# FIJI

## Opportunity from Adversity?

Wolfgang Kasper
Jeff Bennett
Richard Blandy

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# Fiji

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# Contents

# Foreword

## Colin Simkin

Many in Australia will share the concern of the authors of this monograph over the current difficulties and prospects of our Pacific neighbour, Fiji. We have long had associations with it through trade, aid, education and tourism, and have also valued a connection through common membership of Pacific forums. This book offers an informative and perceptive analysis of the country's serious economic problems together with bold proposals for radical changes which, its authors confidently expect, would do much to improve both economic growth and racial harmony.

For their analysis of current conditions they have made use of official statistics but, because these are incomplete and lagging, have relied more upon many interviews with Fijian residents who are knowledgeable about various aspects of their own economy. The survey is a wide one, covering external trade, tourism, major industries, land and sea resources, labour, prices and wages, capital and foreign aid, public finance, public enterprises and state control, markets and entrepreneurship. It is enlivened by interesting quotations from some of the people who were interviewed, and given helpful perspective by comparisons with similar countries, notably Malaysia and Taiwan. The monograph also brings out well the dualism of an economy in which Indians greatly dominate the modern part, and Fijians monopolise the traditional part through long-standing rights to land, forests and fisheries.

Few, I think, will question the monograph's perceptive analysis of the current situation, nor its exposure of a recent economic decline that has been much aggravated by the forcible seizure of political power to the detriment of the Indian half of Fiji's population, many of whom have been moving themselves or their capital out of the country. Some who read the monograph may nevertheless have reservations about its proposals for reforms. These amount to wholesale and quick deregulation of all parts of the economy, including the markets for labour and land, and privatisation of public assets, including even the University of the South Pacific, in the hope of creating a completely market economy in which both races will have equal opportunities of access to jobs and resources.

The authors show, however, that adherence to five-year planning and widespread controls over markets and wages have retarded growth, that state enterprises have not performed well, and that reservation of natural resources to Fijians has prevented Fijians from participating in business enterprise as well as hindered the efficient use of the resources. There is, too, strong criticism of Australian and other foreign aid for fostering such rigidities instead of helping Fijians to participate in and develop the modern sector of the economy. Critiques of this kind, spread over a number of chapters, are well done but are not perhaps helped by a contrast in Part II of 25-year scenarios, one for an unreformed, and the other for a reformed, economy. For both scenarios depend upon a type of aggregate production function (and distribution theory) which, although long accepted, has now been shown to be badly flawed. Yet this does not detract from the monograph's sound emphasis on Smithian self-interest and Hayekian promotion of knowledge through markets as mainsprings of economic progress.

Even if (as I do) one agrees that a market economy offers the best prospect for long-term economic growth, there may still be doubts about the timing and sequence of the proposed reforms. The authors' perception of the urgency of the need for reform, in view of the consequences of recent political changes in Fiji, and their scepticism about piecemeal deregulation of complex controls, makes them advocate very rapid and comprehensive implementation. That surely would have the effect, for a considerable period, of favouring the Indians, who are much more familiar with markets and business enterprise and would be given much better access to natural resources. A widening of economic disparity between them and the Fijians, over any considerable time span, would hardly promote racial harmony.

The monograph addresses this problem on a number of points. It sees prospects of Fijians moving from their traditional occupations, and argues that much should be done to help that transfer. Traditional land owners could form small 'village companies' to make commercial use of their resources, or to participate in other ventures. Village women might also set up enterprises because here, as elsewhere in the Pacific, they are often more commercially minded than men. There is, too, a potential supply of entrepreneurs from the Fijian graduates who are now mostly in the public service, once this has been severely contracted, and from young army officers or soldiers. Indeed, the army might well help others to break free from traditional ways of life by organising training or something like a 'youth corps' in mechanical, clerical or managerial skills, utilising more imaginative foreign aid for such purposes. These are useful suggestions, but it must be left to Fijians to decide how acceptable or effective they can be.

Australians can more properly address themselves to the recommendations in the excellent final chapter on our foreign aid to Fiji — and to other developing countries. The monograph trenchantly points to deficiencies in official aid, especially budget as distinct from project aid, and makes a strong case for aid being conditional on economic performance, and for more of it to be dispensed through private agencies. Our record of assistance to Pacific Island countries is poor. Everyone who is concerned with their welfare should read and ponder what this chapter has to say.

But no aid can be really effective unless its recipients have the ability and will to use it properly. The monograph shows that Fiji has much to do in this respect, and in a spirit of sincere goodwill offers helpful suggestions that deserve serious consideration. I commend it as a valuable contribution to knowledge about a neighbour's difficulties, and as a promising agenda for their resolution.

# Authors' Preface

Politics has created severe economic costs for the people of Fiji. Real per-capita income is estimated to have dropped by 13 per cent in 1987, and we forecast a substantial further decline in the course of 1988. To date, macroeconomic policy has valiantly tried to keep the balance, including measures such as salary cuts to civil servants and soldiers. But the balance is now precarious.

The painful economic problems of Fiji are durable and long term in nature. The new Republic of Fiji will need a long-term economic strategy to complement whatever political order is developed. We hope that this will be the restoration of democracy. Fiji is at the difficult point of transition from the post-colonial to a new era. Before long a new generation of leaders will have to take over and chart a new course. Without a sustainable economic strategy based on a cohesive vision of society, there is a real danger that living standards will continue to stagnate or decline.

The problems of Fiji pose a great intellectual and moral challenge to responsible policy-makers in Fiji, as well as to observers, including professional economists and neighbouring nations. Fiji is strategically located in the mid-South Pacific between the stirring Melanesian and Polynesian spheres and in a region, where democracy has grown, although often tenuously, and economies have developed, although not as conspicuously as further west in the Pacific basin. Fiji, as the most affluent and (apart from PNG) most populous of the independent Pacific island nations, has considerable regional importance. Whether Fiji manages to maintain stability and whether it remains among the pro-Western nations, is of lasting strategic interest to the big countries on the fringe of the Pacific basin, such as Australia, the USA, Japan, the USSR and China. In the next 20 to 30 years this interest is likely to grow stronger.

The recent contraction of the Fiji economy is of wider interest to the international observer of political and economic affairs because such extreme, pathological cases tend to reveal more than cases where variations are small and within the normal range. Fiji is experiencing a severe decline in living standards in the 1980s, and so far it is the only country in the region to have done so. Although the long-term fall-out is far from clear as yet, an analysis of the economic decline seems relevant.

We had the long-term economic and social stability and prosperity of Fiji in mind when we set out to examine the options open to the new

Republic. The time horizon we chose for our deliberations was one generation ahead, to the year 2010. This study is not primarily concerned with economic tactics for the next six months or two years, but with viable strategies for the next generation.

We are independent outsiders with varying prior knowledge of Fijian affairs, but we share a wide range of experiences in economics and development. Our position is that of fair-minded friends of Fiji, who respect the independence and sovereign decisions of the people of Fiji. But we also believe that independent nations must bear ultimate responsibility for the consequences of their actions.

A guarantee of civil rights to all citizens is central in our findings. This is essential to make a deregulated market economy work and to re-establish confidence by individuals to invest and make an economic future in Fiji. While these essential rights have been ensured in some outward-looking, enlightened autocracies (like Hong Kong), electoral democracy and a free press are still the best, time-tested guarantors of these rights — rights that protect citizens from interference by others and the State. We hope that implementation of the strategies presented here will make it possible to restore electoral democracy.

In our findings, we are critical of the post-colonial romanticism in aid policy (adopted by donors and recipients alike) that casts aid donors in the role of rich, indulgent uncles, who sympathetically fund, without too many conditions, the experiments of young nations in return for friendship and, perhaps, even a little adulation. This approach to development aid has frequently supported non-sustainable and wasteful policies; it has, in our view, been in the long-term interest neither of recipient nations nor of donors. With regard to Australian-Fiji relations, the 1987 break in aid seems to offer a good opportunity to re-evaluate the entire aid strategy and place the future bilateral relationship on a more mature footing.

A thorough reappraisal of Australian aid vis-à-vis Fiji also seems timely in view of changes in general thinking and perceptions of economic and development policy around the world. In the 1960s, after many new countries had become independent, much aid policy was inspired by guilt and the generosity borne of the long post-war upswing in the world economy. Policies and attitudes in newly independent countries were supported by official aid, frequently without conditions or critical re-evaluation, even though such policies would have led to public outcry had they been implemented in donor countries. Observers from the rich democratic countries were often shy to criticise lest they be accused of neo-colonialism, although they knew — based on their longer experience with nationhood and national folly — that the results of decisions by the governments of developing countries would lead to economic disasters.

Since then, however, taxpayers and credit institutions in donor countries have begun to distinguish more critically between policies promising success and failure in development. A more hard-nosed philosophy is spreading. In part, this is a reflection of a new, generally more sober and result-oriented public attitude in most Western countries. This shift in public perceptions is beginning to affect aid policies around the world. In order to retain the support of the public and the parliament the Australian government cannot afford to ignore these shifts.

A more result-oriented approach to development aid, and a mature relationship between Australia and Fiji, also implies that — between friends — one warns the other honestly if things threaten to go badly wrong. We were encouraged to do so when we visited Fiji and met many prominent citizens. One cabinet minister said to us: 'Real friends will tell you the truth, even if it is unpleasant'. We trust that the leaders of Fiji and other readers of this study will respond constructively to it. They will make up their own minds about what should be done. We have not sought to be pleasing or even politically tactful, but to spell out the conclusions of our research and deliberations, even if we suspect that these conclusions may not be immediately welcome.

This study was initiated by the National Centre for Development Studies (NCDS) at the Australian National University, which had the financial support of the Australian International Development Assistance Bureau. The NCDS invited a small team of independent academics to investigate the economic developments in Fiji and to suggest solutions that promote stability and growth. The team was led by Professor Wolfgang Kasper of the University of New South Wales, who wrote the bulk of the first chapter drafts.

We owe a great deal of gratitude to numerous persons and institutions in Fiji and Australia for generously sharing their time and resources, for intellectual stimulus, the provision of data and other support. While in Fiji, the members of the team were privileged to be received by the President of the Republic of Fiji, Ratu Sir Penaia Ganilau, and had extensive discussions with a number of cabinet ministers and the Governor of the Reserve Bank of Fiji. Leading officials in the key economic departments gave us extensive information and support. And we benefited greatly from discussions with businessmen, bankers, employers, workers and country people around Viti Levu. We were invariably impressed by the soberness and disarming honesty with which all the people we met were trying to come to grips with their present economic predicament. We owe many of our conclusions and insights to a mosaic of the personal perceptions of those we met, which we pieced together and cross-checked. At a time when the statistical picture is contradictory, scrappy and out-of-date, and when past statistically documented trends cannot be extrapolated anyway, one can only form an evaluative picture from such an amalgam of microeconomic details and personal views. To reflect this important source of information, we have taken the liberty of quoting observations that we recorded, without attributing them to individuals by name. The reason for this is that our interviews were conducted in confidence. The citations we have interspersed in the text reflect, in our view, current thinking about key economic issues in Fiji.

On the following page, we list the many people to whom we are indebted. We particularly thank the Director of the National Centre for Development Studies, Professor Helen Hughes, and Professor Colin Simkin for his perceptive comments on an earlier draft. Mr Rodney Cole, the Assistant Executive Director of the National Centre for Development Studies, has been most supportive from the inception of the project. He made invaluable contributions, giving freely of his great knowledge of Fijian affairs and inspiring us with his great affection for the people of Fiji.

We are also indebted to Mr Gyan Singh for help in organising matters in Suva, to Mr Stephen Howes for capable research assistance in Canberra, and to Mrs Chris Pond for her fast, competent and patient labours on the word processor in and out of normal hours. Finally, we have to thank our families who let us go off on this task at short notice and suffered us being distracted by our thoughts about the problems of Fiji.

The sole responsibility for the contents rests with the authors. Our responsibility is collective, because we share the views expressed.

We do not expect readers to share our every conclusion, but hope that we will — gradually at least — convince them that only a long-term vision centered on economic and individual achievement (and de-emphasising political passions and government intervention) can lead Fiji to a prosperous and stable future that offers freedom and opportunity to all its citizens.

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... and the smiling man, fishing behind the reef, who told us so much about the real problems of living in Fiji.

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# Part I

# Economic and Social Context

# Chapter 1

# Fiji at a Critical Crossroads

The Fiji economy grew at a reasonably healthy pace in 1986 and into early 1987, after a decade of less-than-inspiring performance (see Chapter 2). Then, a series of unsettling political events abruptly led to the most dramatic economic contraction in Fiji's history. First, a socialist government with plans for nationalisation and income redistribution was elected in April 1987. Later that year, two military coups terminated Fiji's electoral democracy and created confusion about the political, social and economic future. As a result, real per-capita incomes dropped dramatically. By the end of 1988, they can be expected to be as much as 25 to 30 per cent below the level of the last 'normal' year, 1986. This corresponds roughly to the drop in household living standards that the population of Western Europe experienced between 1938 and 1946. Although the citizens of Fiji have often experienced considerable short-term, cyclical fluctuations, the near-collapse of 1987-88 is an extraordinary, cataclysmic event which has shaken confidence in the most fundamental of values and expectations. It confronts the leaders of the new Republic of Fiji — as well as its friends and neighbours — with extraordinary intellectual and moral challenges and dilemmas.

If the challenge is not taken up and fundamental reforms in the underlying economic and social order implemented quickly, the shocks of 1987 and the crisis of 1988 will undermine Fiji's economic well-being irreparably for the next generation. If, on the other hand, intelligent, far-sighted reforms were to place this small island economy on a new footing soon, the damage could be overcome in two or three years, and the economy could be put on a path of sustained growth and stability. However, the window of opportunity to revive the Fiji economy will not remain open for long. Crucial preconditions for long-term growth — the capital stock, the basis of skills and entrepreneurship, stability of the price level, and the balance of payments — are wasting away irretrievably because of prevailing insecurity and low demand.

The exodus of skilled people has already had one consequence for economic analysts, including the team that prepared this study: updates of many statistical series appear to be of dubious quality. Revisions and inconsistencies make it difficult to construct a reliable statistical picture of what has been happening in 1987 and 1988. This is one of the reasons why this chapter relies heavily on qualitative evidence and a cross-checking of microeconomic observations. The easier, standard way of analysing a national economy with the help of an array of statistical tables was not possible, and an effort was needed to derive information from a more disaggregated level. Moreover, since Fiji has experienced trend breaks in 1987, past trends cannot be assumed to continue, and statistical data series would be misleading for the purpose of judging the present or projecting the future.

## Anatomy of the Crisis of 1987

In 1986, domestic production grew by about 6.5 per cent over the depressed level of 1985, and the economy returned to a normal level of activity. Inflation ran at about 2 to 3 per cent overall and was easing. Some private investors were holding back in anticipation of the elections that were expected for 1987, but on the whole the economy was moving along well. This picture was overturned abruptly by the political events of 1987 (see *Chronology of Events*, p. 19).

In April, the Indian-dominated Labour/National Federation coalition under former public service union leader, Dr. Timoci Bavadra, was elected to office, ending a virtually uninterrupted tenure of the conservative and Fijian-dominated Alliance government. The incoming socialist government planned a nationalisation and redistribution with an impatience reminiscent of the Whitlam administration in Australia. The program of salary increases for public employees and the provision of 'free' (i.e. tax- or debt-financed) public services would undoubtedly have destroyed macroeconomic balance and triggered capital flight or currency depreciation.

In May, the first coup by the Fijian-led military created new and different uncertainties in the eyes of the population and of economic decision-makers. Latent tensions between the two large racial groups, tensions within the Fijian community, and fears about the future began to dominate events. The national economy began a dramatic contraction in a crisis of liquidity and capital flight. Virtually all new job- and wealth-creating ventures were postponed.

In October, after the return to a civilian administration, there was a second military coup that removed all doubts about political equality between the large Indian community and the indigenous Fijians. In this respect, the second coup created certainty in one important area, namely that political control by the Fijians was non-negotiable. But it also introduced new doubts and uncertainties about the direction, style and capability of whatever economic leadership might eventually emerge.

These uncertainties compounded the consequences of a severe drought that had weakened sugar and other primary production and that, in itself, would have made 1987 a difficult year. By the first half of 1988, little new initiative or new direction had become visible. The economy now seems adrift, awaiting some galvanising event to stir new initiatives.

The people's response to this situation in 1988 can best be described as a mixture of sadness and lack of confidence. Decision-makers in business and government, as well as ordinary citizens, are biding their time. Many have begun to realise the magnitude of their economic losses, but most have not as yet committed themselves to a strategy that will determine their personal future. Before we went to Fiji, we had expected that the events of 1987 including the collapse of real per-capita incomes by 13 per cent in that year would have created an atmosphere of desperation and a state of alert. Instead we found — with notable exceptions — an attitude of stunned helplessness, vague hope and even complacency. After no less than six different governments in 1987, decision-makers were understandably exhausted. People are awaiting clear and firm signals before acting.

Meanwhile, inaction and further economic contraction are eroding Fiji's long-term capability for recovery. Fiji's human and physical assets are running down at a speed that will severely impair the long-term growth potential of the economy within a year or two. The most crucial asset that is wasting away is not physical capital, which is visibly decaying, but human capital. The educated and skilled are leaving. Many people are cutting their losses and committing themselves to a new and difficult start elsewhere. This haemorrhage of talent is mainly of motivated, educated, professionally-skilled Indians, but also of some Fijians and expatriates.

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'Expat. leaving. Oriental furniture. Refrigerator. Hyundai Excel 1.5GL. Phone ...'

Advertisement in *The Fiji Times*

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Some of the key features of the 13 per cent decline in per-capita incomes during 1987 are worth recording.

The key sugar industry contracted considerably. The value of sugar production fell by 26 per cent. But sugar exports were supplemented from considerable stocks, so that exports could be pushed up by 40 per cent in nominal terms. This helped for the interim to shore up the external balance and external reserves.

The other key industry of Fiji, tourism, suffered great damage from the political turmoil. Tourism earnings fell to about 30 per cent below those of 1986. In the period October to December 1987, when matters were returning a little more to normal, international visitor arrivals were 55 per cent below their level in the same period in 1986, despite emergency action by the tourist industry to limit the damage. The tourist industry cut prices, but in many instances below levels that maintain profitability. Several airlines dropped Fiji permanently from their networks, so that the tourist flow became thinner. (Other exports also suffered from the reduction in transport capacity.) In the first half of 1988, there has been no revival of tourism.

Manufacturing and commerce came as close to a standstill as is possible without an all-out liquidation of long-term commitments. For most of 1987, many firms were still fulfilling outstanding orders, including for export, but the situation for the immediate future is much less clear. Stocks have been liquidated wherever possible, and current expenses have been cut to a minimum. This is feasible for a period, but not much more than a year. Although the overwhelming pattern has been one of contraction, there have been some notable exceptions, for example, the expansion of export-oriented garment manufacture (Chapter 6). SPARTECA — an agreement offering considerable regional trade preferences into the Australian market — has helped significantly to contain the decline in manufacturing and to maintain employment.

Construction has come to a virtual standstill once ongoing projects were completed. Gross fixed investment for 1987 was 33 per cent below the 1986 level.

The non-tourist services sector has contracted by between 5 and 10 per cent.

Strong positive growth occurred in gold mining thanks to high gold prices and innovative new management (Chapter 7). The small mining sector grew by 12 to 14 per cent.

Exports of goods and services (in real terms) fell by 8 to 9 per cent. Australian and New Zealand union bans on trade with Fiji played some role. Fiji is now trying to diversify its sources of imports, and its export destinations to places such as Singapore, so that the drop in trade with Australia and New Zealand may well in part be permanent. Because of domestic recession in Fiji and currency devaluations, imports fell by 10 to 11 per cent. The trade deficit declined in consequence.

Aggregate hours of employment, together with wage and salary incomes, have plummeted. In the formal, modern sector, over 30 per cent of employees have been put on short hours. In many cases, employees who worked 42 hours per week in 1986 have gradually been reduced to 30 or even 16 hours. Firms have, on the whole, preferred this strategy to firing staff. Workers have accepted such cuts in hours and wages in preference to the alternative of losing their jobs. A high degree of downward wage flexibility (and consequently great resilience in the number of jobs) has been evident. Unions and wage regulation have lost influence in private industry and trade (Chapter 6). The fall in labour demand has also been accommodated by the flight of skilled and professional staff to other countries. Employers are now beginning to encounter skill bottlenecks, even in the face of severely reduced activity. Skill shortages could pose a major problem in the event of economic recovery.

**The Art of Disengaging**

We sit and talk in a Suva living room. The highly-placed official says: 'My life's aspiration has been to build a family home so that I can take in my parents, who were small-holders and financed the sons through college. A family home also looked like the best way to pass on some wealth to the kids. On a large plot, I managed to build a large house which was worth $240,000 before the coup. With hard work and saving, my life's aspiration had come true. But today, I celebrate that I got $140,000 for the entire property. Now my children have to study and stay overseas, and the college fees in the United States are high. I have a good, secure job for now. But eventually, we will find a solution for our family, maybe in the US, maybe in Australia. I am looking into it.'

The public sector implemented budget cuts in September 1987, when revenues had deteriorated so much as to make the pre-election budget untenable. In early May, the elected Labour Government increased public service salaries by 5.5 per cent. By September, the administration had implemented a 15 per cent salary cut for public servants and the military. In some areas of the public sector, this wage cut was mitigated by adjustments in housing loans and other peripherals so that public sector take-home pay was sometimes less affected. Government operating expenditures were cut back. But these savings were largely offset by greater claims from the military. Nevertheless, if adjusted for inflation, there was a major reduction in the size of government, with public consumption contracting by about 25 per cent.

Public capital expenditure was cut back substantially in 1987, partly in response to cuts in foreign aid. Government and public enterprise investment in real terms was about one-third below 1986 levels. Real consumption per capita is 5 to 6 per cent lower than in 1986.

Despite these spending cuts, the public sector, under the confusing circumstance of changing governments, could not match the agility of the private sector in coming to grips with the collapse of economic activity. Non-tax receipts were also affected by the general economic decline. In the first half of 1988, for example, more and more tenants of public housing were in arrears. Because revenues fell, the government's deficit rose to about F$111 million, or 32 per cent of budget revenues. This increase virtually doubled the net financing requirement compared with the average of the preceding three years. Since economic activity had been normal in the first four months of 1987, and since government revenue inflow lags behind real economic activity, the deterioration in the deficit picture during the second half of 1987 and the first half of 1988 is more dramatic than the usual year-over-year comparison indicates.

The credit system came under severe strain after May 1987. Numerous small businesses have been and are being liquidated, leaving their remaining fixed assets to the banks. Major businesses have encountered serious problems. The Fiji Development Bank severely restricted lending from August 1987, stopping loans for acquisitions of agricultural land, refinancing, and provision of working capital for manufacturers. It is hard to judge how long the present holding operation in the business community can be sustained without a cumulative collapse.

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**Twelve Shops Closed Since June Last Year**

'At least twelve Suva shops have closed since last June, and more are likely to close this year ... According to the presidents of Suva's three business organisations, there may be more closures by the end of the year ... '

*The Fiji Times*, 21 January 1988

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Inflation accelerated from a low rate of about 2 per cent p.a. at the beginning of 1987 to an annual rate of about 10-12 per cent. The take-off of inflation was led by a rise in prices of imported goods after the 33 per cent depreciation of the Fiji dollar. The acceleration was triggered by depreciation and political events, but the way had been prepared and facilitated by monetary expansion in the six months prior to the election when the rise in demand deposits (which reflected political apprehensions) was not 'sterilised'. Since then, money supply (M1) has contracted dramatically.

The balance of payments swung from surplus in 1986 to deficit in 1987. Despite reasonable foreign exchange reserves and reasonably good sugar exports, the currency had to be devalued. If this cycle is unchecked, events could put the country near the brink of a depreciation-inflation-depreciation spiral. The impression of a reasonably strong foreign exchange position in early 1988 owes partly to the optical illusion created by the devaluation (fewer US$ are now converted into more F$) and partly to official loans.

**Flexibility and Resilience**

On the whole, the economy and the social fabric of Fiji have shown a remarkable resilience in the face of such great adversity. There have been no economic riots or demonstrations as was the popular response to (much smaller) politically-triggered cuts in real living standards in countries like Poland, Brazil and Egypt. The people of Fiji have, on the whole, endured wage cuts and shorter hours with resignation and stoicism. The churches have exerted a moderating influence. They seem to have accepted the fact that they are becoming rapidly poorer and have concentrated on making ends meet. The economy has shown a high degree of downward earnings flexibility. Both in the activities where wage fixing and minimum wages apply and in the unregulated industries, the wage rates that are actually being paid have dropped, sometimes substantially. This has spread the inevitable suffering, but it has saved jobs, at least on a part-time basis, and has allowed many businesses to weather the contraction without going bankrupt. Most Fijians can still fall back on their native villages and compensate themselves for the reduction of cash flow by recourse to informal agriculture. Indians have relied on their family networks and savings and have displayed great resourcefulness in making ends meet. Society as a whole has been able to draw on reserves, but it is unclear how much longer this will be possible.

The flexibility of economic behaviour and the people's resourcefulness in adversity have been supplemented by a degree of political and social calm that surprised us. The emerging political arrangements do not seem to have excited overt political passions. It is worth recording that none of the political events have led to bloodshed. The people we met, despite their unease about what has been happening, seem to want a durable solution and a stable framework, within which they can work and save again. There are no more soldiers overtly on the streets and it is safe to travel everywhere. People of all races spoke out freely, openly and without apparent fear. Indeed, people of all races were disarmingly open and honest. We were told that, initially, after the first military coup, there were feelings of vindictiveness and that many people welcomed bad economic news with a certain masochistic glee. But as soon as the full impact of the events on their own family's fortunes became felt, a more sober, realistic attitude took over. We could not help but be impressed time and again by the calm, maturity and good will of the people of all races whom we met.

It seems to us that the economy's flexibility, the proven resourcefulness of the people in adversity, the maturity and cohesion of the people in their misfortune and the lack of agitation are considerable assets for economic recovery and lasting growth in Fiji. Indeed, the collapse of 1987 and the experiences of 1988 may well mobilise a new resolve to cooperate and to start from a clean slate. People seem chastised and ready to make the sacrifices that will be needed to lay the ground for a better future. We left Fiji with the overwhelming impression that bold and stable leadership would draw forth the needed degree of cooperation and support in launching major reforms of the social and economic order.

## The Risks of 1988 and Beyond

The interim government's budget strategy for 1988 is based on the official forecast of a real GDP contraction of 6.5 per cent (year-over-year), further declines in consumption and investment, a fairly resilient export sector and steady agricultural prospects, as well as some acceleration of inflation. The budget for 1988 (announced on 17 December 1987) envisages further cuts in public expenditure and a rise in the budget deficit to $119 million (Table 1.1). The 1988 budget also anticipates a steep and exceptional rise in debt service requirements, which will make it hard to cut operating expenditures further.

**Table 1.1**
**THE FIJI BUDGET**
(Millions of current-price $F)

| | 1986 (budget) | 1987 (budget) | 1987 (revised) | 1988 (budget) | % change (87-88) |
|---|---|---|---|---|---|
| Budget Expenditure | 444.6 | 477.6 | 444.2 | 420.2 | –5.3 |
| Operating | 371.4 | 384.8 | 381.3 | 364.5 | –4.4 |
| Capital & Capt Loans | 73.3 | 92.9 | 62.9 | 53.8 | –9.4 |
| Budget Revenue | 360.8 | 399.8 | 342.9 | 301.8 | –12.1 |
| Budget Deficit | –83.8 | –77.8 | –101.3 | –119.1 | — |
| Gross Financing Requirement | 94.7 | 85.8 | 110.9 | 119.1 | — |
| Net Financing Requirement [=IMF Deficit] | 69.1 | 49.2 | 80.7 | 44.4 | — |

*Source:* Minister of Finance (1987)

First, domestic debt has, from 1983, been raised without the provision of a Sinking Fund. Repayment now has to come fully out of recurrent revenue when the debt falls due. The first unfunded, five-year domestic bonds, issued in 1983, fall due in 1988.

Second, much emergency borrowing in 1987 was short term and will have to be repaid in 1988.

Third, the depreciation of the Fiji dollar has driven up debt services (in local currency) on outstanding overseas debts.

The fiscal balance is extremely precarious. Although the budget contains further cuts in recurrent expenditure, these have not been implemented. Indeed, it is hard to imagine how further cuts (including in salaries) can be made at times of accelerating inflation. In the first half of 1988, revenue collection has been weak. Before long, it may be very hard to meet the monthly salary bills for the civil service and the military. The government is preparing a mini-budget for the middle of 1988.

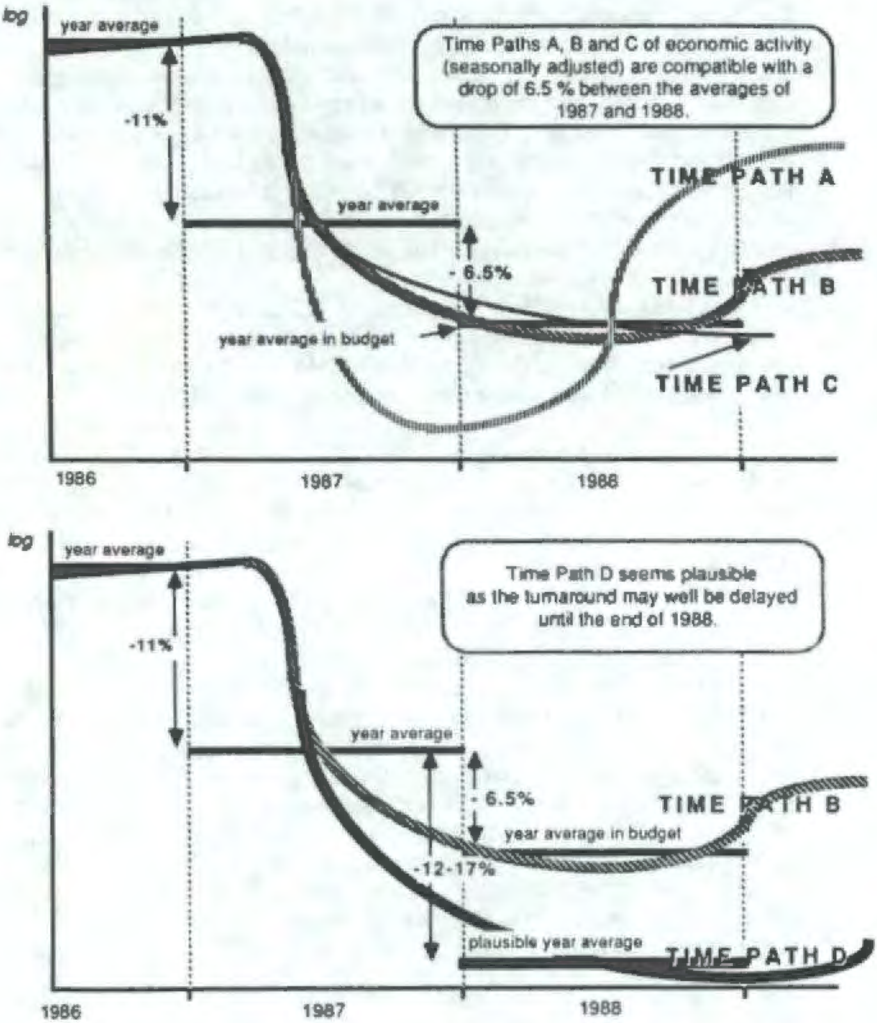
In a situation in which the economy has undergone a rapid change, year-over-year comparisons can be misleading. Graph 1.1 (upper panel) illustrates the point with regard to gross domestic product. The 1988 yearly average of real production is officially expected to be 6.5 per cent below the level of 1987. But this is compatible with quite different time paths through the course of 1987 and 1988. For example, time paths A, B and C of economic activity (seasonally adjusted) are compatible with a drop of 6.5 per cent between the averages of 1987 and 1986. Although there is some vagueness in this matter, it seems that official forecasts imply something like Time Path B, namely a turnaround in activity in mid-1988. A decline of 6.5 per cent thus implies a fairly optimistic picture during the course of 1988, namely that the contraction will end and an upswing will start. On the grounds discussed in the following paragraph, we have come to the conclusion, however, that official economic forecasts for 1988 are based on improbably optimistic expectations. In our view, a contraction of only 6.5 per cent seems implausible on the basis of the available macroeconomic information and the plans that emerged in the numerous interviews we had with businessmen, farmers and other economic decision-makers. We therefore anticipate that the turnaround may occur rather later than officially expected and we expect to see a time path of activity that resembles Time Path D in the lower panel of Graph 1.1. This means that domestic product could again contract in 1988 by 12 to 17 per cent. This would take real per-capita incomes to a level of 25 to 30 per cent below the 1986 average.

Our review of the official forecasts on which the 1988 budget was based is as follows.

We see little evidence that indicates a slow-down in the rate of decline in overall activity and a moderate recovery after mid-1988. At best, such a mid-1988 turnaround would be precarious and the downside

**Graph 1.1**

**POSSIBLE TIME PATHS THROUGH 1987 AND 1988**
**— GDP in constant prices, a schematic presentation —**



risks are such that prudence would dictate that the government should prepare for the eventuality of a delayed recovery.

The official forecast is based on a level of sugar production that is 12 per cent below that of 1987. Together with a depletion of considerable stocks, this would help to maintain sugar exports at 1987 levels. Since the end of the drought, sugar cane is being replanted to capacity. Earlier fears that Indian planters would hesitate are not borne out by the facts, although one observes some diversification into rice and pulses. There were reports of drought-induced delays in planting, of shortages of seed cane, and shortages of fertiliser. But we do not expect these factors to significantly reduce sugar production below official expectations for 1988. Another matter is the processing of sugar, which may be hampered by the progressive reduction in the purchase power of worker incomes. Production costs in the entire sugar industry have been pushed up dramatically by the effect of the depreciations on the prices of fertiliser, fuel and transport, and world sugar prices in 1988 are lower than originally expected. The stimulation of sugar growers' incomes after the currency depreciations will only be short-term.

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**Cane Fertiliser Runs Out**

'Cane farmers have been hit by a shortage of fertiliser. The Fiji Sugar Corporation has been unable to obtain stocks from Japan ... farmers badly needed the fertiliser because planting had already been delayed by drought ...
The FSC yesterday confirmed that it was running out of fertiliser stocks ... Farmers would not get fertiliser for about a month ...
Fertiliser prices have increased as well ... '

*The Fiji Times*, 16 January 1988

**Fertiliser Secured for Next 6 Months**

'Action by the Prime Minister, Ratu Sir Kamisese Mara, has assured the country's 20,000 sugar cane farmers of a constant supply of fertiliser for the first six months of this year ... [He] personally met the ambassador of the Republic of Korea and the representative of Taiwan in Fiji, and secured the shortfall in supply.'

*The Fiji Times*, 10 February 1988

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The world economy has been slowing down, and we expect a growth pause in world demand (see below). In these circumstances, the assumption of steady commodity exports and high tourist arrivals appears overly optimistic.

The official forecast for tourism is based on a rise in tourist arrivals to a level of 230 000, only about 8 per cent below the peak level of

1986. We find this forecast implausible. We heard widespread reports that forward bookings from February 1988 onwards are very low, with arrivals about one-third below previous-year levels. Hotel operators are reluctant to repeat loss-leader campaigns of the type tried out in late 1987. Three international airlines are missing from the Fiji market, although Japan Airlines expects to return in late 1988. In early 1988, there were 26 fewer international flights per week (compared to 1986). Air Pacific, the loss-making national carrier, cannot make up the gap, certainly not in the North American business. Hopes that Fiji will greatly benefit from the tourist boom into Australia seem unjustified, because the travel industry has already put together most of its tour packages for 1988 into Australia. The tourist market will be price driven, but past (and possible future) currency depreciations will do little to assist this import-intensive industry. Increases in hotel turnover tax in the new budget will not help either. Two other serious obstacles to a return of tourism back to normal are the bans on most Sunday activities and the chaotic, time-consuming and ineffectual departure procedure from Nadi which will keep tourists away.[1] We estimate that tourist expenditures will be around $120-130 million rather than the officially predicted $172.5 million.

It is likely that real investment will stay much further below the 1987 level than the officially assumed 13 per cent. There has been virtually no new private investment since the coups, and many people try to liquidate their investments wherever possible. Plans to revive projects that were planned before the elections and coups will take time to start up. There is evidence of a trickle of ongoing public sector investment, but the proposed budget cuts (total capital expenditure down by 40 per cent) imply a further and continuing contraction. For budgetary reasons, real capital expenditure by the government and public corporations will probably have to fall by more than the 8 to 10 per cent assumed by official forecasters.

There is no official forecast of expected inflation, but informed impressions seem to be that, by December 1988, the annual inflation rate will have accelerated to at least 20 per cent. By April 1988, food prices in Suva were reported to be rising already at a higher rate than that. This has serious implications for the real living standards of the poorer segments of the urban population and for social and political

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[1] Security checks are necessary. But there is an urgent need to make these controls more effective and to streamline procedures. At the moment, departure procedures take about an hour and a half and are as chaotic as in Bombay. Because this is strategically important for tourism, prompt Australian aid should be given to help reorganise security and departure procedures in Nadi.

stability. The inflation forecast of 20 per cent by the end of 1988 is based on an assumption of cuts in public expenditures, wage reductions, no further currency depreciations, and a continuing firm monetary policy. But it now seems likely that the price level will continue to run out of control.

The Fiji dollar has a fixed but adjustable exchange rate (fixed to a basket of currencies). So far, exchange rate depreciation has been contained to 33 per cent since May 1987. High domestic interest rates, controls on capital outflows, and downward wage flexibility have prevented a steeper depreciation. Indeed, macroeconomic policy can hardly be faulted for firmness and cohesiveness throughout a period of political confusion, heightened fears about the future, and economic collapse. Such a situation could, with less able management, have easily ended in a collapse of the national currency. Nevertheless, the trade credit system has virtually collapsed; the country has returned to a cash economy. Horizons of business planning and lending have shortened, reducing the efficiency of trade and commerce. While pegging the exchange rate has helped to stem further inflationary impulses, it also subsidises those who withdraw capital from the country. There has been considerable unauthorised, and in the long run unsustainable, private capital outflow, despite the controls. We estimate that capital flight is running at an annual rate of F$120 million, most of which is at a high cost to those who engage in it. An informal street trade in Fiji dollars deals at about 20 per cent discount (see Chapter 8). If the budget expenditure cuts do not materialise, it may become impossible to maintain the official exchange rate. And it will be important not to hamper exports by trying to enforce an overvalued exchange rate.

In the first half of 1988, money and capital markets did not function well. Despite a considerable drop in interest rates (leading to negative **real** interest rates) and great liquidity, little credit was given for productive investment, partly because of non-price obstacles and partly because there is a reluctance of banks to commit themselves to positions in Fiji dollars which — they fear — will depreciate later on. Exchange-rate pegging thus hampers market responses to the changes that occur.

Capital flight will go on if confidence is not convincingly rebuilt, and could drain Fiji's foreign exchange reserves. It is true the country can draw on the IMF Gold Tranche, but there is a danger that internal budget imbalance and weak foreign reserves could interact to create a situation where foreign loans would have to be rescheduled (as has happened in Latin American countries that suffer from a similar capital-flight syndrome).

Unemployment could reach 20 per cent of the labour force by the end of 1988. Together with a shorter work-week, this would amount to a loss of perhaps 30 per cent of the volume of labour input (Chapter 6).

