8

IDENTIFYING VULNERABILITIES AND BUILDING RESILIENCE IN THE ECONOMY OF FIJI

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Abstract. The growth record in the small Pacific island economies has been very poor and in some cases negative growth was recorded. Fiji, one of the leading economies in the region, is, like other small island states, faced with certain peculiarities and conditions that lead to economic vulnerability. This chapter identifies a number of inherent features of the Fiji economy in this regard, including a high degree of openness and high dependence on a narrow range of products. However, there are a number of factors that may have exacerbated economic vulnerability, including poor governance, lack of an appropriate macroeconomic policy framework and absence of well-defined property rights. This chapter proposes a number of policy measures aimed at enabling Fiji to better cope with its economic vulnerability and to render the economy more resilient.

1. Introduction

The Pacific islands countries (PICs) are in the midst of reforming their economies to foster growth in a globalising market. Over the last two decades, the growth and development scenario of these island economies has been disappointing by developing country standards. The economies have been characterised by low, and at times to negative GDP growth, low levels of investment, in particular private sector investment, low levels of savings, low foreign reserves, widening budget deficits and escalating public debt levels. The attempted reforms in growth strategy in most of these countries were devised in response to these problems. However, this still did not lead to a major growth surge in the island economies. While at the global level, the era of state dominance in the areas of employment, investment and provision of goods and services is gradually declining, in the PICs, the state continues to play a dominant role.

Fiji, one of the leading economies in the region, with a GDP per capita of about US$ 2,100 in 2001 (UNCTAD, 2003), is also faced with certain peculiarities and inherent conditions that lead to economic vulnerability. It is important that these conditions be identified and that an attempt be made to develop responses and policy prescriptions to ensure that the negative effects of economic vulnerability is minimised.

This chapter is organised as follows. The following section gives an overview of the Fiji economy, while section 3 describes the inherent features of the economy which lead to economic vulnerability. Section 4 argues that there are a number of policies that lead to self-inflicted vulnerability, mostly associated with governance and macroeconomic policy. Policy measures that could step up economic resilience in Fiji are dealt with in section 5. Section 6 concludes the study.

2. Overview of Fiji's Economy

Fiji consists of a multiracial society with indigenous Fijians and Indians consisting of approximately 48 percent and 42 percent of the population respectively. These two ethnic groups display marked differences in savings, investment and consumption behaviour.

Fiji's economy had a turbulent past in terms of growth over the last decade. The growth rate of GDP was negative in 1997 and 2000 (when the third military coup took place). However, the economy picked up quickly with a growth of over 4 percent in 2000 and 2001 (Table 1).

Fiji's export performance improved prior to 2000 but started to decline following the instability in that year. Given that Fiji's economic growth is relying more and more on its export sector, this trend in declining exports is a worrying signal. However, despite the political instability that Fiji has experienced, the country's foreign reserve position has been relatively sound, averaging at 5.2 months of import equivalent over the last decade (Table 1).

Fiji's economy is also dependent on a number of key industries, notably sugar, tourism and garments. The sugar industry is currently facing major problems. The leased land under which most of the crop is grown, is expiring and a large proportion of land is moving out of production because of a stalemate on reaching an agreement on the appropriate land-leasing legislation (see Lal et al., 2001). The tourism industry is highly sensitive to political instability. Visitor arrivals were affected during the periods when Fiji experienced political instability, thus affecting the volume of invisible receipts.

Table 1
Fiji Key Economic Indicators, 1992-02

Year	Real GDP Growth (%)	Inflation (%)	Foreign Reserves*	Investment % of GDP
1992	6.1	2.0	6.3	13.1
1993	2.6	3.0	4.3	16.8
1994	5.1	1.2	3.8	14.0
1995	2.5	2.2	4.8	14.6
1996	3.1	2.4	5.2	11.6
1997	-0.9	2.9	4.8	11.9
1998	1.5	8.1	6.4	14.3
1999	9.6	0.2	5.6	14.8
2000	-3.2	3.0	6.2	11.3
2001	4.3	2.3	5.6	–
2002	4.4	1.6	4.6	–

Source: Reserve Bank of Fiji, Quarterly Reports (1992-2003)
* measured in terms of months of import cover

Fiji's garment industry has played a major role in employment creation for the unskilled workers at the lower wage range. The industry was established on tax free zones after the political crisis in 1987 to create employment. The industry experienced a major problem in importing raw materials and exporting finished products as a result of trade bans imposed during the 2000 political crisis. This led to a major social crisis resulting from job losses. However, the industry is now back on track and is again playing a crucial role in employment creation.

