Fiji: national economic policies

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In order that our readers might be aware of the broad economic and fiscal policies pursued by island governments, the editors of the *Pacific Economic Bulletin* invited a number of Pacific island Ministers of Finance to write for the *Bulletin*. We are grateful to the Hon. Paul Manueli, Fiji, for this, the first of what will be an interesting and informative series.

Since 1987 Fiji has pursued policies designed to promote export-led economic growth. The present government of Major General Sitiveni Rabuka has recognized the success of these policies and committed his government to maintaining them. At the same time, the government is conducting a review of policy to see what modifications, changes of emphasis or new departures are required.

For most of the period since independence, government economic policy had been to pursue a strategy of import substitution, self-sufficiency and a heavy involvement of government in business.

These policies were successful in the 1970s in raising living standards and increasing employment opportunities. However, it was clear that by the early 1980s the limit of these policies had been reached. The economy stagnated and employment opportunities for the growing labour force were not forthcoming.

The interim government instituted a comprehensive review of economic policy when it took office in late 1987. It was recognized that improvements to living standards, through increased real personal incomes and improved government services, would only be achieved through sustained economic growth. The devaluations of the Fiji dollar in 1987 had made Fiji industry more competitive and offered opportunities for a major expansion of exports to achieve growth.

The switch to an integrated policy centred on the acceleration of economic growth led by expanding exports was made at the 1989 National Economic Summit. The following key elements of policy were identified

- deregulation of the economy to bring domestic prices more closely into line with world prices
- restraint in the growth of government expenditure, to ensure availability of resources for growth in the private sector
- reform of the system of direct and indirect taxation, to minimize market distortions, and improve incentives for risk taking and effort
- a wages policy that recognizes the paramount importance of maintaining international competitiveness

- the mobilization of all sectors of the community in support of economic expansion, in particular, increased Fijian participation in commerce and industry and
- the re-orientation of sector policies in accordance with the above general policies.

These policies appear to be working. Average economic growth since 1987 has been an impressive 4.2 per cent per year. Over 13,000 additional jobs were created between 1987 and 1991, mostly in the manufacturing sector. Some part of this achievement represents recovery from the economic problems of 1987, but the performance of exports and expansion of employment against a background of slowing world growth suggests that the switch in policy has been an important factor in the renewed growth.

In the circumstances, it is clearly wise to maintain the commitment to export-led growth, to market competition and to the promotion of initiative and enterprise in the Fiji economy.

Progress on economic policies

Deregulation

In recent years, government has progressively reduced the extent of licence control on imports and the level of protective tariffs to enhance Fiji's competitiveness and allow entrepreneurs to respond to world prices in international markets.

- Removal of licence control from the vast majority of domestic goods. Protection has been made visible through the replacement of licences by tariffs. This has required increases in tariffs in a number of cases.
- Reduction of very high levels of tariff protection, and their replacement with a standard fiscal tariff, which was reduced from 50 per cent to 40 per cent in the 1991 Budget and to 30 per cent in the 1992 Budget, with the intention of reducing to 20 per cent in the 1993 Budget.
- Withdrawal of subsidies on a number of primary commodities.

A study was undertaken last year, and repeated this year, to assess the impact of these deregulation policies on industries producing for the local market. The findings confirm that the majority of producers are able to survive more than adequately at levels of protection consistent with export orientation.

Deregulation of trade has been accompanied by measures to expand exports, most notably the Tax Free Factory and Tax Free Zone Scheme. This has had a significant impact on manufacturing investment and employment, particularly in garment manufacturing.

Price control. Price controls were designed in part to prevent protected producers from exploiting their protected position by unreasonably raising their prices. As import licensing is eliminated and tariffs reduced, competition will provide a check on over-pricing. Consequently the need for price control will diminish.

Measures were taken in the 1992 Budget to reduce price control. However, the Prices and Income Board has been given special monitoring functions to supervise the introduction of VAT.