The greatest danger to the economy is a cumulative exodus of qualified people. It is hard to exaggerate the deleterious effects of a continuing mass emigration. Many government institutions and firms are suffering from loss of staff. One may visualise the consequences by imagining the effects of one-third of the leading management and technical staff leaving any given firm. Corporate memory is being lost, and standard operations have to be entrusted to inexperienced staff. Many offices and shops are simply being left vacant. Patients in hospitals are left unattended. Repairs cannot be made. Supplies vanish. School children find that their teacher has left for Sydney or elsewhere over the past weekend. The effects on the morale of those left behind is often devastating.

## The World Economy

Fiji's recession coincides with a weakening of world demand. In the industrial countries as a whole, the collapse of the stock markets and the ensuing downward adjustment in monetary wealth will have some downward effects on spending behaviour, at a time when the 1984-87 upswing is petering out. Although we do not, at this stage, subscribe to the view of global recession in 1988-89, we expect that world demand will expand slowly in real terms. Resurgent price and cost-push pressures and already large public sector debt burdens will make it hard for monetary and fiscal policy to become expansionary. In any event, the key OECD governments have learnt that Keynesian demand expansion works only when price expectations are stable. In the late 1980s, this condition is not given. Policy-makers' recent experience is that demand expansion served mostly to drive up price levels and public debt, and that governments can no longer readily 'print jobs'.

We expect that OECD's overall demand will slow down during 1988 and that the import demand of the industrialised countries will, in real terms, grow by little more than 2 per cent, half the rate of 1987. Forecasts for 1988 and 1989 are laden with downside risks because of uncertainties created by recent stock market movements, imbalances in public sector finance and in international payments, and the political risks of the Gulf war, which could affect energy prices in unforeseen ways. Fiji's economy can expect little external stimulus.

## Is the Budget Sufficiently Heroic?

Given the domestic and international economic outlook for Fiji, the official forecasts (–6.5 per cent GDP and 15 per cent inflation by December 1988) do not seem altogether plausible. The government should prepare to cope with the prospect of a continuing contraction in output and a more dramatic acceleration in inflation.

At first sight, the 1988 budget seems heroic enough. In the course of 1987, public sector pay was cut and budget expenditures were reduced to their 1986 level (i.e. 7 per cent below the originally announced, pre-election budget of 1987). For 1988, the projected expenditure level is $420 million. The government proposes to cut operating expenditure by 4.4 per cent (in a period of accelerating inflation) and capital expenditure (including capital loans) by 9.4 per cent. Holding public sector wage rates constant in dollar terms implies a further cut in the real incomes of civilian and military employees, probably by about 12 to 15 per cent in the course of 1988. It is a matter of concern that, several months after the budget was announced, no administrative steps had been taken to implement the expenditure reductions envisaged in the budget.

The deficit is projected to rise considerably, to nearly 40 per cent of projected budget revenue, because there has been a virtual collapse in revenue collection. Revenue in the 1988 budget is officially projected about 12 per cent below that of 1986. But even this may turn out to be overly optimistic if the budget's economic assumptions do not materialise (as discussed above) and revenue collectors are less than assiduous in their task.

Great pressure may therefore emerge on the deficit. A further mini-budget is envisaged for mid-1988. It may be hard to contain claims for increments in military spending. Although foreign aid is again flowing more generously, painful expenditure cuts and sale of government-owned assets cannot be postponed for long. If the resumption of overseas aid has weakened the resolve to act, it will have served to deepen the underlying problem.

The financing of the borrowing requirement — whatever it may turn out to be — will be extremely difficult. Aid funds will not be sufficient to cover the prospective deficit. And commercial finance for a developing country that is perceived as politically unstable and beset with a hard-to-manage deficit will be very costly, if not altogether unobtainable. We do not know how the government will make ends meet. While foreign exchange reserves are reasonably comfortable in the first half of 1988, they will not be able to withstand the onslaught of an entrenched public deficit and continuing capital flight. A need to reschedule foreign debts looms on the horizon.

As is discussed in more detail in Chapter 5, one way of covering the deficit is by selling assets. This is the way businesses react when they are in financial difficulties. Such business-like behaviour would, in our view, suit a small developing country with an overblown and costly public sector. For good economic and social reasons, privatisation has become a strategy in many developed and developing countries, and the long-term growth potential of the Fijian economy would be enhanced if more products and services were produced by genuine private enterprises. Long-run strategic considerations on how to rescue the economy

(Chapters 4 and 5) point in the same direction as the tactics for salvaging the budgets of 1988 of 1989. By selling off one or more public corporations, the government could set both strategic and tactical signals for recovery. To obtain best value from private buyers, asset sales should not be presented in an emergency fashion and should be started early and in an orderly manner. They should be placed in the context of a comprehensive, explicitly declared long-term strategy of privatisation and small government.

### The Economic Future of Fiji is Wide Open

A technical analysis of data and trends cannot convey the hardship and suffering implicit in a 13 per cent drop in real per-capita incomes in 1987 and a further decline in 1988. Few 20th-century nations have had the experience to fully understand what the citizens of Fiji are going through. From an income level of US$1650 in 1986, average incomes may fall to between US$1150 and US$1230 (at constant 1986 prices) by the beginning of 1989. Such falls are unusual even by the standards of the most unstable developing-country economies and are rare other than in times of major wars. They imply that most people's aspirations will be frustrated, that there will be many economic refugees, that many people will fall into poverty and that resentment will be a burden to future harmony and economic growth. As we have already stated, we found an admirable lack of resentment to date in Fiji, but only time can tell how Fiji's society will cope over the longer term.

Although we can only speculate about the future, we are sure that 1987-88 will mark a crossroads in the history of Fiji, of Fijian society, of Fijian-Indian relations and of political-economic management. A return to the idyllic days of pre- and post-Independence Fiji seems unlikely. The future of the new Republic of Fiji is wide open.

In order to speculate about what Fiji's long-term economic future might be and to discuss alternative strategies to cope with the future, it is important to look briefly at the medium-term past and the structure of Fiji's economy.

## CHRONOLOGY OF EVENTS

| | |
|---|---|
| 1874 | Cession of Fiji to the Queen of England. |
| 1963-1967 | Internal autonomy gradually passed to local administration. |
| 1967 | The leader of government business is the Legislative Council; Ratu Kamisese Mara becomes Chief Minister. |
| 10 October 1970 | End of colonial era. Independence. Government under the conservative, Fijian dominated Alliance Party of Ratu Mara. |
| 13 April 1987 | Election victory of Labour/National Federation coalition under Dr Timoci Bavadra, the former leader of the public service trade union. Formation of an Indian-dominated government with plans to nationalise certain industries and redistribute wealth. Five and a half per cent salary increase for civil servants. |
| 24 April 1987 | Protest march in Suva against claimed Indian control of key cabinet posts. |
| 14 May 1987 | Military coup led by Colonel Sitiveni Rabuka, establishes emergency government to replace Bavadra government. Council of Ministers is established with Ratu Mara as Foreign Affairs adviser, Colonel Rabuka in charge of home affairs and the Reserve Bank Governor, Mr Siwatibau, in charge of finance and economic affairs. |
| 22 May 1987 | Eighteen member Advisory Council, as an interim administration pending new elections, under Governor-General takes over from emergency government. Majority of Council aligned with Alliance Party. Governor-General announces constitutional review. |
| 29 June 1987 | Fijian dollar devalued by 17.8 per cent. Imposition of severe restrictions on capital movements. Budget cuts of 20 per cent foreshadowed. |

| | |
|---|---|
| 17 August 1987 | Constitutional Review Committee reports to Governor-General; divisions between members of the Committee. |
| 4 September 1987 | Peace talks to form a caretaker government of national unity. Taukei supporters protest. |
| Early September 1987 | Fifteen per cent pay cut effective for civil servants, with a further cut of 10 per cent foreshadowed. Military pay cut between 18 and 25 per cent. Deuba accord between two major political groupings. |
| 25 September 1987 | When Governor-General is to announce a caretaker government with both major political groups sharing power, second military coup. Eighty-four Labour coalition supporters in custody. Rabuka resumes power at the head of a 22-member Council of Ministers. |
| 1 October 1987 | The 1970 Constitution is abrogated. |
| 6 October 1987 | Fiji is declared a Republic. |
| 5 December 1987 | Brigadier Rabuka hands back power to Ratu Sir Penaia Ganilau, now President of the Republic, who in turn appoints mainly civilian Interim Government under the Prime Ministership of Ratu Sir Kamisese Mara and with Brigadier Rabuka as Home Affairs Minister. |
| 8 February 1988 | Agreement with Australia to resume aid that was severed in May 1987. |

# Chapter 2

# The Fiji Economy over the Past Generation

## Economic Performance in International and Historical Contexts

The longer-term performance of Fiji's economy has been less impressive than that of a number of other newly independent nations farther west in the Pacific Basin. Indeed, Fiji's recent economic growth compares poorly with most middle-income countries. Per-capita incomes grew slowly up to the early 1970s, at a time when the world economy was expanding fast. In the first half of the 1970s, growth in the newly independent country accelerated for a few years, owing partly to public institution building, which raised measured national product. But since then, income levels have risen only a little (1973-86: +0.6 per cent p.a., in real terms per capita), bringing per-capita incomes in 1986 to about US$1650. This puts the Fiji economy near the dividing point between lower and higher middle-income countries in the World Bank classification, the range over which economic growth normally accelerates. Graph 2.1 places Fiji's income level and growth performance into an international and historical perspective. However, we must remember that we are dealing here with a very small economy, where the dimensions and economic problems are, in many respects, more akin to those of the Adelaide metropolitan area, or the Grand Duchy of Luxembourg, rather than a big national economy. The population of Fiji was about 715 000 in 1987. Its land area is 18 274 square kilometres, spread out over a vast area of the Pacific.

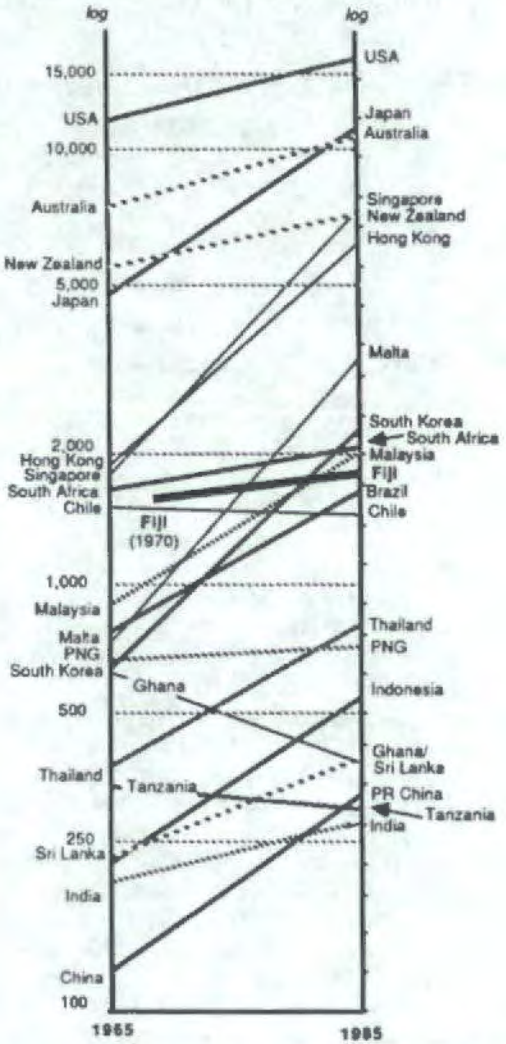
Compared with countries in a similar income bracket, the Fiji growth rate appears to be low (Table 2.1).

Fiji's reasonable affluence by South Pacific standards, and the absence of close-by neighbours with more dynamic economies, seems to have led to complacency on the part of policy-makers and planners.

Graph 2.1

**FIJI'S ECONOMIC GROWTH IN AN INTERNATIONAL PERSPECTIVE**

**— GNP per-capita in constant 1985 US-$* —**




* The 1965-85 trend growth rate has been derived by least-square regression through annual data. 1965 data are therefore not actual levels in that year but trend values.

*Source:* IBRD, *World Development Report 1987*

They were apparently not unduly alarmed when the economic record became even less impressive in the 1980s.

**Table 2.1**
**COMPARATIVE INCOME LEVELS AND GROWTH RATES**

| | Income level (1986, current US$) | Av. annual growth rate (real per-cap. GNP, %, 1973-86) |
|---|---|---|
| Malaysia | 1731 | + 3.4 |
| Thailand | 753 | + 3.6 |
| Republic of Korea | 2241 | + 6.2 |
| Taiwan | 3507 | + 5.4 |
| Fiji | 1635 | + 0.6 |

*Sources:* International Monetary Fund, International Bank for Resource Development, national statistics.

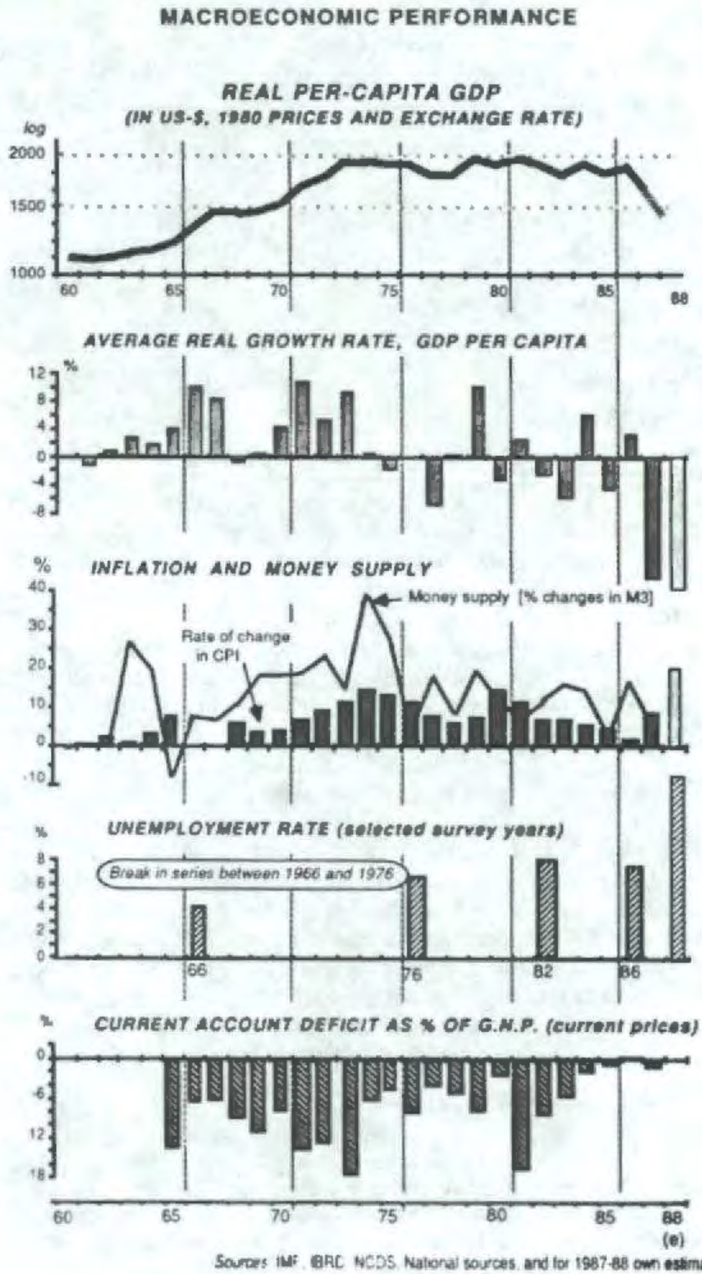
In retrospect, it is hard to resist the conclusion that the poor economic record of the 1980s led to the rising unhappiness of the poorer people of Fiji that was mobilised by the Labour/National Federation coalition in the 1987 election campaign, as well as by the populist/Fijian nationalist *Taukei* movement. In a framework of slow growth, latent and half-realised fears about economic security and progress could be galvanised by predictions that the economically weaker ethnic Fijians might lose control of their land and their basic economic security. As elsewhere, slow growth and frustrated expectations were translated into political frictions.

## Goal Achievement over the Past Decade[1]

Economic growth over the past decade has been not only slow on average, but fairly unstable as well (booms occurred in 1979, 1984 and 1986; see Graph 2.2). This cyclical instability reflects changes in demand in the world economy, as well as the impact of cyclones and a severe drought. Fijians have tended to blame slow and erratic economic growth on the behaviour of their terms of trade. But this is only superficially plausible because terms of trade are, in the longer run, shaped by each country's own policies. In contrast to the more success-

1 This analysis of macroeconomic trends can be confined to highlighting the bare essentials. Fiji's own macroeconomic analyses (especially those of the Reserve Bank and the Ministry of Finance) are competent and self-critical. For further background reading on the Fijian macroeconomy, readers are referred to Central Planning Office (1985), especially Chapter 1; Ministry of Finance (1987), and Reserve Bank of Fiji (*passim*).

Graph 2.2




Sources: IMF, IBRD, NCDS, National sources, and for 1987-88 own estimates ful developing countries, Fiji has continued to rely heavily on a few, cyclically sensitive primary products, especially sugar. In 1984, real incomes from sugar were only half those earned in 1977. About 55 per cent of Fiji's exports still consist of the same type of sugar that was exported in 1960, whereas Fiji now buys greatly improved medicines, cars and machines. It is therefore no surprise that the terms of trade have declined. Reliance on favourable sugar deals has diverted attention away from more dynamic growth opportunities. There has been growth in some new exports, such as tourism and clothing. More such diversification is the route to improving the terms of trade. Only innovative change and export diversification will help Fiji free itself from the effects of unfavourable and erratic world market conditions. In this respect, Fiji should see itself as in charge of its fate and capable of improving its terms of trade by its own actions.

Fiji's poor growth performance cannot be explained by deficient capital formation. The domestic savings rate has been fairly high, though falling (about 11 per cent of disposable income during 1980-85), and has been supplemented by a net capital inflow. During the first half of the 1980s, capital transfers from abroad have risen from about 7.5 per cent of all capital accumulation to about 15 per cent. In other words, capital formation in Fiji has gradually become more dependent on foreign savers and aid donors. However, net capital transfers have in recent years been below the average for countries of Fiji's living standard. This is so because there has been considerable private capital outflow. Those who earn and save in Fiji have been diversifying their investment portfolios to other countries, possibly reflecting douhts about long-term stability and opportunities in Fiji.

Fiji's inflation has been high. Since Independence in 1970, consumer prices have risen by 8 per cent on annual average and the national currency has lost 78 per cent of its value. The inflation rate has also been irregular and unpredictable (Graph 2.2). Inflation eats away at a nation's socio-political stability and its economic growth potential. In 1984 and 1985, however, under the influence of external imbalance and perhaps to counter rising fiscal deficits, monetary policy suddenly became stringent. M1 rose by only 0.5 per cent (1984) and 2.8 per cent (1985). This put considerable strain on the economy and the social fabric. We stress the suddenness of the monetary turn-around, but certainly do not wish to criticise monetary restraint as such. Its absence would only have postponed and worsened the burden of stabilisation. Fiji's long-term inflationary experience must have entrenched inflationary expectations, so that expansionary macroeconomic policy would promptly lead to inflation and currency depreciations, which would feed back into inflation again.

Inflation was related to a background of persistent and rising budget deficits. During the first half of the 1980s, the equivalent of 20 per cent of recurrent revenue, or 5.2 per cent of the gross domestic product, was borrowed by the government. Such a rate of borrowing is financially unsustainable. The government was in effect creating a relatively big and affluent public sector and a relatively poor citizenry. This strategy was highlighted in 1983-84 by salary increases in the 85 000-strong public sector, whose incomes were indexed against inflation even when real national income fell. Some unionised labour was also protected against reductions in real income, so that the adjustment burden of the hard times in the early 1980s fell heavily on small, independent operators and the 'have-nots', including the unemployed. This episode is not unusual for less developed countries with an interventionist make-up: privileged organised labour and government officials make the income distribution more unequal at the expense of the poor and the rural population in particular. Inflation has reinforced and aggravated this type of income redistribution. When the government was finally forced by external deficits to impose a public sector wage freeze in 1984 and 1985, the public service unions were instrumental in forming a new Labour party (under the public service union leader, Dr. T. Bavadra) to resist burden-sharing in the face of declining terms of trade and a declining national income.

Unemployment rates in developing countries are hard to measure and interpret, given a large informal sector into which many people who would otherwise be unemployed can be absorbed in underemployment. The evidence points to rising unemployment (to 8-10 per cent in 1986). Increasing unemployment, especially in urban areas, would have contributed to a perceived deterioration in the economic conditions of the poorer citizens and hence to the socio-political tensions that have developed in recent years.

Fiji's external equilibrium gradually improved during the first half of the 1980s. This process was helped by once-off international transfers of aid and insurance receipts after the cyclones, which eased external deficit pressures. Fiji — like other undynamic Lesser Developed Countries (LDCs) — has been suffering from a 'structural' balance-of-payments weakness and a weak trade position. Reflecting this, the exchange rate of the F$ against the US$ (which was at the time firming against most world currencies) depreciated (about 8.5 per cent p.a., 1976-86) and slightly in excess of domestic inflation.

In the face of such a mediocre overall economic performance, it is not surprising that the electorate looked for a political alternative and chose the newly formed Labour/National Federation coalition in 1987.

## The Traditional Approach to Economic Policy

Fiji's policy approach may be characterised as conservative-administrative. There is considerable reliance on government. This is reflected in the large public sector, which makes up a stunning 35 per cent of formal employment; in the reliance on old-fashioned five-year planning; and in a plethora of State enterprises that provide goods and services which, in other countries, are often produced privately, competitively, and more efficiently. In the early 1970s, there was an apparently seamless transition from colonial paternalism to State capitalism.

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'Our problems go back more than thirty years.'

*Senior Cabinet Minister*

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The basic economic policy approach of post-Independence Fiji clearly reflects the mixed ancestry that makes up contemporary social philosophy in Fiji: a traditional, hierarchical social structure of indigenous Fijians, which relied on initiative from above, from the chiefs;[2] a paternalistic colonial inheritance with a benign civil service running the State in a detached, selfless fashion to ensure law and order, but with little interest in a dynamic economy; a model of the Indian civil service with its complex social pyramid and infinitely intricate complexities, based on the assumption that government and the clerical caste know best and are destined to direct the world; and a tradition of white and Indian traders who rely on their own performance and their families' resources for success.

Of these, only the last tradition would not be likely to lead to a big State apparatus. And even the trader tradition bears in itself forces that make for cosy arrangements with the State rather than free market competition.

Educational and trade links with predominantly mercantilist/statist regimes in Australia, New Zealand, and India, and with the Fabian stratum of British social philosophy, helped to generate a collectivist/statist social policy 'culture' in Fiji.

It is therefore no surprise that Fiji's economic development philosophy and macroeconomic management style has been essentially statist. It relies relatively little on spontaneous, decentralised market forces, on individual dynamism and on the judgments of the individual citizen. In these respects, Fiji is similar to many other former colonies. But there

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[2] One of the great statesmen of early Fiji, Ratu Sukuna, quite explicitly defended a traditional more autocratic Fijian style: 'British colonialists [are] ... affected by the discredited Enlightenment hypothesis of the blissful state of nature ... [but] historic reality was that moderately autocratic personal authority, religious and kinship ties [were the] ... principles of a social order redeeming the people from utter chaos and primitive subsistence' (quoted in Macnaught, 1982:153).

is now an increasing number of dynamic middle-income countries where individual achievement and economic freedom and confidence are encouraged and where economic successes have been impressive. It is true that many of these dynamic economies have autocratic, though more or less open government. What matters seems to be not the frequency of elections, but a style of government that trusts and encourages the economic self-reliance of the individual citizen and, at the same time, ensures stability without calcifying economic and social structures and without tolerating corruption.

The statist approach is reflected in Fiji's five-year planning mechanism, which is an Indian-style central plan fixing detailed targets and projects. Reflecting this, Fiji's development policy has been closer to detailed social engineering than to providing a simple, logical, stable and cohesive framework for individual decisions. Likewise, there is a proliferation of State corporations and an inherent distrust of profit-motivated individual workers, savers, investors and entrepreneur-citizens, as well as of the rough-and-tumble chaos of competition. The efficiency of the price mechanism has been impeded by wage and price controls in important sectors and there are contradictory, cumbersome regulations of many petty details of economic life (see Chapter 4).

The collectivist/statist tradition has allowed public servants and unionised labour to dominate a growing share of economic decision-making. This has injected disincentives, rigidities and delays, and has made for low productivity growth and poor profitability. In the face of the economic fluctuations in the 1980s, this inflexibility had the effect of loading most adjustment burdens onto the non-regulated sector. Another reflection of the statist approach is the substantial rise in forced public saving and public sector indebtedness.

Statist policy is not sustainable in the long term in a competitive, changing world. Painful adjustments are sooner or later inevitable in Fiji irrespective of the events of 1987, which undermined the resilience of the economy and undid democracy. Some adjustments were under discussion in the early 1980s, but no real reforms of the post-colonial policy structure have been attempted.

Given official policy in the statist mould, the private Fiji economy has shown remarkable signs of individual enterprise, self-reliance, flexibility, economic risk-taking and commercial innovation. Some important sectors with economic potential are not regulated and can be mobilised for economic growth and job creation. Proven entrepreneurship is mainly manifest in the Indian communities, but obstacles to Fijian initiative do not seem insurmountable. The undercurrents of Fijian village entrepreneurship and self-reliance became visible at an early stage of the colonial era in the — admittedly poorly managed and somewhat misguided — Viti Company of Apolosi R. Nawai. A nation that showed great daring and enterprise as traditional seafarers and great energy and prowess in war is surely capable — with the right assistance and encouragement — of mobilising modern innovative enterprise. That this has not happened seems to be partly the result of the illusory security of ensured land rights and the system of protection and rent-transfer that the colonial administration introduced. Instead of giving the Fijians a starting base into modern life, these rental incomes have, in the long term, turned out to weaken them. As will be shown in Chapter 9, the regulation of land rents has limited Fijian income from the land and their drive to raise its productivity.

## The Structure of the Fiji Economy

Before we discuss possible future economic strategies and policies, it is appropriate to sketch the key structural characteristics of the Fiji economy. Such a description is presented here with reference to the structural features of internationally and historically comparable economies using so-called 'Chenery normal' data. 'Chenery normal' refers to a method pioneered by Economics Prize winner Simon Kuznets and further developed by a team led by Hollis Chenery in the World Bank, which shows that certain structural features (e.g. the share of agriculture in total output) are mainly influenced by income levels and country size (Chenery and Syrquin, 1975; Chenery et al., 1986). Deviations from such (econometrically estimated) 'Chenery-normal' data are then attributed to differences either in natural resource endowment or in policy. They serve to highlight a specific economy's structural pecularities.

Table 2.2 compares recent data on the structure of the Fiji economy (average of 1984-86 to avoid possible anomalies in single-year data) with what the World Bank model would predict for an average country of the size and income level of Fiji. The table shows that, as one would expect of a very small country, Fiji is highly dependent on international trade. Both export and import shares in gross domestic product exceed the international averages. Manufacturing exports fall far below what one would expect.

The sectoral structure of production is roughly in line with what one would expect, but the structure of employment lags behind the normal pattern of shift from agriculture into manufacturing and modern services. In other words, agricultural productivity is 'abnormally' low. Since other evidence points to an abnormally big public service sector in Fiji, the private service sector must have an abnormally low share in output despite the sizeable hotel industry.

Fiji is less urbanised than one would expect. But worldwide trends are in the direction of further urbanisation, which will demand high management skills in the relevant government departments.

**Table 2.2**
**STRUCTURAL CHARACTERISTICS OF THE FIJI ECONOMY**

| | | Actual Average 1984-86 | Estimated 'Chenery Normal' share |
|---|---|---|---|
| **Pattern of Foreign Trade** | | | |
| Exports | ) | 37.2 | 30.9 |
| Primary exports | ) as | 14.3 | 20.5 |
| Industry exports | ) % | 1.2 | 3.8 |
| Imports | ) of | 37.0 | 39.6 |
| Primary imports | ) GDP | 15.0 | n.a |
| Industry imports | ) | 22.0 | n.a |
| **Patterns of Output and Employment** | | | |
| Primary production | ) as | 20.1 | 23.6 |
| Industrial production | ) % | 15.4 | 17.4 |
| Services and public utilities | ) of ) GDP | 64.5 | 58.3 |
| Labour in primary sector (%) | | 44.9 | 39.9 |
| Labour in industry (%) | | 12.5 | 18.7 |
| Labour in services and public utilities (%) | | 35.0 | 41.1 |
| Share of urban population (%) | | 38.7 | 47.0 |
| **Pattern of Spending, etc.** | | | |
| Private consumption | ) | 62.1 | 76.2 |
| Government consumption | ) | 18.6 | 14.2 |
| National investment | ) as | 19.2 | 20.4 |
| Saving | ) % | 19.4 | 11.9 |
| Government revenue | ) of | 22.5 | 16.9 |
| Tax revenue | ) GDP | 20.5 | 14.9 |
| Education expenditure by government) | ) | 5.8 | 3.5 |
| Birth rate (%) | | 2.8 | 4.3 |
| Mortality rate (%) | | 0.5 | 1.2 |
| Primary & secondary school enrolment (%) | | 67.8 | 69.9 |

*Note:* The present population and income level (converted to constant 1963 US$) were inserted into structural equations estimated in the World Bank by a team led by Hollis Chenery. For the background, see H. Chenery and M. Syrquin (1975). It should be noted that, strictly speaking, the equations apply only to somewhat larger countries than Fiji.
*Sources:* IBRD, ADB and national statistics of Fiji.

With regard to spending patterns, it is apparent that private consumption is markedly lower and government consumption markedly higher than is internationally 'normal'. Also, government revenue and tax collection are considerably higher than 'normal'. This highlights the statist bias in Fiji discussed earlier.

Compared with similar countries, Fiji has a low birthrate and a much lower mortality rate. These are considerable achievements (Chapter 6).

Social indicators show that Fiji has relatively high education spending (an input measure), but relatively low school enrolment (a quasi-output measure).

One may conclude that the structural characteristics of the Fiji economy are broadly in line with what one would expect, except for the size of government, the direction of international capital flows and the resulting impacts elsewhere. It is likely that these structural features will continue to change with growth, roughly in the directions indicated by the Chenery model.

## Racial Composition

One cannot discuss the Fiji economy for long before race and communalism are mentioned. This is not surprising given the racial composition of the population. The biggest ethnic group are Indians, most of whose ancestors were brought by the British to Fiji as indentured labour. Ethnic Fijians comprise 46 per cent of the population. They are the traditional inhabitants and have guaranteed rights to 83 per cent of the land (Table 2.3).

**Table 2.3**
**RACIAL COMPOSITION OF THE POPULATION OF FIJI**

| | 1901 '000 | 1946 '000 | 1985 '000 | 1985 % share |
|---|---|---|---|---|
| Fijians | 94 | 118 | 329 | 46.0 |
| Indians | 17 | 120 | 349 | 48.8 |
| Europeans | 2 | 5 | 4 | 0.6 |
| Chinese | 0 | 3 | 5 | 0.7 |
| Total (incl. others) | 120 | 260 | 715 | 100.0 |

*Source:* Bureau of Statistics, 1987.

## Fiji 1988: The Demise of the Post-Colonial Certainties

An important conclusion of this review of past economic management is that it laid the basis for a relatively poor economic performance, which, in turn, helped to create the social and political conditions for the events of 1987. With these events, a new era has begun in which the post-colonial certainties no longer hold.

The post-Independence Fijian policy rested on three precepts: the control of the land by indigenous Fijians, the control of the economy by the Indians, and the control of government by a Fijian-dominated party (Fisk, 1970:30-48).

After the 1987 elections, the latter slipped from the Fijians. This led — rightly or wrongly — to fears about land rights. The question of control over land ownership has taken on an importance that reflects a traditional, rural society. But the 'security' of land rights has given misleading signals to Fijians in a modern and inevitably changing world, because it has inspired a misplaced complacency and may have induced many land-owning Fijians not to become involved in modern development (Chapter 9). Now, however, the view seems to be spreading among younger Fijians that all racial groups should compete in the economic field. This means that more Fijians must become involved in small-scale enterprise, modern agricultural and industrial production, and in market- and export-oriented pursuits.

The critical question that will have to be decided soon is how this should happen. If indigenous Fijians use political control to obtain preferment by intervention and positive discrimination in a big and inefficient State sector, the long-term prospects are that there will be more racial tension and long-term economic decline. The alternative is an economic order that gives **primacy to economic rationale over politics** and that overcomes the uncertainties of the post-coup era by focusing aspirations more on economic achievement, self-reliance and cooperation in a free market economy. This also seems to us to be the most secure route back to democracy.

Before we can discuss the long-term options out of the crisis of 1987-88, it seems useful to place the communal pecularities of Fiji into a wider international context and to summarise key insights from the literature about essential aspects of economic growth. This task is undertaken in the next chapter.

# Chapter 3

# Economic Order, Communalism, and Economic Growth

In analysing possible and lasting solutions to the problems of Fiji in 1988, one has to draw on the economic literature, which reflects and describes experiences around the world. The literature suggests important lessons for the leaders of Fiji during the next generation. They can be summarised as follows.

Where there is much politicking and much intervention by the State in the economic life of ordinary people, the control of government is a big prize. Resource allocation becomes politicised, and often less efficient. To capture political control, populist leaders may play on communal identification and racial conflicts. Government tends to favour and regulate particular groups of suppliers. This mitigates against would-be new suppliers who are not so well politically attuned members of society. Where, by contrast, government is small and most economic decisions are made and tested in an anonymous market place, there is a better chance for people to study, work and live freely together in harmony. The task of government should be limited to those strategic issues it can handle even where the pool of public-policy talent is limited. The background to this conclusion is explored in Part A of this chapter.

A market economy has the advantage of promoting economic growth and entrepreneurship thanks to a better and more widespread use of relevant knowledge. If obstacles to the transfer of knowledge are removed, then competing employers cannot afford to hire according to racial or religious prejudice, and employment is likely to be greater. Part B summarises the relevant aspects of modern growth theory, stressing the key role of knowledge and skills.

## Part A
## GOVERNMENTS AND COMMUNAL CONFLICT

### Racial Diversity: Asset or Handicap?

Racial diversity is not unique to Fiji (Sowell, 1983). There are many nations in which people of different ethnic backgrounds live closely together. In some, racial diversity has been a source of strength and stimulation. In others, race has proved to be an unpleasant and durable source of strife. But communal strife has not been confined to societies with different racial groups. Religion, language or inherited social class can also serve to differentiate communal groups in ways that lead to violent clashes (for example in Ireland, Lebanon and India).

Communal identification (be it by race, religion or some other characteristic) can easily exacerbate normal social divisions among people everywhere: between rich and poor, young and old, town and country, men and women, etc. The normal difficulties of life are easily blamed on scapegoats with a different skin colour or creed. Many of the usual problems of life are particularly acute in developing countries, passing through, as they are, a revolutionary industrial and social transformation that is unsettling to individuals and families.

Nevertheless, there are many multicommunal countries in which racial or religious identity has not become the focus of disturbance and where people of different communities live and work harmoniously together. Brazil, Australia, New Zealand, Switzerland, the United States and Taiwan are examples where different communal groups coexist reasonably well. Sometimes there are problems, of course, but on the whole communal conflict and violence have been avoided. Indeed, communal diversity may constitute a positive asset for these societies.

On the other hand, where race becomes the focus of politics, a vicious circle is set in train: racial identification and confrontation may be used by political leaders to gain influence and power. This process leads to discrimination and further racial disharmony. Once entrenched, racial issues are durable and ugly (Sowell, 1983: 135-147). It may take the trauma of long and major violence to overcome such communalism (like the religious strife of the 15th and 16th centuries in Europe that was only ended by the 30 Years' War; the long-lasting communal strife in Lebanon; and the Irish question). Leaders who exacerbate racialism to gain political influence invariably play with fire.

### Race, Political Control and the Market Economy

Policies that can help to diffuse latent communal tensions are crucial to Fiji's future. It is important that the basis of these policies be understood and that they are implemented as an integral part of a broad strategy for development. The key question is: What are the circumstances that enable diverse people to live together freely and in relative harmony? In many societies, different types of people occupy themselves in different spheres of existence. The economic resources to which different groups have access are often different and may become unequal. If this happens, inequalities in opportunity, wealth and power will result. These inequalities are an understandable source of resentment for the disadvantaged groups. Such imbalances tend to be perpetuated by the use of power. Relations between the two groups will then be tense insofar as the subordinate group resents the situation. The only lasting, and indeed equitable, solution to this problem is to ensure that all people in society have access to the available economic opportunities, so that the rewards for effort can be earned equitably.

If power is not used to prevent mobility and equal opportunity, members of a subordinate group will soon enter those spheres of activity that yield the superior returns enjoyed by the dominant group. Entry is, of course, not without cost to them because new learning, new habits, new attitudes and new social relations need to be formed before new entrants can compete in those activities. But open **access to opportunities** is the key to the mobility necessary to prevent persistent intergroup inequalities. Open access to opportunity will not only advance the living standard of all people in Fiji, but also reduce communal tension and prevent a repetition of the events of 1987.

In order to deny access, the authority must have the power to make discriminatory rules, to regulate access to economic activities, to grant monopoly rights, and to influence access to education, training, capital, land and sea resources. Such authority can create enormous opportunities (and temptations) to inhibit or exclude particular groups of citizens arbitrarily. On the other hand, free competition restricts the capacity of the powerful to exercise their prejudices. Competition does this by imposing economic losses on those who discriminate unfairly against members of disadvantaged groups. Under competition, the disadvantaged have the chance to accept initially lower returns for their services, which permits them to gain access. Gradually, they learn requisite skills and attitudes, so that the returns gradually become equalised between the groups.

A policy that extends 'state economic control damages material progress and often provokes acute political and social conflict in the heterogeneous societies of the Third World' (Rabushka, 1974:69-70). Social engineering and central planning promote, and depend upon, the identity of big groups and aggregates. In markets it is the individual, the family or the small group that matters. But once markets are replaced by State intervention and control, decision-making involves interest groups, who are often formed by inward-looking identification and in confrontation with others. One of the leading scholars on racial issues concludes: 'When we begin to think of individuals in terms of groups, race becomes a natural basis of political appeal and group voting. The greater ... the extent of government economic activity, the greater the likelihood of racial conflict. Political competition thus becomes racial competition for control over the power that the government alone commands. The impersonal market mechanism is replaced by a directly coercive relationship in which race, rather than marginal value of productivity, becomes the basis for resource allocation. This is inequitable ... illegitimate and unstable as well' (Rabushka, 1974:5). The politicisation of allocation in multiracial society causes emotions to flare and heightens the prospect of racial confrontation.

The appropriate strategy for equalising opportunity and removing tensions between diverse groups of people is to reduce, disperse and devolve power, so that every group has an opportunity to hold at least some power, and to put as much economic activity as possible into the realm of markets.

## The Racial Question in the Republic of Fiji

The outcome of 1987 is, in our view, that the Fijian population has asserted its political supremacy. While the details of the future constitution are not yet clear, it is evident that political control by Fijians will not be a topic for review any time soon. This may well be tolerated by many Indians on condition that they have their non-electoral civil rights securely guaranteed and are assured of the freedom to pursue their economic prosperity without artificial (and hence grating) discrimination.

There can be no doubt that such a solution is not very palatable to Australians. Australians, like the citizens of other democracies, regret the recent political changes in Fiji. We deeply share those regrets. But, like other Australians, we also know that the Australian government has normal relations with much less acceptable regimes elsewhere, whose civil-rights records and adherence to democratic practice have fallen short of Australian ideals far more than is presently the case in Fiji.