The small economic size of Fiji renders this country unable to influence its own terms of trade. This condition is applicable in many developing states, but it is especially severe in the case of small states. Fiji is, as a result, a price taker in the export and import markets. Small size also limits the ability of Fijian industries to achieve scale economies. In addition, indivisibilities lead to high cost per unit, affecting efficiency and competitiveness (Scitovsky, 1960) and limiting scope economies (Streeten, 1996).

3. Inherent Conditions and Economic Vulnerability

Vulnerability of an economy indicates proneness to damage from external forces (Witter et al., 2002).

Fiji is faced with a number of conditions which renders its economy vulnerable to external shocks. These conditions, which were identified

by Briguglio (1995), are:
- High degree of openness;
- Dependence on a narrow range of exports;
- Dependence on imports of important inputs;
- Remoteness and peripherality;
- Susceptibility to natural disasters.

High Degree of Economic Openness

One of the limitations of an open economy is that its performance would be tied to a large extent to that of foreign economies with which the country trades directly or indirectly. The extent of this effect depends on the degree of openness of the domestic economy. As is the case of many other small island states, Fiji's economy is very open with average trade (as measured by the average of exports and imports) amounting to about 65 percent of GDP in recent years (UNCTAD, 2003). Fiji's major trading partners are Australia, New Zealand, US, UK and Japan. If these economies face a recession, or are subjected to internal or external shocks, the performance of the Fiji economy is invariably affected.

Dependence on a Narrow Range of Exports

Small island nations tend to depend on a narrow range of exports. Fiji is no exception in this regard. The country's foreign exchange inflows are highly dependent on exports of sugar, gold, garments, fish and lumber, which account for 68.5 percent of the total exports of merchandise (Table 2). In the case of services exports, Fiji is highly dependent on tourism. This high dependence on a narrow range of exports, coupled with a high degree of openness, renders the economy of Fiji very vulnerable to changes in external demand for these products.

Interestingly, while the theory of trade suggests that countries should specialise in goods and services in which they have a comparative advantage, in the case of small states such specialisation exacerbates their vulnerability to conditions outside their control.

Dependence on Crucial Inputs

Fiji imports almost all the crucial inputs required for industrial production, including industrial supplies, fuel and machinery. Reddy (1998) states that if efforts are not made to increase conservation and efficiency of energy use, or to move towards greater use of renewable energy sources, then increased demand for imported energy products

Table 2
Composition of Fiji's Exports, 1992-2002

Year	Sugar (%)	Gold (%)	Garments (%)	Fish (%)	Lumber (%)
1992	39.8	10.9	21.0	7.4	5.4
1993	38.8	11.2	21.7	8.1	6.1
1994	37.9	9.4	21.2	9.5	5.6
1995	35.8	7.6	24.0	9.1	6.8
1996	36.6	9.9	23.3	7.3	5.5
1997	28.2	9.7	32.1	6.6	4.4
1998	26.9	7.7	33.4	5.4	6.1
1999	27.8	8.1	33.9	6.1	3.7
2000	23.2	7.3	32.5	8.6	4.3
2001	22.1	8.4	31.1	9.7	4.0
2002	24.9	8.2	26.0	9.5	4.4

Source: Author's calculation from *Reserve Bank of Fiji Quarterly Report*, 1992-02.

will divert an increasing proportion of exports earnings towards meeting the import bill. Similar findings were also reported in a study by Reddy and Yanagida (1998). Again, this renders the country very vulnerable to conditions outside its shores.

Insularity and Remoteness

The cost of doing business is also affected by high transportation costs arising from the remoteness of Fiji. Fiji's producers also face lack of transportation facilities to export products from the country. These problems could remain for some time as the feature of remoteness is one which cannot be easily overcome.

Susceptibility to Natural Disasters

Fiji, like other Pacific island economies, has been subjected to a range of natural disasters on a periodic basis. Natural disasters affects the economy in two ways, firstly by destroying a significant proportion of the capital stock and secondly by directly destroying output (Reddy, 2000). Between 1961 and 1999, Fiji was subjected to 35 natural disasters (see Reddy, 2000, for a detailed description of these disasters).

