Trade and Industrial Development of Fiji with special reference to the period since 1970: A review of Growth and Constraints in an Island Developing Country

BY

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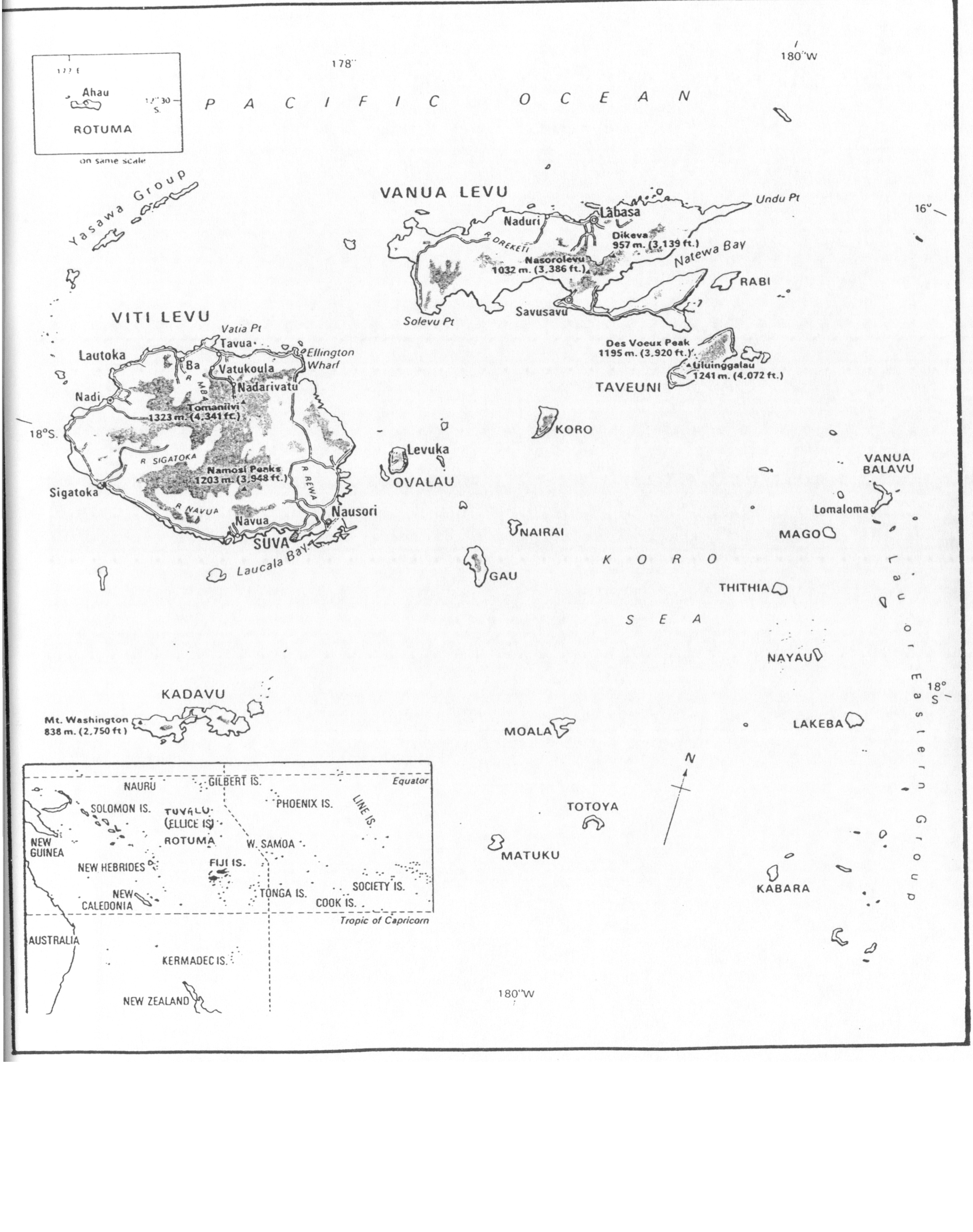
ABSTRACT

This thesis examines the trade and industrial development of Fiji particularly in the post-1970 period and the government's attempts to achieve economic diversification, to assess how successful they have been and to determine how much success or failure is the result of objective constraints imposed by smallness and remoteness and through government's intervention in the economy. In particular, the study investigates the importance of trade and industrial development, both by the public and private sectors, in stimulating economic development, and shows how much each has contributed towards the process of diversification.

It is the basic contention of this thesis that the historic economy of island developing countries such as Fiji, and indeed of the South Pacific, has tended to be monocultural, mainly due to the special problems posed by small size, relative isolation and cultural constraints to economic development. These factors inevitably influence investment policy and development priorities. In view of its narrow base, the Fiji economy has been subject to fluctuations, sometimes with high amplitudes, in the wake of supply disturbances, such as following natural disasters, the external shock of commodity price variations, escalations in the oil prices and down-turns in the world economy. The study shows that despite these constraints, Fiji to some extent has been successful in its efforts to diversify by creating a congenial investment climate for both foreign and local investment, by the cultivation of a greater

mutual trust between the public and the private sector and by encouraging foreign investment in appropriate areas without any undue restrictions, a feature common to many developing countries. The process of investment by the private (predominantly foreign) sector and the public sector has been regarded as one of partnership to the mutual benefit of both sectors and the nation's development. This investment has been the major weapon in alleviating the problem of unemployment and under-employment through the creation of more job opportunities and has been an important means of rectifying internal imbalances and inequalities.

A number of important industries, albeit still relatively small in size, are in place. These include gold and fisheries, which feature as important employers and the source of foreign exchange. Pine plantations are now being harvested for timber and for conversion into wood chips. It is expected that the timber industry, after the harvesting and the processing of the pine and the hardwood plantation trees peak, will rival sugar as the most important source of foreign exchange for the country. Manufacturing, particularly of garments, has started to grow rapidly, mostly due to favourable trade agreements and the establishment of export processing zones with well-designed incentive packages to attract foreign investors to operate on their own or on a joint venture basis. The study concludes that the government's strategy of diversification of the economy by supporting the development of industry, agriculture and tourism is slowly changing the structure of the Fiji economy, although the process may be a long one due to the fact that sugar is still of fundamental importance as a substantial contributor to government's revenue, a significant provider of employment and the leading export earner.



178°
180°W
PACIFIC OCEAN
Ahau
ROTUMA
on same scale
Yasawa Group
VANUA LEVU
Undu Pt
16°
Lābasa
Naduri
R. DREKETI
Dikeva
957 m. (3,139 ft.)
Nasorolevu
1032 m. (3,386 ft.)
Natewa Bay
RABI
Solevu Pt
Savusavu
VITI LEVU
Vatia Pt
Tavua
Ellington Wharf
Lautoka
Ba
Vatukoula
Nadarivatu
Nadi
Tomanivi
1323 m. (4,341 ft.)
18°S.
R. SIGATOKA
Namosi Peaks
1203 m. (3,948 ft.)
R. REWA
R. NAVUA
Sigatoka
Navua
Nausori
SUVA
Laucala Bay
Des Voeux Peak
1195 m. (3,920 ft.)
Uluinggalau
1241 m. (4,072 ft.)
TAVEUNI
KORO
Levuka
OVALAU
VANUA BALAVU
Lomaloma
NAIRAI
MAGO
GAU
KORO SEA
THITHIA
Lau or Eastern Group
NAYAU
18° S
KADAVU
Mt. Washington
838 m. (2,750 ft)
MOALA
LAKEBA
N
TOTOYA
MATUKU
KABARA
NAURU
GILBERT IS.
Equator
PHOENIX IS.
LINE IS.
SOLOMON IS.
TUVALU (ELLICE IS)
ROTUMA
W. SAMOA
NEW GUINEA
NEW HEBRIDES
FIJI IS.
NEW CALEDONIA
TONGA IS.
SOCIETY IS.
COOK IS.
Tropic of Capricorn
AUSTRALIA
KERMADEC IS.
NEW ZEALAND
180°W

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Chapter 1

INTRODUCTION

1.1 PURPOSE OF THE STUDY

Not much has been written about trade and industrial development of Fiji since the Second World War in any comprehensive manner. However, Bruce Knapman in his book, Fiji's Economic History, 1874 - 1839, has examined in detail the spread, functioning and impact of capitalism in Fiji during the first sixty five years of British Colonial rule, the period in which the present basic structure of Fiji's economy was formed. According to Knapman Fiji's export-led growth began in the 19th century and the structure of the export economy was created and consolidated before 1939[1]. This was the period in which a sugar export economy developed alongside the indigenous economy creating what Stanner later described as a 'jibing of dual economies within plural, racial and cultural communities'[2].

In 1939, after economic depression and institutional changes in the sugar industry, whereby the Colonial Sugar Refining Co. Ltd. allowed tenants to plant between a half and one acre in food crops, the Indian population of 95,000 filled the economic roles it continued to fill at independence in 1970; the export economy was dominated by half a dozen companies which,

1. B. Knapman, Fiji's Economic History 1874 - 1939: Studies of Capitalist Colonial Development, 1987, Pacific Research Monograph No. 15, ANU, Canberra, pp. 1-8.

2. W.E.H. Stanner, The South Seas in Transition: Study of Post-War Rehabilitation and Reconstruction in the British Pacific Dependencies, 1953, Australasian Publishing Company, Sydney, p.258.

with Government, employed most of the 4000 Europeans in the colony; 103,000 Fijians largely remained in the villages supplementing subsistence production with a small amount of cash crop and production to wage labouring[1]. The purpose of this thesis is to look at Fiji's trade and industrial development since the second world war and its effort to move away from its dependence on the monocultural nature of the early economy. The period covered under this thesis will be from the Second World War up to 1986 but the earlier economic history of the country will also be discussed to see the extent and structure of Fiji's dependence on sugar for its export and livelihood.

As mentioned above, since its introduction in the late nineteeth century, sugar has been the dominant foreign exchange earner. It has been the backbone of the economy, earning up to two thirds of Fiji's overseas earnings per annum since its inception. This is not to say that efforts were not made to diversify into new industries and crops during the 19th and the first half of the 20th century. One could say that the decentralisation of sugar cane production itself in 1920 created an avenue for diversification. This was the direct result of the abolition of Indian indentured labour system in 1916 and then the expiring of labour contracts by 1920 which saw Indian farmers moving into new areas of production. Their industry and resource enabled them to develop freely, not only as farmers, but as shopkeepers, businessmen, mechanics, doctors and in many other

1. Fiji Blue Book, 1939, Government Printer, Suva.

occupations[1].

In the process of diversification in 1936, the C.S.R. Company decided to enter into the pineapple industry and by 1940, it was operating and producing canned pineapples at Lautoka, with success. Rubber thrived in Fiji from 1906 to 1930. A promising new industry was established in Fiji at the beginning of 1949 by South Seas Marine Products Ltd - tuna fishing. This was followed by the establishment of a tuna canning industry in Levuka in 1959. Gold, copra and bananas also made their contributions but their productions remained static and/or declined whereas sugar production increased each year since its introduction late in the 19th century. Its production was only affected by strikes which occured in 1943, 1959 and 1961 or by natural disasters as in 1931, 1953 and in the early 1980's when Fiji was devastated by successive floods and hurricanes. Fluctuating world prices also had a significant effect both on sugar production and export receipts.

Until the mid-1960s, Fiji was therefore a classic example of an undiversified agricultural export economy. The growth of tourism since the late 1960s added significantly to the economic performance. The tourism related boom which continued into the 1970s however, came to a halt following the 1973 oil price rises and the resulting international recession. Sensitive to the danger of monoculture and anxious to improve the economic performance, the newly independent government launched a series of corrective programmes from mid-1970. These included

1. Victor Dove, Fiji Sketch Book, 1970, Rigby Limited, Sydney.

diversification of the economy by supporting the development of industry, enhancing of tourism, and also diversification of agriculture itself by encouraging the cultivation for export of such crops as pineapples, mangoes, pawpaws and other tropical fruits and vegetables. Despite these efforts, sugar remained in the mid-1980s the fundamental resource. It has been the country's chief agricultural pursuit, a substantial contributor to government revenue, a significant provider of employment and a leading export earner.

Table 1.1 shows the percentage change of sugar exports in comparison to other major exports from 1965 to 1986.

Table 1.1.

PERCENTAGE SHARES	1965	1970	1975	1980	1986
Sugar & Other Molasses	70.2	65.6	82.8	81.1	58.5
Gold	8.7	6.8	7.4	5.4	16.0
Fish	-	-	0.2	3.7	6.9
Coconut	10.2	11.6	4.6	3.1	1.6

Souce: Bureau of Statistics, Overseas Trade, Parliamentary Paper No. 49 of 1986, Suva, 1986.

1.2 SURVEY OF THE LITERATURE

Almost all the literature on economic development since the Second World War, and especially in the 1950s and the 1960s, concentrated on the rapid rate of Indian population growth and its impact on the future race relations and economic development and the need for the country to diversify from the narrow export base of its economy. At the census of 1936, Indians were 44 per cent of the colony's population as against the Fijians 49 per cent. By 1946, broad proportions were reversed, the Indians then being 46.4 per cent as against Fijians 45.5 per cent. Watters described the relationship between the population trends and economic development as most disturbing[1]. According to Aspinall the income disparity between the Fijians, Indians and Europeans was growing with the new prosperity brought out by higher sugar prices after the war[2].

The literature on economic development of the 1950s continued in the same vein as that of the 40s. It emphasized development with the view to bringing the Fijian population more in line with other races. Sir Geoffrey Clay, Carleen O'Loughlin and R.S. McDougall all found that some of the obligations and sanctions of the commercial way of life were out-of-date in a developing community in the second half of the twentieth century[3].

By late 1950s, concern over the lack of Fijian economic progress further sharpened, so that in 1958 Professor O. Spate

1. R.F. Watters, Problems of Development in Fiji, Pacific View Point, Volume 2.2, 1956, p.155.

2. Richard Aspinall, 'The Fijis: Our "Off-Shore" Islands, have their Race Problems', Voice, April 1956, p.21.

3. Sir Geoffrey Clay, Report on a visit to Fiji in 1954, 1955, Council Paper No. 31 of 1955, Legislative Council Paper of Fiji, Suva; Carleen O'Loughlin, The Pattern of Fiji Economy, 1956, Council Paper No. 44 of 1956, Legislative Council of Fiji, Suva; R.S. McDougall, Fijian Administration and Finances, 1957, Council Paper NO. 35 of 1957, Legislative Council of Fiji, Suva.

was invited by the colonial government to consider how far Fijian social organisation was a limiting factor in their economic activity and to suggest in what ways changes in the Fijian organisation might be desirable. It should be pointed out that special features of colonial rule and the capitalist economy encouraged separation and preservation of distinct traditions[1].

One of Spate's central recommendations concerned the future of the Fijian people, which he said lay in turning away from commmunalism towards individualism in economic affairs[2]. He recommended strongly the individualisation of access to land so that for the Fijian countryside, the objective would be a community of independent farmers, living and working on holdings heritable and alienable, at least between Fijians.