The two coups have, unhappily, removed some uncertainties about the political framework of Fiji. But as long as there is no continuing provocation and overt discrimination, constructive cooperation may still be possible. Of course, much good-will has been destroyed, but long-term racial harmony remains a worthwhile, if difficult goal to achieve. It is the only goal to pursue if the nation is to remain economically viable.

We believe that, within a market economy, it should be feasible to promote more equal starting opportunities for everyone, including rural Fijians (Chapters 6 and 9), and to set Fiji again on the road to democracy.

## Race and Discrimination: Disaster Cases

Historical and international experience leaves little doubt that the disenfranchising of parts of the population is inimical to economic development. Modern economic growth took off in Europe only after citizens had obtained certain basic human rights, including guarantees of private property, free movement and freedom of information. Sustained long-term growth began only when energetic, resourceful individuals believed that they could 'make it', irrespective of inheritance or title. The experiences of this century with political and economic discrimination underline the proposition that basic economic rights and civil freedoms are essential for sustained prosperity.

The racial persecution of Jews in Nazi Germany cost Germans a heavy price in intellectual, moral and industrial standing. The expulsion of Indians from Uganda and other East African countries set back the economic prospects of these countries. The indigenous Africans satisfied their racial-supremacist aspirations at great economic cost to themselves. The Africans would probably now be materially better off and less divided among themselves, had they continued to live with the Indian traders.

The experience of the island economy of Zanzibar is particularly poignant: Once a thriving tradepost and leading exporter of cloves, this 600 000-inhabitant island was convulsed in 1964 by violent racial confrontations between Africans and Arabs, who had lived together for hundreds of years. The Arabs were killed or fled. Zanzibar began a slide into economic decline and totalitarian Maoist military dictatorship until it lost its independence, being absorbed into Tanzania. The island's economy is now a decaying backwater. It has lost its traditional export, attracts no tourists, and the population lives in abject poverty and depression (Sorman, 1987:291-294).

Racial/tribal/communal policies in South Africa and other parts of Africa have led not only to racial Balkanisation, but also to economic stagnation and a waste of economic opportunities and resources.[1] 'In [Black] Africa, since about the Second World War, State controls have notably discriminated against Asians, Europeans and Levantinians. This discrimination has had dangerous economic effects, because these groups have been prime agents of economic progress' (Bauer, 1981:175).

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[1] Contrary to widely held beliefs, average per-capita incomes in South Africa are not high and have not grown fast: real per-capita income in South Africa was about US$2050 in 1985, less than one-third that of Hong Kong or Singapore. The growth rate over the past 20 years has been about 1.1 per cent (International Bank for Reconstruction and Development, 1987:203).

The country with by far the longest record of apartheid, with its caste system, India, has had a poor record of protecting individual dignity, welfare of the average citizen, individual freedom and opportunity, social harmony and communal peace.

The evidence from Malaysia (see Appendix B) — after a decade and a half of a conscious racial redistribution policy — is less than inspiring. Policies of opening up modern urban-industrial jobs to Malays were coupled, from 1970 onwards, with an artificial redistribution to the Malays and away from the more affluent Chinese and white communities. Although this made industrial and urban jobs more accessible to Malays and has made some contribution to integration, such social engineering to redistribute has — together with easy credit and oil money — corrupted the Malaysian social fabric, created great disincentives for individual enterprise and private investment, and has, with a time lag, eroded the economic growth potential. Redistribution has saddled the country with a costly public sector, mounting public debts and a distorted, rigid economic structure. Political tensions have risen, undermining democracy and social harmony.

What these cases have in common is big and interventionist government. Populist leaders have exploited racial identity and engaged in social engineering. They have also invariably wrecked economic growth. This has exacerbated racial tensions or has led to emigration of the more educated and skilled, reinforcing a drift into decay.

## Race and Cooperation in the Market Place

In some other societies, people of different communal backgrounds have lived and worked in reasonable harmony.

The huge experiment in creating the diverse population of the United States of America has been a success. It would not have worked in other than a competitive market economy. Where success or failure are predominantly due to one's personal effort and luck (and not to political patronage), and where new immigrants could be 'hired off the ship' because they were employed in a free labour market, the 'great melting pot' experiment worked. It is true, the melting pot has, at times, been pretty lumpy and there are tensions and communal problems. But the fact remains that millions of Latin Americans and others (including many citizens of Fiji) have made, and are making, every effort to join the American experiment, whatever its shortcomings.

The Swiss, with German, French and Italian language background and different religions, have managed to create prosperity and internal peace. They have done so with an inconspicuous State (who knows the name of the Swiss President?) and an economic order that depends on self-reliance, markets and a decentralisation of political power.

The successful experiment of Hong Kong (against all odds in a place without resources and on the world's economic periphery) has been realised by immigrants of many different backgrounds. Only to foreigners do all Chinese look the same. Close up, Hong Kong society consists of people as diverse as the peoples of Europe — Cantonese, Hakka, Indians, Hainanese, Shanghainese, Whites, and so on.

Taiwan is a prospering country in which two very different communities live together: the indigenous Taiwanese (mainly of Southern Chinese stock with a background of Japanese colonialisation) and the immigrants of 1949 (mainly Northern Chinese with a different language and different habits). Together, they have built a successful growth economy that might well inspire the Republic of Fiji (see Appendix B).

All these cases of communal harmony and shared prosperity have a number of features in common. Government is small and plays only a limited role in the economy. People compete in markets and have economic advancement as a priority. Most importantly, individuals are sure of certain basic civil rights, like property rights, while voting and political rights act more as 'negative economic rights', protecting individuals and families from outside interference in their private affairs. The people who risked their lives to swim to Hong Kong, or the Mexicans who migrate illegally into the United States, do not do so to vote regularly, but because other important rights are secured. Likewise, people in Fiji speak of the 'good old colonial days' not because they had political rights or could file welfare claims, but because 'British justice' ensured small government and basic rights for the individual. If the Republic of Fiji does not want to lose many of its citizens, its leaders might well try to make Fiji a little more like the places that nowadays attract economic and other refugees from Fiji.

## Part B
## MARKETS AND ECONOMIC GROWTH

### Economic Order, Growth and Social Harmony

In a market-oriented economic order, economic well-being depends on individual performance and luck, because people compete in markets whose outcome is always uncertain since life itself is uncertain. Everyone puts in his or her best effort to fulfil the wishes of their customers, thus contributing to the growth of society's welfare. Where, by contrast, government intervention distributes 'free, allotted tickets to the drama of the future' (Giersch, 1988), unstinting efforts are not required. Society's welfare is not readily improved in such an environment.

Fast growth and high employment are important preconditions to restrict racial discrimination by employers. To quote:

> [With unemployment, employers] are able to chose and, in doing so, to discriminate. If one's competitive position in the market is not affected when one hires a Catholic or a Protestant, a man or a woman, a white or a black, then one can readily yield to one's personal prejudices. The consequence ... is that those who are discriminated against face total unemployment instead of possibly earning a little less ... They stay on the outside ... [because they are deprived of] proving what they are capable of — thus overcoming widespread prejudices. (Giersch, 1988)

The harmful consequences of racial discrimination do not stop there. If dominant groups engage in positive discrimination, they also weaken the competitive drive among the members of their own group:

> Recipients of government hand-outs ... soon consider preferment as a right; they demand more. The result is a 'claims society' which wastes its energies in distribution battles ... A dependence mentality spreads and self-respect and self-reliance are lost ... True help can therefore in the long run only be in the form of support for self help ... (Giersch, 1988)

These insights are highly relevant for racial harmony and stability in Fiji. Guaranteed income from land rents has tended to lock indigenous Fijians into a situation where the driving forces for self-advancement are weak. The lack of economic drive and enterprise among ethnic Fijians is not an innate racial characteristic (it nowhere is), but the result of a social system in which Fijians have been placed. A policy of positive discrimination by reserving government jobs or job quotas in industry would only further strengthen a 'claims mentality' and dependency of the Fijian people. It would make future race conflict more likely, rather than less.

### Competition and Growth

Interventionism weakens the long-run potential for economic growth by weakening the motivation of enterprising people to use relevant economic and technical knowledge. Economic growth is essentially about the discovery, testing and spreading of knowledge. Knowledge and skills are often more important to promoting growth than hard work or capital formation. Where people lack the pervasive material incentive that market competition provides, new knowledge tends to be applied only in limited areas. For growth and development to be broad-based, knowledge — like dung — has to be spread evenly and over the entire field.

Growth is likely to be relatively weak in societies where profits are made from lobbying and rent-seeking, rather than from persistent efforts to cope with an inherently uncertain future and to compete for market shares with other suppliers. Profits from regulated businesses may have to be shared with a licensing bureaucracy or with greedy politicians, but this is often compensated by the benefits of a government-protected quiet life for businessmen and monopoly profits, at least for the well connected. The dividing line between acceptable *sevu sevu* and outright corruption is often hard to draw. To many producers, a regulated, slightly corrupt system will often seem preferable, because the State makes the future 'certain' and protects them against the otherwise inevitable vagaries of life. But because the world is an inherently uncertain place, the State cannot deliver such security for long. It does so at the expense of other groups, and it will be blamed for inevitable failures to protect certain groups.

Regulated, statist economies everywhere share similar features. Energy is wasted in coping with the delays and the costs of obtaining licences. Not-so-well connected outsiders (including young people) resent the arbitrariness of bureaucratic licensing. Because regulation is unwieldy, there are shortages. Import licences, for example, lead to shortages of essential imports, so that repairs are delayed and some import-dependent ventures never even get off the ground. Because regulations change, people and entrepreneurs cannot plan ahead and are discouraged. People shorten their time horizons. Few people take steps to cope with the future, because the State takes care of everything anyway. Productivity is lost because of what economists call 'X-inefficiency'. This is reflected in pot-holes that lower the lifespan of cars, or people waiting in tall buildings a long time for lifts that do not function. After a while, these circumstances tend to be accepted as normal. Because there are restrictions on international travel, few people get an impression of how efficiently life can be organised elsewhere.

Political priorities influence the investments that are made by the State. Many public investments have low productivity, because economic rationality has been subordinated to political considerations.

Regulations tend to conserve yesteryear's structures. They protect established interest groups and discourage newcomers with unproven ideas. Resources are kept in low-productivity uses (no agribusinesses, much idle land, many underutilised factories). The problem is not a shortage of resources but a waste of available assets and lack of incentives to widen resource constraints.

All this means that the productivity of capital, land and labour does not rise much over the long run, or even falls because capital and work effort are wasted. As a result, overall growth is low, relative to efforts in saving and working. This is sometimes discussed in the economic literature as the 'theory of third factor growth' (Denison, 1967; Denison, 1985; Denison and Chung, 1976; Thirlwall, 1978: 48-80).

## On the Theory of Third Factor Growth

The growth process of a national economy is like the growth of a small enterprise or farm: inputs of labour, capital, materials, energy and other resources are being fed in and output is produced. What matters for success is frequently not how much work or capital is fed in, but how well the enterprise is managed, how motivated the workers are, and how costs are controlled, i.e. how much the enterprise makes out of a given level of capital and labour inputs. The attitudes and the spirit within the enterprise often shape the growth of productivity and distinguish successful from failing businesses and farms. Innovation, risk-taking and productivity-mindedness within the business or farm often depend crucially on the economic order that surrounds it. If firms are rivals for markets in an uncertain world and depend on their own resourcefulness, great efforts will be made to get the best results from available resources. Entrepreneurs will be constantly induced by competitive pressures to seek relevant knowledge. If there is little competition, life will be more relaxed, but productivity will not grow (Blandy et al., 1985).

This same rationale — which bureaucrats and central planners so easily underestimate in their modelling efforts because they have no statistics to document it, but which even illiterate farmers and small businessmen understand — also applies to national economies. Over the last generation, national economies have not differed all that much from each other in the growth of labour or capital inputs. Yet, there have been vast differences in output growth. This can be attributed to differences in the contribution of knowledge to productivity growth. The use of knowledge often figures as the single most important element in growth (Kuznets, 1980). Table 3.1 summarises most of the available evidence from developed and developing countries. As can be seen from the last column of the table, the contribution to growth of 'total factor productivity' (i.e. the productivity of labour and capital inputs taken together) has varied greatly from one economic regime to another. Highly successful economies like post-war Germany, Italy, Japan and other continental European countries have managed to raise productivity to an extent where half or more of the national growth rate is due to this factor, and not to saving or work.

Among developing countries, increases in productivity from the improved use of knowledge vary widely. There are cases of relatively slow growth and small, even negative, changes in total factor productivity, such as in Argentina, India and Peru. And there are cases of highly successful countries like Korea and Taiwan, where a high growth of output owes much (often more than one-third) to productivity increases. It is not surprising that developing countries have managed to raise total factor productivity less than the post-war economies of continental Europe or Japan, because the developed countries could, after the war, draw on a pre-war stock of skills and knowledge. By contrast, developing countries have had to pioneer new paths and train new skills and entrepreneurial expertise, build information networks from scratch, and develop big, efficient production units for the first time.

## The Climate for Enterprise

Attributing growth shares to increases in labour and capital productivity is only an intermediate step that identifies proximate causes for economic growth. The question that still needs to be analysed is: In which environment is productivity likely to rise most readily? In this context, it is worth stating that markets have historically been the most effective way to distribute and test new ideas. Markets allow limited experiments, and losses are a powerful signal to discontinue unsuccessful experiments. Tax-financed, government-run experiments can, by contrast, go on for a long time, often with good money being thrown after bad to hide awkward, political consequences. Nobel Prize winner Friedrich Hayek (Hayek, 1945; 1978:179-190; Burton, 1983) demonstrated that most economically relevant knowledge is specific to place and time, cannot be concentrated in one spot (e.g., a central-planning office), and can be tested efficiently only in the interplay of competing suppliers and buyers, who act in their own self-interest.

Violations of property rights, regulations, imposed inequalities, inflation and government-created insecurity undermine the efficient functioning of the market system in using knowledge to raise productivity. This holds true *a fortiori* for developing countries where much relevant knowledge still has to be discovered and appropriately modified to suit local conditions.

To make the market economy efficient and growth-prone, it is essential to remove obstacles to entrepreneurship. The enterprising spirit tends to flourish where the system ensures economic freedom and legal security. Once these factors are given, people who previously have had no reputation for entrepreneurship begin to act enterprisingly (e.g. the 'indolent' Chinese, operating under British law in Shanghai or Hong Kong, or the Japanese after 1860, once their feudal system was smashed in the Meiji revival). Entrepreneurship acts like a catalyst bringing other production factors together and creating a constructive chain reaction that raises productivity.

**Table 3.1**
**THE GROWTH OF OUTPUT AND THIRD-FACTOR CONTRIBUTION**

| | Years | Growth rate of output (%) | Share of 'third factors' in total productivity growth (%) |
|---|---|---|---|
| **Developed Countries** | | | |
| Belgium | 1949-59 | 3.0 | 69.5 |
| Canada | 1947-60 | 5.2 | 32.5 |
| | 1960-73 | 5.1 | 35.3 |
| Denmark | 1950-62 | 3.5 | 46.7 |
| France | 1950-60 | 4.9 | 59.5 |
| | 1960-73 | 5.9 | 50.8 |
| Germany, Fed. Republic | 1950-60 | 5.4 | 55.6 |
| | 1960-73 | 5.4 | 55.6 |
| Ireland | 1953-65 | 4.7 | 42.6 |
| Italy | 1952-60 | 6.0 | 62.7 |
| | 1960-73 | 4.8 | 64.6 |
| Japan | 1960-73 | 10.9 | 41.3 |
| Netherlands | 1951-60 | 5.0 | 46.5 |
| | 1960-73 | 5.6 | 46.4 |
| Norway | 1953-65 | 5.4 | 53.3 |
| Sweden | 1949-59 | 3.4 | 73.5 |
| United Kingdom | 1949-59 | 2.5 | 48.0 |
| | 1960-73 | 3.8 | 55.3 |
| United States | 1947-60 | 3.7 | 37.5 |
| | 1960-73 | 4.3 | 30.2 |
| *Average* | | 5.4 | 49.0 |

| | | | |
|---|---|---|---|
| **Developing Countries** | | | |
| Argentina | 1960-74 | 4.1 | 17.1 |
| Brazil | 1950-60 | 6.8 | 53.7 |
| | 1960-74 | 7.3 | 21.9 |
| Chile | 1950-60 | 3.5 | 24.3 |
| | 1960-74 | 4.4 | 27.3 |
| Ecuador | 1950-62 | 4.7 | 46.2 |
| Greece | 1951-65 | 6.9 | 34.5 |
| Honduras | 1930-62 | 4.5 | 31.0 |
| Hong Kong | 1955-60 | 8.3 | 29.1 |
| | 1960-70 | 9.1 | 47.0 |
| India | 1959/60 | | |
| | 1978/79 | 6.2 | −2.9 |
| Israel | 1952-58 | 9.8 | 39.8 |
| | 1960-65 | 11.0 | 30.9 |
| Korea, Republic | 1955-60 | 4.2 | 47.4 |
| | 1960-73 | 9.7 | 42.3 |
| Mexico | 1950-60 | 5.7 | 28.3 |
| | 1960-74 | 5.6 | 37.5 |
| Peru | 1950-60 | 4.5 | −15.6 |
| | 1960-70 | 5.3 | 28.3 |
| Philippines | 1947-65 | 5.8 | 43.5 |
| Taiwan | 1955-60 | 5.2 | 59.5 |
| Turkey | 1963-75 | 6.4 | 34.8 |
| Venezuela | 1950-60 | 7.9 | 27.4 |
| | 1960-74 | 5.1 | 11.8 |
| *Average* | | 6.3 | 31.0 |

*Source*: H. B. Chenery, S.Robinson, and M. Syrquin (1986:20-22)

## Changing Perceptions about Economic Growth in the Lesser Developed Countries

It may, at first sight, seem surprising that these elementary insights have not been widely accepted in the newly independent developing countries. But statism, interventionism and central planning have been widely accepted as a blueprint for development. A number of powerful reasons led to a neglect of markets as a guiding and coordinating mechanism in many newly independent nations: While individual people the world over want material betterment for themselves and their families, the development of economic opportunities for **all** citizens has in reality only in rare cases been the primary objective of the new political elites. Despite the rhetoric about bettering general living standards, most newly independent governments have acted to give priority to other objectives: building national institutions, creating a State machinery and power structure, promoting national independence and prestige, and furthering the enrichment of the leading class.[2]

Deeply engrained tribal traditions have often favoured top-to-bottom lines of command (e.g. the Fijian chiefly system). Such hierarchical command structures were more appropriate in a world of stationary technical knowledge and limited resources, where the control and solidarity of the group from above were essential to survival. It was not so readily appreciated that such fixed hierarchies formed obstacles to economic transformation and growth through market processes.

Interventions and big, nationalised ventures frequently were seen as symbols for a visible break with the colonial past. A new State enterprise and a national airline, however costly and inefficient, could be seen as symbols of nationhood. The colonial past was largely seen as capitalist; the new leaders were therefore attracted to socialism.

Control of people by an elite allows the creation and distribution of rents (incomes that cannot be earned in competitive markets). Rent-seeking behaviour allows the leaders of newly independent nations to enrich themselves and their supporters quickly. Controlled societies are also easier to rule than societies of dynamic, self-assured citizens who have gained self-confidence in the market place.

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2 These objectives have often undermined the growth of living standards and opportunities for all. Central planning and State industries waste valuable resources, but create well-paid prestigious jobs for bureaucrats and politicians. Interventionism in food and labour markets often impoverishes the rural areas and favours the towns. Import substitution satisfies nationalist aspirations, but creates inefficient and inappropriate industry structures and undermines the growth and export potential.

During the 1950s and 1960s, many of the leading ideas that were popular with the elite in the West were statist, collectivist and interventionist. Most academics, journalists and politicians who presided over the unprecedented explosion of the government's share in national income from the 1940s to the 1970s taught the new leaders of the Third World to do likewise.

Official development aid frequently reinforced statist tendencies and often shored up policies in LDCs that would have been unacceptable in the donor countries. Aid often still supports an economic order that wastes scarce resources and diverts attention from self-help.

But in the 1980s, these reasons for statist strategies of development have been losing favour in many developing nations. Many second-generation leaders are now turning to favour a more market-oriented economic order.

One reason has been the sheer failure of statism to deliver the promised results. Social-engineering solutions led to many unintended consequences that were inimical to growth. Conspicuously successful countries that tried market solutions (Hong Kong, Taiwan, or Singapore) have begun to inspire imitators in their neighbourhood. Development economists have, therefore, begun to see greater gains in market-oriented strategies, in deregulation and privatisation (Harberger, 1984; Hartwell, 1985; Riedel, 1986; Kasper, 1986).

It is increasingly appreciated by people in developing countries that inherited tribal structures and top-to-bottom command hierarchies are not appropriate to the task of acquiring and exploiting new, rapidly changing knowledge. Post-colonial hang-ups have eroded, and a new, more self-confident generation has emerged. It has been discovered that a national steel mill or a national airline may do little for nation-building. Many sovereign developing countries are now interested less in aid to big national ventures and more in trade for their private producers. The leading economic and social ideas in many countries of the West have swung towards individualism, self-reliance and market competition. Deregulation and privatisation have become catch-cries of political parties on the left and the right.

The insight is spreading that statism has bred communal tensions in many developing countries and that the State often cannot deliver what it promised. Limited administrative skills and the likelihood of corruption in regulated economies make market competition now appear rather more attractive in the eyes of a new generation of LDC leaders. As a result, new perceptions about development goals and strategies are spreading.

# Part II

# Strategies

# Chapter 4

# Long-term Prospects I: Decay

## Towards a Long-Term Vision

What seems most lacking in the Fiji economy after the shocks of 1987 are confidence and a unifying long-term vision shared by citizens, workers, investors and the government. Five-year plans, which are frequently revised and stress planning detail to the neglect of analysing major economic alternatives, lack credibility. They have failed to provide such a unifying vision. In a transition such as Fiji is now going through, leaders need to think strategically and in the long term, because people try to look further ahead. In the following chapters, we will therefore attempt: to project likely economic trends to the year 2010, under the assumption that the basic economic order that has been in place since Independence does not change much; to explore an alternative long-term scenario under the assumption that the people of Fiji want a better future and that its leaders are prepared to implement far-reaching and bold policy reforms; and to describe in more detail what such a growth-oriented scenario would imply for the areas that we consider crucial to Fiji's long-term development, namely human and physical resources, capital and financial stability, and distribution of opportunity between the races.

These projections have to be regarded only as broad visions of trends. Actual year-by-year outcomes will vary, and there will be cyclical fluctuations around these trends.

The scenarios are based on the structure of the economy in 1986, a reasonably 'normal' year. The year 2010 was chosen as the final year for our projections, because a quarter of a century is sufficiently long for large differences to emerge for family life and major business decisions. The shocks of 1987 and 1988 have created opportunities to make choices that will affect the life of the nation for a long time to come. In our view, the window of opportunity for such choices will not remain open for long, because human capital is leaving the country at an alarming rate, physical capital is wasting away, macroeconomic stability seems increasingly endangered, and continued drift and inaction will cement the lack of confidence that is obvious in the country.

If the year 2010 seems too far ahead, consider that parents of children born today might try to visualise what Fiji will be like when they become grandparents. School leavers making plans for their own lives might want to guess in some way what sort of a country Fiji will be when their own children have grown up, and what skills might then be needed. Investors in factories and hotel buildings need some confidence that they can amortise their commitments over a quarter century. If one looks back 25 years, 1963 is not so far away after all.

But the main reason why such a long time horizon was chosen is that this demonstrates what is at stake. The decisions of the next two years will make an enormous difference. If policy-makers look to the more distant horizon, their attention is diverted from petty tactical detail and is focused on strategic outlines and key priorities. It is in this frame of mind that the problems of the new Republic should be approached, both in Fiji and by Fiji's friends and neighbours.

## What Can Fiji Expect in the Next 25 Years?

For the remainder of this chapter, we will assume that the basic policy approach in Fiji will remain roughly as it has been for the past 30 years, both before and after Independence. This does not mean that we do not allow for minor modifications — an investment incentive here, an Export Processing Zone there, or one or two new Constitutions. But we assume that, in essence, a heavily administered, socialised economy will remain in place.

A philosophy prevails that unsupervised markets ultimately fail to achieve justice, equal opportunity and growth, so that the State and its servants have to intervene.

Present price controls in a wide range of markets, from groceries to land rents, remain in place. The Prices and Incomes Board directly controls the prices or mark-ups of a virtually endless variety of products (a selection of examples is given in Table 4.1). The budget cost alone of the Prices and Incomes Board was $450 000 in the year ending 30 June 1987 (Prices and Income Board, 1988). In addition, business had to incur a multiple of this in compliance costs, which are ultimately passed on to the consumer. Most important, there are the 'deadweight losses': the market-price signal does not function well in steering economic decisions, so that the economy does not respond efficiently to new scarcities and opportunities. Attempts to fix wages through wage orders are renewed, as are efforts to regulate training by centralised public

**Table 4.1**
**COMMODITIES UNDER PRICE CONTROL**
**(Selective List)**

| | |
|---|---|
| **A** | **Control of Mark-Up** |
| 1 | Butter (imported) |
| 2 | Edible oils of all types (imported and local) |
| 3 | Mackerel canned (imported) |
| | Other fish and seafood, canned *except* crab, lobster, mussels,and other fish canned locally |
| 4 | Lighting kerosene |
| 5 | Margarine (imported and local) |
| 6 | Canned corned beef and corned mutton *except* corned beef and corned mutton canned locally |
| 7 | Baby milk (imported and locally packed) |
| | Milk, powdered, evaporated or condensed (imported and local) |
| 8 | Rice (imported brown and milled in Fiji and imported white or polished) |
| 9 | Potatoes (imported) |
| 10 | Onions (imported) |
| 11 | Ghee (imported) |
| 12 | Salt (imported) |
| 13 | Infant food preparations (imported) |
| 14 | Garlic (imported) |
| 15 | Agricultural pesticides of all types (imported) |
| 16 | Fertilizers (imported, certain types) |
| 17 | Veterinary medicines (imported, certain types) |
| 18 | Netting and fencing of iron or steel wire (imported, certain types) |
| 19 | Barbed, iron or steel wire (imported, certain types) |
| 20 | Barbed wire (local) |
| 21 | Cladding and boards (imported, certain types) |
| 22 | Plywood - all types (local) |
| 23 | Medicines (certain types) |
| 24 | Stationery and related commodities (imported, most types) |
| 25 | Textbooks used by educational institutions in Fiji (imported) |
| 26 | Tyres and tubes (imported) |
| 27 | Storage batteries (imported) |
| 28 | Motor vehicle parts (most types) |
| 29 | School textbooks produced by the Curriculum Development Unit, Ministry of Education |
| 30 | Sugar (local and imported) |
| **B** | **Services and Goods under Fixed Wholesale and Retail Price Control** |
| 1 | Inter-island shipping and barge freight rates |
| 2 | Motor spirit |
| 3 | Gasoil (diesoline) |
| 4 | Solvent gasoline, unleaded and undyed (white benzine) |
| 5 | Pre-mixed outboard fuel |
| 6 | Flour (wholemeal) |

**Table 4.1 (continued)**

| | |
|---|---|
| 7 | Sharps |
| 8 | Bread (*except* bread sold as part of a meal) |
| 9 | Tea |
| 10 | Butter (local) |
| 11 | Biscuits (cabin crackers and breakfast crackers) |
| 12 | Washing soap |
| 13 | Medicines - patent |
| **C** | **Goods under Fixed ex-Factory Prices** |
| 1 | Plywood of all types |
| 2 | Flour and other wheat products |

*Source*: Prices and Incomes Board, direct communication.

authorities. These arrangements do not suit individual workers, employers or the long-term interest of the Fiji economy (Chapter 6).

Many economic activities are licensed, from foreign trade to hotel hours. The complex web of confusing and counterproductive customs tariffs and duties is retained (Table 4.2). The government is directly or indirectly involved in numerous production ventures from logging to transport (see Table 5.1 in Chapter 5). Political considerations and favouritism continue to interfere with commercial decisions in a vast range of industries. And costly budget subsidies maintain even companies that make losses. For example, the State fish corporation, Ika, has higher expenses than yields (negative value added). If it were closed and all its resources were made idle, there would be an immediate gain to the budget and the national economy.

Indigenous Fijians are induced to rent-seeking behaviour by the public administration of their land and are held back by the social constraints of traditional structures.

What, in essence, characterises the scenario described in this chapter is that economic success depends on **whom** you know — not on **what** you know, or how hard you work, save, or explore innovative ideas.

To highlight what is economically at stake in Fiji in the present insecure situation, two scenarios will be elaborated in this and the following Chapter. Future growth trends under two different economic regimes will be presented, not as precise predictions, but to illustrate plausible orders of magnitude. These projections relate to the supply side of the economy and the key production factors, but also incorporate important microeconomic considerations and the key role of the 'economic order' in stimulating enterprise, competition and constructive supplier responses. In doing this, the projections use Denison-type growth theory, not as a basis for a projection, but to provide an 'adding up rule' of the proximate sources of growth. The underlying growth theory is meant to provide no more than an intermediate stepping stone between the overall growth rate and the real causes of economic growth, such as competitiveness, entrepreneurship, learning and saving.

After the events of 1987, one cannot expect a simple straightline extrapolation of the long-term past if Fiji's economic order remains roughly unchanged.

The emigration of talented and skilled people will continue at a fast pace. The sons and daughters of many families now established in Fiji will stay in Darwin, San Francisco or Christchurch, whether they have host country approval to do so or not. Some Fiji emigrants who find life overseas harsh may, of course, return. But over the long term we estimate that there will be an emigration of as much as 1.7 per cent of the labour force (triple that of the past decade). This will reduce the growth rate of the labour force markedly and lower its skill level (see Chapter 6). The Republic of Fiji will lose not only much of the growth of its workforce, but — above all — the most crucial input into the growth process, knowledge and skills. Just as Fiji residents of Chinese descent who were motor mechanics and tradesmen have vanished over the past decades, qualified Indians could gradually disappear. Skill shortages would become the Achilles heel of Fiji's development and cause the decline of many industries.

Land and other physical resources will, in this scenario, be developed mainly by government agencies, but the pace will depend on the resolve and limited fund-raising capability of the government. Because the attention of key policy-makers might well be diverted by recurrent political or communal conflict, resource development projects could be delayed. But that will often not matter anyway, since public capital expenditures or aid moneys might not be available. Public sector capital formation will be squeezed (to a trend growth rate of, say, 2 per cent p.a. in inflation-adjusted terms) despite constant efforts to cut operating expenses and public service conditions. The priority of the government in this scenario will have to be maintenance of law and order, so that police and military spending take precedence over improvements in productivity of land and capital. Moreover, a small, distant Fiji, with occasional unrest and a clouded civil rights record, may not receive much aid or be able to obtain preferential trade deals (e.g. for sugar). The government could partly make up for this by playing traditional donors off against new aid sources, African style. And as in Africa, the lasting economic benefits of such political aid would be spasmodic, and maybe incongruous.

Private domestic capital formation, which has already been slowing down in the 1980s, will trend downwards further if the statist economic order remains in place. As the economy drifts into poverty, consumer aspirations will be continually frustrated. The savings rate will be low. Why put hard-earned money aside in Fiji when the future looks insecure and unpromising? Growth will be confined by capital and resource

Table 4.2
EXAMPLES OF INTERVENTIONS IN IMPORT TRADE AND INDUSTRY PRICING

| Product | Tariff Concession on Raw Material (%) | | Protection by High Tariff on Import (%) | | Protection by Import Licensing |
|---|---|---|---|---|---|
| | *Fiscal* | *Customs* | *Fiscal* | *Customs* | |
| Fish and fish products | | | | | |
| canned fish | | | 5.0 | 5.0 | Yes |
| fresh fish | Free | Free | 50.0 | 5.0 | No |
| Animal food (chicken feed no concession) | 7.5 | Free | 30.0 | 5.0 | Yes |
| Food and drink | | | | | |
| beers and ales | 7.5 | Free | \$2.-\$45.64/ litre | 7.5 | No |
| spirits | 7.5 | Free | \$27.25/litre | 7.5 | Yes |
| flour of wheat | 7.5 | Free | 25.0 | 7.5 | No |
| vegetable oils | 5.0 | 5.0 | 50.0 | 5.0 | Yes |
| noodles and sauces | 7.5 | Free | 75.0 | 5.0 | Yes |
| manuf. aerated waters | 10.0 | 7.5 | 90.0 | 7.5 | No |
| sugar | – | – | 50.0 | 5.0 | No |
| snack foods | 7.5 | Free | 85.0 | 5.0 | No |
| margarine & butter | 7.5 | Free | 70.0 | 5.0 | Yes |
| dead pltry & edible offals | | | 75.0 | 5.0 | Yes |
| sugar and chocolate | 7.5 | Free | 115.0 | 5.0 | Nil |
| biscuits (sweets) | 7.5 | Free | 75.0 | 5.0 | Nil |
| Cigarettes | 7.5 | Free | \$55.73/ kg | 7.5 | Nil |
| Paints and Varnishes | 7.5 | Free | 90.0 | 7.5 | Nil |
| Soaps and Detergents | 7.5 | Free | 85.0 | 7.5 | Nil |

| | | | | | |
|---|---|---|---|---|---|
| Matches | 7.5 | Free | $16.80/gr. bx | 7.5 | Yes |
| Agro Chemicals | 7.5 | Free | 10.0 | 7.5 | No |
| Plastic Items | 7.5 | Free | 35.0-75.0 | 7.5 | Mostly yes |
| Handbags, suitcases etc. | 7.5 | Free | 80.0 | 7.5 | No |
| Cosmetics & Perfumes | 7.5 | Free | 60.0 | 7.5 | No |
| Paper & Paper Product | 7.5 | Free | 60.0 | 7.5 | No |
| Textiles | 7.5 | Free | 7.5 | 7.5 | Yes |
| Apparel | 7.5 | Free | 80.0 | 7.5 | Yes (shirts) |
| Footwear | 7.5 | Free | 45.0 | 7.5 | No |
| Building Materials | | | | | |
| nails, staples, screws | 7.5 | Free | 60.0 | 7.5 | No |
| cement | 7.5 | Free | 50.0 | 7.5 | Yes |
| rigid PVC pipes, tubes, conduits | 7.5 | Free | 35.0 | 7.5 | Yes |
| paints and lacquers | 7.5 | Free | 90.0 | 7.5 | No |
| Adhesives & Glues | 7.5 | Free | 35.0 | 7.5 | No |
| Solar Water Heaters | 7.5 | Free | 25.0 | 7.5 | No |
| Aluminium Utensils | 7.5 | Free | 60.0 | 7.5 | No |
| Tyres - Retread | 7.5 | Free | 55% / $8/tyre | 7.5 | No |
| Toys | 7.5 | Free | 35.0 | 7.5 | No |
| Recorded & Blank Videos | 10.0 | 7.5 | 60.0 | 7.5 | No |
| Crown Corks, Seals | 7.5 | Free | 55.0 | 5.0 | Yes |
| Twine, Cordage, Ropes etc | 7.5 | Free | 60.0 | 7.5 | Yes (man-made fibre) |
| Deodorant Blocks | 7.5 | Free | 60.0 | 7.5 | No |
| Polypropylene Bags | 7.5 | Free | 60.0 | 7.5 | Yes |

*Source:* Ministry of Finance

constraints. People with wealth will be surrounded by large numbers of people who have little to lose and who may risk what little they have in confrontation. Capital owners of all races will, therefore, try to divert their savings from a risky, tense and slow-growing Fiji economy into investments overseas. The government would have no effective means of stopping such capital outflows. The growth rate of the capital stock would slow down to maybe 0.5 per cent per annum.

Import substitution policies in a small country like Fiji have been, and will continue to be, very costly. They will continue to cause high prices and diseconomies of small scale, and will be destructive of entrepreneurship. Indeed, the costs of tariff and import licence protection will rise because long-protected domestic producers tend to neglect productivity improvements, whereas competing overseas suppliers improve their productivity all the time. Cost disadvantages of producing in Fiji will widen. Argentina, Australia and New Zealand's manufacturing industries illustrate the case (Kasper, 1983; Giersch, 1987). In a small market like Fiji, protected industries will be a dead weight on the economy.

Inputs of labour, skills and capital into the process of economic growth will be growing, but at a much slower pace than over the past 25 years. In a regulation-constrained economy with capital flight and emigration, people and policy-makers will have great difficulty in marshalling the resources for national development. The system will not be able to generate the productivity improvements that normally result from developing, testing and implementing new knowledge. Regulation, heavy State involvement in capital formation and development, the weight of ailing public corporations, protected monopolies in key areas of the small national market, and price controls will impede the private market economy from drawing on its greatest strength: creating and using knowledge to improve efficiency and quality, and to weed out unpromising (loss-making) pursuits.

### Fiji's Future Growth

In order to estimate long-term growth trends under status quo policies, we can use the theory of the production function to add the effects of capital, labour and productivity growth together. The 'third factor theory' weights the growth of capital and labour inputs by their respective shares in national income and makes allowance for the growth of total factor productivity (Chapter 3).

For the scenario we are describing here, we estimate that the share of labour in national income will be relatively high by historical standards (60 per cent). The volume of labour inputs (hours worked p.a.) is estimated to grow by only 0.6 per cent p.a. over the next 25 years. Capital services used in the production process will also grow by a trend rate of 0.6 per cent p.a.[1] In addition, we make the assumption that total factor productivity will make a slightly negative contribution, mainly because of losses of skills due to substantial emigration. In an atmosphere of slow growth, an uncertain environment (in which government intervention discourages entrepreneurship), little genuine competition, and emigration, the contribution of productivity growth to Fiji's fragile economy could easily be reduced in this fashion. We suppose, in effect, that about one-fifth of the benefits of more work and saving are dissipated as a consequence of adhering to the present economic order.

Adding up the above assumptions, we arrive at a long-term annual growth rate of real gross domestic product (1986-2010) of 0.5 per cent.[2] This trend rate is not all that different from the past. It implies some slow recovery after the dramatic income losses of 1987 and 1988.

Since a considerable part of natural population growth is diverted to emigration, per-capita incomes will be even less affected. In 2010, income levels can be expected to be just slightly below the 1986 base. This means that there would be a delayed and slow recovery from a depressed 1989 base (1989-2010: +0.4 per cent p.a. growth in real per-capita incomes). Real per-capita income levels in 2010 (measured in constant 1986 US$) would again reach about $1300. The 25 to 30 per cent losses in living standard incurred in 1987 and 1988 would, in this scenario, be just fully recouped within a generation. This prospect resembles what many economists expected for western Europe at the end of the Second World War.

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1 The basis of the labour projection is discussed further in Chapter 6. Over the next 25 years, we project that 1.7 per cent of the labour force will be lost to emigration each year (instead of 0.5 per cent over the past), so that the number of working-age people will grow by only a 0.8 per cent p.a. trend rate. Unemployment, short-work and strikes are projected, in this scenario, to reduce the growth of the work volume by 0.2 per cent p.a., so that it grows by only 0.6 per cent p.a.

2 Growth rate = (Wage share X labour growth) + (capital share X capital growth) + 'third factors':

$$g = (0.60 \times 0.6) + (0.4 \times 0.6) - 0.2g;$$
$$g = 0.5\%$$

In Appendix A, we give an estimate of the sectoral and expenditure-category breakdown that this scenario implies. But we stress that all these numbers are meant only as crude orders of magnitude to demonstrate logical consistency and to invite the reader to test the scenario for its plausibility.

