in the industry, which was propped up by preferential prices from the European Union at four times the world market price.

After the 1987 coup, mainly Indian farmers faced an increasingly uncertain future as the granting of native land leases by the then Native Lands Trust Board, which controlled about 83 percent of native land, became an issue. Prasad and Tisdell (2006) provide a detailed account of the negative impact of uncertainty about the land leases on the economic performance of Fiji in relation to the sugar and tourism sectors. They also show how the then Native Lands Trust Board had become an extractive institution where increasingly large numbers of members of the land owning unit (mataqalis) did not derive benefits from land rents. For a long-time, the distribution of rents was very unequal where the certain chiefly title holders would receive the bulk of the rent. This has now been changed under the Bainimarama government where the amount distributed to actual members of the land owning units has been increased. Regulation 11 of the Native Land Trust (Leases and Licenses) have been changed and replaced with

Native Land Trust (Leases and Licenses amendment) regulations 2010. This effectively means that all rents collected and held by NLTB will have to be distributed equally amongst all members of the landowning units including chiefs.

The institutions governing land in Fiji can be described as an extractive economic institution. It has been used over the last 4 decades of Fiji's independence by indigenous Fijian leaders to extract economic resources and political power. Indian leaders have also been accused of politicizing the land issue.

After the 1999 General Election, many sugarcane leases occupied by mainly Indian sugar cane farmers were not renewed. This caused major instability in the sugar farming areas. It led to a large scale displacement of farmers, and this caused the sugar industry to shrink significantly.<sup>4</sup> The industry today is riddled with lack of labour on the farms, inefficient milling operations and poor farm infrastructure. While land lease renewals are now being considered more favourably by the Native Lands Trust Board (renamed i-Taukei Lands Trust Board) under the Bainimarama military government, it has not fully restored the confidence of the tenant communities.

The coup in 1987 created a major shock to the Fiji economy.<sup>5</sup> The Fiji dollar was devalued by 20%, and a series of economic policy intervention was undertaken. In a sense, the 1987 coup was the catalyst for the then Interim government to change the course of Fiji's economic policy from an inward looking to an outward looking, export-oriented strategy for growth. This helped the economy to keep afloat. The opening up of the garment industry provided low wage employment to a large number of people moving to the urban centres. Tourism was another industry which received attention after the 1987 coup. Tourism at present is the largest foreign exchange earner.

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<sup>4</sup> For a detail analysis of the recent trends and issues in the sugar industry see Lal (2008)

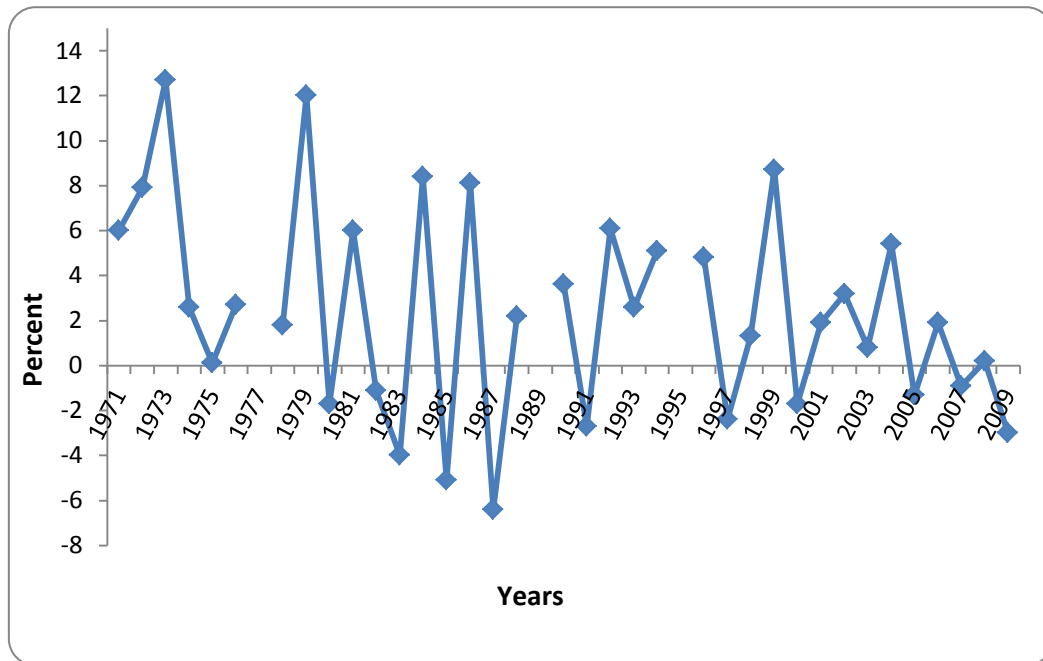
<sup>5</sup> For further details on the analysis of the impact of the 1987 coup on the economy of Fiji see for example (Cameron, 1989, 1993; Cole and Hughes, 1988, Kasper, Bennett and Blandy, 1988, For poverty analysis see Asafu-Adjaye and Prasad, Walsh, 1992)