Soon after the publication of the Spate report, the colonial government appointed another commission in 1959, which was known as the Burns Commission, to investigate the economic problems of Fiji and to put forward a plan for economic development. The major reason attributed for the appointment of this committee by Watters was the precarious foundation of the economy in 1959, the cleavage of culture between Indians and Fijians, the rapid increase in Indian population, the land tenure questions, the low productivity by the Fijians because of many traditional patterns of culture and the stagnation of the Fijian

1. R. Norton, Race and Politics in Fiji, 1977, University of Queensland Press.

2. O.H.K. Spate, The Fijian People: Economic Problems and Prospects, Legislative Council of Fiji, Council Paper No. 13 of 1959, Government Press, Suva, Fiji.

community[1].

Similar to the Spate Report, the Burns Report of 1959 was practical and down-to-earth. The report made it clear that the whole plan and the policy of the colonial government's administration and economic development had to be economic in the light of events since the cession of 1874 - events which were racial, economic and political. The report was very critical about the failure of the government to deal with changing economic conditions[2].

On the fundamental question of whether Fiji's resources were sufficient to provide her population over the next 50 years with a good standard of living, the Report was quite definite. Fiji's resources properly handled were sufficient. It was pointed out that Jamaica was comparable in most respects to Fiji and that country, with a basically similar economic structure, supported 1.5 million people, as against Fiji's estimated 375,000. It recommended the planning of several pilot industries. Some important ones were the establishment of a tea industry, large-scale agricultural development schemes, establishment of cattle ranches, a fish canning project and sawmilling projects. It is interesting to note that several of these projects recommended were included in the development plans after independence for implementation.

It was a decade after the Burns report and on the eve of Fiji's independence when the next important study on Fiji's

1. R.F. Watters, op.cit., p.155.

2. Report of the Commission of Enquiry into the Natural Resources and Population Trends of the Colony in Fiji, 1959, Legislative Council Paper No. 1960.

economy was published. Professor E.K. Fisk showed not merely how the objectives and methods of economic policy needed to be modified to meet the special circumstances of Fiji's situation but to reformulate the basic options upon which economic policy was formulated for an independent Fiji[1].

Although his macro-economic view of the Fijian economy judged it to be quite healthy, Fisk saw the racial division of the society as a massive threat to development. So strong did he perceive this threat that he considered the country not as one but as three entities, one native Fijian (based on subsistence influence), one European (based on entrepreneurship, know-how and capital), and one Indo-Fijian (based essentially on wage labour). They combined to form a three-tier society in which the European/Chinese group manages and operates the large corporations and institutions, often on behalf of foreign owners, the Indo-Fijians own and operate most of the medium to small-scale enterprises, including most of the commercial farming, whilst the native Fijians own most of the land and are still very heavily engaged in a non-monetary but efficient subsistence section[2].

Fisk said that the policy prescription to overcome these development problems was population control, the drawing of native Fijians into commercial sector activities and occupations, and the improvement of land utilisation to make it available for commercial agriculture and for lease for Indo-Fijians. In this

1. E.K. Fisk, <u>The Political Economy of Independent Fiji</u>, ANU Press, Canberra, 1970, p.4.

2. E.K. Fisk, op.cit.

way the ownership problem could be avoided. Just as the reports of ten years earlier had contended, the productivity of subsistence agriculture had to be improved, communications and farmer education had to be improved and new export crops needed to be introduced. An innovation in thinking, however, was the suggestion that the production of crops other than sugar should be promoted as smallholder commercial agriculture along the same lines as sugar production, with farmers supplying centralised processing facilities run by institutions that would co-ordinate marketing, technical services, credit and supplies of inputs. The policies for the expansion of the secondary and tertiary sectors of the economy, including tourism, were reckoned to be sound, but even here the drawing of native Fijians into formal sector employment was seen as vital for reducing the tensions mounting between the three communities.

The literature in the 1970s and early 1980s on trade and industrial development was more specific and related to such issues as investment and employment creation and the need for local participation in investment. Before the 1970s, beyond sugar and copra processing, butter, soaps and biscuit production, there was very little other manufacturing development. The 1970s and early 1980s saw the emergence of several import substitution industries and new export products such as garments, timber and fish products. Literature on economic issues focussed mainly on the dependence of Fiji on foreign capital. Samy noted that Fiji's economy developed at the initiative and discretion of mainly Australian capital, organised, structured and controlled from the beginning[1].

Narsey asserted that in Fiji, as in most comparable Third World economies, foreign dominance of the economy was seen to be the cause of underdevelopment. He wrote that the sugar industry was the primary generator of surplus in Fiji, and this surplus was repatriated back to Australia as the mill was owned by the C.S.R. Company[2].

In the early 1980s Narayan concluded that dependence on the world economy over the means of production, distribution and exchange have led Fiji to the edge of a 'perilous abyss'[3]. He suggested that the salvation lay in opting out of the world capitalist trade, investment and technology network[4].

Despite the dominance of foreign capital, there was development in Fiji in two basic senses. Firstly, according to Flammang, this initiated a process of a structural change involving changes in output composition and in the technical and institutional arrangements by which output was produced[5]. Secondly, largely as a result of structural change, there was

1. J. Samy, 'Development and Research For Whom? Towards a Critique of Economism in the Pacific', in A. Mamak and G.M. McCall (eds) Paradise Postponed: Essays on Research and Development in the South Pacific, 1978, Sydney, Pergammon.

2. W. Narsey, 'Monopoly, capital, white racism and super profits in Fiji': A case study of CSR, 1979, Journal of Pacific Studies, Vol. 5: 66-146, 1978.

3. J. Narayan, The Political Economy of Fiji, 1984, Suva, South Pacific Review Press.

4. Ibid.

5. R.A. Flammang, Economic Growth and Economic Development: Counterparts of Competition, 1979, Economic Development and Cultural Change, 28: 47-77.

output and per capita output growth which yielded an economic surplus to capitalists which trickled down in small part to Indians and Fijians. Monetary exchange spread, production was reorganised, and even some Fijian labour schemes became less attached to the land; and though the structure and the ownership of the colonial economy were not conducive to local accumulation and diversification, they did not totally preclude it either - as Frank conceded when discussing plantation economies[1], and as Knapman demonstrated that economic imperialism created opportunities as well as constraints[2]. It should be pointed out, however, that small island developing countries do face some severe constraints in their development process. These generally are natural disasters and geographic isolation. Selwyn pointed out that smallness of population and geographic area limited the opportunities for inward-oriented development and that smallness in terms of productive capacity, by itself made Fiji dependent on foreign investment[3].

Isolation in these circumstances was a hindrance because it added to transport costs and lessened Fiji's competitive edge as a tropical exporter.

The other sources of development strategies and their philosophies have been Fiji's development plans. Fiji commenced

1. A.G. Frank, Dependent Accumulation and Underdevelopment, Macmillan.

2. B. Knapman, Fiji's Economic History 1874-1939: Studies in Capitalist Colonial Development, 1987, Pacific Research Monograph No. 15, ANU, Canberra.

3. P.Selwyn (ed), Development Policies in Small Countries, 1975, London, Croomhelm.

development planning immediately after the Second World War. The first plan covering 1949-58 was essentially a capital development budget for the public sector, the funds being provided by the United Kingdom under the Commonwealth Development and Welfare Scheme.

In the early years the main stimuli to planning were, firstly, the acquisition of aid from overseas; secondly, an awareness of the growing role of government and the increasing complexity of government affairs; thirdly, the need to stimulate awareness of economic conditions.

Under the influence of these three factors, the country moulded to a more sophisticated form of development planning. The Fifth Development Plan, 1966-1970, provided an integrated macro-economic framework and a comprehensive view of national development.

The Eighth Development Plan, 1981-1985, provided the most comprehensive view of national development. One of the main objectives of this plan was to strengthen and diversify the economic base of Fiji, which implied a reduction of excessive dependency on a few main economic activities (sugar exports and tourism); it also emphasized increasing production of other commodities both for exports and internal markets[1].

It also explained how these policies should be implemented through creation of such institutions as Fiji's Economic Development Board. One of the major reasons for such a policy was the growing unemployment the country faced from the

1. Fiji's Eighth Development Plan, Central Planning Office, Suva, Fiji, p.17.

late 1970s which led to government commissioning a study to critically review and analyse the nature, trends and underlying causes of growing open unemployment problems in Fiji[1].

The Employment and Development Mission as it was known, presented its report to the Fiji Parliament in 1984. It strongly recommended diversification both in agriculture and manufacturing in order that growing unemployment could be absorbed[2].

In the light of these studies the purpose of this thesis is to survey the various measures taken by government in its efforts to diversify into areas of manufacturing, tourism and other resource based industries in order to move away from the monocultural nature of the economy. The thesis will discuss finally how far the government has been successful in the implementation of these policies. It will also critically look at problems in relation to the implementation of these policies in a developing island economy such as Fiji.

1.3 ORGANISATION OF THE STUDY

The study is arranged into seven chapters as follows:

CHAPTER ONE - contains the introduction wherein the purpose of the study, survey of literature on economic issues, mainly those concerned with development and diversification of the economy, and the organisation of the work is explained.

1. Fiji's Eighth Development Plan, Central Planning Office, Suva, Fiji, p.18.

2. Fiji's Employment and Development Mission Report, Parliamentary Paper No. 66 of 1984, Government Printer, Suva, p.490.

CHAPTER TWO - focusses on economic problems of developing island countries with particular reference to the islands of the Pacific and Fiji. It begins by definng a small island economy and looks at special characteristics and constraints on development of developing island countries generally and of the Pacific in particular. The performance of the Pacific Island economies is also examined together with the direction of Pacific Island trade strategy and the role of manufacturing, agriculture, tourism and service industries in the development of Island countries.

CHAPTER THREE - will briefly cover the physical and demographic characteristics of Fiji and then trace the economic history of Fiji from 1874, when the country was ceded to Great Britain, to 1946. It surveys the development from that time and in particular, the introduction of sugar cane after the failure of cotton. Also highlighted are the importance of coconuts and bananas and later the discovery of alluvial gold to the economy. The post Second World War economic development and the post independence development up to 1986 is also outlined. The chapter concludes with a discussion on the issue of land and its impact on agricultural and industrial development.

CHAPTER FOUR - will deal with the role of both the colonial and independent government in the process of economic development. It will highlight the introduction of development planning since the late 1940s and provision of infrastructures such as the supplying of industrial land and premises, provision of energy and water, assisting in manpower skills and training, providing financial and business services, and opening up transport links.

CHAPTER FIVE - will discuss the industrial sector generally and in particular the manufacturing area. It will survey the development of industry from the Second World War to the mid-1980s and its contribution to the economy, particularly from the mid-1970s.

This Chapter will also outline the contribution of the manufacturing sector to GDP and increased employment creation, its sectoral performance and establishment sizes, where and why most manufacturing enterprises are located. It will also discuss in detail the development of resource based industries in Fiji.

CHAPTER SIX - concerns exports since the Second World War and Fiji's comparative advantage and attractions for the establishment of export oriented industries. It will also discuss the impact trade agreements and export processing zones have on exports.

CHAPTER SEVEN - is the final chapter which will focus on the impact of trade and industrial development diversification policies on the economy. It will discuss the extent to which the government has been successful and what have been the principal constraints in this regard.

Chapter II

ECONOMIC PROBLEMS OF DEVELOPING ISLAND COUNTRIES

The focus of this chapter will be on the economic problems of developing island countries.

2.1 ISLAND DEVELOPING COUNTRIES OF THE PACIFIC

This section will look at the characteristics of the developing island countries of the South Pacific, with special reference to Fiji. The characteristics of small island countries that appear of significance are economies of scale in relation to population and marketing, gross national product and gross national product per capita which would seem the most useful indicators of relative economic position. Table 2.1 sets out some of the principal economic characteristics of the developing island countries of the Pacific.

As shown in Table 2.1, in terms of the value of output produced, by far the largest economy is Papua New Guinea, followed by Fiji, the Solomon Islands and Vanuatu. In terms of income per head however, the positions of Fiji and Papua New Guinea are reversed, with Fiji registering a level of living standards more than double that of Papua New Guinea. Income statistics for developing economies with a large subsistence or non-monetised sector must, of course, be treated with caution, but the relative ranking of countries indicated in Table 2.1 is probably broadly correct. Aggregate figures for per capita income also say nothing about the distribution of income between

LE 2.1

PACIFIC ISLAND ECONOMIES (P.I. Es): BASIC INDICATORS

ntry	Land area (km^2)	Sea area (Km^2)	Population ('000) 1984	GNP (US$m) 1984	GNP per capita (US$) 1984	Total aid flows (US$m) 1984
i	18,272	1,290	677	1,250	1,840	31.3
omon Islands	28,530	1,340	263	160	640	19.4
tern Samoa	2,935	120	163	119	770	20.2
uatu	11,880	680	131	60	530	24.5
ga	669	700	96	64	780	15.7
ibati	690	3,550	61	30	460	31.3
k Islands	240	1,830	18	20	1,360	8.1
alu	26	900	8	4	570	5.5
ru	21	320	8	70	9,091	-
e	259	390	3	3	1,080	3.2
ua New Guinea	461,691	-	3,253	2,480	760	321.8

rce: World Bank and Asian Development Bank Sources, National Centre for Development Studies, Pacific Data Bank, March 198 households or classes of people in different sectors of an economy, which is also important as a determinant of welfare. In the case of Pacific Island economies, it is difficult to make any judgement in this regard since little, if any, information exists on the distribution of income.

Before examining the special characteristics of small islands in detail it will be advisable at this stage to look at other salient features of the island developing countries of the Pacific and relate it to the constraints of small island economies that will be discussed later.

At the turn of the century the majority of the Pacific Islanders were rural dwellers. Their economy was a village, subsistence-based one, with most of their material needs being adequately supplied from local resources. Their aspirations were comparatively restricted and conformed to the ability of the local environment to supply their needs, with the important exception of a few primary commodities for export which, with copra excepted, were generally grown on European plantations. Imports were relatively limited and were tailored largely to the requirements of a small, predominantly urban-based expatriate population. Formal development planning as we know it today was absent, understandably so, in that countries were colonies and the "plan" was only to produce more for export and keep cheap labour alive to do so.

But-over the past fifty years changes in life-style began to intensify, and especially so over the past two to three decades when these changes became rather rapid and dramatic, and in more ways than one, traumatic as well. Accelerated, increased contact with the Western world, the seductive penetration of the monetary economy, rapid population growth, increased mobility, rapid urbanisation and political independence have wrought considerable changes and pressures on the formerly simple, village-based life style[1]. All the Pacific economies are now part of the international economy and aspirations of the people are generally those of people elsewhere, including improved services such as health and education, remunerative employment opportunities and imported consumer goods of all kinds. The life-style of the more affluent urban dwellers and of the industrialised countries, has, become to the majority of the islanders, the model on which their aspirations were constrained by the realisation that the requisite available resources were either too limited or yet to be fully exploited, and this called for a more conscious and planned allocation of the limited available resources among the various diverse and competing demands. Planning was also a response to the advent of independence and different post-colonial philosophies of development which stressed the distribution of benefits and the logical timing of development. Consequently, the past decade has seen governments throughout the region involved in preparing and implementing development programmes aimed at meeting these rising aspirations and achieving greater economic independence and self-reliance.