Such a scenario of decay and emigration will probably produce a result similar to the shrinking of living standards in Burma after 1948, Ghana since 1960, or Tanzania, with occasional flashes of Sri Lanka- or Israel-style tension. For stretches of time, there will be the normal good and bad years of the sugar cycle, with hurricane damage and repair. Leading bureaucrats and politicians will blame stagnation on the secular decline of the terms of trade and an unfavourable trading environment for raw material producers. Fiji's leaders will portray themselves as at the mercy of big neighbours, including Australia. People will be admonished to be tolerant. Occasionally, high unemployment, especially of the urban young of all races, inflation, and low real incomes will instigate social unrest. Populist agitators will try to gain a following by blaming the misery either on those Indians who migrate and take capital out illegally, or, alternatively, on those Fijians who control the government. Strong measures by the 'disciplined services' will probably manage to keep such agitation under control most of the time.

Fiji will not be a very cheerful place to visit, but it will be cheap, at times. Occasional currency depreciations will fill the hotels with New Zealand pensioners and Australian backpackers. The government-owned airline will require regular injections of public funds to subsidise such tourism. It will be argued that — after all — such subsidies are in the national interest. At other times, inflation will drive up costs and squeeze the tourist sector. On the whole, tourism and trade will disappoint national expectations, as they invariably do in stagnant and problem-ridden economies.

Monetary control will occasionally fail. Reserve Bank finance will be needed to overcome budget deficits that cannot be covered by commercial finance or aid. There will be high inflation. It is impossible to predict the inflation rate but it will be high because the government will have to use the printing press to finance intractable public deficits. In many economic activities, the domestic currency will be replaced by blackmarket Australian or US dollars. International credit will be hard to obtain, because the government of a stagnant developing country that is faced with an exodus of population and private capital, and hence its tax base, will look a poor investment to foreign commercial banks in the hard-headed atmosphere of the 1990s. International banks have already begun to write off bad debts to LDCs and are reluctant to assume new risks.

Foreign aid is unlikely to flow freely, despite the fact that the Fiji economy will be depressed. The philosophy of international aid has already moved to a more critical approach (see Chapter 10). It is increasingly realised that much aid has been wasted or has induced recipient countries to engage in wasteful programs. Aid will be given increasingly not on a needs, but on a success, basis. Skill shortages will hamper aid projects, and foreign donors will be reluctant to replace migration losses by foreign experts. In all likelihood, foreign aid will not be a very important source of finance.

Given the continuing pressure of external deficits, one objective of development policy in this scenario will be to save foreign exchange. This objective is likely to misguide many projects, as it has in the past. Scarce capital will be wasted on unproductive and unprofitable ventures simply to save foreign exchange. Like so many other LDCs, Fiji will continue to pursue objectives of dubious self-sufficiency, instead of maximising profitability and raising productivity (and living standards). For example, the bureaucrats who organise 'Rice Weeks' and similar propaganda exercises will not recognise that it is cheaper to obtain rice by exporting more trousers.

Because this scenario is not all that different from Fiji's actual experience during the 1980s, it is easy to visualise. But its implications are fraught with grave dangers for social stability and racial harmony. It seems altogether too unpleasant and disappointing compared to what is possible for the Republic of Fiji. Latent tensions between and within racial groups could be dissipated by cooperation and shared economic successes. We therefore explore a more optimistic scenario, and the preconditions for it, in the following Chapter.

# Chapter 5

# Long-Term Prospects II: Growth

### Individual Efforts Overcome Resource Constraints and Fear

The shocks of 1987 suggest a thorough rethinking of the basic economic philosophy and blueprint of economic management in Fiji, possibly within the newly formed Economic Strategy Committee. A comprehensive reform of economic and social arrangements will have to be undertaken if the economy is not to drift into long-term decay. This seems to be clear to well-informed citizens, many of whom are liquidating their commitments in Fiji at great personal cost in order to opt out. In discussions with citizens of all races, this point was invariably expressed to us with great clarity. Many in leadership positions and in the bureaucracy have also begun to think tentatively about a thorough reform of Fiji's economic order. But prudence, tradition and bureaucratic self-interest seem to be inducing those in government positions to hesitate. Yet, experience and time-tested economic theory suggest that the ailing economy can be durably re-invigorated if greater scope is given to the decentralised efforts of individuals and small groups in competing and cooperating in markets and, by so doing, in producing socially beneficial outcomes. Self-motivated (but not selfishly-motivated), competing individuals can open up new resources and remove constraints on growth.

It may be argued that the competitive game in a small economy like Fiji's would, in many essential markets, lead to private monopoly suppliers, which might be more harmful to long-term economic welfare than State monopolies. This is why we shall stress, in the reform package elaborated below, that the small Fiji economy must be open to the world market. Monopolistic abuse by a domestic supplier will be controlled by fears of overseas competitors. It is also important to withhold from single suppliers, where they evolve, all forms of government protection. If high monopoly profits are made, new outsider competitors must be able to enter the market. As long as markets are contestable, single suppliers are unlikely to be able to exploit their markets unchecked. The historical record suggests that the social and economic costs of monopoly are normally durable and intolerable only where government protection keeps potential outside competitors at bay.

We estimate that the material gains from a reform of the economic order would be important because they motivate people to create wealth. But material gain does not seem to us to be the most significant attraction of economic reform. For the people of Fiji in the late 1980s, equal economic opportunity and wealth-creating cooperation seem important for non-economic reasons. A focus on economic cooperation and achievement will de-emphasise political emotions and racial tensions, and hasten the prospect for a return of electoral democracy.

## The Gist of the Necessary Reforms

The reforms we have in mind to launch Fiji into a scenario of recovery, prosperity and stability have three major components: a guarantee of civil rights and economic freedoms, not so much by declaration and decree as by clear, consistent government actions and policies in support of such rights and freedoms; a comprehensive, rapid repeal of regulations governing work, commerce, international trade and payments, saving and enterprise; and a slimming down of the presently large government by reducing its functions and by privatising many government entities.

These three components are mutually supportive and should be put in place simultaneously to ensure success. Given the massive shocks of 1987 and the dynamics of economic decline, piecemeal tinkering is unlikely to be sufficient to re-establish confidence and turn the economy around. Only comprehensive, bold and far-sighted reforms can rapidly secure a prosperous and stable future. The unsettling shocks of 1987 and 1988 have paved the way for such a program of reforms.

## Economic Rights and Freedoms

The freedoms and rights that seem most important to ensure confidence and a long-term commitment of individuals to the future of the Republic of Fiji are: property rights (a guarantee that wealth and income are not nationalised, arbitrarily transferred to other owners or excessively taxed away); freedom of contract and association (a guarantee that individuals are free to form groups and enter into lawful agreements with each other, including the freedom not to contract or enter an association); freedom of movement, both within the national territory and overseas, for persons and their possessions; and freedom of information and lawful expression (a key right in the search for relevant knowledge by individuals).

By explicitly affirming these rights, the Republic of Fiji would enhance its legitimacy in the eyes of its citizens and of the world. An affirmation of these basic rights should be combined with some conclusive evidence that the government of the Republic continues to welcome the presence of its Indian citizens and has their prosperity at heart. Civil rights create the preconditions for private initiative and individual welfare. These negative civil rights deny others (including the authorities) the right to arbitrarily interfere in individuals' affairs. They guarantee spheres of freedom for the individual, irrespective of race, creed or political conviction.[1]

These basic freedoms from interference can be credibly secured under many different forms of government. Enlightened, open minority government (like the oligarchies of Europe 150 years ago) or fairly open autocracies (like Hong Kong and Taiwan) are capable of protecting private initiative and of creating a framework in which people from very different communities and traditions can work and live harmoniously together. We hold just the same that electoral democracy and a free press are the most effective ways of protecting civil rights, and of reassuring the people that essential freedoms will remain in place. But whatever the system of government, it is important that the State does not interfere with these basic freedoms. Where a State is interventionist, especially on racial lines, government becomes such a valuable prize to fight over that these freedoms, and the social harmony and economic growth which depend on them, can all too easily be endangered.

If a new constitution and an effective political and legal system guaranteeing it can be set in place, this will no doubt strengthen confidence that basic freedoms, personal safety and economic rights will be safeguarded. But what really matters is not so much the declaration of such rights but their consistent implementation in practice. After the shocks of 1987, confidence will be re-established only by very clear and consistent policies and actions. This task can be made easier, given the limited administrative capabilities of the government, if the State's influence is shrunk by the abolition of many regulations and the privatisation of many publicly owned production ventures.

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1 These economic rights and freedoms must be distinguished from positive rights, such as the right to a definite, government-guaranteed income or job. Positive rights only create disincentives to perform. The guarantee of positive economic rights would be unaffordable to the government of Fiji. There is, of course, a residual need for charity in cases of exceptional personal misfortune or national disaster, but even in those cases it should be made clear that individuals have no automatic claim on the State's resources.

## Deregulation

Fiji's colonial inheritance and intellectual traditions have led to a heavily regulated economy in which much guidance and initiative comes from the centre and from above. All too often, individuals in Fiji need licences, permits and the cooperation of the bureaucracy if they want to take economic initiatives. They often have to justify their commercial instincts to government administrators. They have to explain and seek approval for their economic decisions from higher authorities. They face delays and may have to bribe or pander to those who hold the power to license or control. In these circumstances, many ventures are never embarked upon, perhaps not even imagined. Businessmen engage instead in rent-seeking. They often seek government-granted rights to government-secured markets and do not act like genuine entrepreneurs. This makes a comfortable life for those who have the right connections, but it disadvantages the young, newcomers and outsiders, including rural people. People who do not know how to fill in an application form or who do not have the confidence to negotiate with an official are excluded or have to accept lower profits. No one knows how many promising enterprises are suppressed, or what improvements are not made. The losses in a regulated environment pertain not only to big, visible ventures, like the construction of a resort, but — more importantly — to millions of small but possibly productive steps, like flying to Sydney to test an export idea, imitating a practical success observed in the next village, or planting a new crop.

So many regulations are now in place that the government would lose much valuable time by a piecemeal review of all regulations. Such a review would also exceed the government's present administrative capacity and would enmesh reformers in rear-guard battles, placing the burden of proof for a repeal of any given regulation on them. In the desperate circumstances of Fiji, a bold, clean sweep is needed. The government should announce a three-year 'sunset clause' on all regulations other than those that ensure honesty, law and order. This means that all regulations, statutes and ordinances not expressly justified and accepted by the government would automatically lapse within three years. This would set a powerful signal to the public at home and overseas that the Republican government means business about reform and that the economic rights of individuals, and a genuine market competition, will indeed be strengthened. Such a signal would draw international attention to a renewal of economic opportunities in Fiji and create an important precondition for attracting resources for development.

Beyond such a general medium-term move, the government should immediately repeal the following major interventions in the economy.

All import licences should be lifted (other than for weapons, drugs, and medicines that are not legal in Australia, the USA or Switzerland, and substances that might carry disease if not quarantined). At the same time, all import tariffs should be abolished and replaced by a uniform, across-the-board 10 or 20 per cent fiscal tariff on all commodity imports without exemption. Such a tariff might be gradually phased down to zero by 1992, preferably as part of a comprehensive review of all taxation. The resulting simplification of administrative procedures would allow the government to make immediate staff savings in the Customs Service and in the many departments involved in import licensing. This simplification would also permit a more effective collection of customs duties from a given flow of imports.

All price controls should be repealed, because they are ineffectual and lead to unnecessary administrative work. This would allow the government to dissolve the Prices and Income Board and all other price control bodies. The government would immediately save over half a million dollars in expenditures, and industry would be spared the high compliance costs of price surveillance.

All regulations that make export licences necessary should be abolished, except where health and quarantine regulations of buyer countries require certificates.

Controls over rentals paid on all land should be removed, including land that comes under the purview of the Native Lands Trust Board. In practice, this means that traditional landowners would be permitted — if they chose — to entrust the negotiation of land rents to independent, competing agents and experts (e.g. real estate agents who charge a fee for their service). The frequency of review of rentals and the mode of terminating the tenure of persons who are not prepared to pay market prices for their leases would be determined directly by the owners. As we shall elaborate in Chapter 7, the present practice of land rental has enshrined a transfer of wealth from Fijian owners to Indian lessees. The payment of proper market prices by the users of Fijian-owned land will create incentives to consolidate, to improve productivity and to properly evaluate land use. This will enhance the economic opportunities of traditional Fijian landowners.

Controls over private banking and finance (other than strict prudential controls) should be further removed and taxes on financial transactions should be reduced. This would attract offshore financial operations and raise the efficiency of the financial sector.

All licensing concerning shop hours, factory work time and hotel operations should be dropped.

In order to exploit Fiji's unique advantage as a location in the mid-Pacific, all government regulations concerning air traffic and shipping (other than essential safety regulations) should be repealed. When Fiji adopts a genuine 'open skies' policy, the benefits for the tourist and export industries will be enormous. The potential of such a policy, which grants every operator landing rights, could not develop fully if the governments of the USA, Canada, Japan, Australia, New Zealand and other Pacific countries did not also grant generous landing rights to flights to and from Fiji (see Chapter 10). Fiji should call on foreign governments to place their shared long-term strategic interest above narrowly nationalistic business considerations. Concessions to flights to and from Fiji would fit in well with the new deregulatory international environment and would constructively help Fiji when it is in desperate need. Concessions for flights from Nadi should be sought as a matter of great priority to help rescue the Fiji tourist industry from disaster. In the slightly longer run, shipping and crewing regulations should also be reformed. This maritime nation in the centre of the Pacific has the potential to rival Panama and Liberia as a shipping centre, creating new job opportunities for Fijian seamen in the process.

All wage and salary controls should be removed and the regulatory structure of the Wages Boards, the Ministry of Employment and Industrial Relations, and the National Training Council should be abolished. In Chapter 6 we show that these structures have been ineffectual or even harmful. They also interfere with important rights of free association and free contract.

Controls that inhibit the creation of private enterprises in the health care and education industries should be reviewed and liberalised. This would benefit the quality of life of Fijian citizens. A number of promising, job-creating private hospitals were planned but postponed in 1987. The go-ahead for some of these projects would not only have important announcement effects, but would also lay the basis for a possible export industry in the Pacific, providing high quality private health care. The complementarity with other industries (such as long-stay retirement tourism and the attraction to highly skilled people who work in 'knowledge industries') should be noted.

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'Much of our trouble results from an overblown, overpaid Government sector. More cuts will be needed.'

*Cabinet Minister*

'Customs duties are ridiculously high. Deregulate everything.'

*Businessman*

'Regulation and protection of the economy is protecting the existing business sector against entry by indigenous Fijians.'

*Businessman*

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Particular attention needs to be drawn to the inhibition of opportunities for new entrants — including indigenous Fijians — posed by existing export and import licensing arrangements. A well-informed Fiji businessman expressed the view to us that a major effect of the existing regime of regulation and protection was to protect the existing business sector against entry by indigenous Fijians. Considerable newspaper coverage was, for example, given in January 1988 to the situation of an indigenous Fijian ginger producer who was precluded from exporting by restrictions on the granting of export licences (Chapter 7). The pretext of quality control by the authorities was used to prevent this new entrant from gaining an export market, perhaps with slightly lower prices.

The gains from an energetic, comprehensive attack on regulation will be considerable. Unimagined new commercial opportunities will be discovered and exploited by enterprising people once deregulation changes the game plan. Optimism on this score seems justified by some of Fiji's own experiences. For example, a major stimulus to the start of the export garment industry was the reduction of import duties on sewing machines (from 35 to 7.5 per cent) and on fabrics (from 25 to 5 per cent). Of course, no academic visitor or government committee can 'pick the winners' that will emerge, but people with access to localised knowledge will know or learn of new opportunities. They will move to exploit them as soon as the new economic order is seen to be permanent. It is therefore essential that the government avoid any act that could be interpreted as reregulation, casting doubt about the extent of the reforms.

The artificial prices created by tariffs, licences and regulations generally mean that commercial decisions are based on false information about the real costs in the economy. Commercial enterprises then become dependent on these interventions continuing. Regulation divorces economic decision-making from commercial reality. Unhappily, commercial reality always catches up in the end, often resulting in dire economic and political difficulties.

Another major benefit of deregulation and tariff reform is that it is a powerful weapon against inflation at a time when price-level stability is seriously endangered. Present import duties and licences raise living costs in Fiji, including for Fijians living in the traditional sector, whose real incomes are reduced relative to those working in the protected sectors.

Fiji has few options left. Deregulation is not without risks, but the risks of inaction are to be feared more, in our judgment. It appears that the Interim Government and the wider community are not opposed to deregulation. Indeed, many in Fiji would now greatly welcome it. Deregulation of financial markets has begun in a modest way (freeing of bank interest rates) and other economic controls have been under serious review for some time. The main opposition to a greater play for market forces seems to come from some trade unions, from within the Labour Party, and from some ethnic Fijians who fear that decontrol would give Indians relatively more opportunity, at least initially. As we argue elsewhere, we do not subscribe to these fears (Chapters 3 and 6). Fiji will be a better and fairer place for everyone if good competitors can make progress, irrespective of their race. However, we consider measures to facilitate access by ethnic Fijians to new economic opportunities as crucial to the success of a comprehensive reform program. We devote Chapter 9 below to discussion of that issue.

### Privatisation

The Republic of Fiji owns a vast array of enterprises and entities producing goods and services that can, in our opinion, be produced more efficiently by private enterprise — just as they are produced privately in many other countries (Table 5.1). Fiji is saddled with a large public sector in which: there is cautious, inflexible, administrative procedure instead of risk-taking, imaginative entrepreneurship; inefficient work practices are tolerated; the powerful profit-loss motive of the market has been replaced by administrative and political control and relatively easy access to tax funds; and there is little drive to experiment, raise productivity and improve marketing methods.

The overblown public sector is a drain not only on the public purse, but also on the real income of citizens. Market competition creates incentives to utilise knowledge more effectively in controlling costs, raising productivity and improving product marketing. Privatisation within a competitive market framework would raise the productivity of labour and capital in these enterprises.

Not all privatised enterprises would survive or fetch a high market price, even if shares for them were offered for sale worldwide. But the nation would still gain if the government were to disengage from direct involvement in production. Privatisation would permit overdue structural change and thus promote growth. This may be opposed by those in protected, government-owned enterprises who are likely to want to defend the cosy basis of their jobs. But these fears are often exaggerated out of ignorance of the potential gains. Experience has shown elsewhere that privatisation can bring unanticipated advantages for managers and workers.

As we outlined in Chapter 1, the government of Fiji is drifting into an untenable budget deficit. Neither commercial loans nor foreign aid are likely to be able for long to cover the deficit from the collapse of revenue collection. In his Budget Speech, the Finance Minister stated with great candour that the government cannot balance even its operating budget over the next three to four years and that it has not been able to identify new borrowing sources for a large part of its net financing re-

**Table 5.1**
**PUBLIC ENTERPRISES IN WHICH THE GOVERNMENT OF FIJI HAS AN INTEREST**

| | Parent | Equity Share (%) |
|---|---|---|
| ***Department Enterprises and Quasi-Enterprises*** | | |
| Department of Posts and Telecommunications | | |
| Marine Department | | |
| Native Land Trust Board | | |
| ***Public Corporations*** | | |
| Civil Aviation Authority of Fiji | | |
| Fiji Broadcasting Commission | | |
| Fiji Development Bank (FDB)* | | |
| Fiji Electricity Authority* | | |
| Fiji Meat Industry Board* | | |
| Fiji National Provident Fund | | |
| Fiji Pine Commission* | | |
| Fiji Housing Authority* | | |
| National Bank of Fiji* | | |
| National Marketing Authority (NMA) | | |
| Native Land Development Corporation (NLDC) | | |
| Ports Authority of Fiji | | |
| ***Limited Companies Held Directly*** | | |
| Air Pacific (AP)* | | |
| Fiji Air Ltd* | | |
| Fiji Can Company* | | |
| Fiji International Telecommunications Ltd* | | |
| Fiji Sugar Corporation Ltd (FSC)* | | |
| Fiji Sugar Marketing Company Ltd* | | |
| Home Finance Company Ltd* | | |
| Ika Corporation* | | |
| Rewa Rice Ltd* | | |
| Yaqara Pastoral Company Ltd* | | |
| ***Limited Companies, Held Indirectly, and Quasi-Public Enterprises*** | *Parent* | *Equity Share (%)* |
| FDB Nominees Ltd | FDB | 100 |
| FSC Parbury Pty Ltd* | FSC | 60 |
| FSC Projects Ltd* | NMA | 100 |
| Fiji Citrus Ltd (in receivership)* | NMA | 65 |
| Fiji Ginger Ltd* | NMA | 51 |
| Food Processing Fiji Ltd* | NMA | 36 |
| NLDC Investment Management Ltd | NLDC | 100 |
| NLDC Nominees Ltd | NLDC | 100 |
| Pacific Fishing Company Ltd | MPI** | 40 |
| Pacific Forum Line | – | – |
| Polynesian Airways Ltd* | AP | – |
| South Pacific Distilleries Ltd* | FSC | 100 |
| Suva Stock Exchange* | FDB | 100 |
| Titan Cranes and Equipment Services* | NLDC | 100 |

* Top priority for privatisation. ** Ministry of Primary Industries.
*Source*: Department of Finance.

quirement (Minister of Finance, 1987: paragraphs 26 and 29). There are legal limits on borrowing from the Reserve Bank amounting currently to about $95 million, a third of which has been taken up. International experience with governments in similar difficulties indicates a likely recourse to the printing press, whatever the legal guarantees. Without imaginative reform of its tasks and finances, the government may either have to face a collapse of State finances, or engage in inflationary deficit finance.

In the immediate future, before growth and revenues have recovered, the budget position could be salvaged by a resolute privatisation drive. The short-term objective of balancing state finances dovetails well with the long-term objective of raising productivity growth through privatisation.

Some in Fiji fear that a sale of government assets would bring very little return. This might well be the case if public asset sales were seen as a fire sale by a nation in crisis. But many publicly owned assets are likely to have considerable commercial value if they are assessed against a background of comprehensive deregulation and guarantees of economic freedoms. The prospect of having a direct stake in the future growth of a dynamic Fiji economy is likely to be attractive to potential buyers. As in the case of ownership changes elsewhere, many entrepreneurs will see opportunities for improving the management of ventures offered for sale. New solutions will be transferred to Fiji by the new owners to make the privatised enterprises work more profitably. An excellent example of what is possible is the rejuvenation of the gold industry by the injection of new management talent and know-how after Western Mining Corporation bought a share of Emperor Gold Mine (see Chapter 7). If potential buyers are sure that they will be able to put their new solutions into effect, they will expect greater future profits and will value the assets accordingly. As confidence returns and the momentum of the new economic order builds, subsequent asset sales by the government will fetch more and will help either to repay outstanding debt or to keep tax rates at the low level that a 'Pacific Taiwan' or 'Pacific Hong Kong' needs.

## Aviation

As an immediate measure to launch the privatisation drive, we suggest the sale, worldwide and with the help of experienced agents, of all government shares in Air Pacific as well as Fiji Air, the two ailing, largely State-owned airlines. The strategy of close association with a big regional competitor (Qantas) has not brought great rewards for the Fiji economy. On the contrary, Air Pacific, which is located at the crossroads of the Pacific and at the hub of the South Pacific island nations, has been ensnared in restrictive, high-cost operational and work practices, inappropriate equipment, and an administrative rather than an entrepreneurial management style. This has restricted the growth of Fiji's tourist and export industries. There is no reason why the Fiji taxpayer should subsidise overseas tourists and inefficient airline operations. The deregulation of air services in other parts of the world has demonstrated the enormous gains to the airlines, the customers and the travel industry of a genuinely commercial approach. We are convinced that sale of the Fiji government's shares in Air Pacific would attract business-oriented management and promote tourist development and export-oriented manufacturing and agriculture.

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'Scandinavian Airlines Systems is buying 40 per cent of Argentina's state-owned and debt-ridden national airline, Aerolineas Argentinas.'
*The Economist*, 13-19 February 1988

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The privatised airline should not be given any exclusive privileges to Nadi airport, but should be sold on the understanding that the country has adopted an 'open skies' policy. Any airline operating in future out of Nadi would have to compete, trim its costs and tailor its services, to catch and develop market demand (Findlay et al., 1984).

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**Govt-Qantas 'Cordial' Terms**

'... relations between Australia's international airline and the Fiji authorities are cordial, to say the least. Late last year, Qantas pumped $5m (Aust) into Fiji's international carrier, Air Pacific, representing a 19.57 per cent shareholding in the airline which it has managed since 1985.'
*The Fiji Times*, 18 January 1988

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A second candidate for privatisation (in this case possibly through the offer of shares to a consortium or the public in Fiji, Australia, Hong Kong, Britain and the US) would be Nadi airport. With the right entrepreneurial management, Nadi is an extremely valuable piece of real estate in a unique location in the Pacific. What is needed to realise its potential are owners with know-how and business sense. At present, landing fees are very high by international standards, especially since fees were raised after the loss of flights following the first coup. Lower landing costs would make it attractive to lure those lost flights back. The secondary benefits for tourism and export industries would be considerable.

## Other Candidates for Privatisation

Other assets that should be considered for early sale (or abandonment) are The National Marketing Authority and the Auxiliary Units of the military. A withdrawal of the government from these activities would highlight its commitment to reliance on private initiative.

The Post and Telephones Department can probably be corporatised (as was done in New Zealand) and then sold off. The government's 51 per cent share in Fintel can be sold quickly. Likewise, the Pine Commission could be sold at an early stage. If the government wanted to retain some strategic control in some of these enterprises, it could retain a 'gold share' (similar to the UK practice).

The University of the South Pacific and the Fiji Institute of Technology are valuable assets and would make a greater contribution to tertiary and technical education under new ownership and management (Chapter 6).

In agriculture, fisheries and forestry, there are a number of monopoly enterprises that should be sold (Chapter 7). Once international trade is free, these enterprises will be exposed to sufficient competition that monopoly abuses need not be a real concern.

Table 5.1 indicates further candidates for early privatisation.

Privatisation also raises the issue of national capital controls. Domestic capital will not be sufficient to absorb a massive asset sale, as past attempts to sell the Fiji Sugar Corporation have shown. Whether assets can be sold or not is of course largely a matter of the price, but confining the possible buyers to Fiji citizens ensures that the government gets less return than it otherwise might. Many assets would, therefore, have to be offered worldwide and are likely to pass into the control of foreign-domiciled owners. However, if the privatised companies have to compete, both nationally and internationally, if they are not able to extract special preferment from the Fiji government at the expense of local customers (e.g. tariff protection), and if they are subject to the common law, there need be little concern about ownership by overseas interests. In an integrated, growing world, many assets in small nations are owned by people who live elsewhere; and if the government's key objective is economic growth, this objective is consistent with the interest of private shareholders, be they in Fiji or elsewhere. Economic nationalism about capital ownership only becomes important in regulated, rent-seeking economies (Kasper, 1984). In the final analysis, Fiji has to decide what is most wanted: controls and nationalism, or the best possible return on its assets and a fast growth of living standards.

## Government: Small Is Beautiful

The style and size of government in the growth scenario should be inspired by the models of a slim city management, or a small European country like Luxembourg.[2]

Unhappily, however, as of 1988, the Suva telephone book lists no fewer than 82 government departments and independent agencies. This huge and detailed bureaucratic structure absorbs scarce resources and ensures confusing, contradictory and static decision-making. Fiji's long-term economic prospects would be greatly served by administrative reforms that streamlined those government structures. A very small number of (small) 'super ministries' could set and coordinate the key policies. In a reform scenario there is a need for only a few policies — ones that are rarely changed. Many regulatory functions vanish, so that fewer administrators are needed. Thus, there might be a (small) 'super ministry' for Economy and Finance that covered and coordinated all economic and budget matters. In the face of its financial constraints and its staff losses, the government should opt for fewer but better qualified (and better paid?) civil servants, rather than an army of officials who face repeated wage cuts and become disgruntled.

Many activities that presently exist within Fiji's government seem out of place in a growth scenario. Many departments should be consolidated or dissolved. One candidate for abolition that comes to mind in the area of economic management is the Central Planning Office. Its residual functions could be fulfilled by a small section in a new Ministry of the Economy and Finance that prepares revolving five-year budget projections. There is no point in wasting valuable talent on grandiose five-year plans that specify irrelevant detail and that need revising as soon as they are printed.

> Perhaps the principal barrier to growth in Fiji is the perception that the public sector and public intervention are the mainspring of the economy ... This is the impression created by the Ninth Development Plan, which, like its predecessors, represents a 1950s attempt to plan every component of the economy ... the Fiji Plan provides extremely detailed projections for all sectors of the economy at trivial levels which cannot possibly be meaningful for

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[2] The Grand Duchy of Luxembourg (365 000 inhabitants on 2586 square kilometres) has a national product of US$5.2b (1986), compared to Fiji's US$1.2b. Luxembourg has no national army, no national currency, no national customs tariff, minimal statistics, and no central planning office. But the citizens of Luxembourg live in affluent, safe circumstances, and enjoy a decent democracy, irrespective of whether their mother tongue is French or German.

> even 5 years ahead. For example the Plan (p.67) suggests that pork production in 1980 should be 1,405 tonnes, entailing an employment of 262 people! Similar 'planning' applies to chicken meat. Yet there is no social economic cost benefit analysis of the cost of protecting domestic meat production. (Hughes, 1987:4)

Many LDCs are now giving up the illusory technocratic and old-fashioned practice of five-year planning. Once centralised planning is abandoned, a number of statistical series can also be discontinued and the statistical system shrunk to a size commensurate to a country of 700 000 people. Decision-makers may be inspired by the small statistical system that free market economies like Switzerland or Hong Kong find appropriate to their needs. In any event, Fiji's statistical system strikes a foreign observer as oddly detailed in some areas and grossly deficient in others. The lags in publishing data, a somewhat nonchalant attitude by data providers, frequent large revisions and apparent inconsistencies make one doubt the value of many of the existing data series, *a fortiori* since 1987. If our impressions are correct, official statistics may actually mislead decision-makers and cause more harm than good.

In Chapter 6, we argue for the privatisation of labour relations and the abolition of the entire Ministry of Employment and Industrial Relations. Similarly, entities like the Department for Food and Nutrition, the Consumer Council of Fiji and the Tripartite Forum would be superfluous in a growth scenario. And all administrative functions that remain after deregulation in the physical resources area could be consolidated in a single department (Chapter 7).

The leaders of Fiji realise that the government's functions and structures need to be reviewed critically in the face of the developing budget emergency. It is inevitable that government structures will have to be screened and trimmed back. This is a high priority task that fits the spirit of a growth strategy. It might even be worthwhile to hire an experienced business consulting firm to prepare a plan to streamline and shrink the government into a compact management structure.

Like everywhere else, leaders with the strategic vision and will to implement bold reforms will be confronted by the opposition of established bureaucrats who fear a loss of power, jobs and material rewards from regulating the public. They will argue that Fiji is a special case, that the people in a developing country need the guidance of government, that — with new staff — great achievements can be made in future, etc. The reformers will be confronted by some administrators who will find a problem for every solution.

But reformers ready to adopt bold strategic solutions should remember the insights of public choice theory developed by economists like Economics Nobel Prize winner James Buchanan (Buchanan and

Tullock, 1964; Buchanan and Brennan, 1985; see also James, 1987). This school of economists has convincingly destroyed the notion that bureaucracies act in the public interest rather than in their own private interest. If the new leaders of Fiji lose the battle with the established bureaucracy and the organised interest groups with which they are intertwined, they and the citizens of Fiji will face a grim reality of long-term decay. New Zealand, on the other hand, has realised that major and comprehensive reform can terminate stagnation, and has embarked on reforms similar to those proposed here (Douglas and Callan, 1987).

Indeed, unlike many other countries now considering or implementing these sorts of ideas, the conditions for reform in Fiji seem reasonably favourable. The experiences of 1987 and 1988 have created shock waves that have weakened support for the status quo by existing pressure groups. We have been impressed by the readiness for sacrifice, the maturity, honesty and resilience of many people in the face of such adversity. These attitudes will greatly help in implementing a reform package and in making the reforms a success. Many Fiji citizens have already begun to think about the implications of deregulation, privatisation and slimmed-down government. New attitudes are developing. This will greatly help the leaders of Fiji to wrest opportunity from adversity.

## Growth Scenario II: What is Feasible?

Fiji could soon realise high growth if the above-mentioned reforms are implemented consistently and if the Indian citizens are given a signal that they are welcome members of the society. Fiji has great assets for economic progress: a central location in the South Pacific, reasonable levels of basic education (including ready access to the English-speaking world), a beautiful land and vast marine area, a stock of entrepreneurs, stable social structures of family and wider community groups, good health standards, a reasonable infrastructure, and a long history of reasonable stability before 1987. Moreover, Fiji has reached that middle-income level from which many countries have managed the 'take off' into fast, sustained growth. Despite the misfortunes of 1987, Fiji is in a better starting position for fast economic growth and stability than West Germany was in 1945, Hong Kong in 1950, Taiwan in 1960, or Malta in 1975. In all these cases, initial successes triggered confidence, and confidence bred further success. In all these cases, political factionalism and emotive debate could have undermined the growth process. But people settled down to the business of cooperating and competing in the marketplace and put aside their political emotions. Reformers in Fiji can take heart from these experiences that economic success de-emphasises political group tensions. This is one of the most important attractions of the growth scenario.

For illustrative purposes, and to allow others to evaluate the plausibility and implications of a growth scenario, we have estimated the following trend values for 1986 to 2010 (see also Appendix A). With a return of confidence and good economic prospects, many of the recent emigrants would come back. After all, life in Melbourne or Toronto may not be all that attractive; and a Fiji that is inspired by exciting reforms may again look like home. We estimate that the volume of labour input could, in these circumstances, rise by a trend rate of 2.7 per cent p.a. This is based on a population growth rate of 2.2 per cent p.a. and an increase in the working-age population of 2.5 per cent p.a. In addition, more economic opportunities and jobs that meet the requirements of women or villagers can be assumed to raise participation rates, so that the volume of work hours rises by 2.7 per cent.

Privatisation and new investment opportunities in a free-market Fiji would attract capital, not least funds that Fiji citizens have previously invested overseas. A slimmed-down government faced with good revenue growth could build up the basic infrastructure, e.g. roads. Private companies might invest in electricity or health care, as well as in manufacturing and services. To reflect these trends in demand and investment, we assume a growth of the capital stock of 6 per cent p.a.

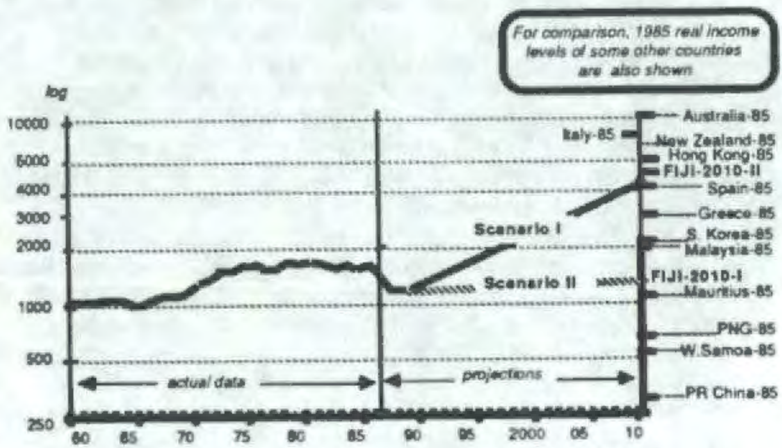
In a growing, profit-driven economy, the share of wages in national income would be lower than was assumed in the stagnation scenario (50 per cent instead of 60 per cent). But the real incomes of workers would, of course, grow faster. What matters to workers and their families is rising real income, not some abstract, macroeconomic share in total national income.

As elsewhere, the biggest benefit of a competitive, open, enterprise-oriented economic order would be that it enhances productivity growth, scale economies, better management and better use of knowledge, which raises the productivity of labour and capital as well as of land and sea resources. In view of past trends and the harm done by the events of 1987, it seems plausible, by international comparison, that one-third of total growth could be due to increases in total productivity.

Compounding these assumptions along the lines of standard growth theory (Appendix A), we arrive at a growth rate of 6.5 per cent p.a. of gross domestic product (1986 to 2010). The growth rate of real per-capita incomes would be 4.3 per cent p.a. Living standards would rise to a level of about US$4500 (in constant 1986 prices) by 2010, which is nearly three times 1986 income. The losses of 1987 and 1988 would — in this scenario — be temporary. From the low level of 1989, the growth rate of per-capita incomes is 6.9 per cent. Graph 5.1 compares the results of the growth scenario with the status quo scenario (discussed in Chapter 4) and with income levels of some other nations in 1986. Such growth is plausible for a small country given the experience of other developing nations that have chosen a private-enterprise oriented economic order.

Graph 5.1

**REAL PER-CAPITA INCOME IN THE TWO SCENARIOS**
**- GDP at factor cost, in constant 1986 US-$ —**




Sources: IMF, IBRD, national sources (Fiji)

What is at stake in purely material terms is a rise in average living standards, within a generation, from US$1300 if no reforms are attempted, to US$4500 if bold reforms are embarked upon. While these numbers should be understood as only indicative, they show nonetheless the considerable rewards for a bold economic strategy.

The growth process in this scenario would be mainly export driven. There would be a fairly rapid rate of export diversification. Commodity exports would not remain heavily centered on sugar, whose growth potential seems limited (to, say, 2 per cent real output increase annually). It is not even clear whether Fiji will in future be able to renew favourable sugar export agreements, for these do not fit well into the new, more business oriented international climate. But there is heartening evidence of great growth potential in quality garment-making for export. Even in the adverse circumstances of 1987, there were spectacular successes in this area in export job creation, and overseas private companies have been planning to provide warehousing and other infrastructure for further expansion. While Australia's preferential import concessions under the SPARTECA agreement have played an important role in triggering some of this development, there are clear signs that the garment manufacturers are improving their productivity and quality fast and are beginning to feel their way into other markets, like the USA. Other areas for possible export diversification are tropical horticultural specialties and food preparations, high quality fruit, specialised metal products and furniture. In all these cases, close liaison with overseas product developers and marketing organisations, a good network of air and ship connections, and access to overseas markets are essential. The protectionism of overseas countries is less to be feared by a small, new, industrial country like Fiji than by big suppliers like India. Niche markets can be exploited by agile, specialised exporters from Fiji without attracting retaliation or targeted protectionism from rich countries. The most important ingredient in export success is probably attitude. Fiji's citizens should stop bemoaning the decline in their terms of trade and difficult world market conditions and make a journey of discovery into new world markets with new products. It will not take very many new products to turn such a small economy around and launch it into a growth scenario. The first and most difficult steps have already been taken by some garment and furniture manufacturers. In this scenario, they will have many imitators.

## A Final Word

It may be tempting to consider varying this scenario in favour of a program of more partial and piecemeal reforms. But gradual reform is not appropriate because time is running out. Half the reforms at slow speed are unlikely to achieve half the growth effects. The growth scenario is based on a quick reversal of the damage of 1987-88 and on the mutually reinforcing synergies that will be set in train if a new economic order is adopted rapidly and comprehensively. In Fiji's circumstances, the returns to a 'half-way' program are likely to be disappointing.

The reforms we propose and the scenario we have discussed would make Fiji a bright example for its neighbours, such as New Zealand promises to become (Blandy and Baker, 1987; Dean, 1988), or as Hong Kong and Taiwan have been in East Asia. Fiji could become the hub of a Pacific growth alliance and a counterpoint to socialist, statist and repressive tendencies in other developing nations of the South Pacific. It could show a constructive way out of the growing pains of independence and development. Fiji would earn the respect, admiration and sympathy that the affluent, free enterprise oriented nations around the Pacific rim give to their friends.