The three major types of natural disasters are cyclones or hurricanes, flooding and droughts. The immediate cost of these natural disasters run into millions of dollars with the highest one in 1993 incurring a loss of F$154m, approximately 19 percent of the total government expenditure (Reddy, 2000). The narrow resource base coupled with a limited number of primary exports could be crippled by natural disasters and could thus potentially lead to a collapse of the economy.

4. Self-inflicted Vulnerabilities

Political Instability and Role of Armed Forces

Fiji has been experiencing political instability since 1987. One of the main causes of such instability could be the relatively large size of its armed force, which total about 5000. The military has mixed allegiance, to the chiefs[1] and to the Head of State.

In 1987, the military took over the government and abrogated the Constitution. This led to massive economic and social problems in the country. Economic growth was negative in the same year and remained low in the following years. The country witnessed massive financial and human capital loss during these years. In 2000, just when the economy rebounded with high growth rates, a unit within the forces took over the government again pushing the economy and the nation into another crisis.

Loss of Human Capital

Fiji has been losing a significant proportion of its human capital from the early days of independence. However, the number has increased since 1987 following the military coups. The two key human capital sectors i.e., education and health have both been greatly affected due to the continued loss of professionals. During 1987-1999, teachers were the single most dominant professional group that Fiji lost. Of the total professionals, teachers accounted for about 31 percent and architects, engineers and related technicians nearly 21 percent. An average of about 164 teachers left Fiji every year during that same period. In addition, there has been a loss on an average of nearly 70 medical, dental, veterinary and related workers annually. More than 500 professionals left Fiji annually during this time (see Table 3).

[1] In Fiji the traditional chief system persists. There is a great Council of Chiefs which was originally an advisory body but it has developed into a constitutional institution.

Table 3
Emigration of Professional and Technical Workers, 1987- 1999

Category	Total Loss 1987-99	% Loss	Annual Average 1987-99
Architects[a]	1,439	20.9	110.7
Accountants	1,065	15.5	81.9
Teachers	2,125	30.9	163.5
Medical Workers[b]	893	13.0	68.7
Others	1,347	19.6	103.6
Total	6,869	100.0	528.0

Source: Mohanty, M. (2002) based on Fiji Bureau of Statistics.

[a] Includes architects, engineers and related technicians.
[b] Includes medical, dental, veterinary and related workers.

Prior to the military coups in 1987, the major factor leading to the brain drain was the wage differential between Fiji and metropolitan countries. However, the military coups provided the push factors for the exodus of migrants from Fiji. The expiry of land leases resulting in the eviction of farmers has further added to this push factor.

Loss of human capital affects Fiji in a number of ways. One is that it leads to a shallowing of skills and expertise to carry out its projects. Secondly, the loss of human capital also entails loss of financial capital which is an important aspect of sustained growth for any country.

Land Tenure Issues

Another peculiar characteristic of Fiji is the land tenure system. Most of the land in Fiji is communally owned and is leased to tenants for agricultural or non-agricultural use. The land tenure system has become more complex since a large number of tenants are Indo-Fijians which are embroiled in a political dispute with the government. As the leases began to expire, the Fijian leaders were reluctant to renew the leases. Those that were willing to renew, wanted to do so under a new legislation which would further safeguard their interest and raise the returns on land. However, the Indo-Fijian leaders have rejected the new proposed legislation on the grounds that it does not protect the interest of the tenants adequately and may in fact exploit them. This dispute has led to a large proportion of land, which was leased to the Indo-Fijian farmers, reverting to the Native Land Trust Board (NLTB), the trustee of the landowners, thus moving it out of production. The fall in agricultural output, in particular sugar cane, has led to major social and economic problems in Fiji. Land will continue to play a central role in the growth and development of the country. Unless an appropriate legislation is adopted, with the consensus of the stakeholders, the land tenure system is likely to create problems for the economy.

Governance Issues

In Fiji, there have been a series of scams and corrupt practices by politicians and public servants, as has been highlighted annually in the report of the Auditor General. However, not much has been done to convict those implicated and to send signals to others who may be planning to engage in these kinds of activities in the future. Such behaviour not only leads to the loss of significant public sector resources, which could be utilised for growth-generating activities, but also weakens the country's ability to attract foreign direct investment and may foster a culture of dishonesty.

Another issue related to governance is public expenditure. In order to finance its expenditure, the government has continued to resort to borrowing, and this has led to a high debt to GDP ratio which has exceeded 40 percent in recent years. For this reason, the government needs rein in expenditure, and commit part of its revenue to bring down the debt to sustainable levels.