Perhaps at this stage it will also be of importance to examine the subsistence sector which has played a vital role in the development of the Pacific Island economies. Myint has

1. South Pacific Economies: Recent Trends, presented by South Pacific Commission, 1982.
2. Bureau of statistics, Current Economic Statistics, Suva, 1971.

defined the subsistence economy in terms of economic units, such as family, the village or the tribe which are self sufficient, producing only for their own consumption with little or no systematic exchange relationships among each other[1]. Myint's definition coincides with Ward's "integral subsistence system"[2] or Hald's "pure subsistence economy"[3]. In this thesis however, the subsistence economy or sector is defined as a portion of production activities which are directed solely towards producers' own consumption.

The main role of the subsistence economy is to reduce the increasing heavy dependency on the imported foods which has aggravated the balance of payments position and nutritional standard of these islands. Subsistence activities are, however, not limited to food production. They can be classified by broad categories, for example, foodstuffs, including processing building activity, capital works, furniture and traditional crafts[4].

1. H. Myint, The Economies of the Developing Countries, London, Hutchinson University Press, 1967, p.33.

2. R.E. Ward, Agricultural Options of the Pacific Islands, (paper presented for the Development Studies Centre Conference of the Australian National University), April 1979.

3. E.C. Hald, 'Development Policy and the Subsistence' in The Subsistence Sector in the South Pacific, ed. J.B. Hardaker, U.S.P., Suva, 1975, p.6.

4. J. Fairbairn, 'Rural Development and Employment in the South Pacific', in Benjamin Higgins, ed. Regional Development in Small Island Nations, A Special Issue in the U.N. Centre for Regional Development, Nagoya, Japan, 1982, pp.26-27.

2.2 THE SPECIAL CHARACTERISTICS OF SMALL ISLANDS

Based on the problems of the developing island countries of the Pacific as outlined above, let us now look at the many special characteristics of small islands generally. Such characteristics include:

(i) The diseconomies of scales induced by small populations, reflected in the high costs of providing basic infrastructure and services (or the possibility of providing any at all) where the numbers of people are small and the distribution of people is remote both from each other and main centres.

(ii) Limited natural resource endowment, not only in terms of commercially exploitable minerals and forestry resources, but also, as is frequently the case in the Pacific, such basic resources as soil and water.

(iii) Foreign exchange dependence on a very narrow range of tropical agricultural products, in some cases a single product like copra, and very little influence on the terms of trade.

(iv) Vast distances from markets, and often from each other, and high external (and sometimes internal) transport costs and the need for transshipment of products.

(v) Serious balance of payments problems, often caused by stagnating export performance and the growing need to import increasingly costly food and fuel.

(vi) A narrow range of local skills and specific difficulty in matching available skills and jobs, with consequent unemployment, and a critical shortage of technical, administrative and managerial skills and a heavy reliance on expatriates.

(vii) A heavy dependence on one or a few large foreign owned companies, frequently operating on highly privileged terms.

(viii) A limited access to capital markets and hence a heavy dependence on aid and external institutions.

(ix) A proneness to natural disasters. The incidence of tropical cyclones on islands, for example, is much greater than on continental countries.

(x) A highly fragile natural ecology and physical environment. The genetic diversity, and hence genetic resource base, is smaller on islands, and species and sub-species of flora and fauna are more subject to extinction. The environment constraints are such that injudicious exploitation of natural resources can render an island unsuitable for human habitation, as occurred in the case of Banaba.

Many of the constraints to development are a direct function of smallness and isolation. Smallness manifests itself in social and economic structures and in the physical environment, remoteness thus being both quantitative and qualitative. Some islands in the South Pacific (and the smaller islands of the Caribbean) were probably better served a century ago than they are today as there were direct shipments. Even where connections do exist, they are often unidirectional. In Niue, for example, all shipping services are to and from New Zealand and virtually everything the island needs or has to offer is shipped through that route. The three Tokelauan atolls are supplied through Western Samoa and nowhere else, a cargo ship visiting them 4 or 5 times a year. This makes transhipment necessary, imports and exports expensive, and freight charges often crippling.

This raises the general issue of the obstacles faced by small countries in the growth and development process, compared to countries of larger size. Firstly, there is a general tendency for small countries to be more highly specialised and less diversified than larger countries which makes them more vulnerable to both internal and external shocks and outside influences. Specialisation may be partly the result of natural factors (comparative advantage) relating to a narrow range of natural resource endowments, and partly a functions of production disadvantages in other activities associated with the small size of the market when production is subject to economies of scale. This leads to the second major reason why small countries may suffer a development disadvantage. In many activities, particularly infrastructure project and manufacturing, production is subject to scale economies which means that profitable and competitive production depends on the scale of population or the size of market. Because of indivisibilities in the use of capital, for example, there are large economies of scale involved in the provision of infrastructure - such as roads, public utilities, public health facilities etc.- which only become 'economical' to provide when population has reached a certain size; yet many of these types of infrastructure are vital to the development process and the productivity of other activities is dependent on them. In the case of most manufactured goods, costs per unit of output fall as output increases because of the ability to reap technical, financial and risk-bearing economies. In the development history of the now industrialised countries, the export of goods was invariably based on a large home market which enabled the goods to be marketed competitively. Without a large home market base, it has always been difficult for the Pacific Island economies to market abroad a large range of processed goods, at least in competition with industrialised economies, except in the field of highly specialised or 'niche' products. Thirdly, to the extent that small economies are geographically remote, transport and communications have presented formidable obstacles to the competitive production and export of goods, not the least by raising the transport costs of inputs and outputs.

Isolation can be more than geographical. It may also be geopolitical. Most industrialized capitals tend to see the South Pacific, unlike the Caribbean, as a sea of relative political calm and tranquillity - indeed a 'pacific' Ocean. The U.S. State Department, for example, divides the Pacific up into different sub-regions around important 'partners': Japan, Korea, Taiwan, China, S.E. Asia, Oceania, especially Australia and New Zealand, and the South Pacific fall into the category of 'romantic dreams'. 'Romantic dreams' only receive attention in the age of realpolitik when they become political nightmares and a battleground for superpower rivalries[1]. The prevailing attitudes towards the South Pacific make it possible for some metropolitan powers to view the region as a nuclear testing ground and a dumping place for the rubbish they themselves are afraid to store.

Islands share a large number of characteristics, but they also display great differences, a fact that has led some to suggest that 'islands' is a meaningless heading as an analytical category[2]. Certainly, islands within the same group may differ in terms of the extent of the cash economy, ethnic composition, degree of urbanization, etc. The same group may contain volcanic islands with areas of very fertile soils and low coral atolls with virtually no soil at all. The eastern islands of Fiji, for example, have social and economic structures that differ substantially from those of Viti Levu. These observations support the well-known qualification that it is difficult to

1. H. Patrick, 'American Foreign Policy Towards the Western Pacific' in Sir John Crawford and Saburo Okita (eds), Raw Materials and Pacific Economic Integration, Croon Helm, London, pp.22-38.

2. P. Selwyn, 'Smallness and Islandness', World Development, Vol. 8, No. 12, Dec. 1980, pp. 945-951.

generalize about islands, that what 'works' in one context will not necessarily do so in another.

Islands must traditionally face the fluctuations in levels of economic activities that even quite large developing countries would find virtually unmanageable. Agricultural output may drop more than 20% in a single year (or nearly 100% following a catastrophic cyclone), and construction by 30% or more. For example, Fiji was hit by several hurricanes and flooding between 1982 and 1985, which had considerable impact on its agricultural produce and construction activities. In the face of such fluctuations, medium-term planning and programming become very difficult if not impossible.

Potentially counter-balancing economic advantages may also result from their isolation. The sea is a valuable source of national resources, such as food and undersea minerals, while unspoiled coastlines are a great attraction to tourists, resulting in an increasing potential for tourist development. As will be seen later, the decisive features of these small island economies in the terms of their economic development options appear to relate to their particularsize, in terms of resources and population, rather than to their general character as islands.

Also of prime importance to an understanding of island developing countries' economic character is their legacy of colonial development. Most were at some stage of their history part of the empires of Britain, France, Germany, Spain, the Netherlands or Denmark. Their early development consisted of plantation agriculture and trade in tropical food stuffs, or the extraction of raw materials under foreign ownership and control for foreign consignment and sale. Very little of this early development effort spilled over into other parts of the island economies, and indeed conscious efforts were made to prevent the growth of manufacturing activities which might compete with those of the colonial homelands and threaten the monopolistic profitability of large companies, as in Fiji's case pointed out by Lord Denning in regards to the C.S.R. Co. Ltd.[1].

In many cases, the small island countries still grapple with the legacy of the colonial period. This is partly because island governments have pursued growth strategies focused on foreign-owned high technology activities and partly because the patterns of international trade and of technological development have remained under the control of the industrialized market-economy nations, with the United States and Japan now increasingly assuming the dominant role once filled by the European powers.

Recognition of the special difficulties encountered by small island states has led to the creation, within and outside the United Nations, of programmes of assistance specifically geared to meeting some of their needs. The U.N., through UNCTAD, has established a special programme aimed at bringing the problems of small island states to the attention of the international community and at formulating specific measures which would help the islands overcome some of the many of problems they face. Similarly, the Commonwealth Secretariat has an ongoing programme of activities designed to aid developing

1. Lord Rt. Hon. Denning, The Award of Lord Rt. Hon. Denning in the Fiji Sugar Cane Contract Dispute, 1969, 1970, Suva.

island countries.

2.3 PERFORMANCE OF THE PACIFIC ISLAND ECONOMIES

This section will look at the growth performance of the Pacific Island Economics (PIEs) in the light of the constraints discused in the previous section. The growth performance of the PIEs is given in Table 2.2. For Fiji and Papua New Guinea, estimates of real GDP extend back at least to the beginning of the 1970s, so that growth estimates can be made for the 1970s and 1980s. For the other islands, reliable measures of real GDP are not available for the whole of the 1970s and in some cases only become available in the 1980s[1]. Regardless of the number of years for which data are available, the average growth rate has been calculated to obtain an impression of the growth performance of the islands relative to other developing countries. In the 1970s, both Fiji and Papua New Guinea grew at the respectable rates of 5.3 percent and 5.4 percent per annum respectively, which was close to the average for all developing countries of 5.7 percent, and above the average for small low income countries of 3.2 percent. The other PIEs also seem to have performed well. In the 1980s, by contrast, the performance of all the PIEs appears to have been uniformly bad. Up to 1987/88, Fiji hardly grew at all; Papua New Guinea grew at 2.2 percent per annum, and the growth of the other islands averaged no more than 2 percent. This compares with an average growth of all developing countries of 3.3 percent per annum, and growth in the small low income countries of 3.5 percent.

1. Three major sources have been used: IMF Financial Statistics, C. Browne, Economic Development in Seven Pacific Island Countries, IMF, Washington D.C., and the U.N. Statistical Yearbook for Asia and the Pacific, ESCAP, Bangkok, Thailand, 1989.

Table 2.2
The Rate of Growth of Real GDP in the Pacific
Island Economies (% p.a.)

	Fiji	Papua N.G.	Solomon Islands	Vanuatu	W.Samoa	Kiribati	Tonga	Cook Islands
1970	12.7	11.2						
1971	6.9	10.6						
1972	7.5	2.5						
1973	11.6	20.0						
1974	2.5	3.8						
1975	0.1	0.9						
1976	1.8	-1.6						
1977	-3.5	-4.3	9.2 (2)				7.5 (2)	
1978	1.8	10.5	15.6				8.5	
1979	12.0	-	25.0			-24.0 (2)	4.9	
1980	-1.7	-2.3	-5.5 (1)			-43.5	9.6	
1981	6.0	-0.3	7.0			-5.0 (1)	10.4	
1982	-1.1	0.4	-0.3			7.6	9.3	
1983	-4.0	3.9	4.1	3.0 (1)	0.5 (1)	-3.4	1.2 (1)	
1984	8.4	1.2	6.8	6.9	1.3	5.0	2.4	
1985	-4.6	4.8	3.8	1.1	6.0	-1.9	5.6	
1986	8.8	5.0	-0.5	-2.0	0.5	-1.5	3.0	
1987	-7.8	4.8	-4.6	0.7	1.0		3.5	
1988	-2.5						-2.5	
erage 1970s	5.3	5.4						
erage 1980s	0.2	2.2	1.4	1.9	1.9	0.13*		
erall verage	2.9	3.9						

ource: IMF Financial Statistics; (1) C. Browne, Economic Development in the Seven Pacific Island Countries, IMF. Washington, D.C., 1989;
(2) UN Statistical Yearbook for Asia and the Pacific, ESCAP, Bangkok, 1989.

excluding 1980.

The question naturally arises of what accounts for this deterioration in the comparative growth performance of the PIEs in the 1980s. Apart from supply shocks, (import requirements for development) the weather and political upheaval, were there changes in any purely economic variables that might explain a worsening of the economic situation? Two major determinants of the long run growth performance of countries, the quantity and quality of investment and the value of exports, are important for growth both as a component of demand, and also from the supply side if the import requirements for development cannot be produced domestically, or only at higher cost relative to world prices.

Investment statistics for the PIEs are hard to come by. Figures for real investment over any length of time are only available for Fiji and Papua New Guinea. Both countries show year to year fluctuations in the ratio of investment to GDP without any noticeable trend deterioration if the exceptional years of the early 1970s (particularly in Papua New Guinea) are discounted. For both countries, regression analysis conducted by Thirlwall shows a statistically significant relationship over time between the growth of output and the proportion of resources devoted to investment, with a coefficient linking the two variables of 0.15 i.e. a one percentage point change in the investment ratio has been associated with 0.15 percentage point change in the growth rate[1]. This implies a capital-output ratio

1. A.P. Thirlwall, 'The Performance and Prospects of the Pacific Island Economies in the World Economy', Unpublished Paper prepared for South Pacific Bureau of Economic Co-operation, Suva, 1989, p.26.

of approximately 6 (which is high by international standards) and a correspondingly low productivity of investment. This undoubtedly partly reflects the capital-intensive nature of mineral sector exploitation. According to Thirlwall's study, the investment ratio was high in both countries in the early 1970s (largely the result of mineral developments), and then fell. It rose again between 1979 and 1981 in Fiji and between 1979 and 1983 in Papua New Guinea; the respective figures were 25.9 percent and 26.4 percent of GDP. The meagre figures available for other countries reported in Table 2.3 suggest slightly higher ratios. The investment record of the two major PIEs looks good by international comparison, and yet the growth record in the 1980s was low. In other words, the productivity of investment must be lower (and, indeed, must have fallen compared to the 1970s). Thirlwall concluded this may reflect one of two things or a combination of both: either a different structure (or lower quality) of investment, or a greater degree of under-capacity utilisation owing to constraints on output[1].