# Part III

# Policies for Growth

# Chapter 6

# Labour, Skills and Entrepreneurship

## Background

Of Fiji's population of 715 000, about 420 000 are in the economically active age group over 15 years of age. About 220 000 of these can be considered to be 'employed'; many are in the informal, traditional sector in self-employment or in unpaid family work. Only 70 000-80 000 are wage and salary earners. This is about 20 per cent of the economically active population. (The corresponding percentage in Australia is about 60 per cent.) The remaining 200 000 in the economically active age group are considered as 'unemployed', and what sorts of economic activities they perform as part of their general, subsistence lifestyle are unclear. The labour force is estimated to be nearly 250 000, and unemployment was about 7 per cent in 1986. Over the longer term, unemployment has shown an upward trend, and in 1987 it increased sharply. It is concentrated among the young and in urban areas.

Nearly 300 000 of the population are children below the age of 15. This implies a relatively young population by world (though not Pacific) standards and approximates the age structure of South Asia. Life expectancy is about 15 years longer than in South Asia, and the infant mortality rate is only one-third that in South Asia (but three times higher than Australia's). The overall population growth rate is approximately 2 per cent p.a. (labour force 2.5 per cent p.a.) and falling.

Fiji has a relatively young and healthy population, and hence labour force. Population growth is manageable. Only a relatively small proportion of the population of working age is engaged in wage and salary employment, however, and most work activity is carried out in the village subsistence (or semi-subsistence) sector.

The most unusual feature of the Fiji population and labour force is, of course, its bifurcation into persons of ethnic Fijian and ethnic Indian descent. About 46 per cent of the population are ethnic Fijians and about 50 per cent are ethnic Indians, with the balance made up of Chinese, Europeans, and others.

Ethnic Fijians comprise 40 per cent of wage and salary earners, but a negligible share of the country's businessmen and entrepreneurs. About 70 per cent of the higher-paid Fijians are in (government) services. By contrast, about half of the higher-paid Indians are employed in the services sector, over one quarter of these in trade and finance. Manufacturing employment occupies 22 per cent of Indian wage and salary earners, but only 14 per cent of ethnic Fijian wage and salary earners. Commercial sugar farming is almost exclusively in the hands of ethnic Indians. Service jobs in tourist resorts, on the other hand, are dominated by ethnic Fijians.

An essentially accurate generalisation is, therefore, that the Indian (and 'other') population dominates the modern commercial activities of the country. They own, manage and operate the country's commercial ventures. Only in (non-commercial) government sector activities do ethnic Fijians hold a substantial share of higher income employment and have control over the direction of affairs.

By the same token, ethnic Fijians own inalienable rights to 83 per cent of the land. These traditional lands may be leased to non-Fijians under terms approved by the Native Lands Trust Board and these leases can be traded. The rest of the land is either freehold land that can be owned by non-ethnic Fijians or land owned directly by the State itself.

Ethnic Fijians therefore 'own' significant resources in the land and in the government of the country, whereas ethnic Indians have concentrated significant resources in the commercial sector of the economy — in the shape not only of capital but also of commercially significant skills. The economic and political returns yielded by these different concentrations of skills and assets essentially determine the economic (and political) balance between the two communities. As Fisk pointed out nearly two decades ago, this concentration of particular assets in the hands of particular groups holds the potential for a disastrous divergence in living standards and in the interests of the groups. He urged greater involvement by the Fijians in commercial activity and greater access by the Indians to land (Fisk, 1970). This has not happened.

There has been a substantial migratory movement of people, both within Fiji and to other countries. Internal migration is generally from the outer islands towards the two main islands, especially Viti Levu, and into the main towns, especially Suva. Much of the migration is seasonal or temporary, but there is also a permanent drift. Internal migration can be a source of tension in the areas of immigration, especially when economic opportunities deteriorate.

Emigration (seasonal and permanent) is largely to New Zealand, Australia and North America and involves both the Fijian and Indian communities. The rate of net emigration has generally been about 0.5 per cent of the population annually (3000-4000 persons). It is clear that the political events of 1987 have sharply increased the propensity to emigrate of the Indian community, especially those with saleable skills abroad.

The population has a relatively high level of sub-tertiary education for a developing country, reflecting the major national effort made in schooling. Only some 7 per cent of the adult population have no formal education (although that rate is 13 per cent for women and 10 per cent for rural areas). Most children do not study beyond ages 14-16, however, and the standard of schooling varies greatly. About 3 per cent of the adult population have had some post-secondary education. Curricula and examinations are being localised, for example through the abandonment of the New Zealand School Certificate Examination at the end of secondary schooling.

Two major post-secondary education institutions exist — the University of the South Pacific and the Fiji Institute of Technology, both of which cater for a broad range of studies. In addition, a number of training programs are organised in association with the Fiji National Training Council, financed by a levy on employers. Employers providing their own training to acceptable levels are exempt from all or part of the levy.

Nevertheless there have been shortages of adequately trained skilled workers. These are frequently cited by private sector employers as bottlenecks to growth, particularly in the areas of equipment maintenance and repair. It is uncertain to what degree such shortages (which are not unique to Fiji) reflect wage-setting practices which provide insufficient returns to the formation of the relevant skills, compared with other opportunities.

The Fiji labour market has substantial elements of flexibility, despite the existence of wages boards in a number of sectors, and despite a nascent trade union structure concentrated in the public, transport, construction, trade and sugar sectors, and in the major private companies. The main exception to considerable labour market flexibility is the public sector. In other areas, determinations of the wages boards are widely flaunted (or are not enforced) when economic conditions necessitate. Wages in agriculture and manufacturing are unregulated. In consequence, significant pay flexibility exists outside the public sector in response to economic circumstances. This has the effect of greatly mitigating the employment consequences of economic shocks. Until the economic downturn in 1987, wage differentials between unionised and non-unionised labour tended to widen. Pay margins for skills have fluctuated with economic conditions, rising in times of shortage, especially in the non-unionised sectors of the economy. Pay rates are much more dispersed than they are in the heavily regulated Australian labour market, where the coefficient of variation in pay is half that in Fiji (Blandy and Richardson, 1988).

Nevertheless, public sector employees did accept a pay freeze in 1985 and accepted a 15 per cent cut in pay after the coups in 1987. However, public sector employees remain the highest paid in the economy, with the exception of some major private sector companies.

After the the first coup the industrial relations machinery was placed in suspension, although steps towards the restoration of the formal system are under review. Due to the contraction in overall activity, there has also been a significant reduction in working hours in many sectors of private enterprise — in some enterprises falling to half time or even one-third time.

Finally, we must note the importance of the traditional village economy, to which passing reference was made earlier. It dominates working life for the majority of indigenous Fijians. The main feature of organisation in the village is that economic activities are carried out within the traditional framework of a small group that offers collective security. This also maintains interpersonal ties, a very important task. This method of work organisation accomplishes the functions of production and distribution in terms of a long-run implicit contract between members of each traditional group, which acts to insure individual members against adverse states of the world. In return, payments are exacted when members of the group have an income.

Subsistence productivity in the traditional economy is relatively high by international standards because of an abundance of land and sea resources. However, cash income earning performance is low and the integration into the modern economy is limited. There has been only very modest growth in the yield of the major resources owned by indigenous Fijians. The policy of guaranteeing land and sea resources to Fijians has had the advantage of giving them a degree of social security, but it has had the disadvantage of keeping them in stagnant subsistence activities and of limiting their exposure to productivity enhancing modern work practices. A substantial policy objective must be to find ways to increase the economic yields of the traditional resources of the Fijians.

The 'village contract' economy interacts with the cash economy in a number of important ways. First, the standard of living provided in the traditional economy provides a floor, or 'reservation wage', below which effort will not be supplied to the cash economy. Second, the village economy acts as a social security net in adverse times in the cash economy, provided traditional obligations have been maintained by the members that work in the cash economy. Fijians often share their resources with family and friends instead of accumulating them. This can inhibit them from maintaining efficient commercial and management practices. As a result, Fijians have earned a reputation as bad managers of commercial enterprises.

By the same token, the existence of cash economy opportunities that offer higher individual rewards and different organisational structures creates a tension that helps to maintain the traditional arrangements and obligations. This problem is of course not unique to Fiji. The tension between opportunity based on merit and individual enterprise, and security based on collective, hierarchical village cultures is of major importance for the development of Fiji, politically and socially as well as economically (Chapter 9).

### The Immediate Crisis

In the aftermath of the political events of 1987, two major crises have emerged in the labour market: a serious 'brain drain' of scarce skills, which looks set to become worse in the immediate future and may be permanent over the longer term; and a serious loss of jobs and reduction in working hours in many sectors of the economy.

According to information provided to us by employers and others in Fiji, the loss of skilled labour has become serious among doctors, teachers, accountants, financial analysts, computer programmers, electronic and electrical tradesmen, motor mechanics, refrigeration mechanics, and plumbers. Other fields have no doubt also been affected. This means that there will be serious bottlenecks once economic activity picks up, and that long-term growth potential is being seriously eroded.

It is our impression that the losses of such skilled and professional workers may be even greater than is apparent at present. Many persons have taken holidays overseas, and if they look for and find jobs during that time they may not return. Many persons have lodged applications to migrate to various countries and are awaiting the processing of such applications. A rough guess at the present losses of skilled manpower could be of the order of 2000 people. Based on sketchy information, perhaps double that number might be added to these losses during 1988.

Based on the 1982 Employment/Unemployment Survey, we estimate that there might have been 20 000 persons employed in the relevant skill categories in 1986. This means an immediate 'brain drain' of 10 per cent during 1987 and a total loss by the end of 1988 of nearly one-third, or about 6000 people.

It seems doubtful that these people can be replaced by newly educated workers in the immediate to medium term, especially since the more experienced workers appear to be heavily represented among those leaving. Their permanent loss would be a devastating blow to the immediate prospects for the entire Fiji economy. If this blow is to be averted, immediate emergency measures should be taken to reassure the relevant groups of the future protection of their economic and civil rights. This is a critical matter that merits immediate attention. In addition to political assurances and conclusive actions to affirm them, salary and wage levels should be allowed to vary to reflect shortages of skilled persons as they emerge.

This would induce some potential emigrants to stay and lure some skilled people back to Fiji. Some of those who have left in 1987 have already returned. Others undoubtedly will do so. The only major strategy for restoring the potentially disastrous skill situation in the immediate term is to attract back as many as possible of those who leave, and to dampen intentions to migrate.

Unemployment and underemployment in the commercial sector of the economy is the second immediately critical labour market issue. In the wholesale and retail sector employment is said to have fallen by 50 per cent, with many of the remainder working only 30 hours or even less. Among the larger expatriate firms, perhaps a third of employees may be working short hours, although job losses have so far been limited. In the garment sector overall employment has fallen by up to one-third, because the domestic market has collapsed, reversing the strong growth performance of recent years. Production for export has been strong to date, but some producers are short of orders for the immediate future. Timber and furniture production for the local market has been severely reduced, but export sales remain strong. Employment may have fallen in this sector by 20 per cent. For the time after January 1988, resort bookings are only 50 per cent or less of last year's bookings. The industry does not expect the situation to improve substantially in the near future. Some resorts have cut hours to 16 per week (from 48). Building employment in the commercial and residential areas is very weak, with little in prospect. The government budget anticipates major reductions in government expenditure. Public sector employment is bound to fall.

On the other hand, employment in the sugar and gold industries has been well maintained and village subsistence production seems to have increased, because people are returning to the villages from former cash economy employment and others are having increased difficulty in finding cash employment.

Employment (measured in the equivalent of standard work-weeks) in the cash economy may well have fallen during the course of the year by 10 per cent, increasing the rate of underemployment (in terms of standard work-weeks) to 20 per cent. If the many investment projects now in suspension do not get the go-ahead soon, if tourist arrivals do not pick up, and if export orders for garments dry up, the employment situation will deteriorate further during 1988 and will reach unprecedented levels. This would put enormous strain on the social fabric, which has held together so far (Chapter 1).

Measures to restore investor confidence in the political stability of Fiji are a first imperative. Other important policy measures to combat the fall in employment include providing a stimulus to exports. This requires that the Fiji dollar is not allowed to become overvalued, that import duties are cut to hold down production costs for export, and that measures are taken to raise flight arrivals at Nadi airport. In addition, as much flexibility as possible in earnings should be permitted by continuing to countenance short-time working, suspending the operation of wage orders, and allowing hourly wage rates to vary (de facto at least but de jure if possible, as already has occurred in the public sector). All these steps will play a major role in containing the fall in employment. They will also help to share the burden of the present misfortune more equitably across the whole community.

In many ways what is needed in response to the crisis in the economy and the labour market is a sharp break with the economic strategy of the past (Chapter 5). The past statist strategy of interventionism restricted opportunities in ways that gave rise to divisions within the Fijian community as well as between it and the Indian community. A strategy is needed that clearly opens up opportunities for those who presently feel excluded and disadvantaged.

## Policies for Recovery and Faster Development

Some radical departures will be required in institutional structures affecting labour, skills and entrepreneurship to achieve recovery and rapid growth. While they are radical in terms of the general pattern of the past, the reforms are quite feasible by international experience. Other countries have extracted themselves from similar difficulties by resolute reform. Moreover, successful exceptions and innovations already exist in Fiji's economy (for example the garment industry). The seeds for fast long-term growth must now be spread and cultivated.

The major policy objectives to be achieved are: a rapid and successful expansion of ethnic Fijian participation in commercial cash activities; a rapid increase in the yields of the resources owned by ethnic Fijians, especially land and sea resources; expanded access by ethnic Indians to use (but not necessarily to own) traditional land and sea resources; and faster rates of commercially useful skill formation, including management skills.

The strategy to be followed in achieving these objectives involves rapidly commercialising the use of traditional lands (Chapter 7); exploiting the opportunities thus created by efficient and flexible corporate vehicles established by and for each group of traditional owners ('village companies'); changing trade union registration procedures to permit the formation of enterprise (or 'house') unions to facilitate greater flexibility at times of rapid structural change and newly evolving opportunities; abolishing the Wages Boards, the Department of Employment and Industrial Relations and the National Training Council; deregulating product markets, including import and export licensing and tariff protection (Chapter 5); privatisating, within a competitive environment, government production activities, including educational institutions such as the University of the South Pacific and the Fiji Institute of Technology; and setting wages in the public sector on a competitive market basis to ensure that private sector pay increases do not lead to skill shortages in the key areas of a small and efficient public sector.

## Formation of 'Village Companies'

*Tikina* councils, or smaller units of traditional land owners, if they desire, should be assisted to form corporate entities to participate in commercial developments on their land, or in commercial ventures more generally. For example, in recent years the Fiji Pine Commission through its Landowners' Business Development branch has created successful collective share companies with shareholders drawn from the landowners. These companies are subcontracted to work in logging, trucking and catering. Before being given contracts, they are required to raise at least 20 per cent of their capital from their own resources; the rest can be borrowed against land as collateral. At present, five companies are operational. There are other models that could serve to inspire the development of 'village companies', for example the successful Mondragon scheme in Spain (Oakshott, 1978; Thomas and Logan, 1982; Bradley and Gelb, 1983).

Such corporate structures could range from cooperatives to fully fledged capitalist enterprises. The traditional landowners can contribute as their equity stake the value of their land (which is constituted by the capitalised value of rents available in its unimproved state), or any other funds that the group decides to put up.

Participation in these village companies can take the form of shareholdings based on traditional claims on incomes from the land or other agreed shares among the *mataqali* or *tikina*. The village companies hire some or all of the owners to do paid work and conduct training in the operation and development of the venture, possibly in association with an entrepreneur who would also be either a shareholder or a paid manager. The ventures sponsored by the Fiji Pine Commission are financed on a hire purchase arrangement with a commercial bank, which initially takes an agreed equity in the venture. As the village company earns income over and above the wages paid, the bank sells its shares to the village company. This means that part of the income of the villagers is committed to repaying debt and to capital formation and cannot be dissipated in clan-wide consumption. The Fijian operators have agreed to a time schedule for repaying the bank loans. It is most encouraging that payments are reported to be regularly ahead of schedule.

For such companies to prosper there must be appropriate training. The provinces and the national government should foster schemes to train in business skills those who manage the village companies. One such training centre now exists at Nadave, Tailevu province, but it is unduly lavish and costly. More appropriate centres might be established in locations like Tavua, Sigatoka, Levuka and Savusavu to serve adjacent provinces. Ultimately they might develop into community business colleges, but at the outset they should be highly practise-oriented, offering training in practical local needs such as bookkeeping, simple management techniques, and appropriate technology (e.g. motor repair). Under the Pine Commission experiment, schooling is provided in the National Logging School.

The management structure of each venture should reflect normal commercial evaluation of merit and effort and should pay as little regard to traditional village hierarchies as possible. The role of the chiefs should not necessarily be extended beyond the more ceremonial roles (such as the British monarchy in modern times). Chieftainship should not be confused with managerial authority, which should rest with the most suitable persons among the shareholder-operators, irrespective of hereditary rank. This is not said to be disrespectful of the chiefs, just as the constitutional status of Queen Elizabeth II in no way diminishes her standing as monarch. Economic arrangements that reward inherited title without work contribution are not sustainable anywhere in the modern world. They would only create friction within the Fijian community and harm its traditional cohesion and the important social role of the chiefly system.

It is important for these village companies to have access to adequate financial capital on commercial terms together with appropriate arrangements to supervise and assist financial and other management tasks. The Fiji Development Bank has already taken steps in this direction by offering supervisory and advisory services. Commercial banks provide similar services to the ventures sponsored by the Fiji Pine Commission. Given the strategic role of racial balance, the development of financial structures and services of this kind is a top priority for Fiji (see Chapter 9).

Such 'group' ventures offer great attractions to the Fijian community. They have good chances of success in the modern world. They derive naturally from the 'group contract' arrangements of traditional village life, and they avoid many of the conflicts of capitalist against worker, since the workers themselves own the venture. In the village context, they offer modern employment opportunities — particularly for the young.

The Pine Commission experiment offers two important lessons about developing more village companies: successful corporate activities can be developed on the basis of Fijian land-owning units; and a dedicated 'parent organisation' is essential in providing guidance, advice and encouragement at the formative stage, and later training, supervision and accounting support. The successful development of producer cooperatives in the Mondragon area in Spain confirms the importance of such supporting organisations.

## Changes in Union Structures

Fiji inherited the existing structure of trade unions from its colonial past and from the historical class conflict in British society. British unions represented the interest of the working class and the poor, in a society that — unlike Fiji — did **not** have a large traditional economy based on subsistence production. In Britain, Fabian socialism — involving mass worker organisations as a political power base — was opposed to cooperative models of social interaction. These cooperative models, based on the ideas of Owen, Kolbe and Fourrier, took deeper root in France, Germany and other European countries. They would be much more in tune with the smaller size of operations in Fiji, where workers in the cash economy are often far more affluent than the vast mass of workers in the traditional economy. Further, it is now widely believed that enterprise-centred unionism — as compared to craft- or industry-centred unionism — is more in tune with flexible responses to opportunity, rapid productivity growth and economic advancement.

Fiji should use the present crisis as an opportunity to change the basis for trade union registration or recognition, and to permit representative elections as the basis for trade union formation. One of the most essential freedoms that should be guaranteed is the freedom to associate or not to associate. Trade union reform as discussed here reflects this principle. Union elections should be conducted with a franchise, in each case, defined by the workers employed within each enterprise. Workers in each enterprise should be free to form new trade unions if they wish. Any actual or proposed trade union that received a majority vote within the enterprise should be recognised by management as the bargaining agent for the workers. Such enterprise (or 'house') unions should be free to form alliances with other unions if they wish. If a representative election fails to obtain the necessary majority of all employees, no union is formed. Such elections should be held every three years if 10 per cent or more of the workers petition for it.

The purpose of this change is to alter the focus of trade union activity from politics to a focus on production and productivity, representing the real interest of workers within an enterprise. An important aspect of the economic success of Japan has been its enterprise unions, which have been as intent as management on procuring successful economic performance. This alone can yield secure employment and growing income rewards for the workers.

## Changes in Labour Market Regulations

The Wages Boards set legally enforceable wage minima in various industries in Fiji, at least in theory. These minima are observed in practice only by the largest, most visible corporations, and by public sector enterprises. Smaller enterprises pay little regard to the minima. Enforcement is rare, largely because the consequence of enforcement would be mass retrenchments of the workers involved.

The garment industry is a classic illustration. This sector has boomed over the past three or four years, with employment approximately doubling ever year. Wages vary, and in general are low for inexperienced workers. Most of the employees are women, often in disadvantaged circumstances, such as divorcees or widows. When a wages order was imposed in 1986 large-scale retrenchments immediately occurred, and the order was suspended. In subsequent consideration of the question, we were informed, women from a particular factory pleaded that there be no imposition of wages orders.

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### How to Build a New Industry and Train the Necessary Skills

Entrepreneur A in Lautoka, in his middle thirties, sits behind his crammed desk in a corner of the factory floor. He has been in garments for four years and in exports for eighteen months. His entire production is now geared to exporting. His clean and airy plant produces shorts and trousers on a cut/make/press basis for an Australian company for markets in Australia and the USA, and has made dress trousers for the New Zealand market in the past. He is very competitive in terms of price and quality, although Asian producers have an advantage in access to fabrics and trims. A large investment in a fabric warehouse and washing factory and a trebling of existing production was being planned before the coup, which halted interest from his Australian affiliate. Nevertheless, he is now employing 87 people and is in the process of expanding capacity by 30 per cent as he has already been working to full capacity. He believes he has a very good future in the garment industry because American and New Zealand manufacturers, as well as his present Australian affiliate, are expressing keen interest. He trained his own machinists and cutters and pays a beginning rate of 50c per hour to inexperienced workers being trained. Training on-the-job takes two months. Efficient experienced workers earn $1.20 per hour. He has been to Australia for training with his affiliate

> and the affiliate was sending a trainer to Fiji to assist with extra training at his factory.
>
> Entrepreneur A has no long-run contractual arrangements for his product. But his assets are courage, confidence, hard work and a willingness to take risks and seize uncertain opportunities. He is planning to start a new confectionery factory making hard-boiled sweets, toffees and caramels based on Fiji's sugar supplies.
>
> Entrepreneur A's case illustrates the importance for export success of integrated arrangements with overseas suppliers and marketers. Entrepreneur A is a specialist in a chain of activities stretching across the Pacific. And he makes an export product that eventually reaches customers in Australia and the USA.

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In the absence of wages orders, and before the events of 1987, the garment industry could confidently expect to reach 10 000 employees by 1990 — a massive contribution to employment, incomes and exports in the small Fiji economy.

At present, even in the presence of very high unemployment, garment factories are paying 50c per hour for workers during training, with increases to $1.50 or more for experienced workers ($1.80 was quoted in one factory we visited). The main reason for low initial pay is the low productivity of unskilled and inexperienced workers. The reason for high pay to experienced workers is their high productivity and competition for their services by other employers. This pay structure provides opportunities for the inexperienced to get their foot on the bottom of the job ladder, and to receive the training and experience that will enable them to progress. It is also important to note that the employers train their own workers under such arrangements at no expense to the government. Such a flexible wage mechanism would also help inexperienced Fijians from the villages to enter the cash economy and to raise their training, productivity and income quickly.

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> 'Wage rates of garment workers in Suva have risen after the opening of a new factory. "It is a good thing for the workers but the employers are losing out in this rat race" [said a garment manufacturer].'
>
> *The Fiji Times*, 1986

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All this goes to show that wages orders are not simply unnecessary, but that they actually demonstrably destroy earning and training opportunities that would otherwise exist.

Similar effects of wages orders in limiting opportunities to gain experience and to create jobs have been reported in the retail sector. The team was told that low-paid vacation employment for school children had been eradicated by the enforcement of wage orders. These jobs enabled young people to learn skills, to become known to future employers, and thus subsequently to be employed in the industry at higher pay.

We received evidence that the non-enforcement of wages orders in parts of many industries has meant that the de facto low-wage sections have expanded their market share at the expense of sections of the same industries where the wages orders have been enforced. The effect has been to **reduce** highly paid employment, especially in expatriate firms. Wages orders help to **expand** low-paid employment, the opposite of their intention.

The fact that wages orders in retailing apply only in urban areas creates other anomalies. The biggest retailer in Fiji is located just outside the Suva urban boundary, drawing sales and employment away from the urban centre where it might otherwise have been located. We were told of one case where wages orders were enforced by the courts. The employer gave the employee the court-ordered arrears in pay, but when they stepped outside the courtroom the employee promptly gave them back. This is not very surprising, since the employee had accepted the job at the lower wage and preferred to keep the job at that wage. Why have a mythical wage laid down in the wages order, but no job?

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'The Wages Councils were set up to set wages for non-union people based on elite wages in the public sector. This was great if you managed to keep your job.'

*Employer*

'We go from Noddyland talks in tripartite forums at one level to the real world at another, and just get on with sacking people.'

*Employer*

'Expatriate companies are having to pay 50-150 per cent more than local companies and are losing market share hand over fist to the locals.'

*Employer*

'The problem with trade unions in Fiji is the political ambition of the leadership. The union movement in general is very responsible. The membership itself is fine. It is the leadership that is the problem.'

*Businessman*

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The Wages Boards serve no socially useful purpose in a country like Fiji. They act against the interest of the unemployed, the young and the inexperienced. They introduce rigidities, distort employment patterns and reduce training opportunities. The idea that they raise wages is a myth. The only beneficiaries are those lucky enough to retain their jobs at the higher pay levels. The only way to raise wages generally is to increase productivity. The Wages Boards should be abolished.

In such a deregulated labour market, there would be virtually no role for the Department of Employment and Industrial Relations, which is concerned with wages policy, training and industrial relations. The Department should, therefore, be abolished and any residual functions transferred to an enlarged Ministry of Economics and Finance and to the Attorney-General (where violations of civil rights, safety legislation and the general law are involved).

The operation of the National Training Council (NTC) is cumbersome and bureaucratic. It is financed by a levy/grant system on private employers, in effect a payroll tax that reduces employment. The NTC makes substantial surpluses and until recently had built up net assets exceeding $3 million, from which it earned substantial interest income. This shows that there was insufficient demand for training grants, although some entrepreneurial effort probably went into devising 'training' schemes of doubtful relevance so as to qualify for such grants. Most real training activities would occur regardless of the scheme. In Britain, the homeland of the scheme, it is being wound up or severely curtailed. As in other countries with National Training Councils or similar bodies (Australia and New Zealand), the bureaucratic infighting, resistance to change, and delays caused by their operation has seen them recently either abolished or subjected to significant review.

The NTC's present training programs, including apprentice training, should be transferred to a revamped Fiji Institute of Technology. The levy exemption scheme should be abolished and enterprises encouraged to develop pay structures that offer low training wages and high wages for experienced workers. This would provide clear career structures for workers in enterprises. Such differential pay structures offer appropriate incentives to acquire skills, to train workers and to retain scarce, skilled workers in the occupations to which their skills apply.

At present the levy system of the NTC is in suspension. The suspension should be continued pending the abolition of the Council and the transfer of its training functions to the Fiji Institute of Technology.

## Deregulation of Fiji's Product Markets

In earlier Chapters, we argued the case for product market deregulation and abolishing import and export licensing and duties. This is also critical to a new strategy for labour, skills and entrepreneurship, because: a continued regulation of product markets will soon give rise to demands for reregulation of the labour market to offset the power of protected employers; and entrepreneurial initiative and innovation, as well as rapid job creation, cannot thrive where opportunities are constrained by regulation in favour of the vested interests.

It is notable that the areas of the economy that have continued to be buoyant in 1987 are those producing for export against world competition. The sugar, mining, export timber and export garment sectors have continued to do reasonably well. These producers not only face significant international competition for their output, but also enjoy, at least de facto, deregulated labour market conditions. We are impressed by the entrepreneurial vigour and enthusiasm we have seen in the Fiji garment industry producing for export. Youthful entrepreneurs have taken major risks and seized major opportunities, enabling production and employment increases of the order of 500-600 per cent in the space of a single year with markets discovered in North America, Australia and New Zealand. Such Hong Kong-style developments would not be possible with regulated markets for inputs and outputs.

## Privatisation of Government Production — University of the South Pacific and Fiji Institute of Technology

The general case for privatising government production activities is made elsewhere (Chapter 5). In the interest of improving efficiency, a greater share of economic activity in Fiji should be privatised, so that accurate economic signals can guide decentralised economic decision-making and provide economic (rather than political) incentives for production. Privatisation decentralises decision-making from the top towards the real producing units. It eliminates a large layer of unnecessary and costly middle management. And it makes companies more responsive to the real demands and needs of the citizens. These principles apply equally to the provision of education and training services, and they are the basis of our proposals to privatise the University of the South Pacific and the Fiji Institute of Technology.

The University of the South Pacific (USP) costs the Fiji Government more than $5 million per annum in recurrent expenditures, not to mention further expenditures for capital works. Recurrent costs per student are around $5000. Fiji meets about 60 per cent of the recurrent cost of the university. As a consequence of the events of 1987, other contributors are considering withdrawing from the joint venture. Samoa is reported to be uneasy about USP and moves are afoot for a French-speaking tertiary institution elsewhere. The relevance and balance of the activities of USP for the people of Fiji were questioned repeatedly during our stay. Some Fiji sources regarded the quality of instruction as reasonable, but considered the cost of courses to be a very considerable drain on the government budget. Courses are almost as costly as equivalent courses in Australia on a full-cost per annum basis and take longer to complete than in Australia. Moreover, priorities for skilled manpower development in Fiji are primarily for middle-level manpower at the technician level and below, not at the academic level. Further, the growth scenario outlined in this report recommends actually shrinking the public sector, where most USP graduates have in the past found employment.

One of the difficulties faced by USP is that the market for its graduates in a number of specialities is small. This means that cost of tuition in such specialities is high. It would be cheaper to educate a few specialists in such courses in other countries like Australia, New Zealand, Canada and the United States. Fiji citizens need access to good-value education options. It is by no means clear that concentrating limited government resources heavily on the University of the South Pacific provides the best options. Many university courses are now available on a distance education (correspondence) basis using video, computer and satellite technology, opening up inexpensive and effective alternatives in education. Nearly 3000 students at USP are studying in the distance mode compared with 2200 internal students.

An effective improvement for the citizens of Fiji would be for the government to stop funding the University of the South Pacific directly and instead to offer scholarships to students who meet university entrance standards in approved courses anywhere in the world that are deemed appropriate to Fiji's interests. This would include courses offered by the University of the South Pacific, which would have to compete with these alternative options in order to survive.

This would be possible if an agreement were reached with the other countries in the Pacific that support USP to sell the University to a private operator. A private university would have better access to more appropriate financial, management and staffing support. American, Japanese, Australian, New Zealand and British interests, not to mention local interests, would undoubtedly bid for an opportunity to build a world-class university at the crossroads of the Pacific, especially if the growth scenario were adopted. Moreover, the government should encourage competing private institutions to start education ventures on the same basis as the existing university.

Sale of USP on a 90-year lease might well raise more than $100 million, given its prime real estate. The Fiji Government's share should be used to repay government debt. Even more important is the fact that this change would inject vigour, drive, purpose and incentive into the institution; and this would create more socially responsive university training options for the Fijian people.

The Fijian Institute of Technology (FIT) fulfils a very important education and training function for Fiji because it trains middle-level skilled manpower. The FIT functions essentially as a polytechnic institute, although with a substantial training effort below the technician level. If the functions of the National Training Council were transferred to the FIT as proposed here, this training activity would increase. This seems valuable and appropriate, which is not to say that training the higher technical areas is not also of high priority.

Under the economic strategies being proposed here, demand for the graduates of the FIT will increase substantially in all fields. There is a very dynamic future in store for the FIT, if it can meet the opportunity that will be created by the growth scenario.

The best option for the FIT is to improve its ability to respond creatively and dynamically to its future opportunities. In our view, again, this is best done by privatising it. The government itself may wish to retain some equity in this venture in order to retain more influence. But we would expect that a consortium of local private interests and representatives of industry could be easily formed to take over the FIT, since its proper functioning is of vital significance to industry and commerce.

The funding of the FIT would be based on fees charged for its courses. And these would be met by scholarships provided from government and private sources, as well as by individual students and their families. A condition of winning a scholarship could well be a contractual obligation to work for the scholarship provider after completion of the course. In this way, both the government and commercial sectors could meet their own perceived requirements for middle-level manpower, and the FIT would be faced by strong incentives to respond to these requirements as they evolved.

An important feature of this proposal is that it would dramatically increase the level of private sector financial participation in skill formation in Fiji as well as increasing the relevance of the FIT's courses to the real economic demands of the Fiji economy.

We estimate that privatising the FIT could raise tens of millions of dollars for the government with which to repay some of its debt obligations. In addition, there would be a dramatic reduction in the recurrent cost to the government of operating the FIT, at the same time as training activity increased substantially to meet the demands of a rapidly growing economy. The case has also been made for fee-paying private education at the secondary level in Pacific islands (Gannicott and McGavin, 1987; Gannicott, 1988).

## Wage Setting in the Public Sector

A major problem in Fiji's development has been the increase in wages and salaries in the public sector at a pace well in excess of wage rates in most of the private, commercial sector. This tendency has increased government expenditure levels and revenue requirements, thus dampening the development of commercial activities. It has also helped to create an elite of salary earners who are not subject to the normal constraint of commercial success in meeting their salary bill, as well as a powerful lobby group. Such extraordinarily good pay and conditions in protected sectors seem inequitable, particularly in developing countries where most of the people face far lower and more uncertain living standards, plus the usual pressures of competition in earning their incomes.

The problem is the same in many countries. Recent proposals in New Zealand are well worth adopting in Fiji (Roger, 1987). In a nutshell, these proposals aim to encourage freely negotiated pay rates in those areas of the public sector where the budget for the area is not appropriated from general revenue, but depends on the performance of the persons in the area concerned; and to relate pay in the rest of the public sector to movements in pay for the relevant class of persons in the private sector, or to general movements in private sector pay if no such comparable group can be found. (The ratio of public sector pay to private sector pay in different areas of the public sector and for different groups in the public sector should also reflect shortages or oversupplies of persons willing to accept public sector employment in the various areas or groups.)

The purpose of introducing such changes in pay setting is to ensure that the public sector is able to meet its needs for manpower of various kinds without having to offer pay levels that are too high in order to attract and retain its employees; and to stop the public sector becoming a 'leader' in general pay movements throughout the economy, exceeding the pace of productivity improvements and increasing both prices and unemployment.

We recommend that the government review its pay-setting procedures in line with these proposals, paying particular regard to the reforms being introduced in New Zealand.

# Chapter 7

# Land and Sea Resources

## Background

The Fiji economy at both the subsistence and the commercial levels has relied heavily on its land and sea resources. The natural endowment, though varied, is not remarkably rich. The climate is generally conducive to agriculture and forestry, but it is limiting because of rainfall variability and frequency of cyclones. Good soils are found only in limited areas; the remainder is fairly infertile, steep, or highly erodable. Despite substantial prospecting in recent years, proven reserves of minerals are relatively small. Only gold has been found in commercial quantities. The surrounding seas are not particularly rich in commercial marine life apart from the seasonal presence of tuna fish. On this resource base, a limited number of commercial industries have developed. The primary sector now contributes about one-fifth of total domestic production.

In agriculture, sugar is dominant. Established in the 19th century, the industry is now controlled by the Fiji Sugar Corporation, which is almost wholly owned by the Fiji Government. Cane is typically grown on small family farms of less than four hectares. The sugar industry suffers from drastic changes in fortunes because of volatile world prices and the uncertainties of the climate (see 'Fiji and the World Sugar Market' at the end of this chapter). Recently rising world prices and relief from a severe drought have combined to provide relatively good returns on the 1987 crop.

The commercial coconut industry is plantation-based and largely in decline. The stock of trees is ageing, there is little replanting, and maintenance of existing groves is largely neglected. This is justified by low and falling world prices of copra and edible oils, coupled with rising local costs. Ginger, cocoa and vanilla beans have been recently developed, making a small but growing impact. Heavy government involvement has pushed the growth of citrus and rice production; and tourist and some export demand drove an expansion of tropical fruit production before 1987.

Fiji's poultry, pork and egg industries provide the majority of domestic demand and are controlled by many individual producers subject to numerous regulations. The dairy industry is dominated by the Rewa Co-operative Dairy Company, the sole processor of milk in Fiji. The other livestock industries in Fiji — beef, cattle and goats — are relatively small. They are usually sidelines to other agricultural activities or the result of recent aid programs or government initiatives.

The forestry sector can be considered in two parts: the logging and processing of native hardwood timbers, and the logging and processing of plantation pines. The Department of Forestry manages native forests on behalf of their Fijian owners. Standing trees are sold to commercial millers for local consumption (usually for construction) and export (predominantly as veneered timbers). Nearly 50 000 hectares of *pinus caribaea* have been planted on Viti Levu by the Fiji Pine Commission (FPC), a statutory authority of the Fiji Government. Logs from this operation are sold to Tropik Wood Industries, which has as its majority shareholder the FPC. Tropik produces milled timber, which is increasingly perceived as a competitor for local hardwoods in construction, and wood chips for the Japanese paper industry. One operation of the Department of Forestry is the replanting of native forests with mahogany trees. Timbers from these plantations are keenly sought by the sawmillers because of their timber value, relative to the stumpages paid and the comparatively low costs of harvesting.

In the fishing industry, tuna is the most important species commercially but inshore fishing is also relevant in terms of supplying local demand. The inshore sector is largely controlled by small, individual producers, whereas the tuna operation is entirely in the hands of the Ika Corporation, a loss-making government owned organisation responsible for the maritime operation. Pacific Fishing Company — a joint venture between the Fiji Government and C. Itoh Pty Ltd of Japan — is responsible for processing the tuna catch. Capital and expertise for the establishment and management of the tuna industry have come from Japan, Korea and New Zealand.

In mining, a joint venture between Western Mining Corporation and Emperor Gold Mining Company now controls the only two commercially important mines. Both are located at Vatukola in northern Viti Levu. Western Mining and other off-shore companies have been actively engaged in prospecting in Fiji in recent years but to date no new areas have proven to be of commercial value.

## Constraints to Development

The political events of 1987 have had some important effects on the physical resource sector. Although these events had no real effect on the physical resource base, the rumoured threat by Indian cane farmers not to harvest their crops was a major concern after May 1987. This evaporated as the season progressed. Harvesting proceeded with no substantial reduction in the volume of cane crushed over what had been expected. The real problem for agriculture — particularly the sugar industry — and fishery is the exodus of Indians. There is no substitute for the skills and capital of these people in the short run. And a 'Fijianisation' of the sugar industry would involve substantial costs and become a constraint to future development (Chapters 1 and 6).

The remainder of this chapter will discuss two constraints to the future development of Fiji's physical-resource sector: the system of land tenure, and cumbersome market interventions. First these constraints will be described, and then policies will be identified that would relax or remove them. While the constraints considered here have been created over many years, they are now the subject of much discussion in Fiji in connection with the future of the economy. After the shock events of 1987, the time seems ripe for major changes.

## Land Tenure

There are three main classes of land in Fiji — Crown, freehold and native. Crown land ( about 9 per cent of the total land area) can only be leased and consists mostly of forested inland areas and mangrove flats. Freehold land can be bought and sold in the open market, subject to land legislation. It makes up 8 per cent of the total land area and is predominantly higher quality land acquired by early European settlers. The remaining 83 per cent is native land which is subdivided into two classes: Lease land and Reserve land. Lease land (55 per cent) can be leased for any use to a person of any racial origin, but reserve land (28 per cent) can be used only by Fijians (Chandra, 1983). Lease land tends to be located in flat coastal areas where it is farmed, predominantly by Indians, while Reserve lands are mostly found in hilly, mountainous or remote locations. Both types of native lands have their titles vested with the Fijians at the *mataqali* or clan level (Mcnaught, 1982:28-48). Over 6000 *mataqali* are registered as land owners and the average size of holding is 243 hectares. Lease agreements and rentals are negotiated between the *mataqali* owners and the tenants through the Native Lands Trust Board (NLTB), which also has the responsibility of managing both classes of native land.