Fair trading. To ensure fair competition between producers and to protect consumer interests, fair trading, quality and standards legislation has been adopted.

Reducing the size of government

National resources of capital and labour must be available to encourage growth of an export-oriented private sector. Government use of resources must therefore be reduced as far as compatible with the satisfactory provision of government services. It is planned to reduce the proportion of government expenditure to gross domestic product. In association with this the government will move towards a zero net deficit in its annual budget. At the same time, the proportion of capital expenditure in government expenditure needs to be increased.

This is proving one of the most difficult objectives. It is perhaps inevitable that a new government has a range of priority spending areas. This has brought pressure on overall budgetary targets which has to be resolved.

Constraint on the growth of government expenditure implies greater attention needs to be given to the allocation of available funds among the spending agencies. An internal study has been conducted (the Budget Framework Exercise) to provide guidelines for budgetary allocations over the medium term. The study provides a medium-term budget framework that provides for the required reduction in the size of government, the movement towards a zero net deficit, the increase in the proportion of capital expenditure in total expenditure, and provision of sufficient resources for priority government programs, including those relating to the social services and action against poverty.

In summary, reduction in the relative size of government will involve

- public enterprises and statutory bodies operating on a commercial, cost recovery basis
- commercialization of relevant government activities and financial autonomy for public enterprises
- effective allocation of resources to priority activities, and
- effective controls on budgetary expenditure.

Reform of the tax system

The taxation system has a fundamental role to play in increasing competitiveness and efficiency within the economy.

An efficient tax system is one that is sufficiently broad based as to raise high revenue at low rates of taxation. It should also accord with communal notions of fairness and equity, and make avoidance and evasion of taxation difficult.

Significant improvements to the tax system have been made in recent years.

- Incentives were improved through the reduction of personal income tax rates, including the reduction of high marginal rates of direct taxation and the raising of tax thresholds. Significant changes were made in the 1990 and 1991 Budgets.
- The 1992 Budget instituted additional changes to compensate income tax payers for the introduction of VAT. The changes significantly raise the tax threshold, abolish basic tax, align company tax with the top personal tax rate, and reduce the number of tax bands from 10 to 3.
- Concessions and exemptions in the tax system were minimized.
- Fiscal duties were reduced and the customs duty was aligned with the rate of VAT. The 1992 Budget standardized the maximum (general) fiscal duty at 30 per cent and the customs duty at 10 per cent.
- The accelerated depreciation allowance for agricultural, commercial, or industrial buildings was renewed.
- The introduction of VAT on 1 July replaced a number of other indirect taxes.

Capital gains tax

A recommendation of the 1992 Budget speech was for the incoming elected government to consider the introduction of a capital gains tax. A capital gains tax is justified on grounds of equity, removal of distortions and the closure of a major avoidance mechanism.

Wages policy

The best way of achieving a ‘wages policy that recognizes the paramount importance of maintaining international competitiveness’ is to allow more play to market forces in determining the level of wages. With wage determination open to the competitive pressures of the market, the labour market will become more flexible with wage rates reflecting productivity and the performance of the employee’s company.

A more flexible labour market based on competitively determined wages will enable both exporters and firms producing for the local market to become more efficient, more competitive, raise their market share and thereby increase employment opportunities.

The labour market reform package has included

- the lifting of the Remuneration Order with effect from 1 August 1991. This means that employers and trade unions are now free to negotiate wages and other terms and conditions without reference to a national statutory guideline
- a new informal voluntary mediation and arbitration service to solve industrial disputes quickly
- changes to some labour laws.

The changes to the Trade Unions Act, the Industrial Associations Act, the Trade Union Recognition Act and the Trade Disputes Act are seen as essential counterparts to the lifting of statutory guidelines.

The labour legislation was amended to ensure that union members were firmly in control of the actions of their union and its leaders, and that negotiations between employers and trade unions were conducted in a responsible manner, with the strike weapon used only as a last resort.