A common constraint on output growth in many developing countries is a balance of payments constraint resulting from insufficient foreign exchange from exports to finance the growth of imports required for full capacity working of the economy. This constraint cannot be gauged by looking at the balance of payments itself since balance of payments figures are recorded _ex post_, after any adjustment to output growth (and hence import growth) has been made. Balance of payments constraint is best

1. A.P. Thirlwall, op.cit., p.27.

Table 2.3

Real Investment as a Percentage of GDP in the Pacific

Island Economies

	Fiji	Papua N.G.	Solomon Islands	Vanuatu	W. Samoa	Kiribati	Tonga	Cook Islands
1970	22.2	35.4						
1971	24.8	46.9						
1972	24.0	38.8						
1973	22.2	18.6						
1974	18.9	12.9						
1975	20.6	22.1						
1976	21.5	18.1				6.6 (2)	19.8 (2)	
1977	24.4	21.6				6.4	19.2	
1978	22.8	21.0				20.6	24.7	
1979	30.1	23.5				22.6	28.1	
1980	31.8	25.2				39.4	25.7	
1981	34.3	27.2				45.9	26.5	
1982	25.6	32.1				46.6		
1983	21.2	31.7		32.6	27.4 (1)			
1984	18.8	28.4		28.3	29.5			
1985	18.1	21.9		27.0	28.4			
1986		21.9			25.5			
1987		22.5			29.6			

Source: IMF Financial Statistics; (1) C. Browne, Economic Development in the Seven Pacific Island Countries, I.M.F., Washington, D.C., 1989. (2) UN Statistical Yearbook for Asia and the Pacific, ESCAP, Bangkok, 1989.

gauged by what is happening to the growth of export value. For all the PIEs, the growth of exports in the 1980s shows a marked deceleration compared to the 1970s. The figures for the period 1970-87 and the average experience for the 1970s, are shown in Table 2.4, together with the figures on world trade growth. It can be seen that the rate of growth of export earnings fell by at least 75 percent in the first half of the 1980s compared to the 1970s. This fall was also experienced by other developing countries yet output growth did not decline so much. This suggests other structural differences and weaknesses in the PIEs, reflecting perhaps, the greater openness of the PIEs and their greater dependence on imports for the productivity of domestic resources. Countries with a low ratio of imports to GDP invariably weather better shocks to their foreign exchange position, either emanating from rises in import prices or falls in export earnings. The most likely explanation of the slow-down in economic growth in the PIEs in the 1980s was the virtual stagnation of export earnings.

The figures for the trade balance on current account are shown in Table 2.5. There is no apparent tendency for the deficits to widen, but this is merely a reflection of the inability (or unwillingness) of countries to finance larger and larger deficits. If the rate of growth of output of the PIEs in the 1980s had been maintained at the level of the 1970s, the recorded deficits on the balance of payments would have been considerably greater. Notice that the deficit recorded on the current account is invariably less than on the trade account

Table 2.4

Rate of Growth of Export Earnings (%)

	Fiji	Papua N.G.	Solomon Islands	Vanuatu	W.Samoa	Tonga	Kiribati	Cook Isl.	World Trade
1971	0	16.3	25.0	8.3	20.0	0			12.6
1972	8.3	83.5	10.0	15.4	-16.7	-33.3			19.2
1973	20.5	132.0	27.3	40.0	40.0	150.0			38.9
1974	63.8	27.0	85.7	42.9	85.7	40.0			49.1
1975	10.4	-32.5	-42.3	-63.3	-46.2	-14.3			3.0
1976	-20.6	24.9	60.0	54.5	0	-33.0			13.6
1977	33.3	24.0	37.5	117.6	114.3	75.0			13.4
1978	10.0	4.5	15.2	13.5	-26.7	-28.6			15.6
1979	30.0	23.7	78.9	11.9	63.6	40.0			27.6
1980	46.7	16.8	7.4	-23.4	-5.5	14.3	-88.1 (1)		20.4
1981	-17.5	-18.7	-9.6	-11.1	-35.3	-12.5	53.2		-1.6
1982	-8.7	-8.0	-12.1	-28.1	18.2	-42.9	-37.8		-7.1
1983	-15.5	5.4	6.9	30.4	38.5	25.0	55.7		-3.0
1984	6.7	9.7	50.0	46.7	11.1	80.0	217.4		6.1
1985	-7.4	2.2	-21.5	-31.8	50.0	-44.4	-60.7		1.4
1986	15.6	13.3	-5.7	-53.3	-63.3	20.0	-66.3		10.1
1987	9.1	12.4	-3.0	21.4	9.1	0			17.7
age 1970s	17.3	33.7	33.0	26.8	26.0	21.8			21.4
age 1980s	3.6	4.1	1.6	-6.2	6.0	4.9	10.5		5.5

urce: IMF Financial Statistics; (1) from C. Browne, Economic Development in the Seven Pacific Island Countries, I.M.F, Washington, D.C., 1989.

Table 2.5

The Balance of Payments of the Pacific Island Economies ($ US million)

	Fiji		Papua N.G.		Solomon Isl.		Vanuatu		W. Samoa		Kiribati		Tonga		Cook Isl.*	
	Trade	C/A	Trade	C/A	Trade	C/A	Trade	C/A	Trade	C/A	Trade	C/A	Trade	C/A	Trade	C/A
1972	- 68	-32	- 78	5					-16	-11			- 4	-1		
1973	-112	-58	225	217					-15	- 8			- 5	-1		
1974	- 92	-29	226	221					-11	- 1			- 6	1		
1975	- 73	-26	- 63	- 37	-13	- 13			-26	-12			-11			
1976	-106	-51	117	41	- 1	2	-15		-20	-10			-11	-2	-11.1	
1977	- 94	-26	123	99	4	6	-16		-23	-11	10		-11	-2	-15.1	
1978	-114	-36	26	-55		3	-20		-38	-18	7		-11	-1	-15.8	
1979	-170	-66	226	78	10	10	-26		-49	-22	8	16	-17	-2	-18.7	
1980	-150	-25	-35	-312	-1	-12	-36		-40	-13	7		-20	-4	-19.4	
1981	-226	-175	-257	-521	-10	-27	-26		-41	-15	-18	-6	-30	-7	-23.7	
1982	-189	-93	-248	-483	-1	-11	-33	12	-32	- 7	-22	1	-31	3	-21.8	
1983	-204	-65	-155	-376	1	-6	-28	8	-26	4	-21	10	-34		-30.2	
1984	-163	-27	-48	-322	26	5	-19	19	-27	1	-14	6	-26		-29.6	
1985	-175	-13	47	-155	1	-23	-34	1	-30	2	- 7	7	-24	-1	-40.9	
1986	-122	4	102	-105	-1	- 9	-38	-3	-32	7	-11		-26	1	-44.3	
1987	- 27	- 5	-10	-325	-3	- 4			-44	6	-13		-28	7		
1988	- 54	30	238		-22	-16										

* In New Zealand Dollars (mill.) from UN Statistical Yearbook for Asia and the Pacific, ESCAP, Bangkok, 1987.

owing to a surplus on the invisible account from tourist receipts and emigrant remittances.

A part of the balance of payments deficits of the PIEs has been financed by direct private investment from overseas. Direct private investment from oversese does have two important attributes that other capital flows do not possess. First, it adds to productive capacity directly, and is much less volatile than financial capital. Secondly, it is a 'non-debt' creating flow with no predetermined repayment obligations. There will, of course, be a future foreign exchange outflow if profits are remitted abroad, but more than matched by an increase in output. The record of direct private investment into the PIEs is shown in Table 2.6 for the countries for which data are available.

2.4 THE DIRECTION OF PACIFIC ISLAND TRADE AND TRADE STRATEGY

The growth of a country's export earnings is a function of the type of goods it produces and exports, and of the markets it exports to i.e. whether they are expanding quickly, slowing or not at all. The type of goods produced and exported relates to economic structure and the demand characteristics for different types of goods, and the question of markets relates to the direction of trade. This section addresses both topics, but first discusses briefly some policy issues involved concerning the relationship between trade and development.

TRADE POLICY

The extent to which a small economy is typically involved in the areas of international trade has already been discussed and the desirability, indeed almost the inevitability,

Table 2.6

Direct Private Investment into the Pacific Island Economies ($US million)

	Fiji	Papua N.G.	Solomon Islands	Vanuatu	W.Samoa	Kiribati	Tonga	Cook Isl
1970	6.4							
1971	6.5							
1972	8.5							
1973	13.2							
1974	12.0							
1975	10.9		7.9					
1976	-	22.7	4.9					
1977	-	18.0	4.4					
1978	-	34.0	4.6					
1979	10.2	41.0	3.5					
1980	34.2	59.8	2.4					
1981	37.6	85.6	0.2					
1982	35.9	84.1	1.0	6.9				
1983	32.0	137.7	0.3	5.9				
1984	23.0	113.4	1.9	7.4				
1985	33.6	82.4	0.9	4.6				0.018
1986	23.8	99.5	2.1	2.0				0.117
1987	-6.4	115.4	10.4	12.9				0.210
1988	44.7	89.1	1.7					0.057

Source: IMF, World Economic Outlook 1989 and IMF Financial Statistics.

of following an open-economy policy has also been covered in the preceding section. That an economy with small skewed natural resources should actively engage in trade if it wishes to develop economically is thus well established. It seems most experts would agree that success in generating self-sustaining growth and reducing dependence on a foreign country or countries is more likely to be achieved by a policy of widening the range of export products and markets than by policies of import substitution and inward looking development.

Of course large countries also participate actively in world trade and are actively concerned with improving their export performance and maintaining stability in their balance of payments. But in a small island economy the influences of export performance and the balance of payments situation on growth and development are likely to be both more pervasive and more persistent. The opportunities available to a small economy to expand its export and the effectiveness with which it can exploit these opportunities will critically affect the role of investment, and the rate of real income growth.

The dependence of a small economy on exports and imports of raw materials, intermediate and consumption goods to fill gaps in the domestic structure of production, and on foreign investment capital, argues for liberal trade and exchange control policies. Low tariffs and the absence of import controls help to reduce both input costs of domestic manufactures and the cost of imported consumption goods, thus improving the competitiveness of island export industries and raising real incomes above the level they would attain were imported consumption goods to face restrictive tariffs or import quotas.

Although export orientation frequently affords a small island economy the best opportunity for accelerating long-term development, it also brings with it problems of dependency on the economic performance and policies of the major countries with which it trades. The vulnerability that results from this dependency takes different forms in different economies. Small primary producing economies are likely to suffer from unstable export receipts as a result of the typically inelastic world demand for their products. Fiji's largest export item is sugar which brings in about 60% of its foreign exchange (See Table 6.1). However, about 50 percent or 400,000 tonnes of sugar annually exported is under a fixed contractual price with EEC, Malaysia, New Zealand and Japan[1]. The remainder is dependent on fluctuating world demand. Small producers of semi-manufactured or manufactured goods face a more volatile market situation which offers potential for either rapid growth or decline in exports, depending on the ability of the exporter to identify foreign market trends and to produce competitively.

The extent to which small island countries can effectively promote export-led development is also dependent on the readiness of the governments of the countries to which they export to accept an increasing flow of imported products which may be competitive with their own products. Protectionist policies in the major developed market economies, which may take

1. Report of the Commonwealth Regional Consultative Group on Trade, Group Secretariat, Department of Trade, 1985.

the form of tariffs, quotas, or a wide variety of non-tariff barriers, present considerable obstacles to the efforts of the small island developing economies to increase their exports and reduce their dependency on overseas borrowing and aid.

The difficulties of achieving reductions in the barriers to trade and the dangers of dependence on distant foreign markets have encouraged some small islands to form regional trading groups or regional trade agreements.

In this regard the availability of the trade agreements, the South Pacific Regional Trade and Economic Co-operation Agreement (SPARTECA) with Australia and New Zealand, the Lome Agreement with EEC, the General System of Preferences (GSP) with USA. Canada and Japan have been of great benefit in promotion of Fiji's exports and penetration into the World markets[1]. These agreements will be discussed in detail later in the chapter on Export Development.

2.5 THE ROLE OF MANUFACTURING, AGRICULTURE, TOURISM AND SERVICE INDUSTRIES IN DEVELOPMENT

This section will look at the role of manufacturing sector in development of developing island countries in more detail as this has been one of the areas where great emphasis has been given in recent years to diversity from dependence on only one or two commodities or industries[2]. In the case of Fiji sugar and tourism are major foreign exchange earners and have been for

1. Fiji Export Directory, Economic Development Board, Suva, 1982.

2. Fiji's Seventh Development Plan 1976-80, Central Planning Office, Suva.

a number of years.

In discussions on economic development, confusion often results from the interchangeable use of the terms "manufacturing" and "industrialization" which we shall try to avoid here. As Johnson pointed out, "industrialization", properly speaking, involves the organization of production in business enterprises, characterized by specialization and division of labour; this specialization is based on the application of technology and of mechanical and electrical power to supplement and replace human effort ... So conceived, industrialization is an economy-wide phenomenon, applying to agriculture and the service trade as well as manufacturing[1]. Rather than analyze the role of industrialization in this broad sense in the process of development,in this section we shall take a sectoral approach and discuss sequentially the role of manufacturing, agriculture and tourism services in development. Although this sectoral approach can be criticized on the grounds that the dividing lines are somewhat arbitrary, a sectoral approach helps make the discussion of the subject more specific and hence more operationally useful than discussion at the economy-wide level.

The work of Little, Scitovsky and Scott has illustrated the risks of ignoring the nature of an economy's comparative advantage in the role that the manufacturing industry should play in development[2]. The authors found several examples of

1. H.G. Johnson, Economic Policies Towards Less Developed Countries, Washington D.C., Brookings Institution, 1967, pp.45-46.

2. I.M.D. Little, T. Scitovsky and M. Scott, Industry and Trade in Some Developing Countries - A Comparative Study, London, Oxford University Press, 1970).

manufacturing activities in developing countries that had been planned and supported by governmental assistance but which, because of their competitive character of lack of it, made no real long term contribution to the country's balance of payments. In a few extreme cases studied, gross value added by the manufacturing enterprise at world prices was even negative, i.e., the foreign cost of imports was greater than the foreign exchange either earned or saved by sales. Of course, a much less dramatic performance can still mean that a manufacturing activity is a net drain on the balance of payments, as account must also be taken of capital charges, where foreign capital is involved, and any additional expenditures on imports that are generated by the project.

In a small island economy which almost invariably will be reliant on foreign exchange for the purchase of goods which it cannot itself produce efficiently, the drain on foreign exchange is a serious constraint on development. A manufacturing sector that is not a net earner of foreign exchange would hamper rather than promote the development process in such an economy.