The first constraint this land tenure system places on some agricultural development is through the length of lease permitted. By standardising leases to 30 years length, the NLTB has created an additional element of uncertainty in an already relatively risky industry. For some crops, notably tree crops (both for timber and tree fruit), 30 years is not long enough to encourage investment in soil fertility, drainage, fencing, etc. (despite 'guarantees' of compensation for improvements to the land at the termination of the lease) and to prevent agricultural land from being degraded towards the end of the lease period. However, Fijian landowners seem reluctant to see a change in this policy because they wish to review the options for their land at regular and shorter intervals.

The specification of land as native Reserve acts as a constraint to its development. While Reserve land is usually not of a high quality agriculturally, its uses have been restricted through the ruling that it can be leased only to Fijians. This land can therefore never implemented by Indians or others. Furthermore, it has become increasingly difficult even for Fijians to raise sufficient capital to acquire Reserve leases. Financial institutions have become reluctant to lend for this purpose because the resale of mortgaged leases on Reserve land is to a very restricted market; often it is impossible to locate a buyer.

The Native Lands Trust Board, and associated Acts, committees and tribunals, have also been a constraint to development. They have indirectly caused a distribution of income away from Fijians. This is despite the stated goals of the Board: to make land available for development and to maximise the returns on the land for the native owners. To understand how these paradoxical results have occurred we must study the leasing procedure.

Under the Agricultural Landlord and Tenant Act, every five years the committee of valuers is charged with the task of valuing the various classes of agricultural land available for lease. The NLTB uses these values as the basis for determining rentals. All lease negotiations must be carried out under the auspices of the NLTB and must be approved by the Board. This process establishes the NLTB as a monopolist 'middleman' between lessee and lessor and also allows it to set the price of native land and its rent. Without any competition, there is little incentive for the Board to be cost-efficient or to generate as much 'business' (i.e. letting of leases) as possible.

It appears that the NLTB sets the rents on native land at levels well below their market values and that inflation further erodes the purchase power of rentals in between revisions by the committee of valuers. Freehold leases are settled at levels three to four times the NLTB-set rents for comparable plots of land. Such a massive differential cannot be explained by the difference in security of tenure offered under freehold titles. Evidence that native land rents are pegged too low is found in the existence of deals between owners and farmers, made without the authorisation of the NLTB. For instance, effectively higher rents are agreed when landowners reduce the area covered by a particular lease agreement. Such 'fence-moving' operations increase the rent by mutual agreement. Side deals involving the bartering of goods and services in lieu of additional rents are also common.

The rents handled by the NLTB are not passed in total to the landowners. The NLTB charges a 25 per cent commission — much more than the fees of real estate agents anywhere else. As a result of all these factors, the *mataqali* landowners receive a very low return on their assets and Indian farmers obtain the use of cheap land.

The NLTB's operation has wide-ranging implications. First, less native land is leased than is optimal. Fijian landowners are not as interested in having their land leased commercially when the returns are poor. They prefer to use it for themselves in subsistence uses. Second, much income is distributed away from Fijians to leaseholders. Third, the artificially low land price inhibits an efficient combination. More land and fewer other inputs, such as labour or capital, will be used. As a result, the productivity of the land is not as high as it could be. Fourth, there are effects on other land markets. With native land in short supply because of Fijian unwillingness to lease at artificially low rents, demand for land spills into the market for freehold land. This pushes up the price for freehold land and makes its development less attractive. It is also important to note that the NLTB operates without any competition, so that its costs are inflated by inefficient practices. Despite the hefty commission it charges on lease rentals, it is still unable to cover its costs and requires subsidies from the budget.

A further problem arises because of the price-setting role of the committee of valuers and the NLTB. By the blanket pegging of land values over a five-year period, the legislation effectively removes the role of land allocation from the market place and, in inflationary times, pegs rentals for too long at unrealistically low levels. Prices are therefore not able to reflect the relative scarcity of different parcels of land. Because the set prices are unlikely to reflect true market prices accurately, misallocations of land resource are likely. The flexibility and accuracy of the market are lost, and costly inefficiencies occur.

Similar difficulties are now emerging in regard to marine resources. Fishing rights to inshore waters are vested in the Fijians at the *mataqali* level. Recent stronger competition for fish has meant that the same infrastructure that exists for land has been adopted to allocate the resources of the sea. As a consequence, the same problems of underutilisation and wealth redistribution arise.

A slightly different system of payment for property rights occurs in forested lands. Here, the *mataqali* that owns the land is entitled to the stumpage paid on a per-cubic-metre basis by loggers and millers in return for timber cut. But stumpages are not determined in a market (for example, by competitive open tender as is the case in much of Southeast Asia). Rather, the price is set by the government. The hardwood sector

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**Fishing Licences 'to be Tightened'**

'The issuing of fishing licences for Native fishing grounds will be tightened ... The new measures will include restricting the number of licences issued for each fishing ground to avoid overcrowding ... About 6000 licences were issued last year and they come up for renewal from this month ... [Licencees] have to pay unspecified sums of money to the traditional owners to obtain their consent ... [The Fishing Commission] would ensure an orderly way of issuing of licences to avoid problems faced by fishermen and fishing rights owners.'

*The Fiji Times*, 12 January 1988

**Shortages of Fish — Prices Move Up**

'There is a country-wide shortage of fresh fish. The shortage has been attributed ... mainly to difficulties now being imposed on Indian fishermen by Fijian customary rights owners ...

'Two of Suva's fish retailers ... report more than a 60 per cent decline of fish supplies over the last two months. [One supplier] is now looking at importing fish from Australia ...

'A spokesman for the National Marketing Authority told The Fiji Times yesterday the Tui Suva had totally banned fishing in his traditional fishing grounds from Waiqanake to the areas around the harbour ... most fishermen are now trying to get their fishing licences renewed for the year ... '

*The Fiji Times*, 21 January 1988

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is an example of the resulting resource misallocation. At a stumpage rate set at $20 per cubic metre, prime tropical hardwood represents exceptionally good value relative to the $15 per cubic metre paid for softwood logs from the FPC plantations. The larger hardwood logs have a much higher content of usable timber than softwood logs and processed hardwood timber fetches a higher price. Even the higher transportation and milling costs of the hardwoods do not account for the small difference in stumpages between the two types of timber. The artificially low price for hardwood logs acts as a strong incentive to harvest the resource very quickly. This depletes the forest asset, and less than full compensation for its use is obtained by the Fijian owners. Here, the redistribution of wealth is away from the Fijian owners and towards the timber processing companies. But it extends also to an exploitation of Fiji taxpayers in general who fund the operations of the Department of Forestry.

## Interventions and Government Ownership

Like the rest of the economy, the physical resource sector is characterised by a plethora of institutional arrangements that generally hinder development. These arrangements will now be reviewed on a selective industry-by-industry basis and their effects assessed.

The sugar industry at present comprises the mills, operated by the 80 per cent government owned Fiji Sugar Corporation, and the growers, represented by the Sugar Cane Growers' Council. These bodies are under the purview of the Sugar Commission of Fiji. This Commission in turn is responsible to the Minister for Primary Industry, with a specific court, the Sugar Industry Tribunal, to hear grievances.

The Master Award, which is currently being negotiated between the FSC, the growers, unions and the government, is likely to further toughen the regulations that rule the industry, particularly those dealing with entry of new suppliers. Even now, any individual who wants to enter the industry as a grower must apply to and register with the Sugar Commission. To be accepted it must be demonstrated that the proposed farm will be economically viable. The land purchased for the proposed farm must be dedicated to a particular crushing mill and will be subject to a quota on cane production. The barriers to entry presented by these regulations provide windfall gains to those who were initially granted quotas to produce cane and restrict the output of the sugar industry. The extent of the gains, and indirectly of the output restrictions, is indicated by the observation that land within the perimeter of cane growing is up to double the price of physically comparable land outside the perimeter. It is not surprising that the Sugar Cane Growers' Council is lobbying for further restrictive regulations.

Bureaucratic involvement extends to the marketing of the processed raw sugar. Fiji Sugar Marketing, a body made up of representatives of the FSC, the Sugar Cane Growers' Council and the government, is responsible for marketing the raw sugar. The proceeds are pooled for the industry. First, the costs — whatever they are — of the Tribunal, the Commission and Fiji Sugar Marketing are deducted, then the net dividend is distributed, 70 per cent to the growers and 30 per cent to the FSC. The distribution to farmers takes place prior to the receipt of funds. Contractual advances are made at strategic times in the crop cycle: 60 per cent of the forecast net receipts by the sugar pool are paid on delivery and remaining payments are staged at later dates. This procedure is being used in 1987 and 1988 to keep agricultural incomes at a reasonably high level.

Pooling of the receipts in this way sends inappropriate signals to growers (Sieper, 1982). Pooling standardises the returns on effort, thus reducing the incentive to produce quality cane. Conversely, it introduces an incentive to take less care in production. This rigid system also fails to reward efforts to produce cane at different times in the harvesting season, say when transport and mill capacity are more readily available. Clearly, the costs of administering the pooling system are high relative to a feasible alternative, namely direct payment to growers. In fact, the entire administrative structure associated with the sugar industry represents a substantial dead weight and a drain on resources.

The government is also involved in the coconut industry. A price support scheme was introduced for copra in the mid-1970s at $190/tonne, and this was increased to $280/tonne in 1980. At these prices, growers are subsidised. The transportation of copra between the outer islands and Suva or Lautoka is also subsidised. Furthermore, a program of developing and growing seedlings more suited to the local conditions is carried out as a joint venture between the government and the private sector.

The combination of subsidies imposes a heavy financial cost on the budget and the overall economy. But it also encourages the continued production of a crop for which the world market very clearly is signalling a decreasing demand relative to supply. Other edible oils, especially palm oil and broad-acre seed crops, have become increasingly competitive and abundant in world markets. The signal is so strong that the industry is declining despite the injection of government funds through the subsidy schemes.

The ginger industry has been made subject to an export licensing scheme. The rationale provided by government was to reduce the rate of export rejects and improve the quality of the product. But such schemes restrict entry into the export market by new producers, who might be able to find markets that are satisfied by a lower grade but cheaper product. The problem is aggravated by the dominance of the government's National Marketing Authority (NMA), which has been tempted to create for itself a monopoly position in the export trade by disallowing all other companies' export licences.

The government has become heavily involved in a program designed to make Fiji self-sufficient in rice. There are basically two sides to the program: maintaining high prices for locally produced rice by protecting it from import competition through tariffs, and encouraging domestic rice production through publicity campaigns and by providing extension services. Most rice milling is carried out by a quasi-monopoly firm, Rewa Rice Limited, which the government acquired with the nationalisation of CSR, the previous owner. Rewa Rice has received considerable Australian aid. It has become clear that the rice program is very costly to Fiji. The local price of rice has been driven up artificially by the government's long-standing tariff policy, and this exploits rice consumers. Growers and the miller are immune from competitive pressure and are less likely to be cost efficient. The budget cost of the Department of Primary Industry's involvement has also been substantial. Importers who hold rice import quotas reap great profits at the expense of the domestic consumers.

Despite its cost, this expensive program has not had much effect. The costs of irrigation are high where energy for pumping is required, and available rice strains are not optimally suited to the climate. In 1981, a 44 per cent level of self-sufficiency was achieved; this rose to 60 per cent during 1985. Complete self-sufficiency would cost much more, but a more sensible way for Fiji citizens to obtain their rice would be to export garments in exchange for cheap world-market rice.

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**Ginger Rots as Export Licence Wait Proves Futile**

'About nine tonnes of ginger covering 2.5 hectares have been left to rot in the ground because its owner could not get a licence to export the crop. [A] Suva lawyer and ginger farmer ... claims he sought an export licence from the Ministry of Primary Industries when he realised he could not get a fair return for his crop by selling it to a local agent.

'This season, farmers were being given 14 cents a pound for their ginger. He said he had clients in the United States who were willing to pay 60 cents a pound for his ginger. ... by October, when he realised his application for a licence was rejected, he offered to sell his crop [locally] ... "But they could not buy any more this season."

'[He] wrote back to the Ministry of Primary Industries explaining the problem and asked for an export licence. He said it was rejected again.

'A spokesman for the ministry said yesterday [the] application had been rejected in the long-term interest of the ginger industry. He said there was a need to develop the industry through "organised and orderly marketing" and quality control. "New exporters and existing ginger exporters with no records of exports to North America have been refused licence to export", he said. He said a united approach by exporters was necessary.

'[The unsuccessful applicant for a licence said] the ginger farmers were being exploited. ... "It appears that the system is there to protect the middlemen only." '

*The Fiji Times*, 15 January 1988

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Self-sufficiency is also the goal of the government's dairy policy, although a remote country enjoys considerable natural protection from imports. Tariffs on imported dairy products and subsidies to local farmers have distorted prices. Consumers' welfare is reduced as prices rise and quantities consumed fall. Moreover, prices do not reflect accurately the required balance between whole milk and milk solids. The cost efficiency of farmers and the monopoly milk processor, the Rewa Co-operative Dairy Company (RCDC), is reduced. The RCDC is also the monopoly marketing body for all milk products. The monopoly is further strengthened by the requirement of the government that importers must be licensed. Even with this level of regulation and government support, RCDC has to be subsidised directly by a government grant. Despite these high costs, only a 10 per cent level of self-sufficiency has been achieved.

In the meat and egg industries, there is also heavy regulatory involvement. Commercial poultry prices are set above the market clearing rate. One inevitable consequence is overproduction, which is being controlled by a further regulation, production quotas. As in all these cases of government intervention on behalf of producers, resources are misallocated and wealth is transferred from consumers to established producers. The beef industry has received high levels of foreign aid and meat marketing is handled by a single body — the Fiji Meat Industry Board. The Board also manages the central abattoir. This monopoly reduces consumers' welfare and productive efficiency. The Yalovou beef scheme has yet to show that it can produce cheap meat. We were told that one-third of beef farms in the scheme were in financial difficulties, and that a number of loans had to be written off because the original promoters had overestimated calving rates. Yalovou appears to be yet another development-aid scheme that imposes high permanent costs on consumers.

The softwood industry comprises the government-controlled Fiji Pine Commission and Tropik, the processing company that has the FPC as its majority shareholder. Heavy government assistance in the form of (effectively) interest-free loans to FPC and direct grants has enabled pine plantations to be established. But the domestic market for lumber is protected from overseas competition by a prohibition on the importation of timber. This protection also extends to the producers of native hardwood lumber, who comprise a mixture of very small mills and a few larger mills. As a result, there is little competitive stimulus to contain costs and improve output quality. However, domestic competition between softwoods and hardwoods in construction is becoming stronger as pine establishes a better reputation in the building industry. Such has been the lack of competition in the hardwood sector that mills have become extremely run-down. Not surprisingly, the attitude of mill owners has been to resist any change in their production practices. Another effect of the import-substitution policy has been to raise the price of timber sold domestically. This has encouraged the building industry to move towards the use of concrete blocks as the predominant building material. By contrast, timber for export attracts a government subsidy. This causes further shortages of timber on the domestic market.

The conclusion to be drawn from this review of the regulations and market interventions that enmesh the Fijian physical resources sector is that the government is causing a substantial reduction in the economic welfare of its citizens. Economic growth, which is the stated goal in most cases, has in fact been curtailed by government bodies and regulations. The current political, economic and budget crisis facing Fiji presents an opportunity to bring about rapid and consistent change. It is vital that the government reject the introduction of any further institutional barriers to development and that resource regulations are included in the overall abolition of regulations (Chapter 5). The temptation must be resisted to create new government bodies or to strengthen those already in existence. And many of these bodies should be abolished, including the Auxiliary Units of the military (Chapter 9).

## Policy Recommendations

The changes needed to create a physical resource sector that contributes to a strong growth of the overall economy are in line with the general strategy outlined in Chapter 5. Many of our suggestions will have adverse effects on some people in certain sections of the economy — particularly the sections that have benefited from the current regulations. We believe, however, that Fiji cannot afford to squander resources and to ignore strategies designed to achieve the best growth potential for the economy as a whole. Fiji needs an economic order in physical resources that benefits the general public — not one that is largely shaped by the producers to suit their particular interests and those of State monopolies. We believe that the necessary reforms would be promoted by concentrating all primary industry and resource functions into one integrated Department of Resources.

So as to enhance the returns of the most valuable assets that the traditional landowners possess, all native land should be available for lease to lessees of any ethnic background. This would involve reclassifying all native Reserve land as native Lease land. Fijian owners of what is currently Reserve land would be given greater opportunity to earn returns on their properties, and the prospects for developing the land would be stronger. Policies designed over 100 years ago may well not be suitable for Fiji towards the end of the 20th century.

The inalienable ownership rights of Fijians to their native land is the cornerstone of land tenure law in Fiji. The Native Lands Trust Board plays an important role in ensuring the preservation of these inalienable rights through its trusteeship of Fijian titles to native land. The system of native land tenure provides considerable advantages to Fiji. As J. Kamikamica points out, it affords flexibility in resource allocation and has maintained cohesion of the social group (Kamikamica, 1987:226-239).

That flexibility would be enhanced by amending legislation to permit native land owners the freedom to negotiate leases for their lands outside the direct control of the NLTB. The land-owning *mataqali* — most preferably formed into 'village companies' as described in Chapter 6 — would normally hire advisers or agents to facilitate these negotiations. But these middlemen would have to compete with each other, and with the NLTB, for the commissions charged for their services. This competition would remove the monopoly power currently held by the NLTB and would ensure that landowners receive good value from their agents. With the introduction of this market opportunity, a supply of real-estate agents would come forth from courses already in place at the University of the South Pacific, and some experienced agents from the NLTB may choose to set up in private business. Overseas real-estate experts might also enter the market and pass on expertise to Fiji in joint ventures. All lease agreements would have to be registered with the NLTB, and disputes between lessees and lessors and between *mataqali* members could be heard by the NLTB. A further role for the NLTB would be as a source of legal advice and general information relating to land ownership and opportunities. A single computerised database of lease agreements and *mataqali* membership — maintained by the Native Lands Commission incorporated into the NLTB — would be of great value, particularly in the formation of 'village companies'. Foreign aid could assist in the computerisation process.

One part of the lease negotiations would involve the length of the lease. Without any lease period imposed by an authority, landowners and lessees would be able to negotiate different lease durations in exchange for different prices. The duration of the lease would quite appropriately depend on the type of activity proposed and the risk aversion of the lessee. Details of the compensation to be paid for improvements made and penalties imposed for degradation of assets could also be negotiated at the termination of the lease. The role of the government would be to enact simple legislation restricting any uses of land that result in costs for people other than the lessee and the lessor. An example of such 'externalities of land use' would be the control of soil erosion. For a transition period, the NLTB should also be involved in educating village units about the operation of the new system. The system suggested here is much simpler to understand than the current system, but low-level community college courses and assistance to the 'village company' scheme would seem warranted.

Fishing rights should be made negotiable between owners and competing fishermen. Government will need to perform a role in monitoring fish stocks, especially in open sea areas where fish stocks are free to move between different lease areas. The motivation of fishermen to conserve their fish stocks for continued harvesting is weakened when the stocks of one fisherman can become the harvest of another in a matter of hours. The communal nature of mobile sea resources thus necessitates that government monitor them and, if necessary, limit catches of certain species.

Rights to the exploitation of native forests should be subject to free market negotiation. Stumpage rates should not be fixed by government but rather should be decided in negotiation between owner and logger/miller or by open tender among competing buyers. Stumpage contracts should specify replanting regimes. Under this scheme, the Department of Forestry or its administrative successor would have an important supervisory and monitoring role, particularly where environmental preservation issues are involved. It would also have an educational role, informing landowners of their rights and opportunities and helping to develop the 'village company' system into a commercial success.

The rights to mineral resources are vested in the government. To achieve the best returns, rights to prospect and mine particular areas should be offered through open tendering. Interested companies would submit tenders for each specified tract of land that is made available for exploration. The government, in announcing the availability of the land, would also need to specify the conditions to which the successful tenderer will be held. For instance, these conditions may relate to environmental considerations or matters concerning the resident native Fijians. Subject to these conditions being met, the highest tender should be accepted. Collusive tendering should be made illegal and the legislation actively policed. Overseas technical aid (providing legal and environmental expertise) could greatly support a reform strategy in this area.

Policies governing the rights to use Fiji's resources will be effective only if strong competition between the bidding parties can be ensured. To this end, and to overcome many of the other constraints facing the physical resource sector, a number of changes to the institutional framework would be necessary, particularly with regard to privatisation, free trade, free entry into resource uses, elimination of budget subsidies, and a free flow of relevant information. These are discussed in the following paragraphs.

## The Role of Government

In line with the general privatisation drive (Chapter 5), the government should actively pursue a policy of divesting its holdings in companies in the resources sector. The commercial operations of statutory authorities and government departments should be corporatised initially and then sold off. Government should ensure that the newly privatised firms operate in a competitive framework. To a large extent, this involves abolishing regulations that impede domestic and international free trade. Following are details of the ways in which free trade can be achieved.

The government's 80 per cent shareholding in the Fiji Sugar Corporation should be sold to private interests. The sale of shares should be by open tender and not by ballot at a fixed price. Similarly, the government's interests in the coconut seedling nursery, the ginger processing industry and the citrus fruit industry should be sold on the open market at an early stage. Plans to corporatise the Fiji Pine Commission should be implemented as soon as possible and the Commission should be made to sell its holding in Tropik, which should become a completely private concern. Ika, the tuna fishing company, should be sold, as should the government's shares in PAFCO. The National Marketing Authority should be disbanded, leaving its role to traders who are already operating in Fiji. Similarly, the Army Auxiliary Unit should abandon its roles of middleman and producer. They are costly and do not promise to achieve the objective of launching Fijians into modern business life. With a free-trade policy in place, traders will be only too willing to search out buyers and sellers without the need for any government involvement.

The objective of self-sufficiency in agricultural, fishing or forestry production makes no sense. In a small economy, it is very costly to the taxpayer and it weakens economic growth (Chapters 2 and 5). The goal should be to achieve growth in industries that have a comparative advantage. The most efficient way to select those industries is to allow free international competition. The market will make the choices. To achieve this, all import and export regulations, licensing arrangements (apart from those relating to illegal or harmful products), import tariffs and export subsidies should be abandoned under the 'sunset clause' proposed in Chapter 5. If any of these measures remain in place, wrong signals will be sent and resource allocations will be distorted and inefficient. This means that the unsatisfactory growth pace of the past would continue (Chapter 3). Undoubtedly, industries that are heavily protected at present — like rice and dairying — will contract. However, the prices of these goods will fall and the benefits will immediately be felt by consumers, whose increased purchasing power will stimulate the rest of the economy. In addition, industries currently constricted by trade restrictions — like ginger and vanilla beans — will exhibit stronger export growth.

With minimal government involvement in the markets for primary products, it would be necessary to ensure that private monopolies do not dominate and control markets in the small Fiji economy. This is especially true in industries where monopolies are already a feature. To overcome this, existing monopolies should be dismantled, primarily by removing legislative restrictions on other firms entering the industry. A very powerful control of monopoly abuse is the threat of competing imports on the domestic market. For instance, the Rewa Co-operative Dairy Corporation currently has a tightly controlled monopoly on the marketing of dairy products. With the abolition of import licences and tariffs, competition by imported products will exert control over RCDC prices and product quality. Similarly, the single flour mill will cease to be an effective monopolist if flour imports cease to be subject to high import duties.

Free entry by new Fiji firms must also be ensured. To this effect, land allocations to sugar production and production quotas should be abolished. Any person should be free to produce sugar cane and offer it for sale — either on the spot market or by contract — to the privately-owned sugar mills. Of course, it is always possible that cane prices may fall. With this as a real possibility, only the most efficient farmers would choose to stay in cane production. For the industry as a whole production costs would therefore drop, and a more effective use of resources would be ensured. Similarly, no egg quotas should be introduced to overcome current problems of oversupply. Rather, egg prices should be free to reflect supply and demand. Consumers would greatly benefit as only the producers with lower cost structures would remain in the industry.

An important additional effect of reducing the number of regulations is that a good deal of bureaucratic and budget expense would be avoided. There would be no need to finance bodies such as the Sugar Commission of Fiji, the Sugar Industry Tribunal, and the various government subdepartments that vet applications and review acceptance criteria. Without the expenses of these bodies, the net return to growers and processors would increase and the budget deficit would fall.

Subsidies for production, exports and inputs should all be abolished, so that the signals of the market can be interpreted correctly by producers. For instance, continuing to subsidise coconut seedling production and copra transportation from the outer islands would signal to outlying producers that coconut growing is an appropriate use of scarce resources. This contradicts the correct signal from the international market, namely to move resources out of coconut growing.

An important premise of the foregoing recommendations is that growers possess sufficient business skills to enable them to understand the trading process, to know their legal rights in trading, or at least to be able to seek appropriate assistance. In many cases these skills may be lacking, particularly where a higher degree of acumen is required — for instance, in the formation and management of 'village companies'. In order to instil these basic commercial skills, teams of instructors should visit rural communities and teach producers. The Fijian villagers will probably want to see proposals in action before they venture into them. This should be addressed by establishing pilot 'village companies' and 'model' farms. Producers would cooperate with training officers to install appropriate business management systems. Further details of such training schemes are offered in Chapters 6 and 9.

A new Department of Resources would also have a role in agricultural extension work. Information about production techniques (weed and pest control, breeding methods, irrigation technology, etc.) will have to be transmitted to farmers by field officers. Similarly, details of possible new ventures — different crops, alternative livestock — should be provided to the rural community so that the villagers may assess their introduction. Again, model farms could play an important part in demonstrating innovative techniques and solutions. In this area, too, Australian aid could make an important contribution.

## Conclusions

A look at Fiji's physical resource sector reveals the high costs of being enmeshed by a complex web of government regulations, institutional arrangements and financial barriers. The thrust of our recommendations is to cut through the Gordian knot of these artificial constraints so that the sector can play a strong role in transforming a stagnant economy into a fast-growing economy. The basic pillars of the recommended policies are to allow all land and sea resources to be allocated through the free market; to reduce greatly the level of direct government ownership of resources; to ensure competition for resources, both by abolishing policies that limit free trade at home and internationally or that simply allot natural resources, and by ensuring free entry; and to provide information and training in business skills and opportunities through extension services.

This strategy would be a dramatic turnabout from the present arrangements. The reformers could expect strong opposition from those who have vested interests in preserving the status quo and exploiting the general public. Monopolists do not like having their monopoly power removed and are likely to lobby strongly to see it preserved. However, the farmers would benefit from the overall tariff reductions discussed in Chapter 5. The policies discussed here are designed to enhance the prospects of the primary sector, and hence the economy overall, and not to entrench the position of those who currently enjoy the fruits of market intervention without adequate effort.

## Gold Mining in Fiji: An Entrepreneurial Success

The principal mining operation in Fiji is carried out at Vatukola by joint venturers Emperor Gold Mining Co. Ltd and Western Mining Corporation Ltd (WMC). Since 1983, when the joint venture agreement was signed, the Vatukola mine has been managed by WMC. It has been transformed from a rather conventionally run mining operation that experienced difficulties in continuing its operations into an efficient and profitable enterprise. The budget of Fiji has greatly benefited from this entrepreneurial transformation. And we consider this an object lesson in what could happen when the reforms of the growth scenario are implemented.

In the 1970s the Emperor Gold Mining Company, which had commenced mining the Vatukola deposit in the 1930s, was taken over by a New Zealand consortium. Subsequently the mine's operation was beset with a number of difficulties. The principal difficulty was a lack of continuity in the supply of managerial and engineering staff. This was primarily caused by the short length of visas available to skilled workers. The top staff were on short contracts so that no one developed long-term plans. As cash reserves dwindled, Emperor approached WMC for assistance. With a 20 per cent holding under the joint venture agreement, WMC managed a development program over several years, using experienced management staff from its various Australian operations. The continuous supply of expertise afforded by this staffing arrangement is seen by WMC as the key to the success of the program, which can be gauged from the growth in mine output. In 1984-85, 1651kg of gold was produced. This production jumped to 2373kg in 1985-86 (Lum, 1987:350-351), and it is projected by WMC that 1988-89 will yield over 2835kg.

The prospects for the Vatukola mine now appear to be strong. Despite the volume of past extraction, WMC is confident that the complex ore structure on which the mine is based offers good geological opportunities for continuing mining over the next quarter century. Exploratory drilling in the vicinity of the mine has shown that the recoverable ore body is larger than was expected only a few years ago. For instance, the proven recoverable ore recorded in June 1986 was 1.2 million tonnes, compared with 800 000 million tonnes in June 1985 (Lum, 1987). The geological limitations of a mine are of course not the only determinants of its prospects. It must also be profitable to extract the ore. WMC estimates the costs of production at Vatukola at around the average of Australian gold mines ($A250-300/oz). With the current gold price standing at over $A600/oz, the mine is earning a healthy profit.

WMC and Emperor are engaged in another joint venture in Fiji, operating the adjacent Tavua mine. A shaft into this deposit and a cross cut from the Vatukola mine have been completed and the first output is being processed. The lode being worked currently is richer than the Vatukola lode (20g/tonne as compared to 6g/tonne) and it is expected that 70 000 tonnes of Tavua ore will be processed this year. This will be done in the same mill that is processing the Vatukola ore.

The long-term prospects for the Tavua mine are also strong. The limitation to gold output is now the mill capacity, which stands at approximately 100 000 tonnes per annum. Output of the mill is however expected to rise somewhat because of the higher grade ore from the Tavua mine and better recovery rates as new roasters are brought on line.

There was a boom in gold exploration in 1987 across the Pacific 'Rim of Fire', which includes Fiji. Since then exploration has tapered off, but the geological area is still regarded as highly prospective. Of course enthusiasm for exploration and for investment in new developments in Fiji has been tempered by the political uncertainties of 1987.

Viable ore deposits are available for extraction in Fiji. But a stable economic and political environment must be ensured before new commitments of capital are made. First and foremost, the system of property rights over minerals, once they have been allotted by the government, must be upheld both by law and by conclusive action. Uncertainty over ownership or leasehold agreements must be avoided. Freedom of movement of specialist staff is also of considerable importance to mining efficiency. The very specialised skills of mine engineering and management are not currently available in Fiji, so that the freedom to import these skills is critical. WMC has indicated a willingness to introduce a scheme whereby Fiji staff can work in Australian mines for a period in which relevant skills can be developed.

Other factors impeding the level of mining development in Fiji include export taxes and duties on imports used in mining. Abolishing such imposts would stimulate the mining sector and increase budget revenue.

## Fiji and the World Sugar Market

By world standards Fiji is not a very big sugar producer. But Fiji is in a somewhat fortunate position. First, the average costs of production in Fiji are low on the world scale. On an index value scale where 100 is the weighted world average, Fiji's cost levels are rated at 60. This is bettered only by Brazil's central and southern areas (at 57), and is lower than Australia (at 62), the Philippines (at 75) and Poland (sugar beet at 141) (Congressional Research Service, 1985). Second, the industry has in the past been protected against periods of sustained depression in world prices through its long-term arrangements for supply to the European Community. Only 46 per cent of Fiji's sugar production is not covered by special export arrangements. In contrast, 70 per cent of Australia's production faces the volatile world market (Harris, 1984). Nevertheless, such is the volatility of world sugar prices that the Fijian industry is still profoundly affected by the state of the world market for sugar. The volatility is explained by an analysis of supply and demand in the market. Historically, demand for sugar has tended to rise at a steady rate through time, but production levels — almost universally determined by government policy — have increased in a step-wise fashion. Since demand is rising steadily and production is fixed by government quota, prices tend to rise as stocks run down. Once prices reach a certain level, governments are lobbied to increase production quotas. By the time these new quotas are agreed, stocks have dwindled and prices have skyrocketed. But once the new production comes onto the market from across the world, a glut is experienced and prices plummet until demand once again grows to the point where stocks are again run down (Sturgiss et al., 1987). The cycle of volatile prices will continue so long as the supply is regulated by governments.

The Fiji sugar industry by itself can have no impact on the volatility of world sugar price, but it can gear itself to take advantage of it. This requires the industry to develop an ability to adjust its production levels rapidly in response to changes in prices. For instance, world sugar stocks in 1988 are tending to run down as consumption outstrips production. The Australian Bureau of Agricultural and Resource Economics has predicted a rise in the world price of sugar to US11c per pound in 1988 (Australian Bureau of Agricultural and Resources Economics, 1987: 404-6).

Long-term price rises have been predicted by some, but it is important to consider these in the light of recent developments in Brazil. The program there to grow sugar for alcohol as a booster to gasoline has been revised, as petroleum has been discovered in Brazil. Greater amounts of Brazilian sugar may be sold in world markets. Given Brazil's low production costs and the vast size of its cane-growing industry, this could have important impacts on the sugar-price trend.

However, even without a rising trend in sugar prices, Fiji's revenues will be increased substantially if the industry can gear itself up quickly to supply more sugar as and when the price rises. Such good periods, however, will be balanced by periods of low prices. In these periods, production should be held back, say by the earlier-than-normal ploughing back of ratoon crops. By reducing production in periods of low prices, costs could be reduced to maximise profits, or at least minimise occasional losses.

The most appropriate way to achieve flexibility in the industry is to make Fiji one of the exceptions to the worldwide norm of quota production and to let prices fluctuate freely. Farmers acting purely in their own best interests will seek to boost production as prices are rising and cut production as prices are falling. It is at the farmer level, rather than at the bureaucratic level, that flexibility can be achieved. However, it will certainly be necessary for information concerning prices and price projections to be distributed to farmers. This role would be taken up by the sugar millers but the government could usefully undertake the same activity.

# Chapter 8

## On Internal and External Balance

This chapter is concerned with some macroeconomic implications of the decay and growth scenarios for internal and external balance. The basic implication of the decay scenario is that budget deficits will exert continuing pressures to increase domestic money supply. This is likely to cause inflation and currency depreciation. There will also be sustained capital outflow, given the poor opportunities for private investment in Fiji. By contrast, good opportunities for private profit in the growth scenario will attract a considerable capital inflow, and we assume that the monetary authorities will be able and willing to maintain a stable money supply and a fairly stable exchange rate and price level. These conditions will be necessary for long-run growth and social stability in a country where consumer prices are mainly set by Indian suppliers, but are frequently paid by Fijian buyers. Inflation would sharpen racial conflict.

### The Prospective International Environment and How to Cope With It

Small nations must plot their future on the assumption that they cannot influence the world economy, but that they should and can profitably adapt to changes in the international environment. The world economy went through a long wave of accelerated growth in the 1950s and 1960s, but a period of extended slowdown began around 1973 (Kasper et al., 1980:22-4 and 95-113). Despite this slowdown, the world economy has grown faster since 1973 than it did in the inter-war period. Although we cannot be sure, some countries and industries including those in the Pacific Basin may again begin to undergo an acceleration in their underlying growth trends. In other countries the slowdown will continue. Some countries will exploit global conditions better than others.

Fiji has its economic future in its own hands. One attitude to the international economy that would fit the decay scenario would be an attitude of 'export pessimism' — to decry the difficult situation in world markets and to denounce the major industrial economies, including Australia (at international congresses, for example), for egotistical, protectionist policies. By contrast, an attitude that fits the spirit of the growth scenario would be not to go to international congresses at all, but to encourage private businessmen to go to trade fairs and on sales missions, to see what new market niches could be opened for products made in Fiji. Agile exporters in small economies can usually find sufficient niche markets, as successful exporters in East Asia, Malta and some Caribbean islands have demonstrated. Fiji would need only a few niches to underpin its growth.

In the growth scenario export markets are developed first by individual firms, who find them, and second by governments, who remove any obstacles. We have already mentioned the great importance for new Fijian manufacturers of removing quotas under SPARTECA[1] that protect Australian and New Zealand markets If this agreement were liberalised by eliminating the residual quota barriers that hamper the sales of Pacific exporters in Australia and New Zealand, Fiji entrepreneurs would benefit greatly, not only in garments but in many other labour-intensive industries. Of course, the margin of preference that Pacific exporters enjoy in the Australian market, relative to their Asian competitors, will depend on the general level of Australian protection. We expect Australian trade barriers to be lowered, so that Fiji exporters, sooner or later, will face more competition in Australia from efficient Asian producers. Fiji industry is conscious that the preferential margin in Australia may be temporary; consequently entrepreneurs in Fiji are working to become more competitive.

A way **not** to go, in our view, is to waste time attempting to set up a Fiji-centred Pacific Free Trade Area. There is little to be gained from exchanging coconuts or handicrafts between Fiji and Samoa. The administrative effort would divert attention from more pressing priorities

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1 SPARTECA is a multilateral agreement between the Pacific island countries, Australia and New Zealand. Under SPARTECA Australia and New Zealand agree to give preferential access to Pacific exports and to assist these countries in gaining market shares (export development, trade promotion). Since 1 January 1987, many products from the islands may enter Australia and New Zealand duty-free. But there are important exceptions in areas where the Pacific manufacturers could really make headway, including Australian protectionism under sectoral industry policies (sugar, garments, textiles, footwear). There are also fairly tight, and for the exporter inconvenient, rules of origin that limit the value of SPARTECA to Fiji manufacturers (Drake and Hall, 1987; Robertson, 1987). The rule that 50 per cent of the production cost must consist of local labour value restricts Fiji exporters to high-value-added production and often hinders them from using more appropriate but more costly imported inputs.

at a time when the battered Fiji economy has more urgent problems. Furthermore, similar efforts elsewhere in the developing world to construct a common customs wall have invariably been failures (Vaitsos, 1978:719-68). Adopting a general free-trade regime in Fiji would, in any event, make such a limited (and limiting) free-trade area superfluous.

## On Capital Formation

Capital is an essential input in the growth process. Different economic systems and different climates for private enterprise make great differences to the rate of capital formation. Long-term investors need the security of property rights and confidence in stable price levels and a stable political framework. The essence of the growth scenario is that these simple conditions are assured. Once the basic conditions for investors in Fiji resemble those that are assured in North America, Western Europe or East Asia, Fiji will be able to attract all the necessary capital. There is no reason why entrepreneurs in Fiji should not become as credit-worthy as businessmen in Hong Kong or Taiwan.

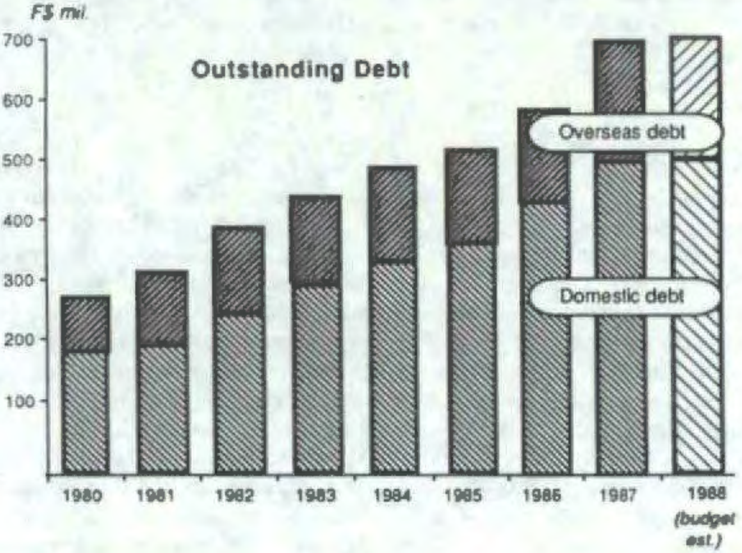
One important condition to encourage Fiji and overseas entrepreneurs to commit capital and Fiji citizens and emigres to invest their savings in the Fiji economy is a guarantee of free international capital movements in and out of the country. The most important condition for capital to come cheaply into the country is a wide open door for it to leave again. It is also important to investors that monetary stability be assured. Only when the price level is stable do price changes clearly signal market opportunities and scarcities. People are not forced to speculate whether a price change indicates a real change, or simply reflects a vagary in the general price level. A stable price level makes it easier for long-term investors to make long-term plans and commit funds to (job-creating) projects.