Even with the success of some sectors such as tourism, average income has stagnated over the last 25 years and the number of people below the poverty line has increased from a low of 10% in the 1970s to a high level of about 40% at present. Together with this, income inequality has also increased with service delivery generally and in particular health and education has deteriorated.

### **3.1. Fiji's GDP growth rates**

Fiji's GDP growth rates since 1987 has fluctuated, reflecting the continuing political instability and poor investment levels (see Figure1). While there was an Interim government led by well-regarded former Prime Minister, Ratu Sir Kamisese Mara after the 1987 coup, the political credibility needed to restore the confidence in the economy did not eventuate. The Interim Government formulated the 1990 Constitution which denied fundamental economic and political rights of the Indo-Fijian population. People of Indian origin were barred from holding key positions in government, including the position of Prime Minister. The 1990 Constitution was clearly exclusive and extractive. General elections held under the 1990 Constitution in 1992 provided some semblance of parliamentary democracy, but the government lacked both international and local credibility because of discriminatory nature of the Constitution. As a result Fiji's economic performance remained subdued.

**Figure 1: Real GDP Growth Rates, 1971-2010**

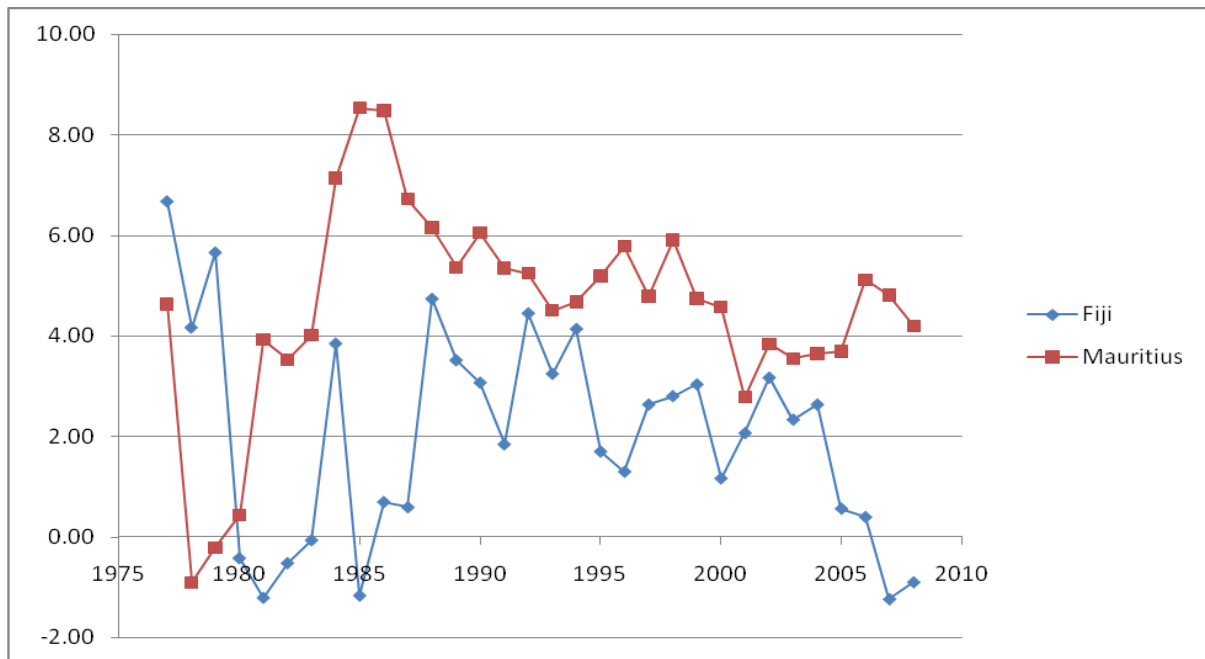


Source: FIBOS Key Economic Indicators 2010.