Many of the amendments are designed to speed up the process of resolving trade disputes. None of the amendments undermine the right of workers to organize into trade unions, or undermine the right to strike.

The amendments do make trade unions more accountable in relation to the law.

Trade union immunity from prosecution for damages arising in a dispute has been removed in cases where the trade union is pursuing a dispute which is unlawful.

The amendments also tighten up the provisions for balloting, both for union elections and for ballots preceding industrial action. These amendments are to ensure that the views of trade union members are paramount, rather than the views of trade union leaders.

The amendments are generally in line with reform of trade union legislation in the United Kingdom and elsewhere during the 1980s. Several Australian states have introduced similar reforms. The connections here arise because Fiji trade union law was derived from Australian law, which was in turn linked to UK legislation.

Mobilization of all

It is recognized that the benefits of development must be shared by all sections of the community, rural and urban; Fijians and Indians; women and men; the poor and the elderly.

Participation in commerce and industry by Fijians. Of particular importance for the success of Fiji as a nation is a greater role for Fijians in the formal sectors of the economy. This has been an issue for all governments since independence.

The Nine-Point Plan was introduced in 1988. It aims to enhance the role of Fijians in the economy.

Considerable progress has been made in implementation of some areas of the Plan.

- The F$20 million 20-year interest-free loan from government to Fijian Holdings has been invested in various schemes and these investments are generating good returns.
- The Commercial Loans to Fijians Scheme which is administered by the Fiji Development Bank has had a positive impact on the active participation of Fijians in commerce and industry. It has enabled Fijians to venture into some new areas such as transportation, retailing and real estate.
- Fijian investments in the Unit Trust of Fiji have increased considerably in the past three years. Currently unit holdings by Fijians represent approximately 33 per cent of the total shares.
- Business advisory services are offered to Fijian entrepreneurs.
- Training activities will be increased in future in order to meet increasing demand.

To develop further the role of Fijians in business, a Fijian Commercial Development Unit has been established in the Central Planning Office of the Ministry of Finance and Economic Planning. This Unit will be responsible for research and promotion of Fijian business development.

Women in development. Since the establishment of the Department of Women in 1987, the direct involvement of women in meetings of national importance, such as the National Economic Summit, has been encouraged to considerable effect. It must be acknowledged, however, that limited headway has been made in the direct involvement of women in decision-making positions and their representations on various boards. A more positive response in the future from private organizations, business houses, statutory bodies, and trade unions would strengthen the position of women in society.

The poor. Government strategy to reduce poverty was announced at the 1991 National Economic Summit. The strategy is to

- provide jobs
- ensure the poor have the means to take advantage of job opportunities
- provide a safety net for those people who continue to experience severe deprivation.

Lower income tax rates, higher tax thresholds and the elimination of the so-called 'poverty trap' together with more jobs, have given considerable assistance to the poor.

Arising out of the report of a Poverty Task Force set up in 1991, an allocation of F$7 million was made in the 1992 Budget to fund small-scale projects aimed at alleviating poverty. A committee, representative of a wide cross section of the community, has been established to oversee the disbursement of the fund.

Re-orientation of sector policies

There have been major changes in national policies in recent years and this means a new approach at the sectoral level is necessary. Across the sectors, the pace and level of adjustment to the national policies varies greatly. It is critical, however, that sectoral policies are consistent with national policies if the national policies are to be successful.

In the economic sectors (manufacturing and commerce, tourism, agriculture, forestry) the government's role is to set appropriate conditions to facilitate private sector development. It is not government's role to become directly involved in commercial and industrial ventures.

However, the provision of infrastructure will remain largely the responsibility of government. The provision of many social services, including health and education will also remain largely the responsibility of government. In these areas the relevant policies relate to the allocation of public sector resources and the efficient use of those resources.