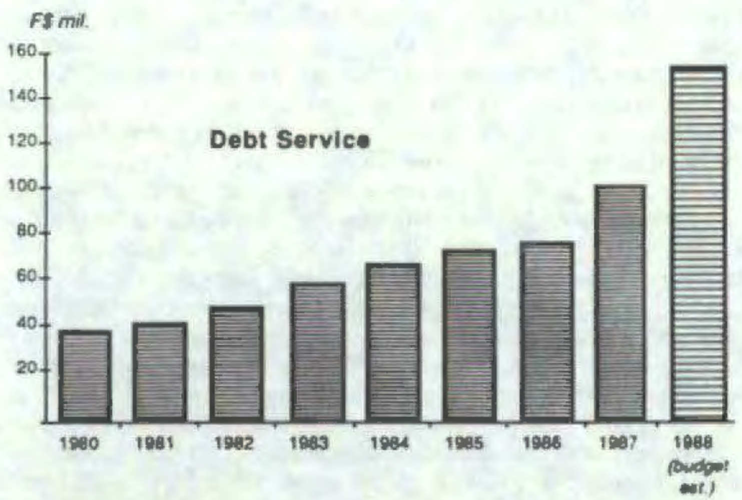
A most important precondition for economic stability and buoyant private investment is for the Fiji government to balance its budget. A small country like Fiji under a slim, efficient 'city management' should aim at a balanced budget in the sense that revenues cover all operating and capital expenditures. Balanced budgets save interest and inspire confidence. Because a fully balanced budget every year may not always be feasible, we recommend that the budget be 'balanced' each year on a moving average of the next year and the past four years.

In the 1980s government debt has risen persistently, especially domestic indebtedness (Graph 8.1). This increase in debt will, with a lag, lead to an exponential rise in debt service and place severe burdens on the budget and macroeconomic balance. For the growth scenario to be sustained, a cumulative slide towards deepening deficits must be halted. As we proposed in Chapter 5, this halt can be brought about by

Graph 8.1

## DEBT AND DEBT SERVICE




*Source* : Ministry of Finance

systematic privatisation and a consolidation of public administration. Tax increases to meet continued high levels of expenditure, including debt servicing, would dampen private opportunity and incentive and make the growth scenario impossible. Internationally mobile capital is increasingly able to move to areas of low taxation, including to New Zealand and the USA, which have lowered personal and company tax rates in recent times.

## Monetary Stability

In inflationary times, people are unlikely to save as much and make as many long-term investments, which undermines prospects for economic growth. Inflation also destroys the efficiency of the market mechanism and redistributes incomes and wealth in unexpected and inequitable ways, typically from poor to rich. This inevitably leads to social unrest.

It is therefore crucial to ensure monetary stability for the success of the growth scenario. To date, Fiji has not experienced the run-away hyperinflation that has undermined growth in many Latin American countries, but past inflation has been fairly high (Chapter 2). If budget deficits, currency depreciations and Latin American-style capital flight were to lead to increased inflationary expectations, matters could get out of hand very quickly. People who determine prices will be increasingly quick to adjust their prices upwards because of accumulating experience; 'money illusion' will vanish. In present conditions, very strict controls over the domestic money supply are essential to avoid 'inflation accidents'. Direct controls of prices, wages or exchange rates cannot achieve this. They generally attack only the officially-recorded symptoms or act to discourage investment and job creation if enforced.

The history of money shows that there is no fool-proof system to ensure a stable money supply, and certainly not a system that can withstand the pressures of a big spending government. That is why a genuinely balanced budget is needed to create confidence in monetary stability. It would assist price-level stability further if the central bank were given greater autonomy from political directives of the government, similar to the monetary constitutions of West Germany, Switzerland or Hong Kong. The Fiji Reserve Bank Act normally prohibits the Bank from advancing to the government more than 30 per cent of the government's average ordinary revenues. This guarantee should now be explicitly reaffirmed. To protect its independence, a central bank could also be obliged by law to pursue monetary stability by adhering to a strict money supply rule. This objective may be preferable as a guide for monetary policy in Fiji to the current practice of trying to fix the exchange rate and/or international reserves.

If price-level stability cannot be assured, Fiji could come to resemble many Latin American nations, where the relevant currency for payment, accounting and saving de facto is the US dollar or another unit of foreign currency.

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**Auckland Banks Reluctant to Accept Fiji Currency**

'Fiji currency is treated "like the plague" by leading New Zealand banks in Auckland.

'Some banks have slapped a total ban on accepting Fiji currency while others have instructed their staff to accept only limited amounts ... The reasons given by the bank management is that they have a surplus of Fiji currency already and don't want to take any risks by accepting more ... the worst hit area is Auckland, because most visitors from Fiji come here first and spend most of their time here.

'Recent Fiji arrivals wanting to convert very large sums of Fiji money have received a rude shock at the banks' attitude. Many are seen daily, dashing from one bank to another in Auckland's commercial zone ...'

*The Fiji Times*, 21 January 1988

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## Exchange Rate Policy

One of the most pervasive prices in any economy is the exchange rate. In the past, the exchange rate has been semi-fixed to a basket of currencies and subject to occasional step-wise corrections. This may have served to maintain price-level stability in times of less strain, but in the recent extraordinary circumstances the objective of fixing exchange rates has led to attempts to control capital flows and has created a danger of currency overvaluation for exports. It seems doubtful whether capital controls are effective or can ever be made effective. But it is certain that capital controls hinder capital inflow and private investment. Given the uncertainties ahead, it will be nearly impossible to fix a 'correct' exchange rate. We support the alternative approach of pursuing a stable domestic money supply and an independent central bank, and floating the Fiji dollar freely. Once domestic money is stable, the price of the currency in international markets should be of little direct concern to the government.

The managers of the Fiji economy will be facing the same intractable problems of incompatibility between internal and external balance that plagued the major Western economies before they abandoned quasi-fixed exchange rates in the late 1960s and early 1970s. The intellectual debate and the policy outcome was, on the whole, in favour of floating equilibrium exchange rates (Halm, 1970).

It might be argued that Fiji's underdeveloped domestic money market, underdeveloped international links and political uncertainties make a freely floating exchange regime inadvisable. 'Formula flexibility' or a Reserve Bank stabilisation fund (with clear guidelines) to smooth day-to-day fluctuations might be other ways to avert the growing problem inherent in any semi-fixed exchange rate regime, namely that the central bank has to make public pretenses about the future stability of the currency, while time and again breaking its promises. In such circumstances central banks lose much of their credibility, and credibility is one of their most important weapons — but a weapon that should be used sparingly.

If the exchange rate depreciates in an atmosphere of domestic inflation, it cannot be expected to have any substantial effects for any length of time on the prices of goods and services produced in Fiji relative to world market prices. Devaluations will promptly be reflected in higher domestic Fiji dollar prices. This is so in small open economies with unstable price expectations (Kasper, 1976:21-58). Changes in currency rates can not therefore be used to stimulate exports and the economy. Such attempts would only trigger more inflation and further capital flight.

The greatest advantage of a freely floating rate (the stability of which is underpinned by a stable money supply rule and a balanced budget) is that there is no need to impose capital controls. The absence of controls would greatly boost confidence and — paradoxically, it may seem to some — stem capital outflows. The reason why citizens have been smuggling funds out of Fiji in 1987 and 1988 is that they fear future depreciation and are buying US dollars before these become even more expensive. A freely moving equilibrium exchange rate could stem further capital exodus by making it costlier to buy US dollars.

Another important advantage of a more flexible exchange rate is that its movements promptly signal emerging disequilibria to policy makers. Experience with flexible rates over the past 15 years has shown what powerful feedback currency markets give to politicians who take economically irrational decisions. The feedback of a depreciation may trigger corrective action before particular policies cause lasting damage.

## Freeing Up Domestic Capital Markets

Many of the present regulations over money and banking in Fiji still reflect the mistrust of individual decision-making that colonial controllers had in far-away Westminster. It is time to move in the direction of freer credit and capital markets. A comprehensive review of all financial regulations should be conducted, similar to the work of the Campbell Committee in Australia (Committee of Inquiry, 1981). Such a review should extend to the role of subsidised loans to agriculture by the Fiji Development Bank. Only strictly fiduciary controls should be retained and policed by the Reserve Bank.

Financial deregulation could turn Fiji into an off-shore banking centre. It is true that banking deregulation in the major economies has made off-shore banking less attractive. But Fiji's location in a mid-Pacific time zone, together with good international telecommunications connections, could attract business in a 'night window' in Suva between the US West Coast and Tokyo/Hong Kong. Another development that merits the attention of reformers is the privatisation of the Suva Stock Exchange. Gradually, a genuine stock market should be developed to attract savings and to allow Fiji and overseas companies to be listed. A growing stock market would be helpful in allowing a wider dispersal of shares in companies that are being privatised. This would have the advantage of giving more citizens, and groups like 'village companies', an opportunity for a direct stake in the growth of Fiji's private industry and commerce.

# Chapter 9

# Distribution of Economic Opportunities Between Fijians and Indians

Two types of social tensions are apparent in Fiji — between Fijians and Indians, and, within Fijian society, between younger commoners and those who support the traditional chiefly structure. These tensions cannot be divorced from the pattern of economic development. A development strategy that does not take them into account is likely to fail. A long-term development path that concentrates growth in living standards in the Indian and other non-Fijian communities has no realistic chance of long-term success. Young Fijians are developing material aspirations. If Fiji drifts into a decay scenario, these tensions may be contained only with the use of force. There would also be pressures to discriminate in favour of ethnic Fijians. Such positive race discrimination may achieve a greater measure of income equality, but it will reduce economic growth. Social tensions increase when such matters become politicised. Positive discrimination provides only a short-term palliative, and it impairs economic growth. The Malaysian experience is an object lesson that decision-makers in Fiji should not forget (Appendix B).

For the Fiji economy to enjoy long-term growth and stability as described in the growth scenario, individuals of all races will have to perceive material opportunities for themselves and their families. Fast economic growth and high employment create a favourable framework for this to happen. But growth, in turn, also depends on open opportunity and vertical mobility irrespective of race. Indeed, we believe it is central to any successful scenario for Fiji that Fijians have the opportunity to move into the modern world and compete there with a reasonable chance of success. Economic opportunity for the more mobile Fijians will often be in the towns and in modern, organised activities. But other Fijians will expect opportunity on the land. Economic advancement for both groups is of strategic importance to national stability. Past arrangements have, in our view, not been successful in this regard and their continuation would almost inevitably be associated with a scenario of tension, stagnation and decay.

## Against Distributionist Interventions and Positive Discrimination

Before we went to Fiji, we had hoped to find a number of success stories of ethnic Fijians who had succeeded in modern business. In this we were disappointed. Where Fijians were reported to be acting as entrepreneurs, they were usually frontmen for capitalists of other races. But, just the same, there were some economic successes that point the way to a more promising future. We reported elsewhere the efforts of the Pine Commission to form small 'village companies' (Chapter 6). We were told that increasing numbers of Fijians, for example soldiers with savings from UN service, buy freehold land. And we were heartened by reports about how well ordinary young Fijians train for modern jobs, if placed in a disciplined, encouraging environment. It is no coincidence that Fijians taken out of the hierarchical structures of village life adapt well to military life and excel as soldiers. We heard often that Fijians, because of their social tradition of structured family life, respond well to a disciplined environment. Once in that environment, they can be taught disciplined attitudes to work, study and saving that can serve them well in a competitive growing economy.

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**Positive Discrimination**

'To promote the access of Fijians to tertiary studies and to enhance their opportunities in national development, the University of the South Pacific has long engaged in positive discrimination. Fijians are accepted with lower average marks scores (275) than Indians (350).' Our Fijian informant concluded: 'From the start, all Fijians are destined for the bottom of the pile. They begin with the psychological disadvantage that they believe that performance does not really matter. This breeds an inferiority complex and lower performance because the incentive to compete is lacking. They become bitter, and their only use is, in the government service, to warm public chairs ...'

*Senior Cabinet Minister*

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The growth scenario relies primarily on self-motivation and competition. Any policy for the long-term economic success of ethnic Fijians must be based on that same principle. The alternative — to use State intervention to try to ensure a more equal distribution of incomes — creates disincentives to learn and compete. It eventually leads to failure.

In an interventionist scenario, most Fijians would remain poor for the following reasons.

First, stagnation reduces opportunities for the economically weak. Where people are guaranteed particular outcomes, they do not become enterprising. Why should Fijians save, risk and innovate if their income levels are guaranteed? Why learn the skills of survival on the sea, when a firm footing on land is guaranteed? Such guarantees are illusory, however: in the long run no government is powerful enough to guarantee everyone a firm economic footing. When income expectations can no longer be fulfilled, resentment turns against the State and other scapegoats.

Second, market interventions customarily favour the established and well-connected. Young Fijians, the uneducated, and newcomers in the towns are often excluded and become disenchanted. Fiji's regulations have frequently disadvantaged native Fijians.

Positive discrimination will antagonise the Indian community and accelerate Fiji's loss of their skills and enterprise. The remaining Indians will be reduced in their capacity and willingness to pay land rents and contribute to the welfare of the nation.

Finally, positive discrimination through job quotas is likely to lead to costly overstaffing. If Indians have been doing the work and have tenure, employers would be forced by a policy of positive discrimination to hire additional people of Fijian race. If the jobs of the newcomers are secured by decree or by law, they may do little. They can hardly be fired and will not acquire efficient work attitudes. Such a situation will create resentment and reduce productivity.

We do not believe that Fiji should adopt a policy of positive discrimination on behalf of Fijians. A principle of positive discrimination in the civil service was recently supported by leading bureaucrats who met at Naviti Resort on 14-16 January 1988 (Naviti Declaration, 1988). This proposal received widespread attention in Australia and elsewhere. It set up a State interventionist signal contrary to the requirements of a growth scenario. We believe this proposal merits reconsideration.

## Government Failure in Creating Fijian Businessmen

If the Fijian people are to take full advantage of a more liberal, deregulated economy, they should be given practical help and encouragement to exploit emerging opportunities. This does not mean that they should be singled out for preferment, only that obstacles should be removed to assist them to recognise their opportunities in a deregulated environment and to benefit from the assets they possess.

There has been no lack of attention paid in the past to the problems Fijians faced in the pursuit of economic goals in the private sector.

Writing in 1970, Fisk urged that government policy should look to a substantial and rapid increase in Fijian participation in the advanced sector of the economy (Fisk, 1972). More recently, Hailey (1985) identified many constraints to successful Fijian participation in business and advocated a number of ways in which these might be overcome. The difficulties Fijians face in entering commerce have also been critically assessed by Fijians themselves. Recommendations have been made for a wide range of measures to assist their entry into business, including a compulsory savings scheme, special support and advisory units, and participation in the management of major, successful companies.

In particular, two government institutions, the Fijian Affairs Board (FAB) and the Fiji Development Bank (FDB), have acted to provide positive assistance. But this assistance has hinged on governments doing things for and on behalf of individuals. In 1974, the FAB established a Project Evaluation Unit 'to assist Fijians both individually and in groups to understand, cope with and operate within the present day business world'. The Unit was later renamed the Business Opportunity and Management Advisory Service. Its function was to provide consultancy, feasibility studies and management services (Hailey, 1985:47-52). In 1975, the FDB established the Commercial and Industrial Loans to Fijians Scheme to offer special financial support and to help with record-keeping facilities and business management techniques.

But Fijians still lag far behind the other races in the development of modern, successful commercial and industrial activities. We concur with Hailey when he says that 'the enterprise support organisations established in Fiji do not appear to have fulfilled the roles that they were created to perform' (Hailey, 1985:59). The government has failed in this area.

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'Taukei means "native Fijian". In that sense, we are all taukei. But I won't have anything to do with the Taukei Movement, who are ignorant, populist radicals.'

*Unemployed young Fijian in Suva*

'The coups represent the end of the chiefly system.'

*Expatriate businessman*

'I don't mind giving money to my mother and brother. But I don't like having to give money to the chiefs when I visit my village.'

*Part-time chamber maid in Nadi*

'Education and money will break the village system.'

*Businessman*

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In order to avoid the serious social and political implications of Fijian failure to compete successfully in the modern private sector, a renewed attack must be made now on the root causes of such failure. Because of long-term government failure to achieve this, a market-oriented alternative policy deserves attention.

### Towards a Solution: More Equal Opportunity

The constructive way out of the dilemma is to try to ensure that all Fijian citizens get starting opportunities that are as equal as is feasible. From the beginning of the colonial era, native Fijians have been watched over by a well-meaning guardian State. In the complex modern world, the State may be well-meaning, but it is inept in securing rising living standards for individuals under its wing. If Fijians as individuals or small groups are not empowered to look after their own affairs, they will never acquire the capacity to behave independently. It is vitally important to promote Fijian self-reliance, educational achievement and training that supports self-reliance, through an environment in which educators and trainers compete for students. The training of young Fijians should not be achieved by entry quotas or the lowering of entrance standards, but by providing them with free or subsidised access to schooling and training as long as they qualify and perform. This can be done by education scholarships or subsidised education loans, together with encouragement and counselling. Young Fijians may initially not match the standards and the productivity of young Indians, whites or Chinese. But over time they will do so, with persistent support. A free labour market — in a scenario of growth and high employment — will also allow them more access to apprentice jobs by accepting initially lower wages. Once they are in jobs, have acquired useful skills and work attitudes and raised their productivity, competition for workers will ensure that their salaries rise commensurately (Chapter 6).

### Personal Qualities Necessary for Success in a Market Economy

For Fijians to be successful participants in the modern economy four elements seem necessary.

First, motivation must be harnessed and channelled towards economic goals. This can be compatible with Fijian customary practices, a natural reticence, and generous impulses. Success in business can be developed without destroying traditional cultural values, as long as social obligations for sharing income and wealth are appropriately directed and contained (Cole, 1987:31-4).

Second, training in practical skills must be provided on a wider and more effective basis than it is now. Bookkeeping, simple mechanics, carpentry, and effective use of natural resources should be given priority. A competitive, client-driven education system could help greatly in providing such skills (Chapter 6).

Third, finance and congenial forms of work organisation are necessary to ensure success and progress in most business activities. If Fijians were to develop 'village companies' they would become more aware of the value and cost of finance and they could develop tradition-linked forms of organisation. Equity of, say, 20 per cent might be prerequisite to the establishment of such 'village companies'. Working capital through bank sources could then be made available against the collateral of unimproved land rents (Chapter 6).

And finally, supervision and management advice should be made available by bankers or other sources. Supervision and training to ensure correct accounting practices, early recognition of danger signals, proper costing, and provision of adequate depreciation reserves are all essential ingredients of success in new businesses, small or large. Development trust funds could combine foreign aid with some effective supervision (Chapter 10).

In 1970, Fisk urged that a government institution be established to coordinate and implement policies that would enhance the participation of Fijians in the economy, assist in improving village amenities, and improve the flow of information to villagers on such matters as extra-village employment. Hailey, too, urged the 'establishment of a regional enterprise support organisation' to coordinate research and prepare training materials (Hailey, 1985). The Fiji Development Bank has made a series of recommendations to correct racial imbalance in commerce which involves technical assistance, a compulsory savings scheme and a *Taukei* Investment Trust for Fijian investors. Unhappily, it seems to us that such attempts to impose the development of entrepreneurs from above, no matter how well-intentioned, are unlikely to succeed.

## Developing Fijian Entrepreneurs

One obstacle to motivating Fijians to participate in modern market activities is the system of traditional claims by wider family and tribe on each member's material gains. This system dampens material motivation to work and acquire skills. It also makes saving and capital formation by Fijians more difficult. Fijians who have moved away from their traditional *mataqali* (e.g. to the Seqaqa Sugar Scheme or serving soldiers with UN peacekeeping missions) work hard and save. As elsewhere in the developing world (or in Europe two centuries ago), urban migration is likely gradually to reduce the disincentive problem created by the wider family. But Fijian society will not have time simply to wait for slow social change. More imaginative solutions need be found to promote work effort and capital formation within the traditional network. The key to reform will be to separate personal income from what one traditionally owes to the wider community. One promising model to achieve this, which we have mentioned many times, is the experiment of the Pine Commission with what we call 'village companies' (Chapter 6). This arrangement separates capital accumulation from distributed and shared income. Similar schemes could be tried elsewhere, e.g. the government subcontracting road maintenance to villagers, or groups of Fijians starting up small village hotels.

Fijians who enter business are likely to come from a variety of sources: enthusiastic young army officers and soldiers, the local business community, retired officials, and women. It is important to recognise the role of women in commercial activity in Fijian life. We heard many reports that Fijian women — like women in many other societies — were often more materially realistic, more likely to start small ventures and more likely to keep the resources together in a business-like way than were men. Commercial village programs can also gain impetus from association with Indians and whites at work and training. Village schemes could provide scope for participation by non-Fijians, in order to maximise cross-fertilisation of ideas. A greater mixing of young people of all races when they study or acquire basic skills would also be advantageous.

The first step into modern business is the hardest. It is essential to start small, very small. Unfortunately, programs initiated or run by the central government have a tendency to concentrate on big schemes. Central administrators tend to find that a large number of very small operations are messy to administer. It is important to let small Fijian businesses grow without a need for central initiation and steering, elaborate committees or high-level government units. A new village store, a small hostel for occasional backpackers, a venture to supply the local hotel with flowers or local pottery may all be worthwhile beginnings. But they are all likely to be too petty for government promotion. There is, however, scope for specialised development trust funds administered by experienced, sympathetic persons from aid-donor countries like Australia to assist with the development of management skills for such ventures (Chapter 10).

One idea presently being discussed in Fiji to overcome thresholds of resistance imposed by tradition seems worth exploring: the formation of a youth corps that introduces young people to disciplined modern work methods. In this, the military could make a constructive contribution to skill formation and work attitudes. Military efforts should face competition from similar youth schemes run by church groups and other voluntary organisations, however. Traditional social structures, originating in the Fijian warrior tribes, resemble the hierarchically structured life of military units. The military has also been an important avenue for Fijians in moving out of their villages. Military units have acted, to some degree, like a new and more progress-oriented *mataqali*. The same function could be fulfilled by youth corps. The 'chief' (commanding officer) could supervise effort and monitor the results of learning. Youth corps units should start small and learn from experience. They should focus on training of basic attitudes and work in areas such as motor maintenance, machine operation, basic accounting, cost calculation, management, and basic hygiene. The units should be given specific tasks, e.g. road construction or maintenance, so as to give them a goal orientation and a business-like outlook. It is important that such units are open to young people of both sexes and of all races and that entry is purely voluntary. At a time of rising unemployment, young people could gain a small income and some security by joining a youth corps.

In many societies, the military has been an important agent in education and changing traditions. Fiji's military forces can play a legitimate role in contributing to national development. Education and training are a much more promising function to promote ethnic Fijians than engaging in commerce and production through the Auxiliary Units of the Fiji Military Forces, which should be abolished[1] A youth corps scheme would also be an excellent contact point for introducing technical foreign aid, at a point where aid affects directly the factor of racial balance (Chapter 10).

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[1] The Auxiliary Units constitute an unusual involvement of the State in the economy. Moves of the military into socialist ventures not only tend to corrupt them (difficulty in monitoring accounts, confusion of military and commercial functions), but also constitute a misallocation of scarce budget resources. For example, the Auxiliary Units now transport copra from the outer islands in expensive military vessels, using much expensive fuel. In the outer islands, they can buy above market prices and they can sell in Viti Levu below the prices that processors have paid to conventional traders, because the transport cost is borne by the Defence budget and ultimately by the Fiji taxpayer. Examples of a trading involvement by the military in developing countries — for example in Iran under the Shah or in Indonesia — invariably show that this reduces the professionalism of the military and, in the long term, leads to misgivings among their customers.

# Chapter 10

# Strategy for Australian Assistance

## The Value of Australian Aid

The main function of Australian aid to Fiji must be to help the citizens of Fiji to help themselves. An aid strategy that views foreign governments as the main beneficiaries and that continues to reinforce the statist ways of the past will be counterproductive to the welfare of individual Fiji citizens. In 1988, Australian official aid is disbursing about $A28 of Australian taxpayers' money (on an annual basis) per inhabitant of Fiji. One cannot be sure whether this aid is of much value to the **average** citizen of Fiji. It is obvious only that Australian aid benefits the State and particular groups in Fiji, as well as particular Australians. In any event, foreign aid can make only a very marginal contribution to overall economic growth. The key factors are economic and social policies and the attitude of the population to work, learning and capital formation.

Official aid tends to have the effect of replicating the government structures of the donor country in the recipient country. Pacific island economies have looked towards Australia for role models in solving the problems of the modern world and have consequently emulated the Australian institutional approach. And aid policy has reinforced the tendency to build powerful government institutions in aid-receiving countries, partly out of convenience. It is convenient for aid administrators to deal with a few government bodies in the recipient country. Aid that is disbursed to many individuals and through non-official channels requires greater administrative effort and bureaucratic responsibility. Such aid might also be seen as interfering in the internal affairs of the recipient country. Despite these arguments, it seems to us that Australian aid to Fiji — and to other Pacific nations — should develop away from its heavy reliance on a government-to-government relationship because centralised decision-makers lack the specific localised information, and the incentive, to add the management skills, direct supervision and personal interaction that make aid packages work.

In many respects, the small island economies have probably been served well by the Australian role model because Australia — unlike the old societies of Europe or the huge, technological economies of the US or Japan — has features of a young, simply structured, developing country where improvisation counts for more than set procedure. But in other respects, it has not been appropriate for small countries to replicate the structures and procedures of a nation 20 to 50 times their size. Much official aid to Fiji — as elsewhere and by most donor countries — has gone into building public institutions supporting centralised control mechanisms. Australian official aid has often proceeded on the principle that 'big is beautiful'. This has tended to create State institutions and infrastructures of a standard and scale that the citizens of smaller and poorer nations simply cannot afford to maintain. Fiji now has a big and cumbersome government, which foreign aid has helped to develop and which has become a burden on Fiji citizens. It now constitutes a handicap to Fiji's future long-term economic growth.

The creation of elaborate structures of central allocation and bureaucratic control (central planning, development banks, State enterprises) has created a climate in which individual wealth creation and productivity promotion through the decentralised use of appropriate knowledge does not flourish. It is even possible that economies like Hong Kong's or Taiwan's over the past two decades have benefited from an absence of official aid, because self-reliance has — in the long term — strengthened individual entrepreneurship and initiative, whereas producers in government-laden economies like Fiji have learned to rely on big government and to conform with administrative control. Aid thus has the potential to create an environment of little genuine entrepreneurship and low growth.

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'Aid acts to get the government off the hook from making hard decisions.'

*Cabinet Minister*

'All investment decisions in Fiji revolve around Government participation. This in turn depends on foreign aid.'

*Expatriate banker*

'As much as 40 per cent of tied project aid may get wasted. By contrast, budget aid will get squandered to the tune of 110 per cent.'

*Former senior Australian official*

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One stated objective of Australian aid policy has been to promote Australian exports. This objective is frequently in conflict with making the best use of the funds that are transferred and greatly reduces the value of aid to recipients. However, we must recognise that aid (other than humanitarian assistance in disasters) is supported in democratic donor countries only if it is perceived as in the self-interest of the donor country (Australian Institute for Public Policy, 1987:62). No respectable purpose is served by reiterating the post-colonial rhetoric of selfless giving. In international aid, too, there are no free lunches.

Australian official aid has benefited exporters who have had the agility and inclination to exploit the subsidies contained in official aid. This in itself is acceptable; but there are dangers of enrichment without proper performance. It is facile to be cynical about individual gain from public aid schemes, and it is easy to point to examples of greed and waste. After all, the obstacles to implementing novel ideas in a developing country are great, new solutions have to be found, and the risks are high. Accidents and failures must be accepted. But we found it nevertheless symptomatic that we were told so many stories of mismanagement, miscalculation and waste when we enquired about Australian aid projects with ordinary citizens and businessmen in Fiji. We also find it bizarre that well-intentioned government experts in Canberra backrooms desperately search for aid projects to give to Fiji and that Fiji itself has not made more requests for assistance in viable projects. The procedure of initiating projects from the centre can easily falter, for the same reason most centralised government efforts to 'pick the winners' have faltered. A bureaucrat or a committee cannot easily discover the relevant information. Much of the relevant information is changing constantly and can only be gleaned by those on the ground (Chapter 3). There is also a danger that projections of profits by promoters become overly optimistic to attract aid funds. Moreover, bureaucracies that initiate aid schemes do not have the direct incentive of profits and losses commensurate with necessary risk-taking in the development of new ventures. Administrators tend to avoid risks irrespective of potential gain, because they receive no share in the profit, only blame for inevitable occasional failures. In order to overcome some of these shortcomings of traditional official aid-giving, we propose, below, the creation of privately administered development trust funds to disburse and implement Australian aid.

Project aid is often criticised by recipient countries, which prefer outright budget grants. But project aid has the advantage — important in Fiji — of providing capital together with modern management skills from Australia and of establishing some follow-up obligations by Australia. Aid is not simply a matter of placing a capital good into Fiji. To make it work, a whole package of interdependent functions has to be fulfilled, covering the whole entrepreneurial spectrum: marshalling imported and domestic inputs; marketing; training workers and mobilising complementary local resources; finance and management control. Projects that focus on the integral success of the entire venture and view it as an entrepreneurial task are more likely to succeed. Therefore, aid personnel who are not pure technicians, but who realise the importance of interaction between people, of learning skills, and of developments in labour, capital and product markets, are more likely to make projects successful. In a setting like Fiji, therefore, project aid is preferable over budget aid. But integral 'project aid packages' should be designed to contain all essential entrepreneurial components, which frequently do not develop spontaneously on the ground.

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**Ag-Lime in Silk Pouches**

One day, officials in the National Land Development Corporation (NLDC) decided to pick pigeon-peas as a winner. This project attracted $500 000 of Australian aid funds. Experts established that the pigeon-peas needed lime. In the interest of national self-sufficiency, it was to be national lime. Since the only lime available is coral rock and sand, it was determined, in the interest of promoting the Australian export content in aid programs, that $100 000 was to be used to buy a new stone-crushing machine. Another $40 000 was then needed to spread the coral lime. After a once-off use, the machine rusted. NLDC had to use $500 000 to make use of $500,000 of aid. It would have been much cheaper to pack Australian agricultural lime into silk pouches and air-freight it to Fiji.

**Onions Make You Weep**

An Australian promoter decided that Fiji's national development would be served by a national onion-growing project. From an office in Suva, five hours away from the prospective farm, the essential preconditions for success in agricultural development were negotiated: onions already attracted 10 per cent import duty, but they were now made subject to import licensing, so that imports of cheap New Zealand onions were banned by the Fiji government under a quota system if local onions were reported to be available. Once this was ensured, it did not matter that local onions have a short shelf-life and rot, that they were much more expensive to the housewife than NZ onions, that — in fact — they were not readily available and there were onion shortages.

The average citizen was made to pay the price, while the action gave the intervening bureaucracy something to do. Did this scheme help to set up a permanent venture? No, it did not. The promoter is gone now, but the onion licensing scheme remains.

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Development aid should no longer be given without conditions, certainly not to post-1987 Fiji. Stipulating and monitoring such conditions, of course, complicates the diplomatic and administrative task of giving aid. There may also be sensitivities in newly independent nations, but these can be overcome by realising that conditions can promote mutual interests and offer protection against inefficiency, corruption and mismanagement. Aid without conditions to Fiji would undermine overdue economic reforms. Indeed, unconditional aid (such as Australia began providing after it resumed aid to Fiji in February 1988) amounts to little more than an outright subsidy to a growing class of politicians, military and bureaucrats who are not really accountable to either Australian or Fijian taxpayers. This is why such aid is so desirable to the Fiji bureaucracy. In the circumstances of 1988, Australian aid can easily be viewed as substituting for the shrunken revenue base of post-coup Fiji, or as letting the Australian taxpayer pick up part of the tab for the political experiments of 1987. Aid should not help to create the illusion in Fiji that these events were cost-free, and — more importantly — it should not reduce the need for a critical strategic re-evaluation of the entire approach to economic and social policy.

Australian aid to Fiji has frequently subsidised individual business undertakings and made them appear profitable or beneficial when in reality they have not been. In the government-dominated, regulated economic environment of Fiji, unaided business ventures often do not look profitable, although they might succeed in an environment that was less distorted and more oriented towards initiative. To compensate for the man-made handicap of regulation, aid funds or subsidised loans are channelled through public or quasi-public mechanisms, such as the Fiji Development Bank, into marginally profitable projects. In the light of this, it is not surprising that we encountered many observers who were cynical about the benefits of foreign aid and saw that it promoted projects that were — under the existing circumstances — worthless to individual citizens. The aid component has often helped to maintain regulations and other administrative impediments to growth. If Fiji is to swing from a decay scenario to a dynamic growth scenario, this side effect of official Australian aid must be controlled.

## New Attitudes to Aid Policy in the Affluent Countries

In the 1960s, public attitudes to aid-giving were shaped by the experience of seemingly effortless economic growth in the old industrial countries, feelings of generosity borne by new-found wealth, and a feeling of guilt vis-à-vis less fortunate and newly independent nations. But since then, public attitudes have been changing greatly overseas and in Australia. First, economic growth has become harder to achieve in the 1980s. This makes the claims of international development aid harder to meet. Second, a new, more sober and more equal relationship is developing between old and young nations. This is illustrated not only by Australia's new treaty with Papua New Guinea, but also by the aid policies of leading donor countries like the USA and the UK. A more business-like approach to aid is part and parcel of a general move to 'dry' policies being adopted by all political parties (Australian Institute for Public Policy, 1987:62).

The leaders of Fiji and other heavily aid-dependent Pacific nations should realise that, in the new international climate, it is no longer sufficient to be poor to qualify for aid. The public is no longer willing to indulge overseas governments of new nations if they pursue policies that would be wholly unacceptable to a majority of Australians. The public has begun to distinguish between successes and failures. Encouragement and assistance to essentially self-reliant and efficiency-oriented nations is likely to get electoral support in the 1980s. By contrast, open-ended subsidies irrespective of performance, or hand-outs to foreign governments on political grounds, are opposed by many Australian taxpayers, as widespread outcries against Australian largesse to some regimes in southern Africa have recently indicated. A future Australia-Fiji aid relationship must take this spirit into account if it is to retain the support of the public, which is ultimately necessary in a democracy like Australia. We are sure — from many conversations — that such a new business-like attitude would also be welcome to many representatives of the new generation in Fiji. They have realised that unconditional aid can weaken Fiji and turn Fijians into permanent dependents.

In discussing aid, we must also remember that Australian aid is distributed by the Australian International Development Assistance Bureau on behalf of all Australian taxpayers on the basis of certain understandings. It bears reaffirming this basic principle to the Fiji authorities after the interruption of aid in 1987, because some circles in the Fiji government and bureaucracy have clearly developed a sort of blatant 'claims mentality'. Australian official assistance is considered almost a positive right; and Australian officials who want to have a say in the use of the funds are resented. This mentality, if allowed to take hold, is not in the Australian interest. Some of the purposes of aid — to earn the good will of our Fijian neighbours, to administer the funds with the benefit of Australian expertise and to monitor the appropriateness of their use — are being lost when Australian negotiators simply yield to the 'claims mentality'. This alone is reason enough for the Australian authorities to be assertive and to stipulate clear conditions for aid. The aid relationship is between two sovereign nations and our neighbours have no claim to aid; it is a gift.

## Political Problems of Aid to the Republic of Fiji

Australian attitudes to aid and other relations with the new Republic of Fiji are riven by two conflicting attitudes.

On the one hand, Australians are reluctant to give material support to a government that is perceived as having 'killed democracy in the South Pacific'. Australia, which sees itself with considerable justification as a role model for freedom, tolerance, equality and the rule of law in the region, finds it hard to recognise and support a regime that will not give an equal vote to all citizens and that has forcibly replaced a democratically elected government. In addition, some members of the Australian labour movement resent the ousting of a fraternal government. The leaders of Fiji should make an effort to understand those feelings of many Australians.

On the other hand, other Australian attitudes are based on a pragmatic view that Fiji is a sovereign independent nation in whose internal political affairs we have no right (and certainly not the power) to interfere. Long-term strategic interest, shared trade interests and traditional friendship between the people of the two nations suggest the renewal of close relations and aid. Australians realise that many people in Fiji are in dire economic strife and need generous Australian help. Australia cannot afford, in its own interest, to let the Fiji economy collapse, not only for long-term strategic reasons, but also to avoid a disorderly influx of economic refugees. It should also be noted that Australia maintains normal, if not friendly, relations with regimes that have a much less acceptable record in pursuing the ideals to which Australians aspire than the present government of the Republic of Fiji.

The first type of attitude inspired initial reactions to events in Fiji. The second, pragmatic attitude is gradually becoming dominant and has led to the resumption of Australian aid in February 1988, despite the fact that expatriate Fiji citizens and their Australian supporters have dramatised the former viewpoint, partly to justify the acceptance of emigrant Fijian citizens into Australia as political refugees. Nevertheless, these two conflicting attitudes place the Australian government and the public at large in a dilemma. How this dilemma is resolved will influence affairs throughout the entire South Pacific for a long time ahead.

## The Case for Conditionality

There is a strong case for terminating all unconditional aid to Fiji after the 'aid pause' of 1987, not only to set a clearly visible political signal, but also for good economic reasons. There will, of course, be political pressures from the Fiji government to rescue the precarious budget situation through injections of aid, but unconditional aid would be a case

**Restored $10m Aid to Fiji Signals Improved Relations**

'Australia will give Fiji $10 million this financial year following agreement between the governments to resume bilateral aid.

'The decision ... follows talks between the Fiji Government and a team of Australian officials ... The aid program will focus on humanitarian and other areas to assist the disadvantaged. It will include key health, agricultural and economic projects ...

'The phased restoration of the aid program represents a significant step in the normalisation of Australia's relations with the new regime.'

*The Australian*, 10 February 1988

**NZ Gives Aid to Fiji Again**

'New Zealand yesterday announced the resumption of aid to Fiji ... In a statement issued in Wellington [the New Zealand Minister of Foreign Affairs] said: "This acknowledges the positive developments that have recently occurred in Fiji with the return of a civilian government and the taking of steps towards a return to the rule of law."'

*The Fiji Times*, 10 February 1988

of throwing good money after bad. Australian aid along the past pattern of unconditional and sometimes uncritical generosity can only postpone that moment of reckoning in Fiji when painful steps to balance the budget and the external accounts have to be taken. Moreover, unconditional aid would signal to other nations that some of the costs of their independent, political actions can be placed on the shoulders of an indulgent, uncritical Australia. Australia would be unwise to accept even a semblance of co-responsibility for such actions by subsequently providing a generous funding without conditionality.

It will not be easy for Australia to persevere with such a stance, because it will be argued that Australia has a direct interest in the overall stability of the economy of Fiji. Individual projects in which Australians have a direct stake may falter because of overall imbalances (budget deficit, credit crisis, inflation/depreciation spiral). However, such imbalances can be rectified only by the people in Fiji themselves. The palliative of Australian aid would, in all likelihood, only prolong the underlying causes for the imbalance and make the ultimate correction more painful. The only durable correction lies in hard decisions by Fiji itself to move to smaller government, deregulation and privatisation.