As shown in Figure 1, Fiji's average GDP growth has been very poor for most of its independence, except in the 1970s, when there was political credibility and certainty after independence, and adherence to the Constitution. The average growth in the 1970s was about 5.5%, but fell to 1.9% in the 1980s (1987 coup effect), rose to 3.0% in the 1990s, but declined to 0.8% in the 2000s (2000 coup effect) and to 0.1% in the previous last years (2006 coup effect).

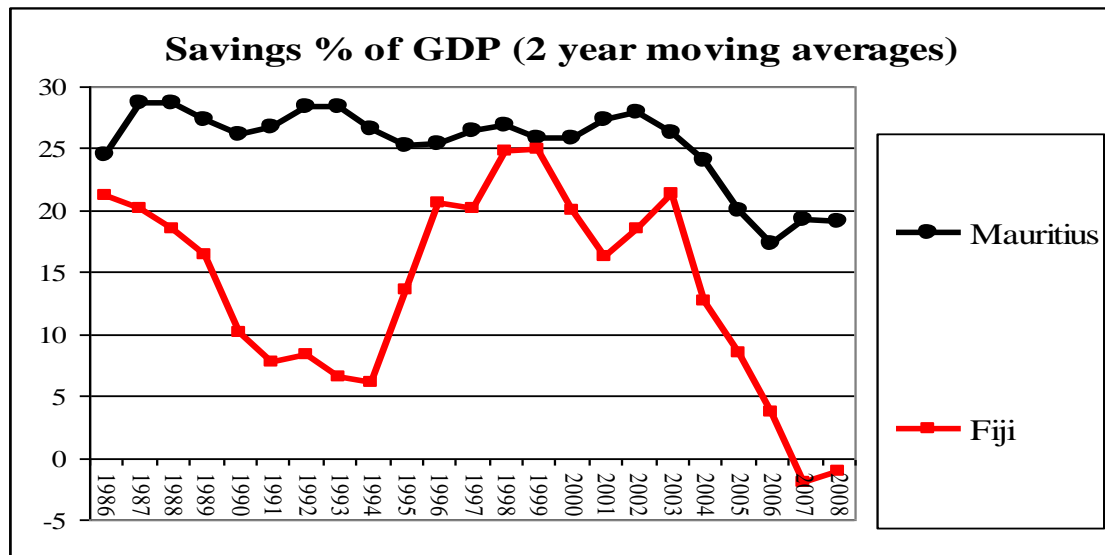
In contrast Mauritius, which continued with a stable form of democracy since independence, has achieved high levels of 5% growth over the last thirty years while Fiji was languishing (see Figure 2).

