

Fiji's economy: a view over 25 years

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On September 6th the Development Policy Centre hosted the [2012 Pacific Update](#) at the ANU. The program consisted of panel discussions on PNG and Timor-Leste; Vanuatu, Tonga and Samoa; and Solomon Islands and Fiji. This post is a summary of the comments on the Fijian economy made by Professor Biman Chand Prasad of the University of the South Pacific. It is the first in a series we will run over the coming weeks highlighting the outcomes and insights of the 2012 Pacific Update. A video of the presentation is available [here](#).

In his presentation on the day Professor Prasad referenced his new Devpolicy Discussion Paper, contrasting the economies of Fiji and Mauritius over the past 25 years, available [here](#).

On 14 May 2012 it was 25 years since Fiji's first coup in 1987. Those years have been turbulent both economically and politically. In the 1970s the economy was driven by sugar and tourism, and some crop sectors like rice, copra and dairy. On the whole Fiji pursued an inward looking import substitution strategy for growth, and the use of government subsidies to support rice and sugar industries was considered appropriate. Much infrastructure investment was also undertaken, which led to high levels of investment and economic growth.

This virtuous circle of positive developments was disrupted by the coup. However, this disruption also generated a change in the emphasis of the economic policy. There was clear move away from sugar, and indeed the agricultural sector as a whole, to the development of tourism and manufacturing. Large scale tax incentives were provided, such as long term tax holidays for new hotel developments and the development of natural resources like mineral water and the gold mining industry, as well as for the clothing and textile industries. These incentives had significant economic and social effects. The garment industry became a substantial provider of low wage employment to women who could not find work in the informal urban sector. The shift in emphasis from the rural agricultural sector to an urban manufacturing and tourism sector also accelerated migration to cities. More than 50 percent of the population now lives in urban areas.

We made progress when we adopted an open and transparent process to formulate the 1997 Constitution. The 1987 Coup leader, Major General Sitiveni Rabuka, and then Opposition Leader, Jai Ram Reddy, provided a vision for the future through the Constitution, despite some of its shortcomings, and it laid the foundation for a close to 9 percent rise in economic growth in 1999.

This was once again disrupted by a coup in 2000. We have continued with an uncertain political environment made worse by a subsequent coup in 2006. The use of economic incentives, especially tax related, were again used to attract investment after the 2000 coup: a seven year tax holiday for tourism resorts and tax free zones for depressed regions such as Vanua Levu were introduced. This pattern can be seen again under the Bainimarama government, which has also used tax incentives to attract investment and build confidence in the economy.

However, such measures have not led to substantial improvements in investment and economic growth in Fiji over the last 25 years except for that brief period when the 1997 Constitution was negotiated and implemented. In the 1970s the average rate of growth was 5.5 percent, in the 1980s it was 1.9 percent, in the 1990s it was 3 percent, in 2000s it was reduced to 0.8 percent and in the last five it has been less than 1 percent. The economy grew at 2.1 percent in 2011 after two consecutive years of contraction.

In understanding why this has been the case, we need to talk about the relationship between political stability and economic prosperity. The Bainimarama government can be given credit for articulating the creation of inclusive economic and political institutions, important transformations that could be achieved through our new Constitution. In the past five years the government has introduced reforms to various economic institutions which could be considered inclusive and would be beneficial in the long-run. These include dismantling monopolies and allowing for broader participation. The attempt by the government to address the issue of land ownership through the land bank is commendable and more serious thinking would require us to look at it further to ensure that land ownership and tenure become inclusive in Fiji.

Yet despite these economic reforms, we are not growing economically. While economic institutional reform is important, it cannot produce results if the political system remains extractive and exclusive. The history of economic growth around the world shows that inclusive political institutions, in which power is not concentrated and is shared in an open and transparent manner, make economic prosperity achievable.

It has also been argued that geography, culture and ignorance of how we can achieve economic growth are factors that determine whether a country progresses economically and socially. However, more recent studies reveal that these factors may not be explanatory variables for poor economic prosperity. Rather, there is a great deal of empirical evidence to suggest that political instability and coups are a major cause of economic decline.

Fiji's new constitution must address and include provisions which create and preserve inclusive political and economic institutions. We have reached a critical juncture. We can either continue down the slippery road to further political instability and poor economic performance or use this opportunity to work towards a new constitution and a new environment conducive to a free and fair election in 2014.

We will need to get the language of our national discourse right. Commodore Frank Bainimarama at least talks about 'one Fiji', 'equal opportunity for all', no raced-based institutions and social cohesion. Others continue to advance an ethno-nationalist agenda counter-productive to our nation's future. The Bainimarama government must ensure that a free and open environment for discourse is created in anticipation of the General Election in 2014. This will lay the foundation for our future growth.

This is a part of our blog series summarising presentations delivered at the [2012 Pacific Update](#). The rest of the series can be found [here](#).

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