5. Policy Measures to Build Resilience

Given the inherent vulnerabilities of small states, it is imperative that such states enhance their economic resilience. As explained above, Fiji may, in some cases, be doing the opposite.

Measures that could strengthen the ability of small island states to withstand shocks and thus enhance their resilience have been identified by Briguglio et al. (2004). These measures include:

- Improving resource allocation and competitiveness;
- Building a sound macroeconomic environment;
- Strengthening the transport and communications infrastructure;
- Reducing excessive dependence on strategic imports;
- Diversification of the economy;
- Strengthening the negotiation capacity of SIDS;
- Improving the capacity of SIDS to manage their ocean resources;
- Improving governance.

We shall examine the extent to which Fiji is taking steps to meet these challenges.

Improving Resource Allocation and Competitiveness

Fiji has begun the reform process to make its market competitive, but much remains to be done. The labour market is heavily protected, most of the land is communally owned with property rights governing its use being under dispute. In addition, the financial market is very small and behaves oligopolistically in terms of interest rates and lending. Unless these anomalies are corrected, Fiji will have difficulty in fostering a competitive environment to promote stable growth.

The government of Fiji established the Fiji National Training Council (FNTC) in 1973 after a World Bank economic survey team had pointed out the existence of shortages of skilled and semi-skilled labour and called for an urgent measures to address the situation. Over the years, the need for training to boost productivity arose, which led to the renaming of FNTC to Training and Productivity Authority of Fiji (TPAF) in 2003. The renaming of FTNC coincided with the inauguration of the National Productivity Awareness Campaign for the year 2003.

Building a Sound Macroeconomic Environment

A sound macroeconomic environment should deliver low inflation rates, low budget deficit, low ratios of debt, improvements in trade and current account balances and a stable exchange rate regime. If Fiji can achieve and maintain this, then it will be in a strong position to recover from any shock. While this objective is on the government's agenda, progress in this regard has been severely hampered by the instability resulting from the political coups. This has adversely affected continuity of reforms and led to falling investor confidence.

A related issue is the minimising of risk of a financial sector crisis. Financial crises cannot be totally blocked due to the openness of the economy and the inherent conditions of the financial markets. However, the frequency and magnitude of the crisis can be minimised. Kaji (2001) describes measures designed to minimise information asymmetry and moral hazard. Exposure of domestic firms to foreign competition will force them to become more efficient and risk-conscious. The interaction will also require transparency and disclosure. This process of competition will also lead to a convergence towards a global system of financial intermediation.

Strengthening the Transport and Communications Infrastructure

Transport and communications infrastructures are very important for Fiji due to the fact that the country is remotely located. Transport infrastructure development in Fiji is lagging behind and constitutes a major impediment for business development. One reason for this is that its operating expenditure is very high.

Economic growth in Fiji has been very low over the last two decades and thus the government has had to resort to borrowing to finance its budget. As a result debt servicing is competing with other important expenditures such as infrastructural development. The long-term strategy of the Fijian Government should be to promote economic growth, cut the operating budget, and raise the capital component of the infrastructure budget. This strategy would deliver increased revenues to government coffers and thus reduce the debt burden over the longer-run period, releasing funds for the much needed transport and communications infrastructural development.

Diversification Possibilities

As already explained, Fiji has relied to a large extent on a narrow range of products for its exports, which renders it quite vulnerable to shocks to these industries. Furthermore, under the current growth strategy, there is excessive reliance on tourism earnings, which are highly volatile. On the other hand, the agriculture sector has not received as much attention. In Fiji, this sector plays a very crucial role in the distribution of income to the rural dwellers and has a very strong multiplier effect.

Given the narrow resource base and small size, Fiji tends to import most of its industrial supplies. While the theory of comparative advantage suggests that a country should produce only that commodity in which it has a comparative advantage, there are other products that could be developed with equal efficiency to hedge against potential shocks that are specific to products or product types.

Fiji has the potential to cash in on crop agriculture, which enjoys markets both locally and externally (particularly New Zealand, Australia and Hawaii). There is also a lot of potential for the export of marine resources from Fiji to Australia, New Zealand, Japan and USA. More work needs to be done to exploit the timber industry for export purposes. If Fiji strengthens these areas, then it could be better placed to withstand shocks in any particular industry.

Strengthening the Negotiation Capacity of SIDS

Fiji along with other Pacific Island countries is part of the Pacific Forum Secretariat, which acts as the think-tank for these countries.