**Figure 2: Real GDP Growth Rate (3-Year Moving Average): 1975-2008**



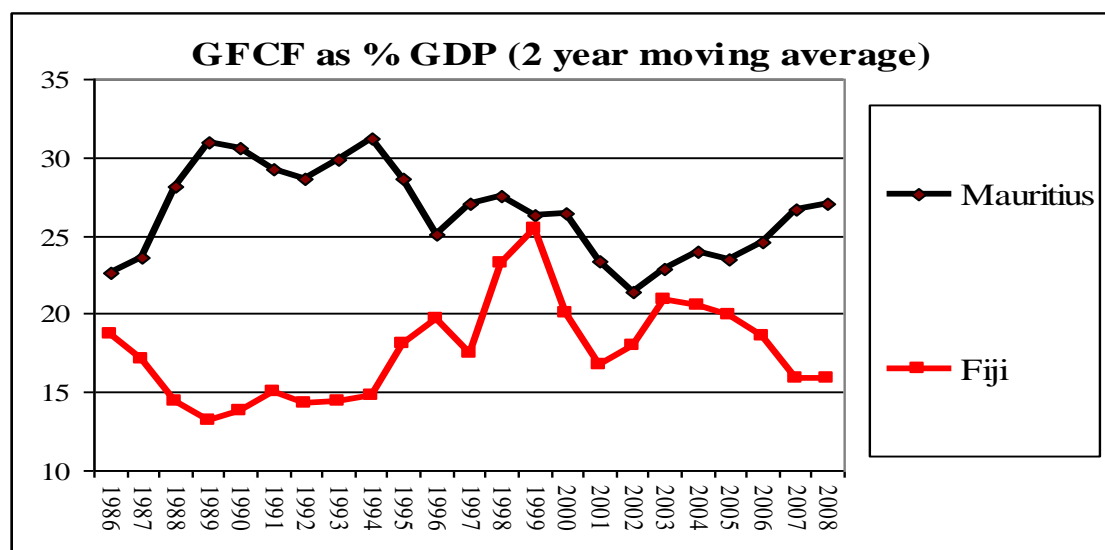
Figures 3 and 4 show a comparison between savings and investment rates for Fiji and Mauritius. Without any complicated econometric analysis, we can relate the cause of poor savings and investment to periods of political instability. Mauritius, however, continued to deal with its policy prescriptions in a politically stable environment. As a small island nation, Mauritius, like Fiji, had the 'luxury' of only limited choices in its economic policy transformation. Yet it was able to continuously transform its economy through consistent and credible policies. These included the transformation of the sugar industry; transformation from a garment-led manufacturing industry to a services sector driven economy, including tourism; and professional services, such as banking, accounting etc. Mauritius has positioned itself as the financial, business and trading hub of the Indian Ocean through its consistent pursuance of an outward-oriented export strategy for growth.

**Figure 3: Savings between 1986 and 2008, Fiji and Mauritius**



Source: Narsey 2010.

**Figure 4: Gross Fixed Capital formation for Fiji and Mauritius 1986-2008**



Source: Narsey 2010.

The political credibility of Mauritius's economic policy has helped it transform its economy. Like Fiji, Mauritius has a plural society with different ethnic and religious

groups. It has been able to maintain social cohesion by ensuring that different interests are merged into national policies and visions. Through its social policies, Mauritius has been able to provide universal protection for its poor, and national coverage for its education and health services.

According to Stiglitz (2008) Mauritius lacked natural resources and faced many constraints, isolated and small as it was. Yet, it has been able to transform its economy and improve the quality of life of its people.

In contrast to Fiji, Mauritius decided that military expenditure was a waste and so it did not develop a military of its own (Stiglitz 2008). In addition, Mauritius realised long ago that its people are its best resources, and they used a policy of education for social unity and progress. Today Mauritius provides free education to all of its people from pre-school to University studies and free medical, including heart surgery (Stiglitz 2008).

#### **4. Fiji's economic Failure and lessons for small states**

Many critics of the comparison between Fiji and Mauritius point out that Mauritius did not have indigenous people and therefore comparison between the two is flawed. This argument ignores the fact that like Fiji, Mauritius is a multi-ethnic and multi-religious society and some of the social and political tensions are similar.<sup>6</sup> They also ignore the fact that like Fiji, Mauritius also had a skewed ownership of land and there has always been inequality and difficulty in the availability of land. Furthermore, Mauritius has limited natural resources unlike Fiji but has still transformed its economy in a significant way. While smaller in size in terms of land mass, Mauritius produces more sugar than Fiji.

Without a military, there has been no military coup in Mauritius, a stable democracy with political credibility. Compared to Fiji, Botswana in Africa has also done well

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<sup>6</sup> See for example Eriksen (1997) for description of the plurality of the Mauritian Society and some of the ethnic tensions that exist.

through its inclusive political and economic institutions. So has Barbados in the Caribbean. These comparisons show that Fiji has failed, because of its extractive economic and political institutions and political instability caused by a series of coups. Many studies have shown the drastic impact of these coups on Fiji's economic performance.<sup>7</sup>

The political economy debate since 1987 has centred on how to distribute the national cake and how Indigenous Fijian landowners could extract more rent from the tenant community, who happen to be mainly people of Indian origin. The ethno-nationalist agenda after the military coup of 1987 was essentially to disenfranchise the whole Indo-Fijian community by denying them political parity through the 1990 Constitution.

In some sense Fiji is a victim of the resource curse. The greed by some politicians to benefit from the extraction of rents from land, mining, forestry and fisheries led to populist economic policies. This involved a penchant for spending government funds to buy short-term election votes. In the process elements of democracy and good governance have been compromised, leading to corruption, mismanagement and waste.