A further unfavourable result of efforts to foster a protected manufacturing sector is that protection raises the price of manufactured products relative to agricultural products and domestically produced services[1]. This has the effect of repressing the outputs of non-manufacturing sectors. According to Little, in some countries, agricultural output has failed even

1. R. Cole and H. Hughes, The Fiji Economy in May 1987: Problems and Prospects, ANU, 1987.

to keep pace with population growth, suggesting that investment efforts and resources have been heavily concentrated in relatively inefficient manufacturing activities with a depressant effect on agricultural production and income generation.

There seems no reason why, as Holmes suggested[1], the transition to higher productivity techniques, which is the essence of economic development, should not occur strongly in primary production, agriculture, construction and service as well as manufacturing activity. The selection of leading sectors or activities in a developing economy should therefore be made in the light of the island's economic character and resulting comparative advantage rather than on the basis of a fixed belief in the singular role of manufacturing in development.

The open character of small island economies has a distinct influence not only on the conclusion of an analysis of the sectoral emphasis in development but also the extent of the inter-relationship between sectoral development and trade opportunities and policies. Hence one of the leading issues in development economics has been the extent of opportunities for import substitution or export promotion in different economies and the degree to which the promotion of the manufacturing industry should be directed to transforming the economic structure in one direction or the other. Chenery's work originally brought this issue to the fore by propounding that

1. Sir Frank Holmes, 'Development Problems of Small Countries - A Survey' in Castle and Holmes (eds.), <u>Co-operation and Development in the Asia/Pacific Region - Relations Between Large and Small Countries</u>, 1976, Tokyo.

economic development was accelerated through a process of import substitution by the emphasis on production of intermediate and capital items rather than consumer goods1.

Demas and others argued that in a small island economy, the scope for import substitution of intermediate and capital items for domestic industry is severely limited due to the economies of scale associated with the manufacture of such products2. The example of Singapore, a small economy which, following its separation from Malaysia switched from a policy of import substitution to one of the production for export, is relevant to this point. Following this change in policy, the country enjoyed a much more rapid rate of economic growth than previously.

Keesing's investigation of the performances of small countries in the international trade in manufactured goods3, which was later refined and supplemented by Balassa4, concluded that small countries have been at a disadvantage in the international trade of manufactured goods, due to the limitations imposed by their small national markets on the realization of internal and external economies of scale.

Recognizing that "manufactures" is a heterogeneous

1. H.B. Chenery, 'Patterns of Industrial Growth', <u>American Economic Review</u>, September, 1960.

2. W.G. Demas, <u>The Economics of Development in Small Countries</u>, McGill University Press, 1965.

3. D.B. Keesing, 'Population and Industrial Development: Some Evidence from Trade Patterns', <u>American Economic Review</u> (June 1968), pp.448-55.

4. B. Belassa, 'Country Size and Trade Patterns', <u>American Economic Review</u> (March 1969), pp.201-4.

product category, Belassa then went to break down manufactured exports into two groups: semi-manufactured and finished products, in an effort to refine these conclusions and make them more useful to policy makers.

Breaking down manufacturing exports into these two categories, Belassa showed that small countries tend to have a comparative advantage in the export of semi-manufactures and are at a disadvantage in the export of finished goods. This has been very conspicuous in the case of Fiji where most projects that have been approved either by local investors or joint venture enterprises were processing, packaging or semi-manufacturing industries. Much of the raw materials and inputs for the finished products have to be imported. The local value added are small. In one of Fiji's most rapidly developing export industries, garment manufacturing, all inputs including machines and fabrics have to be imported. The exporters have found it difficult to meet the roles of Origin Criteria of trade agreements which require 50% of the value added in a finished product exported to industrialized countries to be local.

The findings of Keesing and Balassa as mentioned above gave some guidance as to the type of manufacturing industry which might operate efficiently in a small economy. Methods of attracting such enterprises to a developing island economy are of importance.

THE ROLE OF THE SERVICE SECTOR IN SMALL ISLAND DEVELOPMENT

The services sector of an economy consists of the commercial support activities such as retailing, wholesaling, logistical, financial, commercial services etc. and public administration, together with some export-oriented activities such as international tourism, transportation and communication services. The demand for locally-oriented service sector cannot be realistically viewed as an initiator in the development process in a small island economy.

Conversely international services, because they are geared to a larger external market and can earn foreign exchange, can, theoretically at least, play a more dynamic role in economic growth. In view of the extent to which the developed and larger developing countries already dominate international financial and transportation services however, the prospects for small island economies in these activities are, with a few exceptions, limited. For example, in Fiji transport is dominated by Pacific Forum Lines and insurance by Colonial Mutual Life of Australia.

Tourism is one economic activity in which certain islands certainly possess a comparative advantage. Many enjoy a favourable climate, spectacular scenery, fine beaches, distinctive life styles, flora and fauna. Tourism is also a highly income elastic service, the market for which is confidently expected to increase at a proportionately more rapid rate than real incomes in the principal demand-generating economies. The tourist industry thus has the potential to contribute to the economic growth of many small island states[1], although various experts have questioned both the nature and the extent of this contribution.

1. L. Dwyer, Tourism in the South Pacific, Pacific Policy Paper, 1986, Vol. 2, p.226.

AGRICULTURAL POLICY

The relatively slow growth of the agricultural sector in many small island economies is of concern to island development planners, the reason being that agricultural production is one activity in which most island economies possess certain comparative advantages which, if effectively exploited, could raise domestic incomes, reduce unemployment and either save or generate scarce foreign exchange. However, apparently in only a few cases has the performance of this sector made a significant contribution to economic development.

Agriculture is one economic activity where there appears to be considerable scope for efficient import substitution because economies of scale are important only in the production of certain processed foodstuffs and many agricultural products are difficult and costly to transport long distances. In many islands, a large proportion of local consumption could be met by domestic food production, and the contribution of tourism to the economy could be increased if efforts were made to substitute locally produced foodstuffs for the imported goods in demand in resort areas or hotels.

This neglect of the agricultural sector is primarily a result of over-concentration on the role of the manufacturing industry in development. Confusion regarding the overall objectives of development, which is typified in development planning by an emphasis on the achievement of output or growth targets for manufacturing rather than on improvements in the level and distribution of domestic real income, led to the devotion, in Fiji from the mid 1970s, of a large proportion of promotional efforts and resources to the expansion of the manufacturing sector[1]. Agriculture, by contrast, receives relatively little encouragement by way of financial assistance, training or infrastructure investment.

The imbalance of development efforts and resources between agriculture and manufacturing has been recognized and remedial steps are being taken in many countries to overcome the effects of earlier neglect. Unfortunately, the result of this renewed effort to raise agricultural productivity and output has inevitably been somewhat slow to emerge and the planners have not been dissuaded by some of the short-term difficulties in changing the economic character of the agricultural sector by adopting policies to stimulate its performance.

2.6 OVERVIEW

This chapter has attempted to highlight the economic development problems facing small island economies and to broadly examine the policies applied by the countries. We saw that in many cases economic development was not left to market forces alone but was a planned process so that the benefits could accrue fully to local inhabitants. It is argued that the specifically island features of the countries we are studying are less important determinants of their economic character and policy options than their small size per se. The subsequent examination of the economic consequences of size suggests that it is not an

1. Review of Fiji's Seventh Development Plan, 1981, Central Planning Office, Suva.

insurmountable obstacle to development as seen in Hong Kong and Singapore, although it does impose certain constraints on the development options available to the country.

The skewed resource endowments of a small economy narrow the range of manufactured goods that it can efficiently produce, and this tendency is reinforced by problems in achieving economies of scale in production. These factors argue for specialization in the production of goods which can be exported in sufficient volume to justify investment in efficient technology. The difficulties of competing internationally in the production of manufactured goods would lead us to question the conventional wisdom that manufacturing must be the leading development sector in a small economy.

The need to import consumer and capital goods which cannot be produced efficiently at home, to import essential raw materials which are unavailable in a small economy, and to supplement scarce development resources with foreign capital, combined with the economies of the manufacturing industries, has prompted most small countries to adopt open and liberal trade policies which give them both the capacity and the opportunities to participate in the international economic system. The alternative inward-looking approach to development seems likely to cause considerable inefficiency in the utilisation and allocation of the domestic factors of production.

In regard to trade, the output and exports of the Pacific Island economies are dominated by primary commodities such as sugar, coconut products, cocoa, coffee, timber, fish, palm oil and minerals. They may have a 'natural' comparative advantage in the production of these commodities, but they cannot provide the basis for sustained development in the future for two main reasons. Firstly, all land-based activities are subject to diminishing returns so that productivity of the factors of production diminishes as output expands, unless there is offsetting technical progress. Even if technical progress does compensate, land-based activities are still at a disadvantage compared with non-land-based activities, such as manufacturing, where production is subject to increasing returns. In addition, in diminishing return activities there is no limit to employment set by supply conditions since the marginal product of labour does not fall as employment rises. This basic fact about diminishing returns activities, such as agricultural production and mining, is one of the major reasons why so much disguised unemployment exists in many raw material-based developing countries.

The second main reason why primary production cannot provide the main basis for sustained development is that the demand for primary products grows relatively slowly as world income grows compared with the demand for other types of goods, particularly manufactures and sophisticated services. Many primary commodities are subject to Engel's Law which predicts that as income grows, the demand for commodities grows by less than in proportion, so that the share of total expenditure on these products falls as societies become richer. This must be a major worry for all primary product exporters because it means that, other things remaining the same, their export growth is likely to be slower compared to exporters of other types of commodities. If all producers attempt to expand exports by increasing supply, the price simply falls, and what is gained in terms of volume is lost through a deterioration in the terms of trade. For these reasons it has been vital for the Pacific Island Economies, as part of a long term development strategy, to diversify their output and export structure in favour of commodities with more favourable production and demand characteristics such as various types of manufactures and service activities, with a particular eye to high value-added commodities. The subsequent chapters will examine how far Fiji has been successful in its effort to diversify its production base.

Chapter III

ECONOMIC PROGRESS OF FIJI SINCE CESSION

This chapter will discuss the economic progress of Fiji since cession to the early nineteen eighties. However it will first look at the physical and demographic background of Fiji to provide better understanding of the discussions contained in this chapter.

3.1 PHYSICAL CHARACTERISTICS

Fiji is an archipelago of 300 islands situated in the hub of the South West Pacific between latitudes 15 degrees and 22 degrees South and longitude 174 degrees East and 177 degrees West. It has a total land area of 18,733 square kilometers and only a third of its 300 islands are permanently inhabited. Although communications and transport between these islands are well developed, most economic activities are centered around the two main islands, Viti Levu (10,429 sq km) and Vanua Levu (5,556 sq km). Six other islands are between 65 and 518 square kilometers.

Generally the larger islands are rugged with sharp peaks and crags, but they also have extensive areas of flat land along the major rivers and coasts. On Viti Levu the mountain barrier runs from north to south across the islands reaching heights of over 4000 feet. This mountain range forms a backbone which divides the island into well defined wet and dry zones. Lying directly across the path of the prevailing south-east trade winds, the mountain barrier effectively precipitates heavy rainfall on the windward southern side of the island, giving growth to lush rain forests. In marked contrast is the leeward side, to the west and north-west of the mountain barrier, with undulating grasslands broken only by scattered clumps of trees along river valleys.

Forming a discontinuous girdle around Viti Levu are coastal lowlands which are important agricultural areas, especially around the outlets of the five major rivers - Rewa, Sigatoka, Nadi, Navua and Ba. The hilly areas of Viti Levu are predominantly covered with tropical rain forests, where valuable commercial timber is found.

Like Viti Levu, Vanua Levu also has a mountain backbone, but a discontinuous one running for almost the whole of its length of 181 kilometers. This, too, lies directly across the path of the prevailing winds, thus dividing the island into a wet windward zone on the south and south - south-east sides, and the dry zone on the north and north-west. The lowland areas are located mostly on the leeward coast. Sugar cane is grown on the Labasa river plain around the only sugar mill on the island. Rice is also extensively grown on the leeward coastal plain. Soil is fertile, and there are extensive coconut plantations.

With an area of 435 square kilometers the other important island economically is Taveuni which is third in size. Taveuni is a leading copra producer in the country. In the other major island groups of Kadavu, Lau, Lomaiviti and Yasawas, copra, yagona, tourism and timber are the major sources of income.

Fiji enjoys a mild and equable oceanic climate. Though temperatures may be high throughout the year, the oceanic location has a moderating effect. The prevailing winds are the south-east trades. During the hurricane season between November and March wind direction is liable to be variable with frequent tropical cyclones. The windward sides of the main islands are subject to cloudy conditions and frequent rains, with even temperatures and a moderate amount of sunshine. The leeward sides are for eight months of the year relatively dry, with clear skies, a limited temperature range, and abundant sunshine. Suva, on the wet zone, has an average annual rainfall of 123 inches[1].

3.2 POPULATION

The Fijian population suffered a substantial decline from the last half of the 19th century to the first decade of the 20th century. One cannot specify the year in which this trend was reversed but the decennial census figures show a decline up to 1901 and an appreciable recovery by 1911[2]. By 1921 the total population had increased by almost 31% from the low level of 1901. Since the turn of the century total population has steadily increased apart from a slight setback in 1918 owing to an influenza epidemic. By 1946 the total population had risen to 259,600, more than double the level forty years earlier. Table 3.1 summarises the total population trend from 1881 to 1986, and Table 3.2 shows the population trend of two major races from 1881 to 1986.

1. Norman and Ngaire Douglas, Fiji Handbook, 1987, Pacific Publication, Sydney.

2. M. Qionivavavi, Economic Development of Fiji, 1964, Thesis in Master of Commerce, University of Auckland.

TABLE 3.1

DECENNIAL CENSUS FIGURES SHOWING TOTAL POPULATION

FROM 1881 - 1986

YEAR	TOTAL POPULATION
1881	127,486
1891	121,180
1901	120,124
1911	139,541
1921	157,266
1936	198,379
1946	259,638
1956	345,737
1966	476,727
1976	588,068
1986	715,375

(Source: Bureau of Statistics, Suva, Fiji).

TABLE 3.2

DECENNIAL CENSUS FIGURES SHOWING TOTAL INDIAN AND FIJIAN

POPULATION FROM 1881 - 1986

YEAR	FIJIAN	INDIAN
1881	114,748	588
1891	105,800	7,468
1901	94,397	17,105
1911	87,096	40,286
1921	84,475	60,634
1936	97,651	85,002
1946	118,070	120,414
1956	148,134	169,403
1966	202,176	240,960
1976	259,932	292,896
1986	329,305	348,704

(Source: Bureau of Statistics, Suva, Fiji).

This general picture, however, contains significant features affecting the two major population groups, an understanding of which is crucial to an appreciation of their present numerical strengths. When we speak of the decline in total population from the last half of the previous century we refer wholly to the decline in Fijian population, which fully accounts for the downward trend in total population up to 1901.