New policy directions

Much progress has been made in some of the key areas of the national policies. Reforms to taxation, trade deregulation, a reduction in price control, reform of the labour market, and a reduction in the size of government have all been taken forward. The government remains committed to pursuing these policies but at the same time new priorities are emerging which need to be addressed to continue the momentum of economic reform.

Human resource development

It is often said that the most valuable resources of a country are its people. Government is firmly of that belief. A very high priority is placed on human resource development. Fiji's stock of highly skilled labour was severely depleted after the coups of 1987. There has been slow recovery from that loss.

The losses of skilled labour have concentrated our minds on the issue of education and training. An investment program is currently being developed for improvements to the educational system, including the upgrading of technical and vocational training.

The investment program is an essential component of the economic policies. There is a need to ensure that private business is able to find the skills and expertise it needs to improve Fiji's share in world markets.

However, there is also a need to make sure that our education and training system is providing the right kind of skills at the right time. To accomplish this, institutional machinery will be established to enable employers and trade unions to be closely involved in determining the types of training that are provided.

Capital market development

Additional investment in upgrading the skills of our workforce is necessary to provide the skills for a growing private sector. A growing private sector is only possible if capital investment continues to rise, thereby raising the future productive potential of the economy.

The Tax Free Factory Scheme has attracted a pleasing amount of foreign and domestic investment. The scheme has attracted over F$60 million worth of investment since its inception in 1988, creating nearly 11,000 extra jobs.

Plans for a tax free zone are well advanced and will contribute significantly to Fiji's attractiveness to foreign investors with its provision of land and infrastructure.

However, more needs to be done to raise the level of investment spending in the economy. The further development of capital markets within Fiji has great potential in mobilizing additional funds for investment purposes. Studies of the development process in many countries have indicated that rapid economic growth is more easily achieved when capital market development and financial reform are given a high priority.

The government wishes to pursue vigorously the expansion of capital markets and facilities in Fiji.

A number of studies of the capital market have been carried out in Fiji. They point to a number of limitations in the type of borrowing that is available and also highlight the very limited facilities for raising equity capital in the country.

This government hopes particularly to make it possible for ordinary Fiji citizens to play a direct part in the financing of Fiji business through shareholding. The Suva Stock Exchange at the moment has a very limited role, with trading limited to a handful of stocks.

The strengthening of the Stock Exchange is a priority. Measures are being prepared which should have the effect of increasing both the number of share issues and making it easier for shares to be traded.

The Stock Exchange could, in the future, play a vital role in implementing a program of corporatization and privatization of government-owned commercial ventures.

We shall be looking at the constraints on investment and, where appropriate, removing them. Perhaps a single investment act would help ease the current plethora of regulations imposed by different agencies.

One area to be examined is the restriction on domestic borrowing imposed on foreign-owned companies operating in Fiji. The current regulations prevent these companies from borrowing to finance medium to long-term investment projects.

Conclusion

The fundamental aim of all these policies is sustained growth in living standards. Population dynamics set some hard basic parameters for this aim. International experience shows us that the most effective way is to allow the private sector to grow in a competitive, market-oriented setting.

The government is confident that, with these policy commitments, it can create vigorous economic growth in Fiji—not only raising employment and real incomes, but also making proper provision of public services, including the education of our children.

Editor's note

The Minister's article was prepared in advance of the 1993 Budget: the following are important points emerging from the Budget and published to supplement comment in the opening review article of this issue.

The 1993 Budget, introduced shortly after the election of the Rabuka Government, reflects the policies of the previous interim government. Priority is given to issues favouring investment, particularly through the banking system. The Budget envisages expenditure of F$815.2 million and is expected to result in a deficit of F$55.9 million which will be covered by borrowings: the national debt rises to F$868 million, or 42 per cent of GDP.

Special provision is made to support the economic activities of indigenous Fijians as well as to promote their opportunities for higher education. The Poverty Alleviation Fund receives a further grant of F$7 million.