Under the Soqosoqo Vakavulewa ni Taukei (SVT) government taxpayers' lost \$250 million dollars in bad loans through Fiji's National Bank<sup>8</sup>. The SVT government policies distorted economic incentives by the creation of new monopolistic structures, such as in telecom. While some credit can be given to the SVT government for opening up the economy and undertaking economic reforms to remove some of the constraints, generally it failed to address many of the institutional bottlenecks, such as the land issue and monopolistic structures.

One of the key to Mauritian success story is that it saw its people or human resources as its strengths. Fiji, on the other hand, saw some of its most talented citizens migrate to

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<sup>7</sup> For studies on the impact of 2000 coup see for example (Chand and Levantis; Kumar and Prasad, 2002; Narayan and Prasad 2003, Treadgold, 1992).

<sup>8</sup> For details of the NBF scandal see for example (White, Munro and Grynberg; 2002)

Australia, New Zealand, Canada and America. The proud record of Fiji's civil service before the 1987 coup was destroyed with promotions and appointments at all levels generally reserved for indigenous Fijians.

The policy of positive discrimination and indigenization of the civil service continued under the Soqosoqo Duavata ni Lewenivanua (SDL) government.

While the Bainimarama government has put in a lot of effort to improve the performance of the civil service by advocating merit based appointments, it has been largely unsuccessful because of the culture of racism and provincialism still being practiced by those involved in the recruitments. Until 2006, migrants included mainly people of Indian origin but after the 2006 coup, many talented indigenous Fijians have also started migrating.

#### **4.1. Lessons for Fiji and Small States in the Pacific**

Countries like Mauritius, Barbados and Botswana have managed diversity to their economic advantage by adhering to meritocracy in their civil services. These countries have developed economic and political institutions that are inclusive rather than extractive. They have adopted a process of virtuous circle, where adherence to democratic principles, rule of law, meritocracy, and sound economic policies have not been disrupted by a military coups instead they have been continuously been improved.

Pacific Island states are a diverse group and should not be treated as a homogenous group. There exist a deep cultural and economic divisions and differences amongst them so when making generalizations we have to be cautious.

The development of inclusive political and economic institutions is fundamental to a country's economic progress and small states are no exception. This has been amply demonstrated by Acemoglu and Robinson (2012) in their very detailed analysis of the historical evidence of successes and failures of nations. Except Fiji, all the countries in the Pacific have shown resilience in managing their political transitions after

independence. There has been tolerance and acceptance to changes in governments and this has contributed to the recent success of countries like Vanuatu, Papua New Guinea and the Solomon Islands. Even the very smaller ones and resource poor countries, like Samoa, Tonga, Niue, Tuvalu and Kiribati have shown political resilience and have allowed governments to change peacefully. What is needed, however, is political credibility and consistency of policies. The power culture still plays a role in constraining governments to adopt policies which are in the broader interest of the country. Mismanagement, poor governance and pandering to interest groups by governments remain major challenges for small states in the Pacific.

Dookeran et al (2012) provides an interesting and deeply penetrating analysis of the political economy constraints of development in the Caribbean region. There are several lessons that the Pacific States can learn. The authors, for example, refer to the so called 'anti-growth coalition' which includes politicians, special and powerful interest groups which stop governments from taking the right policy choices.

Dookeran et al (2012) make the point that given the challenges of being small states, Caribbean countries have what he calls the 'luxury' of limited choices. This would apply equally well to many of the Pacific Island countries including those which have significant natural resources.

Pacific Island states, small or big in the geographical context, will have to look outwards for their policy prescriptions. The Pacific has two rich neighbours, Australia and New Zealand, with nominal per capita GDP of about \$US70,000 and US\$36,000 respectively, and with a combined GDP of more than US\$1.6 trillion. With small national markets, countries will have to look for overseas markets, including those within the region. Pacific countries while small can exploit the markets of Australia and New Zealand and those South East Asia.

There is a significant potential for Pacific small states to consider the export of services. Many of them are already realizing the potential from tourism. Pacific states can also exploit the opportunities to export 'weightless' products like professional services in

accounting, law, engineering, design, editorial etc., through the broad band connection. Developing broad band infrastructure needs to be a priority to improve connectivity to larger markets such as Australia and New Zealand.