In the 1860's, at the time of an increasing influx of Europeans, the Fijian population was estimated at 150,000. From this date their numbers spectacularly declined and, by the end of the century, were estimated at only 94,000! In 1921 when total population was 31% larger than in 1901, the Fijians actually numbered 10,000 less than twenty years earlier. 1921 was the welcome turning point, but it was not until 1957 that the Fijian population regained the 150,000 mark, or their estimated number a century earlier[1].

Anxiety over the decline in native population prompted the setting up of a Commission of Enquiry in 1891. The foremost cause it found was the introduction of new diseases. Fijian tradition suggests that, before Cession, two epidemics, contemporary with the arrival of the first European ships, swept through Fiji. The first caused a general wasting away of the body, referred to by the natives as "Lila"[2]. This occurred about 1791-92[3]. The second was an acute form of dysentery, and seems

1. M. Qionivavavi, Economic Development of Fiji, 1964, Thesis for Master of Commerce, University of Auckland, Auckland.

2. "Tuberculosis".

3. Report on Native Population (1896), p.35.

to have been introduced by the crew of the "Argo" wrecked off Lakeba in the Lau Group - about 1800-1803.

The catastrophic measles epidemic of 1875 was even more deadly. It was recorded that "40,000 died from this epidemic which overran the whole archipelago in the space of four months..."[1]. In the opinion of the Commission of 1891 it "may be credited with having dealt the most deadly blow at the vitality of the Fijians"[2]. "It completely changed the face of the population"[3]. Natives "became at once ... overwhelmed, dismayed, cowed - abandoning all hope of self-preservation, and becoming incapable of any effort to save themselves or others"[4].

After this tragic epidemic a number of smaller, though deadly, epidemics came in the eighties. Whooping cough broke out in 1884, resulting in 3,000 deaths; dengue, dysentery and catarrhal influenza claimed 1,000 lives in 1885-86. An epidemic of influenza and whooping cough again caused 1,500 deaths in 1891, while catarrhal influenza took a heavy death toll annually during the winter months. These diseases caused a heavy death rate amongst the natives.

Indians were first brought to Fiji in 1879 under the indentured labour system. The system lasted until 1920, by which time some 62,837 immigrants had been introduced. Of these only 24,655 exercised their right of repatriation back to India.

1. <u>Report on Native Population (1896)</u>, p.36.
2. ibid., p.29.
3. ibid., p.29.
4. ibid., p.36.

The growth of Fiji's Indian population has been rapid. By the time the indenture system was abolished, Indians already comprised over one-third of the total population, and between 1901 and 1921 their numbers, owing mainly to increased immigration, multiplied three times. As the Fijian population actually recorded a net decrease during this period it was the rapid rise of the Indian population which arrested, after 1921, the downward trend in total population. As shown in Table 3.1 there were 60,000 Indians in Fiji in 1921 compared to Fijian population of 84,000. However, by 1939 there were about 94,000 Indians living in Fiji, nearly as many as there were native Fijians[1].

3.3 THE ECONOMY 1874 - 1946

In the time of Cakabau government just prior to cession in 1874 there was a rapid expansion of European businesses and large scale alienation of Fijian land[2]. This was accompanied by constant and vociferous attempts by planters to gain access to Fijian labour either through collaboration with local or conquering chiefs, or by passage of legislation (including a poll tax system) that would facilitate the creation of a Fijian wage - labour proletariate[3]. Such demands by settlers, however, would have undermined the political and economic base of the Fijian

1. D.L. Oliver The Pacific Islands, 1962, Harvard University Press, Cambridge, p.290.
2. R.G. Ward, 'Land use and land alienation in Fiji to 1885', Journal of Pacific History, 1969, 4: 3-25.
3. P. France, The Charter of the Land;: customs and colonisation in Fiji, 1969, Melbourne, OUP, pp.92-101.

chiefs and led to serious disruptions of the subsistence mode of production. As a consequence of this pressure and the reluctance of Fijian chiefs to accommodate European demands past a certain point, a rapid increase in tension developed between the contending indigenous and capitalist interests. This tension (marked by sporadic violence) was aggravated by the unabated alienation of Fijian lands[1]. This situation also facilitated conflict between Fijian power factions and between the European planter and mercantile communities. Given the potential for civil war between relatively large Fijian tribal groupings and a vulnerable settler population, constant demands were being made by European spokesmen for Britain to provide a military or political solution. Faced with the mounting political and financial costs of maintaining law and order, and having a greater awareness of Fiji as a supplier of agricultural commodities, the British Colonial Office imposed formal administrative rule over the island group in 1874[2].

The colonial administrations sought political stability by minimizing disruption of Fijian society and recognizing the interests of Fijian chiefs.

This necessitated a policy that would ensure the survival of indigenous society in the face of increasing European demands for the incorporation of Fijians into the cotton and copra plantations. The simultaneous protection and expansion of

1. France, ibid. 43-5, 92-101; R.G. Ward, Land alienation, op.cit. 10-11.

2. France, op.cit. 92-101; J.D. Legge, Britain in Fiji, 1858-1880, 1958, London, p.11; J.M. Ward, British Policy in the Pacific 1786-1893, 1948, Sydney, pp. 1-30.

these two incompatible modes of production thus necessitated overcoming a contradictory element that would otherwise have rendered colonial rule unworkable. The independence of the pre-capitalist economy, that is the non-enforcement of planter demands for access to Fijian labour implied a curtailment of European commercial expansion. A policy of deliberately protecting Fijian society however, was liable to prove beyond the State's financial and military resources. That is a policy of preserving the viability of the subsistence economy and ensuring the prosperity of the planter community without dissolving the former was unsupportable unless European capital had access to land and labour other than those controlled by the Fijian chieftancy.

In the decades following the imposition of colonial rule, compromise legislation was progressively introduced which acknowledged both European economic interests and the authority of the Fijian chiefs. The set of policies contained the following provisions:

(i) Land legislation designed to retain Fijian control over the greater part (82.5%) of the colony's land area, but at the same time recognizing the legal transfer of land sufficient to meet European demands[1].

(ii) The codification of the lineage authority system to maintain political stability both at the national level (by ensuring the co-operation of chiefs) and within Fijian society (by recognizing and institutionalizing a class hierarchy[2]).

1. France, op.cit. 102-75; Leggge, op.cit. 17-201.

2. Legge, ibid. 202-30.

(iii) The introduction of a tax designed to generate additional state revenue and simultaneously "allow" Fijians to meet that tax burden without recourse to plantation employment. This had the effect of formally linking the pre-capitalist economy with the European cash economy through commodity exchange since most taxes were paid in kind (copra, bananas and other food crops[1]).

(iv) With the relative autonomy of Fijian society assured, both the economic needs and commoners' labour obligations to chiefs were able to be satisfied within the confines of the pre-capitalist mode of production of raw materials, a hard working, and above all, compliant substitute labour force was required. To meet this demand, an indentured labour scheme along the lines of those then operating in the West Indies was introduced, whereby labourers were imported from India[2].

The legislation had an immediate effect. For the planter community and large companies, the policies had two profound consequences on their pattern of commercial activity. The legislation prevented the further alienation of Fijian lands, thus confining European ownership of freehold title to land acquired prior to Cession in 1874. At the same time, the increasing availability of indentured Indian labour after 1876

1. Legge, ibid., 231-46.

2. M. Cumpston, Sir Arthur Gordon and the Introduction of Indians into the Pacific: The West Indian System in Fiji, Pacific Historical Review 25 (1956) 369-88; K.L. Gillion, Fiji's Indian migrants: a history to the end of indenture in 1920 (Melbourne 1962) 1-18; M. Moynagh, Brown or White? A history of the Fiji sugar industry, 1873-1973 (unpubl. Ph.D. thesis, Australian National University, 1978, 23-6.

facilitated more intensive development of existing freehold land resources.

Coincident with the passage of this legislation the government was faced with the task of re-structuring the colony's export base. This was due to the collapse of the cotton industry between 1870-73 following the re-entry of American cotton on the world market after the end of the American Civil War. With a naturally growing high-quality sugar-cane variety, and buoyant markets in Australia and New Zealand, sugar became the dominant plantation crop by 1880. The expansion of the sugar industry, however, was intitially inhibited by the nature of petty-commodity production. The undercapitalization and fragmentation of production frustrated planter desire for renewed prosperity and the administration goal of creating Fiji self-supporting financially. A solution was reached in 1880 with government securing commitments from the Australian based Colonial Sugar Refining Company Limited (CSR) and other Anglo-Australian interests to construct sugar cane crushing and processing plants in Fiji[1].

This introduction of monopoly industrial capital into the colony was to have far-reaching effects on the colony's economy. Within decades Fiji became highly dependent on sugar exports.

THE DEVELOPMENT OF SUGAR AND OTHER INDUSTRIES

The first attempt to manufacture sugar was made by the Americans, Whippy and Brower, on the small island of Wakaya in 1862. But the first commercial mill was erected in Suva by a

1. J. Horne, A Year in Fiji, 1881, p.181

Barbados planter, Leicester Smith, in 1872. The unsuitable soil around Suva, however, caused the mill to close down again in 1875. With the collapse of cotton, sugar cane appeared the most promising alternative for planters. But lack of capital and mills retarded the development of a sugar industry.

From accounts of the type of planters settling in Fiji at this time it may not be unreasonable to say that they were responsible to a large extent for their own miseries. Quoting Horne, 'most of the settlers know next to nothing about the husbandry of cane sugar, coffee, tea, cocoa and other products of the tropics. The consequence was that large sums were spent on worthless experiments or in working out useless theories, and not infrequently on fanciful and absurd notions. This lack of practical knowledge among the settlers had been the ruin of Fiji from an agricultural point of view'[1]. As late as 1890 when the sugar industry had already been firmly established an observer remarked: "To the best of my knowledge there were in the whole of the Rewa district not more than one or two planters who had any previous experience in cane growing"[2].

Two other factors which contributed to the 'ruin of Fiji from an agricultural point of view'[3] were the absence of strong authority, prior to Cession, and the insecurity of land titles after Cession. Before Cession reckless land sales had been made by native chiefs. "Chiefs and tribes sold the land of

1. Ibid.

2. H.H. Thiele, Agriculture in Fiji. Proceedings of the Royal Colonial Institute, Vol. XXI 1888-90, p.367.

3. H.H. Thiele, op.cit., p.182.

their enemies over which they had obtained a temporary advantage, and, worse still ... sold the lands of their enemies before the war began"[1].

With the collapse of cotton, and sugar not yet fully established, copra became the principal export. In 1878 exports of copra were £122,194, of cotton - £18,350, and of sugar - £18,640. Compared with the values for 1873, copra had increased by over 300% and sugar had increased six times.

By the early 1880s the sugar industry was firmly established on the entry of the Colonial Sugar Refining Company of Australia. Settlers were now provided, not only with a quick yielding crop, but also with a secure market for the produce.

The entry of the Colonial Sugar Refining Company in 1880,contributed to consolidation and extension of the sugar industry in Fiji. Establishment of profitable sugar mills had previously failed for want of capital. Through the persuasion of Fiji's Colonial Secretary, J.B. Thurston, the CSR Company agreed to construct a mill on the Rewa River in time for the 1882 crushing season.

The Company proceeded to build its first mill in 1882 at Nausori on the Rewa River. A second mill was built in the following year at Rarawai on the dry side of Viti Levu. By 1885 the Company had already invested F$500,000 in Fiji and its vital role in the economy was already recognized.

When the Colony was hit by the depression of the mid-eighties the Acting Colonial Secretary wrote to Sir Arthur

1. Sir John Gorrie, 'Fiji As It Is', Papers to the Royal Colonial Institute, 1883. <u>Proceedings of the Royal Colonial Institute</u>, Vol. XIV 1882-1883, p.197.

Gordon, "were the affairs of the Colonial Sugar Refining Company to become crooked, the Colony would utterly collapse"[1]. With expert management the Company survived and, in 1890, built a third mill at Labasa on Vanua Levu. By the end of the century the Company had invested more than £1,000,000 in Fiji and produced about 82% of the total sugar exports. A new mill "the greatest in the southern hemisphere" - was erected at Lautoka in 1903. Its fifth mill at Penang, was acquired by buying out another company in 1926 by which date the Colonial Sugar Refining Company had emerged as the sole sugar milling enterprise in Fiji.

To supply the labour needs of the Company, attempts were first made to recruit labour from other Pacific Islands, principally the New Hebrides, the Solomons, Gilbert and Ellice groups. Gvernment allocated a special sum for the purpose and special licences were issued to those who sought to recruit labour. Labourers were recruited for five years at a wage of £3 per year and on the expiry of their contract were repatriated at the employers' expense. Wages were usually paid in kind and forwarded by the Government.

Pacific Island labour, however, proved unsatisfactory. Firstly it became more and more difficult to obtain due, perhaps, to malpractices and "blackbirding" days. Queensland, moreover, paid higher wages than Fiji, and so was far more attractive to Islanders. It was also seen that a considerable time was required for coaching Island labourers in their work, so that during the first few months very little could be obtained from

1. MacGregor to Gordon, 21 January, 1886, Stanmore Papers, B.M. 49203; as quoted by K.L.Gillion, Fiji's Indian Migrants, 1962, p.78.

them. On being taught, however, they could prove capable workers.

When the supply of Pacific Island labour failed, Sir Arthur Gordon, who had had experience with the Indian indentured labour system in Trinidad and Mauritius, suggested the introduction of this system to Fiji. The scheme was accepted by the government and on 14th May 1879, the first Indians arrived in Fiji.

The indenture system stipulated five years of compulsory labour, after which workers were free to return to India at their own expense. But to encourage a longer period of residence and labour, those who stayed a further five years were entitled to the return passage at the expense of the government for themselves and their children. A male to female ratio of 60 to 40 was stipulated.

Indian labourers were employed on either "time" or "task" work. "Time" work involved nine hours per day from Monday to Friday and five hours on Saturday. "Task" work meant the quantity of work an able-bodied man could perform by working continuously and diligently for six hours. A week's work comprised 5 1/2 tasks, which was paid at the rate of 1/- per task per day for men and 9^d for women. On the average 4/- to 5/6 could be earned per week. On top of this, labourers were provided free houses and medical care. Each worker received a ratio valued at 2/11 per week, while during the first twelve months of the labourers' arrival, the employer was compelled to feed them.

By 1883 the sugar industry was firmly established - the labour problem was solved by the introduction of Indian labour and mills and capital by the entry of the Colonial Sugar Refining Company. A number of small mills had existed prior to 1882 but were incapable of meeting the large capital requirements necessary for an expanding sugar industry.

The indentured labour scheme was stopped due to intense pressure from the Government of India. The last indentured labourers arrived in Fiji in 1916 and the scheme was formally abolished in 1920[1]. The response of planters and sugar companies was a series of experiments in large-scale, organized Indian land settlement schemes. But before the viability of these experiments could be evaluated or implemented, a series of events brought the collapse of the Fiji sugar industry as it was then constituted. A series of Indian labour strikes, the fall of sugar export prices after 1921 and the drying up of the flow of Indian migrants had caused the disintegration of the European plantation system by 1924.