The Forum should be strengthened in terms of staffing to enhance its negotiation capability, particularly on WTO matters. Closer collaboration with other negotiation arrangements in the Caribbean and Indian Ocean regions should be forged. In addition, the University of the South Pacific should attempt to offer courses to develop negotiation skills in this regard.

Improving the Capacity of SIDS to manage their Ocean Resources

Like many other Pacific Island Countries, Fiji enjoys jurisdiction over a 200-mile exclusive economic zone (EEZ). Ocean resources are therefore a major potential source of wealth for the country. Unfortunately, ocean resource management is a serious problem in Fiji and in the other Pacific Islands. This problem is found at both commercial and subsistence levels of activity.

At the commercial level, there are concerns based on the fact that licenses given to fishing vessels have exceeded the maximum number allowable, thus raising issues of unsustainability. At the commercial level, the maximum number of vessels with permit should be strictly adhered to. At the semi-subsistence levels, there are concerns that the open access system of property rights can lead to the depletion of fish stocks. Under this system, fishermen pay a fixed fee to harvest an unlimited quantities of stock. There has to be some system of levying fees to discourage fishing beyond a certain amount. The number of licenses should also be limited.

The University of the South Pacific's Marine Studies Programme should re-examine its courses, and should offer more training in technologies that would lead to the sustainable use of the ocean resources. Marine resources should be further explored for potential energy sources.

Improving Governance

Good governance should lead to productive use of public sector and the country's resources. Cases of bad governance in Fiji are more evident during periods of political instability and lawlessness. Fiji has witnessed massive losses of state resources since the coups of 1987.

Two famous scams since that period are the National Bank of Fiji scam, which led to the collapse of the bank, and the Agriculture scam. Both these scams involved large losses of state money. In order to curb such occurrences, the Auditor General's report must be taken seriously and those implicated must be charged and punished according to law. This would send positive signals to others as well. Furthermore, proper accounting procedures must be put in place and strictly adhered to at all times.

The question of governance is a complex one and involves various factors other than public administration. In the case of Fiji the issue is complicated by three major issues, namely race relations, the land tenure system and the armed forces.

Improving race relations and social cohesion. The leaders and government of Fiji need to take a multi-pronged approach to improve race relations. Three coups along ethnic lines have damaged the social fabric of the society to a great extent and unless this is improved, long-term stability in the country will not be achieved. The country will remain vulnerable to elements of society hungry for power using racial issues to achieve their aims.

Following the political crisis in May 2000, a degree of stability has returned to Fiji. However, governance of the country is still quite shaky with continuous tension between the military forces and the government. This continues to instil uncertainty among the general public. Given Fiji's track record of military coups, a participatory approach involving stakeholders needs to be adopted, with the aim of fostering long-term political stability.

Land tenure system. Another governance issue relates to land tenure. As already explained, the agricultural sector in Fiji has played an important role in the country's growth and development. However, this contribution is gradually declining not because of the increasing role of the non-agricultural sector, but because approximately 90 percent of the land is communally owned.

While land may continue to be under communal ownership, an appropriate legislation which provides long-term, secure leases to the tenant community should be put in place. This system should allow for a market-based rent to the land owners and at the same time provide the required incentive for competitive growth.

Downsizing or disbanding the armed forces. Good governance should deliver political stability. In the case of Fiji, steps must be taken to avoid the armed forces from becoming a source of instability for the country. The size of the force should be gradually reduced and eventually disbanded. The members of the armed forces could be absorbed in the public and private sectors to avoid any social problems of unemployment and poverty. With the downsizing or disbanding of the armed forces, Government will also save a significant amount of funds, which could be channelled towards more productive investment.

6. Summary and Conclusion

Contemporary Fiji is at the cross-roads, struggling to achieve rapid growth amid challenges from both the domestic and the external fronts. The challenges need to be transformed into opportunities and to do so, major reforms need to be implemented. For these reforms to deliver the ultimate objective, certain fundamental prerequisites need to be in place.

These fundamentals include well-defined property rights, political stability, good governance, macroeconomic stability and confidence in the country. At the moment, all these requirements are lacking. The government has launched reforms to change the economy into a more market-oriented one. Unless the country is adequately prepared to meet the challenges of a free market, growth will not be promoted, and unemployment and poverty could increase. In addition, the economy will become more vulnerable to external shocks.

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