Australian aid should not be given with even the tacit implication that Australia claims a monopoly on largesse to Fiji. Indeed, the Republic of Fiji should be encouraged to obtain aid from wherever it can

(France, Indonesia, Malaysia, Japan etc.). The leaders of Fiji will be able to judge themselves where the most useful assistance comes from and where unacceptable strings are attached. In any case, bilateral relationships tend to be less subject to strain if the partners are not exclusively dependent on each other and occasionally test alternatives.

## The Case for Privately Administered Development Trust Funds

One way to launch Australian aid on a new path, which has the great advantage of supporting the growth scenario, is to de-emphasise government-to-government assistance and to direct more aid through private channels. The experience of 1987, when health, education and other assistance funded by the Australian taxpayer was channelled through private agencies, could be expanded, formalised and put on a permanent footing. If private mediators were officially encouraged by the Australian government, more voluntary agencies, as well as private companies, would become involved in privately-run projects to administer and implement official aid funds. The aid package would, in such cases, combine official funds with private know-how and supervision.

The important entrepreneurial, advisory and supervisory roles in successful aid, which official aid normally underrates and underprovides, will not always be filled sufficiently by voluntary agencies. But they are crucially important in raising the productivity of Australian aid. This should be explicitly recognised by the use of aid funds to pay entrepreneurs, advisers and supervisors whose contribution promises to enhance the efficiency of aid. A promising way to better integrate these functions with officially financed Australian aid to Fiji and other small Pacific nations could be the establishment of a number of 'development trust funds'. Each such trust fund would be endowed with a given sum and given a limited task, for example to support rural or transport development. Australia and Fiji would appoint a mix of qualified trustees from Fiji and Australia who would be given the task of selecting appropriate projects and ensuring their success. Success would be measured by whether the projects achieved sufficient profitability to repay the trust fund at close-to-commercial interest rates. The endowment of these trusts with Australian funds could be made dependent on certain agreed conditions explicitly incorporated into the trust deeds. The trustees should be paid fees commensurate with their responsibilities but containing a variable element to reflect the profits and losses of the development trust fund in the most recent year. It is important that the trust fund not directly initiate projects, but only act to assess, fund and monitor projects that have been initiated by individuals, cooperatives or companies in the field.

One advantage of funding aid through trusts is that project aid is freed from the rigidity of the budget cycle: instead of expending moneys simply to meet this year's budget target, funds can be kept until adequately promising projects come forth. This alone would eliminate one source of inefficiency.

Successful models for such development trust funds can be found in the Caribbean, where American aid to many small nation states is administered in this way. The great advantage of such trust funds over the more conventional way of channelling capital through State development banks is that the trustees are directly involved in monitoring success, in taking remedial action, and in exploiting new, useful information. The trustees would normally be people with industry-specific business and local experience, and their information about the projects would be collected and assessed in the unconventional, flexible manner of businessmen, not by administrative committees. Trustees have ways of influencing, cajoling, or dissuading the venturers they finance by Australian aid that are not normally available to government officials. And they have the incentive of using their influence in the interest of project profitability. Moreover, a mix of local and Australian trustees supervising and evaluating projects would greatly ease national sensitivities about direct interference.

Development trust funds would be a convenient structure for an Australian aid effort that wants to be seen to be at arm's length. And it would be easy to widen the charter of such funds to cover not only Fiji, but the entire Pacific area.

### Areas for Australian Assistance

Officially administered project aid — as well as humanitarian assistance in disasters like cyclones — will of course have a role in the future relationship with Fiji. But future project aid should be assessed very critically and on purely economic criteria. Aid projects should not be seen as ill-disguised budget support, as seems to be the perception among many Fiji officials. Australia should insist on a role in final project approval, should put an end to the 'all-comers approach', which the big, aid-getting bureaucracy in Fiji has promoted. If new projects do not meet pre-determined Australian criteria, they should simply not attract Australian aid.

Ongoing aid projects need to be critically reviewed to test whether their completion promises success. Where the results of the review do not meet original expectations, the business-like approach of cutting losses seems preferable to the administrative approach of throwing more taxpayers' funds at unresolved problems. Withdrawing from a few, unpromising ventures would have a salutary feedback into the management of all aid-assisted projects.

It is important that the success of administering aid is not measured by comparison with budget expenditure targets, but by the costs and benefits of the projects. There is nothing wrong with Australian aid disbursement falling short of budget targets if there is a lack of suitably beneficial and promising projects or if it turns out that Fiji is not fulfilling previously agreed conditions. After all, Australia suffers from large deficits in its own overall public-sector budget and the external account.

Although no committee of administrators and certainly no team of academics can 'pick the winners' in development, our research indicated certain areas in which Australian aid might produce lasting results. The following might be worth further critical investigation.

In health care, there are pressing needs. Aid in this area is justified on humanitarian grounds and can be based on traditional channels of delivery. It could facilitate direct projects by Australian institutions. Why not induce Australian health clinics and hospitals to set up branches in Fiji, possibly using aid to subsidise shortfalls in receipts from patients? Why not support one or several of the private hospital ventures being planning in Fiji before 1987? Why not induce Australian health care personnel, maybe those who are close to retirement and free to move, to spend two or three years in Fiji — a rewarding experience? This may involve a greater administrative responsibility at the Australian end, but it would be more efficient than simply handing over big sums to the cumbersome public health administration in Fiji.

In education and training, aid should be channelled to more basic and more practical levels, instead of used to replicate educational institutions that may be more suited to a developed nation like Australia. We have argued in Chapter 6 that the University of the South Pacific in its present configuration has not fulfilled the real needs of Fiji. Instead, Australia might consider offering a considerable number of scholarships to qualified citizens of Fiji to study in Australian and other university courses of their choice, with the aim of producing future leaders with high standards. At a lower level of education and training, private schools and training schemes throughout Fiji might be encouraged by using aid to provide on-the-ground supervision by experienced Australian educators and technical advisers. The concept of the development trust fund can be readily adapted to help develop excellence in education or training. In Chapter 6, we discussed the need for practical, low-level training for people who are involved in the 'village companies'. Australian experience and support could make an important contribution to setting up cheap community colleges, thus helping to improve racial balance in economic life — a matter of great importance to future stability and growth.

Educational advancement and business training of ethnic Fijians is of crucial strategic importance to long-term stability. We therefore suggest that Australia carefully evaluate whether the proposed youth corps training scheme of the Fiji military (or of voluntary community groups) can attract practical Australian support. If such schemes are open to young people of all races, if their primary role is to inculcate practical skills and business-like, disciplined attitudes, and if practical Australian involvement is welcome, such schemes seem to deserve Australian assistance. Ethnic Fijians are used to structured hierarchies in their society and respond well to imposed discipline, as would prevail in youth corps. Youth corps can be used to help some members of the next generation step into the modern world and to integrate Indians and Fijians in a learning and working environment. However, we must recognise that Australian aid to such schemes may not be politically feasible. In this case, Fiji would be well advised to look elsewhere for financial and practical assistance for its youth training scheme.

To help the revival of tourism, as a matter of great priority, Australia should offer aid to sort out airport departure procedures at Nadi and Nausori. At the moment, departure procedures are both cumbersome and ineffectual. Australia should consider offering technical assistance to enhance the standard of search and passenger service, and to speed the flow of departing tourists.

Australian aid could help Fiji to experiment with new ways of developing or maintaining its physical infrastructure. We suggest that stretches of country roads might by 'adopted' by villages whose 'village companies' are paid according to the quality of maintenance. Expert assistance and even financial support for such direct self-help projects would be a useful and popular way for Australia to be of assistance and would train villagers in relevant skills.

Some business management skills can be taught in schools, and Australian aid should make projects that promote business training a priority. But the most important practical business skills at all levels are best picked up in practice. We therefore recommend that the successful, privately run, Australian Executive Service Overseas Program (AESOP) be expanded and reinvigorated. Care should be taken that Australians are directly associated with young local partners and that monitoring ensures that practical knowledge is effectively passed on.

During our research in Fiji we were struck by the limited resources and capabilities in strategic economic analysis. Many of the key people in government with qualifications in this area have left or are planning to leave. It will be absolutely critical to the economic reforms, should they be attempted, that the key leaders be able to rely on high-quality professional advice. It might be useful to create a small, independent secretariat to support the work of the Economic Strategy Committee This secretariat should be kept separate from the wider civil service, whose function is more to administer and evaluate tactical steps than to think in bold strategic alternatives. Such a unit could draw together a few talented experts from Fiji and some foreign advisers. Harvard University's successful technical aid under the Harvard Institute of International Development (HIID) is an example. Australians could channel technical assistance from Australian government departments (e.g. Treasury) and universities into such a unit. Without a good team of economic analysts, the reforms may falter simply because of the exodus of expert economists.

Australian aid policy can influence a growth strategy in Fiji by promoting joint ventures between Australian and Fijian businesses. Unlike government-to-government aid where those who manage the project have no direct material interest in the success of the venture, joint business ventures are monitored by self-interested partners. One way to assist joint ventures and business transfers to Fiji might be to offer assistance in the reconditioning and transport of used Australian plant and equipment. Frequently, such equipment is no longer appropriate to cost and skill levels in Australia, but constitutes appropriate technology for a lower middle income country like Fiji. The equipment should be sold commercially in Fiji, but official aid support to repair and back it up could be offered. A revamped Fiji Institute of Technology could play a central role in developing this business by teaching technical and business skills.

If Australian aid is to help in the creation of viable ventures for small businessmen and small farmers, care must be taken that new ventures are not burdened with high overhead costs. Schemes like the Yalovou beef development have the potential of creating sustainable family farms only if overhead costs are kept low and are not an excessive burden on small farms. It may be worth donating the cost of infrastructural development (like roads and central administration buildings) outright. The rest of the development costs would be offered as a loan to be repaid by the new small-scale owners. If Australia were unwilling to provide the infrastructural component in such schemes as a free gift, other ways should be found to avoid raising the mortgage costs to new small entrepreneurs who benefit from such aid-assisted schemes. It seems that, at present, overheads and mortgage obligations are at levels that make their commercial success for the individual participant often almost impossible. It was put to us that many new small farms and businesses fail because they are also expected to repay the cost for often inappropriately extravagant infrastructural development.

## More Trade, Less Aid

Although considerable vested interests in the continuation of traditional aid patterns are at stake, the main thrust of a new economic relationship with the Republic of Fiji should not be aid, but more trade. One cannot but be impressed by the beneficial and fairly prompt effects that

SPARTECA has had, although the red tape involved has deterred some potential exporters. A number of new export-oriented enterprises have got a good foothold (Chapters 6 and 8). It is most encouraging that garment manufacturers, who had started with a view to the profitable and protected Australian market, are now entering the competitive, but rewarding, US market.

Fiji's future prosperity hinges critically on the growth of export-oriented manufacturing. If the Australian government is really far-sighted and genuine about the long-term prosperity of Fiji, it will resolutely and unreservedly support this by further opening Australian markets to products made in Fiji (and other Pacific nations). Close trade links are definitely in Australia's long-term strategic interest. And they should be offered without petty reservations and limitations. This fits in well with moves to a more open, less protective international trading environment and Australia's own prospective moves to liberalise international trade overall.

A strategy of 'more trade, less aid' must also take stock of the protectionist influences of past Australian aid. Past aid projects have often aimed at artificial import substitution — an economically non-sensical strategy for a nation with Fiji's small population. It is, for example, an economic anachronism to contribute to a policy of rice or beef self-sufficiency, irrespective of opportunity costs. If the commercial success of an aid project depends on the imposition of import licences or tariffs by Fiji, the project is fatally flawed from its inception. Aid should therefore in future **on no account** be given to projects that induce the authorities in Fiji to impose protectionist measures. Indeed, the condition should be stipulated that no trade barriers be introduced as a consequence of a new project to which aid has been given.

One of the most important gestures that Australia can make to launch Fiji's battered economy on a path of sustained growth and stability is to be generous with regard to landing rights for aircraft originating in Nadi and beyond. An open-skies policy seems to us to be the pivot of a successful economic strategy for a small, distant nation in the mid-Pacific. Tourism, light-weight manufacturing and the perishable agricultural produce industries will get a powerful boost from freed-up air traffic. We realise that there is a conflict between the short-term business interests of Australia's government-owned airline, Qantas, and the joint long-run strategic interests of Fiji and Australia. For the leaders of Fiji, the resolution of this conflict should be considered the litmus test of how genuine the Australian government really is in offering economic help. Forgoing a commercial gain from a fairly protected market (Nadi-Australia) in the 1980s may well save Australians future expense and international tensions by the year 2010.

## A 'South Pacific Marshall Plan'

As we said in Chapter 1, we probably have to look back to the decline in living standards in western Europe between 1938 and 1946 to find a parallel for the contraction in living standards that Fiji is experiencing. This economic contraction is bringing great suffering to individuals and bears within itself the prospect of long-term economic and social decay, instability and emigration. This pessimistic prospect is a parallel to what many observers expected at the time for post-war Europe.

It is in the long-term humanitarian, economic and strategic interest of Australia and other Pacific Rim nations, as well as the Republic of Fiji, to avert such a calamity. We therefore propose that a kind of 'Marshall Plan' be initiated by Australia to assist Fiji in turning its present adversity into an opportunity for prosperity and stability. The plan will be based on an agreement between the governments of Australia and Fiji and will make substantial aid available. At the same time, it will encourage and help Fiji to help itself by economic reform. In spirit, the agreement can draw on the good beginning made by SPARTECA and on the general good sense of Australians who have often offered pragmatic help to those who are down on their luck. The agreement should include the invitation to all governments of free democracies and to all South Pacific island nations to join in; but — because time is of the essence — it should not be conditional on anyone other than the Commonwealth of Australia and the Republic of Fiji joining before it is launched. A successful start made by a partnership of Australia and Fiji would, in any event, attract others to join the initiative. It also seems crucial that additional aid — like the new aid disbursed by the World Bank and most multilateral aid — be explicitly linked to the condition of microeconomic reforms in Fiji. The Fiji government has become used to discussing policy conditions for aid with other donors, for example the European Community, and may indeed welcome a renewed involvement of Australian experts in shaping the major development priorities.

The key features of the Marshall Plan — a uniquely generous and successful exercise in international cooperation — bear enumerating.

1. Inspired by compassion for human suffering, to help avert political extremism of the left and the right, and out of an enlightened interest in economic and political stability in Europe, a rich country offered help.[1]

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[1] The proposal was made on 5 June 1947 by General George Marshall, the US Secretary of State. It was in force by 3 April 1948 creating the European Reconstruction Program and the Organisation of European Economic Cooperation (OEEC). Until June 1951, US$13b in aid and long-term loans were given to European countries to help them to rebuild their war-

2. The Marshall Plan cast political emotions aside and addressed itself in a uniquely magnanimous way to all victims of the war — the victors and vanquished. The American aid included Germany and Italy. By including all sides of a past conflict, the Marshall Plan helped to emphasise economic reconstruction and cooperation in Europe and to de-emphasise political passions and backward-looking recriminations.

3. The American aid to Europe was not given unconditionally. It was an invitation to the Europeans first and foremost to help themselves by rational action (trade liberalisation, guarantee of basic economic rights, and promotion of a market economy). Both sides of the Atlantic realised that American aid would be wasted if the economic order in Europe was not changed to make the ground fertile for the injection of such aid.

4. The Marshall Plan aimed to give a new generation of Europeans hope at a desperate time and built on the shocks of the recent past to make Europeans plan, from humble beginnings, a strategy for long-term recovery that inspired most tactical policies for the following 20 years.

These principles should inform and inspire Australian-Fijian negotiations, which should commence soon, because time is short.

Under a 'South Pacific Marshall Plan', Australia should make additional aid available on condition of specific policy reforms and commit substantial 'reconstruction funds' for the next three to five years so that people in Fiji can plan ahead and commence projects with some long-term confidence. Simultaneously, a timetable should be set for the gradual phasing out of Australian aid, beginning from 1994. Such a sunset clause is essential to prevent the further spreading of a 'claims mentality' in Fiji.

All existing aid programs to Fiji should gradually be integrated into this new initiative. A central point of the plan must be the realisation that Australian gifts and low-cost loans will be largely wasted if Fiji does not reform its basic economic order. The three planks of the economic reform program that we propose — guarantees of economic and civil rights, privatisation and administrative reform, and deregulation and free trade — are essential to make Australian aid productive and to achieve long-term economic and political goals. Unless the leaders of Fiji thoroughly re-evaluate and reform how their economy is run, not much Australian aid would seem economically justified. The agreement with Fiji should therefore clearly spell out the conditions for future aid and create a mechanism whereby Australia can assist Fijians in implementing the reforms. But, ultimately, this will hinge on the

torn economies. At the same time, a process of economic integration and a move to more rational economic policies were launched as an integral part of the Marshall Plan.

courage, far-sightedness and political will of the leaders of Fiji. The creation of development trust funds would be a new initiative that fits in well with such a wider scheme of assistance and cooperation.

The agreement should invite other nations with an interest in Fiji — the United Kingdom, New Zealand, France, the United States, Canada and Japan in particular — to join the aid effort after the accidents of 1987. It should also invite the other South Pacific island nations to join in as aid recipients by adopting reforms similar to those that Fiji implements, in particular trade liberalisation and small, business-like government. The plan need not create a new international institution, but should focus on setting the framework for individual initiative and self-help. With these principles in mind, bold and far-sighted leadership in Australia and Fiji can create new opportunity from adversity, and hasten the time when a stable Fijian democracy will be restored.

# Appendix A

## ON THE METHODOLOGY OF THE SCENARIOS

1. The scenario projections are informed by cross-sectional/historical analysis and the notion that the economic order influences third-factor growth.

2. The growth rate projection was made on the basis of a macro-economic production function:

(1) $Y = f(L, K, SK, TEC, NR, \Delta STR, E)$
where:

- Y = GDP at constant market prices;
- L = number of hours worked;
- K = capital stock;
- SK = skills used by the labour force;
- TEC = technology embodied in the capital stock and disembodied, including an allowance for gains from specialisation (economies of scale);
- NR = natural resources (including land and sea);
- $\Delta$STR = flexibility and adaptability of economic and industrial structures, which are a reflection of factor mobility and price flexibility;
- E = entrepreneurship.

The last five factors can often not be separated in estimating production functions and are then summarily labelled 'third factors' or 'growth in total factor productivity' (Denison, 1967; Thirlwall, 1978; Chenery et al., 1986).

3. By differentiating equation (1), we obtained the growth rate of real GDP (g):

(2) $g = a \cdot l + (1-a) \cdot k + t$
where

- a = share of wages and salaries in total factor incomes;
- l,k = rates of change in L and K;
- t = third factor changes.

4. As described in Chapters 3 and 5, we inserted estimates into equation (2) to obtain the growth rate of output, namely

| | in per cent | |
|---|---|---|
| | Scenario I (Decay) | Scenario II (Growth) |
| a | 0.6 | 0.5 |
| l | 0.6 | 2.7 |
| k | 0.6 | 6.0 |
| t [share of g] | -1/5 of g | 1/3 of g |
| g | 0.5 | 6.5 |
| Population growth | 1.5 | 2.2 |

5. The difference between GDP and population growth gave us long-term growth rates from which to make trend projections from a base of US$1650 in 1986 to 2010 over 24 years, namely:

| | (in US$ at fixed 1986 prices) Scenario I | Scenario II |
|---|---|---|
| Per capita income in 2010 (US$) | 1300 | 4540 |
| This implies average annual growth rates from 1986 to 2010 of | -1.0% | +4.3%; |
| and from 1989 to 2010 of | +0.4% | +6.6% |

6. The projected population growth and the projected per-capita income growth were inserted in the 'Chenery equations' (Chenery and Syrquin, 1975:30, 38-9, 49) to obtain approximate estimates for key structural features. From these, and taking account of Fiji's economic peculiarities and prospective policies, shares of GDP by sector and by expenditure category were estimated for both scenarios, and implicit growth rates for each aggregate were estimated. The resulting numbers, which are reported in Tables A1 and A2 below, are for illustrative purposes only. We used them to convince ourselves of the internal consistency of our scenarios; and they may serve the reader to check our scenarios for plausibility. Since no one, certainly not a team of visiting experts, is capable of foreseeing Fiji's future, these figures should be taken with a grain of salt. They should not be used for planning purposes, but can serve as broad orders of the magnitude of the structural changes that different economic strategies can bring about.

## Table A1

### Gross Domestic Product by Sectors

### ( In constant 1986 F$ prices, rounded)

| | 1986 | | 2010-I | | 2010-II | |
|---|---|---|---|---|---|---|
| | billions F$ | % share | growth (%) | % share | growth (%) | % share |
| Agriculture, forestry, fishing | 276 | 20.9 | + 0.8 | <u>22.3</u> | + 3.3 | <u>10.0</u> |
| (sugar cane[1]) | (143) | (10.8) | <u>+ 1.1</u> | 12.4 | <u>+ 2.0</u> | 3.8 |
| (other[1]) | (133) | (10.9) | + 0.5 | 9.9 | + 4.4 | 6.2 |
| Mining | 12 | 0.9 | + 3.2 | 1.7 | +10.6 | <u>2.2</u> |
| Manufacturing | 149 | 11.3 | <u>+ 0.5</u> | 11.2 | +10.3 | <u>26.0</u> |
| (sugar[1]) | (52) | (3.9) | <u>+ 1.1</u> | 4.5 | <u>+ 2.0</u> | 1.4 |
| (other[1]) | (97) | (7.4) | + 0.2 | 6.7 | +12.1 | 24.6 |
| Utilities | 46 | 3.5 | + 0.1 | <u>3.2</u> | + 7.7 | <u>4.5</u> |
| Construction | 71 | 5.3 | − 0.2 | <u>4.5</u> | + 7.1 | <u>6.0</u> |
| Trade & tourism | 222 | 16.9 | − 0.2 | 14.1 | <u>+ 7.7</u> | 22.0 |
| Other services[2] | 545 | 41.3 | + 0.7 | <u>43.0</u> | + 5.0 | 29.3 |
| GDP at factor cost[3] | 1 330 | 100.0 | + 0.5 | 100.0 | + 6.5 | 100.0 |

*Underlined numbers indicate the exogenously set assumptions either of the share (informed by the structural information of the 'Chenery' type ) or the growth rate (derived from market projections or international comparison).*

1 Sugar cane, sugar and other were calculated on the basis of medium-term shares in constant-price GDP.
2 Including government.
3 Less imputed banking charges.

Sources for 1986 data: Ministry of Finance, *Update of National Account Statistics*, 25 Nov. 1987, *mimeo*; and Bureau of Statistics, *Current Economic Statistics*, Oct. 1987, Table 3.2.

**Table A2**

## Gross Domestic Product by Expenditure Categories

(in constant 1986 F$ prices, rounded)

| | 1986[1] | | 2010-I | | 2010-II | |
|---|---|---|---|---|---|---|
| | (millions) F$ | % share | growth (%) | % share | growth (%) | % share |
| Consumption | | | | | | |
| Private | 873 | 60.7 | +0.3 | 58.0 | +6.6 | 62.0 |
| Government | 260 | 18.1 | ±1.0 | 20.4 | +5.7 | 15.0 |
| Gross capital formation | | | | | | |
| Private | 162 | 11.3 | −0.3 | 9.3 | +9.6 | 22.5 |
| Public[2] | 112 | 7.8 | ±2.0 | 11.1 | +5.7 | 6.5 |
| Exports | 609 | 42.3 | ±0.9 | 46.6 | +7.2 | 49.0 |
| Total demand | 2016 | 140.1 | +0.7 | 145.4 | +7.0 | 155.0 |
| Imports | 577 | 40.1 | +1.0 | 45.3 | +7.9 | 55.0 |
| Capital flow (in=+) | −32 | 2.2 | — | −1.2 | — | 6.0 |
| GDP at market prices | 1439 | 100.0 | +0.5 | 100.0 | +6.5 | 100.0 |
| For comparison: Per-capita GDP iin US-$ | 1650 | — | 1296 | — | 4532 | — |

Underlined numbers indicate the exogenously set assumptions either of the share (informed by the Chenery data) or the growth rate (derived from market projections or international comparison).

1 Adjusted for excessive stock changes in 1986 (from $43 million actual to $10 million trend value) and excluding the "statistical discrepancy".

2 Government and public enterprises, as well as changes in all stocks.

Source for 1986 data : Ministry of Finance, *Update of National Accounts Statistics*, 25 Nov. 1987 – *mimeo*.

# Appendix B

## ON THE ECONOMIC EXPERIENCES OF MALAYSIA AND TAIWAN

### Malaysian Policies, 1969-88 — A Personal Evaluation

*Wolfgang Kasper*[1]

When I arrived in Malaysia in April 1971, the country and the government were still stunned by the violent racial riots between Malays and immigrant Chinese and Indians that had taken place in May 1969, costing an estimated 300 to 500 people their lives. The official response of the new Razak administration had been to adopt the 'New Economic Policy' (NEP), which made the racial distribution of jobs, incomes and wealth a policy objective in its own right and one that was to compete with growth and overall stability. But many details of the new policy remained unsettled (Kasper, 1975; 1987; 1988; Wang, 1964; Ratnam, 1965; Rabushka, 1973).

The old and, on the whole, successful economic strategy had been fairly laissez-faire and world-market oriented. A relatively small government and a lean, uncorrupt civil service used the fruit of economic growth to pursue (limited) objectives of infrastructural development, to provide education and health, and to ensure macroeconomic stability. Because the State's tasks were limited, the available administrative talent managed its allotted tasks well. Political and economic life was based on a tacit understanding — not dissimilar to that in post-Independence Fiji — that the slim Malay majority (together with other indigenous peoples: 55.5 per cent in 1970) would, in the main, stay on the land and control the government, whereas the Chinese (and some whites) would concentrate on urban/industrial activities. On the surface, there was apparent racial harmony. The economy grew impressively and the currency was remarkably stable. The animosities of the Communist uprising were overcome. And Malaysia's future looked reasonably promising, despite external political clouds (*konfrontasi* by Indonesia, the Vietnam conflict).

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[1] I worked for two years as adviser to the Malaysian Finance Ministry under the auspices of the Harvard Development Advisory Service (1971-73). In 1986/87, I returned for two months to re-assess the lessons from the Malaysian experience.

This state of affairs was rudely shattered in 1969 by the eruption of racial-religious conflict, stoked by populists who created false fears over religious identity and control of the land.

The new Razak administration (which was based on the same inter-racial coalition as the previous Tunku Rahman government) quickly reacted to the riots by adopting a new economic strategy:

- The government intervened directly in markets to promote Malay participation and asset ownership in all sectors of the economy. This culminated eventually in the Industrial Coordination Act that prescribes racial hiring quotas for industries (and introduced economically damaging industrial licensing).
- Since individual Malays would not be able to achieve the targeted redistribution of share ownership, the government decided to act as 'stake holder' on their behalf. This led to a considerable transfer of share capital from foreign owners to the State, and to some transfer from Chinese to Malay interests. The door was opened to pervasive State capitalism, which has cost the economy dearly.
- In its own activities the government went for positive discrimination in favour of Malays. For example, Malays were favoured as recipients of newly opened, government-serviced land and of public services. Malays got preferential treatment as government employees, subcontractors, and licensees. Education and training were given more of a twist to favour Malays. Tertiary entrance requirements were lowered, which led to an increase in the number of graduands and a dramatic drop in standards. Ultimately, it created a half-educated proletariat that cannot compete with the Chinese or the Malays who made it to the top under the old regime. Unemployable, disgruntled Malays with university training in the Arts or Islamic Studies now constitute an explosive political problem.

When I came to Malaysia in 1971, these policies had begun to take hold. My own personal view — after having lived in the country for two years — was that something indeed had to be done to achieve a more racially integrated economy. It was important to get the traditional Malays out of the villages and into the modern urban community, and some albeit ham-fisted intervention was probably needed to break deeply entrenched habits. Chinese employers were very clannish, so that it was near-impossible for a young Malay to get apprenticed in, say, a motor repair shop. I also felt that the ambitious objectives of wealth redistribution in the NEP were feasible on condition that economic growth was fast, so that the redistribution of the cake could go along without cutting back the absolute size of the wealth in Chinese and Indian hands. I was wary of the dangers and possible policy conflicts between equity and efficiency, yet, I felt that to ignore equity and redistribution would eventually lead to politically inspired setbacks to the process of growth.

When I left, I was very uneasy about the abandonment of the traditional laissez-faire approach, which had served the country well. I feared further bureaucratisation and socialisation, which might cost the Malaysian economy some of its admirable economic adaptability, stability and economic vigour (Kasper, 1975).

What I did not fully foresee were the adverse dynamics and the unanticipated side effects of the redistribution policies and of positive discrimination. Once launched they promoted rather than eased racial identification and confrontation. They created a vicious circle of more claims for redistribution and raised the reward for racial confrontationalism. Each new generation of communal leaders had to be more radical to outdo their predecessors and to gain support.

The oil and gas boom of the mid to late 1970s exacerbated this problem. Suddenly, new wealth was available and the door to easy international credit was opened. The temptations this created to switch from a lean, laissez faire State to a rapidly expanding, more and more redistributional and interventionist State changed the entire game-plan for development. The objective of racial redistribution was taken as an excuse to socialise foreign owned and Chinese companies. This not only politicised commercial life, but also corrupted the social and moral fabric that had been one of Malaysia's strengths. An ambitious, highly paid class of *nouveaux riches* engaged in wheeling and dealing and high consumption. Crony capitalism — greasing the visible hand of a regulatory State — burgeoned. Not risk, hard studying, work and enterprise and, generally, **what** you did, promised economic success, but **who** you know in government.

But there were also impressive positive achievements. Malays moved into business at all levels, from the informal street stalls in Kuala Lumpur to the air-conditioned office suites on top of the new skyscrapers. Many got there by honest achievement. The country, especially the towns and cities, became socially more integrated. The vast, new, clean housing estates in which people of all races are neighbours, good roads, and great improvements in infrastructure show excellent uses of the new oil and gas wealth and have spread its benefits around. It is also genuine progress that there are now Malay-run motor repair shops and restaurants and a fairly secularised, educated and sober Malay middle class.

But private investment behaviour was **gradually and almost imperceptibly** undermined. The attitudes and aspirations of private investors, like ships at sea, do not change abruptly. But once they have stalled, it is very hard to get them going again. Thus, private money began to be quietly transferred overseas. Businesses at home were maintained, but often either as empty shells or for the high price of government created rents. The macroeconomic effect has been that private investment has gradually dwindled. Since 1980, real private capital formation shrunk by no less than 4.2 per cent p.a. (1981-87). Foreign firms that had been transmitters of knowledge into Malaysia happily sold out to government owned or Malay interests, often at high prices. This has led to a lasting stagnation in private economic activity, which in turn undermines the chances of future economic success for all citizens, including the Malays.

These consequences were at first not easily visible because Malaysia had the misfortune of the sudden energy boom. In the heady days of the late 1970s, sober and realistic observers were brushed aside, and spending the fast and easy buck was the order of the day. A new class of civil servants, who had picked up Keynesianism shortly before it became discredited in the OECD countries, engaged in massive 'pump priming'. In four short years (1979–1983) public expenditure was raised by no less than 133 per cent! The government lost track of the number of off-budget agencies it created and funded. There were conspicuous cases of fraud and corruption. There are now over 900 public enterprises. They are not schools for Malays to become entrepreneurs, but schools in profligate spending, economic irresponsibility, waste and deficit making The government got directly involved in starting new giant production ventures, steel plants, car plants, cement factories and other heavy industries. None of these make a profit despite high tariffs and a massive exploitation of domestic buyers through excessive prices. The public enterprises and State licensing of private investment have, however, been highly profitable for those who grant the licences or spend State money and for those who are given monopolies or can sell their products to an impatient, not very cost-conscious State. The Keynesian experiment did nothing to revive private investment and genuine industrial growth, but it created an overblown bureaucracy and a heavy debt burden. More importantly, it sapped the inherent, dynamic forces of spontaneous growth.

The once agile, stable and growing Malaysian economy has turned top-heavy and stagnant. Many harmful market interventions were made publicly acceptable because they were seen as justifiable redistribution policies. The gradual long-term costs of mercantilist interventionism were brushed aside, or did not become immediately visible because of the oil wealth. As in interventionist/statist economies elsewhere, political conflicts have sharpened and Malaysia has become more repressive, autocratic and haunted by third-world inferiority complexes. The long-run growth prospects are poor; crony capitalism and political wheeling and dealing give Kuala Lumpur a distinct Manila flavour. By now, not only Chinese but also many educated and honest Malays have withdrawn into 'inner emigration', hiding a deep discouragement and unease.

By the mid-1980s living standards were almost stagnant, despite good growth in Malaysia's traditional overseas markets. Real per-capita income grew by only 1.2 per cent in 1986 and around 2 per cent in 1987 (Ministry of Finance, Malaysia, 1987). The medium-term prospects are bleak. It is increasingly clear that the objectives of the New Economic Policy cannot be attained, and that indeed there is poverty among all three races, despite the impressive and conspicuous consumption levels of the 'new class'. The main public concern has shifted from economic achievement to political infighting.

My personal conclusion is that the failure to achieve the objectives of the NEP is not because they were unachievable per se, but because forced, artificial redistribution through government intervention undermined the natural growth impetus in the economy. The change in the economic order expanded the administration and had a corruptive influence. The initial assumption that the agents of the State would selflessly bring about a redistribution turned out to be incorrect. Interventionism and statism undermined the moral basis of Malaysian society and exacerbated racial and political conflict.

## Taiwan: The Challenge of Unproven Opportunity

It is always tempting for travelling economists to recommend the model of one country to another country. The successes of other nations can well serve to inspire successful policies elsewhere, just as the failures may do. Fiji is in the unfortunate position of being far away from inspiring models. Neither the Australian nor the New Zealand model, nor the model of a huge nation like India seem appropriate. Indeed, these models have in the past — in our opinion — misled Fijian policy makers (for example, into import substitution, which is totally inappropriate for a nation of 715 000 inhabitants, or welfare-statism that a country of Fiji's income level can ill afford). Unfortunately, Fiji does not enjoy the inspiration of a successful experiment in the neighbourhood, such as Malaysia and the other ASEAN countries have in Singapore, or the Peoples' Republic of China has in Taiwan or Hong Kong. But the model of Taiwan has much to offer to Fiji if a dramatic departure in policy-making is seen as appropriate after the shocks of 1987 and if the new Republic wants to launch itself on a constructive growth path to avert heightening racial frictions, see (Power et al., 1971: 135-324; Kuo, 1981; Li-Yu, 1982; Dumont, 1986). There are striking parallels between Taiwan 20 years ago and Fiji after 1987:

- Both are island nations that have initially been off the major trade routes.

- Both need a framework for the peaceful coexistence of two different peoples. (In Taiwan, 10 per cent of the population were Mainland refugees of 1949 and 90 per cent of earlier settlers, who are racially and culturally different).
- Both have recently experienced traumatic political shocks.
- Both start with a reasonable level of education.
- Both are confronted with the prospect of emigration of the most gifted and dynamic citizens.
- Both opted not to proceed with a Westminster-style democracy and need to focus energies and aspirations on matters other than political control.

Taiwan found itself in a fairly hopeless situation in 1960. Its location was remote. There were almost no mineral and other natural resources. The capital stock was in a poor and aged condition. The country depended on US aid for its survival. Living standards were hopelessly low (half the per-capita income of then poor Malaysia or Hong Kong). The visible failure of import substitution policies through high protection barriers seemed to leave no way out of chronic trade deficits and continued dependence on foreign aid and credit. The economic structure was colonial, and dependent on a few agricultural exports (rice, sugar and bananas to Japan making up 80 per cent of export receipts).

In this situation (in the early 1960s), Taiwan adopted a simple set of reforms. Simplicity was a key ingredient because the citizens could understand the reforms and the administration found them easy to implement. The reforms covered the following elements:

- Monetary reform ensured that interest rates in real terms always remained positive (nominal rates were as high as 125 per cent): private savings rates went from 5 per cent in 1952 to one-third of national income now. This shift in capital formation defeated inflation and allowed high investment, not only at home but also overseas. High personal saving secured the economic welfare of individual citizens without creating the burden of a welfare state. (Income distribution, measured by the Gini coefficient, is now more even than in Sweden.)
- Agricultural reform not only distributed land ownership to small farmer-entrepreneurs and gave long-term tenure and security to individual farmers, but also ensured output price stability and the elastic supply of modernising inputs (knowledge, fertilisers, machinery). A lively, competitive agricultural support industry provided new inputs (new crops, like asparagus) and new market outlets (canneries and snap freezing).

- The deregulation of labour and product markets, as well as small government (despite a big defence burden) gave a lot of breathing space to small enterprise. This facilitated the acquisition of knowledge in market-oriented, decentralised ways (in contrast to big multi-product businesses in South Korea [*daebol*], which rely on size, quasi-military discipline and state patronage). Markets channelled the energies of young people from both racial groups into economic achievement (in contrast to South Korea, there has been comparatively little political agitation by the young).
- Taiwan relied systematically on its comparative advantages by following an export-oriented strategy, beginning with devaluations that stopped a high import dependence of rich consumers and ended external imbalances. For political reasons, import tariffs were not cut by much in the initial phases of setting up a new economic order[1].
- The government gave export subsidies to products of demonstrated comparative advantage. There was little favouritism of government to specific private businesses. It became attractive for Taiwanese to invest at home, despite political uncertainties. It is worth noting in this context that the Taiwanese have considered comparative advantages not as nature-given endowment that the nation will "mine" passively but as man-made factors that need to be created by systematic long-term economic strategies.
- Policy-makers have stressed self-reliance and political stability. They have created a fairly small, non-corrupt State that has been managed in line with economic exigencies. Taiwan chose not to rely on foreign aid (which more or less ceased in 1963), but on its own trade. The political leadership can best be described as a more or less open, economically oriented autocracy.

Taiwan's growth rate has averaged about 7 per cent since 1960, despite difficulties with barriers around overseas markets.

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[1]Taiwan, like Singapore, does not fit the laissez-faire model of the minimal state. In Taiwan, the Kuomintang immigrants of 1949 administer (and collect rents through) an inefficient public sector (transport, communication, electricity, banks, insurance, big industries like shipbuilding, fibres, steel and construction). This sector is subsidised by the small-enterprise sector that is dominated by Taiwanese (the earlier immigrants). However, the share of the State in national income is only 18 per cent (half of it for defence).

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# FIJI

## *Opportunity from Adversity?*

*Wolfgang Kasper*
*Jeff Bennett*
*Richard Blandy*

In 1988, a team of Australian economists conducted an intensive survey of the Fiji economy, with the aim of developing strategies to revive the economic and civic life of Fiji. This book is the result of that survey.

Using both economic data and the first-hand knowledge of many leaders and businessmen from the Indian and ethnic Fijian communities, the book proposes a three-pronged reform agenda to gain opportunity from adversity, and to transform Fiji into a 'mid-Pacific Hong Kong'. The authors recommend:

- a constitutional guarantee of basic civic and economic rights to all citizens of Fiji, to re-create confidence and certainty;
- rapid and resolute deregulation of labour, capital and product markets; and
- comprehensive privatisation, to reduce the size of government and inject new enterprise and innovative ideas into activities now stifled by bureaucratic and union controls.

According to Professor Wolfgang Kasper, leader of the team of economists, the implementation of these strategies would create a new cohesion in Fiji's society, meet the material aspirations of the people, and pave the way for a return to democracy.

**Fiji:** *Opportunity from Adversity?* is the only up-to-date, independent examination of one of the Pacific region's most troubled states. It is an invaluable guide to the strategies that could transform Fiji into a prosperous and stable nation — and to the important influence restructured Australian development aid could have in that transformation.

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