Economic integration amongst the Pacific Island states and with Australia and New Zealand is vital. Deeper and meaningful integration would allow the countries to reduce the cost of doing business as well reduce the cost of delivering public services. Regional integration would also allow Pacific states to provide regional public goods in a cost effective manner. More importantly, regional economic integration and integration with Australia and New Zealand would allow us to share good practices and adopt some of the inclusive political and economic institutions that are vital for economic progress.

Some criticisms of global economic integration through membership of WTO are coming from the anti-growth coalitions who believe in an inward-looking import-substitution strategy. They wrongfully argue that integration with Australia and New Zealand would cause major losses to small states production. In reality, integration with Australia and New Zealand opens up various new possibilities. Pacific governments' reluctance for further integration with Australia and New Zealand could turn out to be a self-inflicted policy blunder. On their part, Australia and New Zealand will also have to consider accelerating the integration through PACER Plus negotiations and addressing issues such as labour mobility between the Pacific and themselves.

Small states wanting economic progress must also pay a lot of attention to developing their human resources and provide equal opportunities for all. They should continue to invest in education. For most Pacific Island states, it is their people which are the most important resource. Even when they don't reside in their own countries they contribute significantly through remittances. To improve the quality of delivery of educational services and other public goods, investment in ICT infrastructure is vital.

## 5. Way forward for Fiji

Fiji has been at some 'critical junctures' in its last 42 years of its history. At each of these junctures it had an opportunity to create a better and economically prosperous country. The first critical juncture was the independence from Great Britain in 1970. This was a moment of great triumph for Fiji to chart its own course of progress and prosperity. No matter how flawed the 1970 Constitution may have been in hindsight, it did provide a set of viable institutions which should have been strengthened, changed and adapted to the changing global and domestic environment not thrown out in a coup. In the first decade and a half after independence, Fiji's economic and social progress outpaced countries like Mauritius, Barbados and Botswana. This was, however, disrupted by the 1987 coups.

The second critical juncture was the adoption of the multiracial 1997 Constitution, which came about as a result of extensive dialogue amongst political leaders. It inspired a lot of confidence in the country and created expectation of a better future. This was again disrupted by the military coup of 2000.

The third critical juncture is the promised General Election in 2014. The Bainimarama coup in 2006 has received different reactions not only by people in Fiji but also by Australia and New Zealand (much more rigorous opposition than to the 1987 and 2000 coup). After the 1987 and 2000 coup there was widespread support for an ethno-nationalist agenda and the push for development of exclusive economic and political institutions to look after the interest of indigenous Fijians.

There is no argument that the coup itself has been very damaging for the economy and that it would take some time to restore the confidence to grow at a better rate.<sup>9</sup> However, after the 2006 coup the Bainimarama-led government has successfully

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<sup>9</sup> See for example (Prasad 2010; Prasad & Narayan 2008).

charted an economic and political agenda for Fiji, which for the first time looks inclusive.

In the area of economic policy, the Bainimarama government has done some 'cleaning up'.<sup>10</sup> This includes dismantling the telecom monopoly and not pandering to powerful indigenous Fijian interest in land and other natural resources, and also dealing firmly with powerful business interests. On the negative side, the overall thrust of looking inward to consider import-substitution strategies may be a regressive step.

Commodore Frank Bainimarama, notwithstanding the many controversial decisions on issues since the military coup of 2006, has the best chance as a Fijian leader to leave a legacy of good economic and political institutions for the future generations. Commodore Bainimarama and his government is probably at a stage where it needs better advice in moving the process of building confidence in a sustainable manner. It is also incumbent on Commodore Bainimarama to deal with the issue of the Fiji military – its size, its role in future and how to prevent more coups.

The decision by Australia and New Zealand to exchange High Commissioners and relax travel bans is a positive move and one that will create better confidence building measures.

The current Constitutional consultation process should be supported by all stakeholders as it is Fiji's best chance to move forward. Political leaders must understand that developing exclusive institutions to serve the interest of their own ethnic group has not worked in Fiji, and elsewhere around the world. Fiji squandered almost three decades of economic progress and the 'critical juncture' it is at now provides an opportunity to reverse the culture of declinism and move towards prosperity.

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<sup>10</sup> See Duncan (2008)

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