The restructuring of the industry was based on CSR shifting almost complete responsibility for sugar production on to Indian small-holders. Only by taking full advantage of Indians' meagre subsistence living standards and hence low production costs, could CSR maintain a competitive sugar price and sufficient surplus to justify the Company's continued operation.

Fiji, in common with most primary producing countries,

1. K.L. Gillion, The Fiji Indians: challenge to European Dominance 1920 - 1946, A.N.U. Press, Canberra, 1977.

suffered a sharp depression in the early 1920's, but the late 20's were a period of economic expansion and particularly of attempts at diversification in the economy[1]. In 1926, the government noted a marked recovery in the colony, and attributed this to better prices, revival of the sugar industry and to the growth of new industries.

Sugar and copra prices held up well for the next four years. However, the banana industry was undergoing a reorientation of its markets from Australia to New Zealand following the imposition by Australia of a tariff in 1921 to protect Queensland growers. But once distribution difficulties were overcome, the New Zealand market flourished. Cotton growing, an industry of Fiji's old "plantation days" was revived in 1923 and the Government set up a cotton experimental station at Sigatoka. For a few years, sea island cotton was in brisk demand, the industry looked promising, and in 1926 a ginnery was established. Pineapples were being canned by two firms, one with Canadian capital, and a meat cannery started in 1926. The rubber industry boomed between 1923 and 1926. The dairy industry, one of the most flourishing post-war industries, expanded and butter was exported.

In 1929 a check came to these developments. A severe depression in world sugar markets occurred. Only the fringe of diversification had been touched and Fiji was still mainly dependent on sugar. In 1928, a bumper year, Fiji exported 121,000 tons of sugar and received £1,827,00. In 1930 a good

1. C. O'Loughlin, The Pattern of Fiji Economy, p.5.

crop of 91,000 tons fetched only £854,000[1]. In 1931, nature reinforced the world economic crisis; flood and hurricane swept through the sugar bearing region of northern Viti Levu. Fiji exported 68,000 tons for £624,000. In the meantime, rubber was no longer profitable to extract in Fiji, the meat canery and one of the pineapple canneries had closed down. In spite of attempts to substitute a more marketable variety for the sea island cotton, this once promising industry also declined. Banana exporters were making losses and were forced to reduce the price to growers. Copra, Fiji's second staple export industry, suffered a disastrous decline in both price and quantity exported, exports being valued at £567,000.

But Fiji recovered quickly from these dismal times, particularly due to an increase in world sugar prices. Exports increased. Sugar exports were valued at £1,289,000 in 1932, £1,181,000 in 1933 and £1,069,000 in 1934. Sugar produced in 1930, 1933 and 1934 was 113,824, 104,985 and 116,346 tons respectively[2]. The Commonwealth Conference held at Ottawa in 1931 had been of immediate benefit to Fiji. The colony was allocated a sugar quota of 44,000 tons to be imported into the United Kingdom at a special preferential rate of duty. Bananas and copra remained depressed through the 30's and a record low price of £2 a ton was received for Fiji copra in 1934. The dairy industry held up, but exports of butter fell, production being mainly for the home market. Rice growing, which had been developed under government encouragement, had become firmly

1. Pacific Islands Year Book, Eighth Edition, 1959, pp.234-236.
2. Ibid. p.242.

rooted in the country's economy and in 1933 the Government ceased purchasing paddy and milling rice. This crop was grown entirely for domestic consumption.

One of the important events in Fiji's economic life during the 1930's was the discovery of lode gold in northern Viti Levu and the subsequent building up of the gold mining industry. Gold was first found in Fiji at Mout Kasi in Vanua Levu in 1929. The gold mine at Mout Kasi began producing at an increasing scale in 1932. It maintained regular production until it was closed down by mid 1943.

Between 1934-1936 gold mining was started in Viti Levu by a syndicate consisting of three foreign subsidiary companies. The export of gold in 1938 was to the value of 701,000.

3.4 POST WAR ECONOMIC DEVELOPMENT 1946-1970

Wartime Fiji was an active military base and a source of critically needed sugar and copra. American and New Zealand troops trained and recuperated there, warships and reserve planes were based there, and aircraft returned there en route to New Caledonia and Australia. Sugar and copra exports remained fairly normal despite shipping and supply difficulties, and some locally produced foods and other supplies were furnished to the forces. Imports were stringently controlled. As the economy was not greatly disturbed during the war, the recovery in the post-war years was rapid.

The years between 1946 and 1950 were years of transition from a war time to a peace time economy. These years saw a re-shuffle of the population between industries, a revival of old industries and the birth of new industries, much discussion of Fiji's economic future, a greater emphasis on the Government's role in the development of the country and, in all, the setting up of the stage for what was hoped would be a new era of development and improved living conditions beginning in 1950[1].

It was from the end of the war that Fiji first embarked on development planning as an instrument of stimulating economic development. Early plans, however, were mostly capital development budgets for the public sector founded by the C.W.D Fund In general the post-war development plans have served to focus attention on the economic problems of the country during that time and thus to cultivate a development consciousness. People became increasingly aware not only of the problems facing the country, but of their possible solutions. This trend was also enhanced by a number of reports on the economy that came out during that time, such as that of the Spate and Burns Commission of 1959 and the reports on the sugar industry and that of the coconut industry in 1960.

The Commonwealth Sugar Agreement was enacted in 1950 and during the ensuing 10 years sugar production in Fiji nearly doubled. Indeed, up to the 1950's it could be said that the economic history of Fiji was largely the history of its sugar industry and gold mining. Sugar continued to maintain its dominance on the economy and in the period 1950-75 it accounted for, on average, one fifth of gross domestic exports. The danger of excessive dependence on one crop was recognised and the

1. W.E.H. Stanner, <u>The South Seas in Transition: A Study of Post-War Rehabilitation and Reconstruction in Three British Pacific Dependencies</u>, 1953, Australasian Publishing Company, Sydney.

question of diversification began to be given serious consideration.

Tourism was therefore promoted by the colonial government in the late 1950's and early 1960's as a means to generate foreign exchange, alleviate the colony's excessive dependence on sugar, gold and copra exports, promote foreign investment and to absorb part of an increasing labour force. Tourism grew rapidly during the 1960's and early 1970's due mainly to improved air services and the opening of new hotels, and Fiji began to be recognised as a new tourist destination. The peak of the boom came during 1968-71, when the number of visitors grew by an average 32% per annum. After 1971 the growth rate declined and in 1975 there was an overall fall in the number of visitors, due mainly to the oil crisis of 1973. However, the position improved again in the 80's when Fiji began averaging about 250,000 visitors per year[1]. This was mainly due to a vigorous marketing campain coinciding with the expansion of accommodation facilities.

The tourism boom brought with it an investment boom which chiefly affected the building and construction industry. Between 1966 and 1973 hotel rooms were being built at an average rate of 320 per annum. According to the review of Fiji's Sixth Development Plan (1971-75), the building and construction industry grew at an average rate of 11% per annum and in the early 1970's was not able to meet the demands[2].

1. Annual Report: Fiji Visitors Bureau, 1982, Government Printer, Suva.

2. DP Six Annual Review, 1976, Central Planning Office, Suva.

By the same token, when tourism growth began to fade, the building and construction industry was among the first to suffer. Having been the principal source of dynamism in the 1960's the tourism recession of 1974-75 had a depressing effect on the economy, which was fortunately counteracted by the extreme bouyancy of sugar prices.

The most significant economic developments since the Second World War have been the growth of urban centres and transport facilities. By the late 1950's a small industrial sector, geared overwhelmingly to processing primary commodities, was concentrated in the larger colonial towns[1]. In 1963, of the £4.4m of value added in manufacturing, 77% was generated in the sugar mill towns and approximately 15% in Suva[2]. Additional manufacturing growth had reinforced Suva's import substitution and export crop-processing industrial base. The 1950's and 1960's also saw most new foreign and local financial, banking, insurance, real estate and business service companies locate their headquarters in Suva. In 1970 the capital accounted for 65% of national retail turnover and 56% of all government and private services[3].

Turning to the development of the colony's transport infrastructure, the configuration of shipping linkages were pre-determined by port of entry legislation and the requirements of

1. A. Burns, T.Y. Watson and A.T. Peacock, Report on the Commission of enquiry into the national resources and population trends in the Colony of Fiji 1959 (Suva 1960) 100.

2. M. Salter, The economy of the South Pacific Pacific Viewpoint 11 (1970) 1-26.

3. Bureau of Statistics, Census of distribution and services, 1970 (Suva 1972).

the agricultural and export sector. Internal shipping, apart from government services, was also geared towards the key export crops under the auspices of two large Australian companies. Of the 1965 copra tonnage from Vanua Levu and Taveuni, 65% was carried by W.R. Carpenters Ltd, and much of the remaining on ships owned by Burns Philp (South Seas) Ltd[1].

With regard to land-based transport, the sugar economy was again the key determinant of infrastructure location. Between 1890 and 1930, CSR laid down a narrow-gauge rail, road and bridge network around Labasa, and along the coastal belt linking Sigatoka, Nadi, Lautoka, Ba, Tavua and Rakiraki. This transport system, while facilitating the movement of cane to crushing-mills and export ports, also ensured CSR's control over cane cultivation. Indian and European growers who attempted to sell cane to other mills, or cultivated crops other than sugar were refused access to the only transport network - that constructed by CSR. CSR was also able to use its power and infrastructure to force cancellation of the colonial administration's attempt to build an alternative rail system along the Rewa valley. Similarly, the company blocked government efforts to establish an agricultural experimentation station at Lautoka. Both projects would have encouraged the diversification of the agricultural base in sugar areas - a possibility strongly opposed to CSR's interests[2].

1. A.D. Cooper, The Island Trade, unpublished Ph.D. thesis, ANU, Canberra.

2. M. Moynagh, Brown or White, A History of the Fiji Sugar Industry 1873-1973, 1978, ANU, Canberra.

Outside the road system built by CSR, the administration initiated a series of construction programmes. By 1938 these had resulted in the completion of the Queens Highway from Suva, Sigatoka, Nadi to Lautoka and the Kings Highway from Lautoka to Suva around the northern coast of Viti Levu. Feeder roads were also built around Labasa, the Sigatoka valley, Nadi basin and the Ba valley. In the 1950's a road system linking all the sugar areas to their urban centres and those with the capital at Suva had been completed.

In regard to other government projects, the 1950's and 1960's saw the completion of several of them financed mainly by the Colonial Development and Welfare grant from Britain. Between 1949 and 1970 the financial assistance provided by this scheme was in excess of F$18 million. The projects ranged the whole spectrum of development; they included schools, hospitals, roads and wharves, rural water supplies, cocoa, forestry and coconut industry development[1]. Some of the major projects were the Fiji School of Medicine, which was completed in 1953, the modern structure of the Suva wharf, the new teachers training college at Nasunu, several agricultural development projects and the Lautoka hospital.

3.5 POST INDEPENDENCE ECONOMIC DEVELOPMENT

Despite the rapid development of Fiji in trade, industry, infrastructure and tourism under the colonial rule in the 1950's and 1960's, there was an air of pessimism particularly

1. Fiji Today, 1950-1970, Her Majesty's Stationery Office, London.

in the business community about Fiji's economic future, mainly because of its population and land problems. These were highlighted before independence by the Spate Report in 1959, the Burns Report of 1960 and at the eve of Fiji's independence by F.K. Fisk in his book, 'The Political Economy of Independent Fiji in 1970'. The Burns Report described Fiji's economy in 1960 as follows:

> 'She relies heavily on export crops. As an agricultural country depending on international market conditions, her economic destiny is governed by important forces beyond her control - the weather - the international price level - and the world-wide quota system for sugar. A large proportion of the population is engaged in subsistence agriculture using fairly primitve methods of cultivation; improvements in agricultural productivity in some areas, coupled with the difficulties extending the area of cultivable land, could soon bring about a major unemployment problem with the usual drift to the towns[1].'

Both Burns and Spate saw the solution to the economic problems of Fiji lying in the control of its population growth and working out a satisfactory land tenure system. Resource creation was seen in both reports mostly in terms of rural development. The proposals put forward were:

Free up excess land; promote greater efficiency on

1. Allan Burns, Report of the Royal Commission of Enquiry on Natural Resources and Population of Fiji, 1959, Council Papers, Suva.

Fijian communal land; expand the range of export crops (such as tea, coffee and cocoa); encourage beef and dairy production; improve pastures and expand fertiliser usage and so on. Expanded forestry, fishing and also mining should also be given emphasis in the economic development.

As mentioned above, on the eve of independence of Fiji in 1970, its economic problems were assessed by Professor Fisk. He also saw smallness, isolation and rapidly increasing population as major constraints to development. Overseas earnings were shown to depend as strongly as ever on the export of sugar, sold mainly to preferential markets. Its current account deficit, created by an excess of imports over exports, was shown to be offset only by an inflow of capital into the country.

Fisk saw the racial division of the society as a major threat to development. He saw Fiji society in three divisions: Fijians engaged in the subsistence sector, Indians providing labour and Chinese and Europeans providing capital and expertise.

Fisk, like Spate and Burns, also felt that the policy to overcome these development problems lay in limiting the population growth, motivating Fijians into commercial sector activities and occupations, and the improvement and utilisation to make land available for commercial agriculture and for lease to Indians to avoid land ownership problems. Fisk also emphasised that the productivity of subsistence agriculture had to be improved and new export crops should be introduced, perhaps organised on the same basis as the sugar industry. However, he saw the policy adopted by Fiji in 1970, contained in Development Plan VI (1971-75), in the expansion of secondary and tertiary industries, including tourism, as an appropriate one to reduce tensions between the three races of Fiji.

As far as economic development was concerned, in the 1970's, largely because of the more favourable outlook for prices, there was a change of emphasis in the Government's policy towards the sugar industry. Fear of excessive dependence on sugar gave way to concern at falling production. Successive annual targets had all proved over-optimistic. In 1970, 355,000 tons of sugar were produced and production dropped steadily every year to a total of 269,000 tons in 1974. A number of explanations were advanced, apart from the vagaries of the weather, to which each year's crop is subject. It happens that the major cane growing areas are also the major tourism areas. This meant competition for labour and an increase in income expectations about that which cane growing could provide. On the other hand, it was also suggested that the substantial - but almost certainly largely transitory - increase in sugar earnings induced many farmers to produce less, not more, since they were able to achieve a reasonable income with less work.

In terms of gross foreign exchange earnings, it was envisaged that tourism might overtake sugar during the Seventh Plan Period (1976-80). In terms of net foreign exchange earnings, however, there was no doubt that sugar would remain ahead of all other export activities for the foreseeable future.

In the early 1970's unionised labour became very much more assertive. To some extent this was prompted by fear of inflation and the inflationary effects on domestic food prices of Hurricane Bebe, which hit Fiji in October 1972, pushed inflation (as measured by the Consumer Price Index) up to unprecendented rates. In the early part of 1974 inflation was running at more than 15% per annum, caused by the quadrupling of oil prices as a result of the Arab/Israeli war in 1973[1]. However, since mid 1974 the rate of inflation began abating. Table 2.5 shows the Fiji Consumer Price Index, 1975-87.

It was generally recognised that Fiji's inflation is to a large extent dependent on inflation in the rest of the world. Counter-inflation policies were therefore initiated to control profit margins and the price of labour. Between April, 1973 and March, 1975 prices and incomes were controlled by the Prices and Incomes Board. Since April, 1975, however, a form of control has been retained over 12 basic consumer items, rents and inter-island freight rates only.

During the first decade of Fiji's independence in 1970, the overall performance was satisfactory[2]. A feature of Fiji's development (though not peculiar to Fiji) was the Government's increasing share of economic activity. Real Gross Domestic Product grew by 4.7% per annum. The economy grew at a higher rate of 5.8% per annum between 1970 and 1975. In the early 1970's tourism provided the major impetus to economic growth. It

1. Current Economic Statistics, Bureau of Statistics (1974).

2. Fiji's Ninth Development Plan, 1986-1990, 1985, Central Planning Office, Suva, p.2.

stimulated increased construction activity and development of other service facilities. The boom in hotel construction was mainly financed by inflows of foreign capital which, in addition to creating jobs, also helped to strengthen Fiji's balance of payment position.

However, the period 1976-80 was marked by a lower average growth rate of 3.8% per annum. The increase in energy prices during 1973-74 adversely affected the economy. Increased air fares, the world-wide recession and the tourist boom caused a sharp cut-back in private investment. The sugar sector picked up the slack a little and provided some impetus to growth. But 1980 saw further slowing down of the economy.

On the industrial development side, although Fiji had produced a wide range of manufactured goods since the 1960's, mainly in the import substitution area, no serious consideration was given to promote the industrial sector in Fiji in its early development plans. The policy makers felt that the major problems of the industrial sector, as it substantially concerned products of major trading nations, related to its international competitiveness[1]. It was of limited benefit to Fiji to produce internationally non-competitive products while the balance of payments remained satisfactory and unemployment levels were not too excessive. Such poor competitiveness was a constant risk in Fiji with its limited domestic market in a world of ever-increasing economies of scale. The planners felt that it was imperative that Fiji choose carefully among industrial projects,

1. Fiji's Sixth Development Plan; 1971-75 Central Planning Office, Ministry of Finance, Suva, November 1970.

both in manufacturing and processing, seeking especially those with moderate economies of scale, a modest export potential within the Pacific Basin and the capability of enhancing value added to existing domestic resources. The planners emphasised that Fiji should also be aware of the enhanced risk of creating excess capacity and even of inefficiency using existing capacity for specific products in its small total market.

All this changed from the beginning of the 1980's. Government realised that greater emphasis was necessary to diversify from its traditional products to manufacturing and in new areas of agriculture. There were several reasons given for this, but perhaps first and foremost was the need to generate more vigorous investment activity in Fiji, to create more employment.

The population problem in the 1980's was therefore judged to be as critical as ever. This was highlighted in the Report of the Fiji Employment and Development Mission to the Fiji Government in 1984[1]. Although the family planning programme had led to some success until the early 1970's, after 1976 the long-term decline in population was reversed. The implication for the labour market was that the expansion of employment would not be able to accommodate people coming on to the labour market. The economy remained dominated by sugar, and sugar production increased. World prices for sugar were extremely volatile, but the great majority of Fiji's sugar was sold on protected markets

1. Report of the Fiji Employment and Development Mission, Parliamentary Paper No. 66 of 1984, Government Press, Suva.

at established prices. Fiji's terms of trade continued to worsen. To achieve long-term export stability and economic growth, export diversification was seen as essential. Once again agricultural diversification was seen as the key to crops with higher returns to land and labour such as cocoa, ginger, root crops and some tropical fruits.

Against the background of rising unemployment and the need to generate a more vigorous economic activity to create employment, Fiji in 1980 established the Economic Development Board, a statutory authority to promote, stimulate and facilitate the economic development[1].

The other important step taken during this period, in order to enhance trade, was the signing of the South Pacific Regional Trade and Economic Co-operation Agreement, commonly known as SPARTECA. This is a preferential and non-reciprocal agreement between Australia and New Zealand on the one hand, and island member countries of the South Pacific Forum (FICs) on the other. Fiji decided that under EDB, SPARTECA and other trade agreements such as with EEC countries, known as the Lome Convention and Generalized System of Preferences (GSP) with other developed countries should be taken advantage of and vigorously promoted to the private sector to enhance exports.

As pointed out in the beginning, the main theme of this paper is the industrial and trade development in Fiji since the 1940's, and therefore detailed coverage would be given to these

1. Fiji Investment Guide, Economic Development Board, 1982, Civic House, Suva.

various trade agreements. Suffice it to say at this stage that they had a very favourable impact on Fiji's efforts to diversify its economy from its dependence on a few commodities.

3.6 THE ISSUE OF LAND AND AGRICULTURAL AND INDUSTRIAL DEVELOPMENT

Before one can talk about agriculture in Fiji or nowadays commercial or industrial development, one has to look closely at land tenure as 83% of the land belongs to the Fijians and has to be leased out under an unusual legislative arrangement. It has been said that there is no subject of greater significance to a Pacific Islander than land. This often repeated saying is at least as true of Fijians as of any other island nation in the region, but in Fiji the issue of land takes on a controversial significance in addition to its material and spiritual values, as a result of the country's colonial history and its precariously balanced multiracial society[1].

It should also be mentioned here that although the remainder of the land, which is freehold or Government, may be insignificant in acreage, it is some of the most valuable land because of its fertility and location. In recent years controversies have developed on these lands between the Fijians and the Government; the Fijians want to see some Government land revert to them because it was acquired improperly in early years.

Fiji's total land area is about 18,376 square kilometers, or 1,837,600 hectares. Of this, Fijian communal land, held by social units termed "mataqali", constitute about

1. R.R. Nayacakalou, Leadership in Fiji, 1975, Melbourne, Oxford University Press, p.7.

83%. There are at present some 6,500 mataqalis throughout the country. When a mataqali ceases to be a viable unit through loss of members, these days more by permanent migration as by death or other natural reducing causes, its land reverts to Government. There are, therefore, a number of categories of land in Fiji and they can be identified as follows:

	AREA (IN HECTARES)
Fijian Communal Land	1,520,780
Freehold (other than Government land)	181,040
Crown Freehold (acquired for essential public purpose)	35,640
Crown Schedule A (Mataqali land reverted to Crown)	59,940
Crown Schedule B (land not claimed by any Fijian group at time of Cession)	31,190
Rotuman Communal Land	4,460

(Source: Ministry of Lands - Annual Report 1985)

LAND AUTHORITIES

Two land authorities administer land and its disposition in Fiji. The Department of Lands, Energy and Mineral Resources, and the Native Land Trust Board (N.L.T.B.), a statutory body created in 1940. NLTB plays a significant role in the Fijian society and much of the land on which sugar is planted is leased by the Indian farmers from the Board. The functions of the Board are to determine the land that is to be kept for Native Reserves to meet the Fijians' own requirements, and to administer all native land surplus to these requirements so as to provide land for settlement or development under policy and security of tenure. The Board thus arranges all leases of native land, collects all rents and derives its income from a levy of 25% of the value of the collections.

FIJIAN LAND AND THE INDIAN FARMERS

As most Fijian land is leased by the Indian farmers it would be useful to know the development of leasing arrangements from 1960 when these questions were being discussed vigorously. As the 1960's approached, Indian concern about the operation of the Native Land Trust Ordinance, a piece of legislation introduced in 1940 based on some important principles of land tenure system for Fiji, grew appreciably[1].

Along with the problem of displaced farmers and the insecurity of those on short-term tenancies was the problem of those who had obtained leases by 1940. A large number of leases were to expire in the 1960's. Farmers feared the only two alternatives available then to current leases - namely, reservation of the land or grant of short term tenancies.

Towards the late 1950's Indian leaders began to articulate more forcefully the plight of the Indian farmers[2]. To this was added the voices of two authoritative persons. Professor O.H.K. Spate, in his 1959 Report, noted the strong pressure on soil and a good deal of disguised subdivision, with

1. Land issues in Fiji: Themes, Cultural Interaction and Economic Development; Ministry of Education, Fiji, 1980, p.21.

2. Ali, A., Plantation to Politic: Studies on Fiji Indians, University of South Pacific, 1980, p.148.

the buying of leases or shares in them at enhanced and uneconomic premia in cane areas[1]. Of the reserves policy, he notes that it was the main factor in the reckless exploitation of the soil to the point of destruction in Western Viti Levu.

Sir Allan Burns in his report severely criticised the policy of reserves, noting that reserved land had been allowed to revert to bush. He called the delays in demarcating reserves inordinate and unnecessary, which created insecurity and which discouraged tenants from improving the land and encouraged them to exploit it mercilessly[2].

Burn's recommendations had an important effect on the thinking of land issues in Fiji. The need for a change was more universally recognised as long overdue. But the major recommendations of the Burns Commission, abandonment of the reserves policy and taxation of idle land, proved to be controversial. Although the Government agreed with the proposals, the Council of Chiefs decided that reserves were in the community's best interests and should be maintained.

However, Indian concern switched dramatically from that about land going into reserves to length of leases on land outside reserves. Their worry was that, unlike the hopes of 1940, reserves would not necessarily ensure security of tenure on unreserved land. They had expected that reserves would enable

1. Spate, O.H.K. The Fijian People: Economic Problems and Prospects, Council Paper No. 13 of 1959 (Government Printer, Suva) pp. 1-2 and pp. 10-22.

2. Report of the Commission of Enquiry into the Natural Resources and Population of the Colony of Fiji, Council Paper No. 1 of 1960, published by the Crown Agents on behalf of the Government of Fiji, 1960. Chapter VI, p.17.

them to have long-term tenancies on land outside the reserves. Reserves had been proclaimed. However, Section 9 NTLO was to be invoked periodically on land outside reserves, which, incidentally, had shrunk considerably as a result of reserves. So the basic Indian problem of the length of tenure remained, even though in the process of seeking secure tenancies, they had considered the demarcation of reserves which of course had denied them access to reserved land. The Indian community now sought security of tenure on a considerably diminished area of cultivatable native land. In the succeeding period therefore, Fijian and Indian interests clashed over this limited supply of native land. Fijians wanted this land back as and when they needed it. Indians wanted to use it on a long-term basis.

Clearly the 1940 legislation had failed to reconcile the interests of the two parties. With a large number of leases coming up for renewal in the 1960's, and the decision of NLTB to rely on Section 9, the question was whether these leases would be renewed. The Government therefore appointed an agricultural Landlord and Tenant Committee to review NLTO and advise as to what new legislation was needed.

After considering the Committee's recommendations, the Government passed the new legislation in October 1966, as set out below, which was called the AGRICULTURAL LANDLORD & TENANT ORDINANCE (ALTO). This legislation was to supersede some of the provisions of NLTO of 1940. It provided that:

a) tenants had the right to two 10-year extensions unless the owner could prove before a tribunal greater hardship if the lease was renewed than the tenant would suffer if it was not;

b) compensations for improvements had to be paid on reversion of lease;

c) rents were to be reassessed every five years;

d) agricultural leases should be for 30-year terms with 10-years as statutory minimum;

e) tenants have the right to appeal against the decision not to renew;

f) there be no one-sided sharefarming agreements;

g) rents be at statutory maximum of 5% of U.C.V.;

h) lessees have the right of appeal against rent assessment.

This legislation brought in new elements in the land tenure system. It overrode Section 9 of NLTO by giving tenants right to two 10-year extensions. It was designed to give tenants greater security of tenure - 30 year lease with two 10-year extensions, i.e. the possibility of 50 year lease. It introduced a tribunal to adjudicate over matters at issue between the landlord and tenant regarding lease and rental. It re-introduced the principle of payment of compensation at the reversion of a lease. Owners who genuinely needed their land back had the opportunity to do so by proving their need to the tribunal. Furthermore, the provisions of ALTO were to apply to both the existing and the new lease, whereas the NLTB had agreed to its application to new leases only.

The NLTB claimed it had not been consulted about ALTO and ever since its passage opposed it, culminating in demands for its repeal.

From early 1969, the NLTB began to speed up the reassessment of rents, but its efforts were thwarted by the right of appeal by the tenants before an agricultural tribunal set up by ALTO; hence there was a considerable delay in the revision of rent.

For much of the period since the 1940's, land rent in Fiji had remained very low and was reassessed at very long intervals. But with ALTO, tenants faced the prospect of rent revisions every five years. The new rental machinery which fixed rents at 5% of U.C.V. of land represented a sharp increase in rental charges. Indians were very critical of the new legislation.

The old problem of the tenants - insecure tenancies - and the attendant exhaustive farming practices that went with it therefore recurred after the passage of ALTO.

While Indian voices were raised against ALTO, the Fijians were vociferous in their demand for its repeal. The NLTB never accepted the interference of the tribunal in its control over native land, especially when it did the Board's work in deciding which leases should be renewed.

Once again, the Government appointed a working committee early in 1969, to review ALTO. It deliberated for three years and its report was finally published in 1973.

The report of the Committee was published in 1975. By then Fiji had become independent and matters such as land had become part of the entrenched clauses of the Constitution of Fiji, requiring a special majority vote in the Parliament for approval, namely a three quarter majority in the House of

Representatives, and consent of six of eight Great Council of Chiefs nominees in the Senate.

Based on the Committee recommendations, the Government passed new legislation, THE AGRICULTURAL LANDLORD & TENANT (AMENDMENT) ACT in 1976 (ALTA). Its provisions were:

a) all leases should be entitled to one 20-year extension;

b) landlord should receive premiums equivalent to one year's rent at the beginning of the first and eleventh years of extension as compensation for longer terms;

c) extension should not be given to leases which had more than 30 years to run;

d) a committee of valuers to declare every five years the unimproved capital value of all agricultural land on which leases are held; rents to be no more than six per cent of declared value;

e) the onus to apply for renewal of lease rests with tenant; the decision to renew or not to renew would lie with the landlord acting through the NLTB.

This new legislation - ALTA as it came to be called - in effect restored the NLTB as the decision-making body on Fijian land. The agricultural tribunal was no longer empowered to act as it did under ALTO. By granting 20-year extensions, virtually all leases would now expire by the end of this century. The decision whether to renew them would once again rest with the landlord. Landowners were assured of greater benefits through premiums and rents that would be reassessed more quickly. Twenty-year extension held out the possibility that the greater security (than ten-year ones) of tenure would be an incentive to invest in the permanent improvement of land, even though compensation was payable.

As most of the sugar cane is planted by the Indian farmers on the land leased from the NLTB, ALTO legislation brought general relief to the economy as production was not affected and a harmonious relationship was again maintained between the two major communities. In general the legislation has worked well since its inception and has provided confidence to the tenants to do the necessary investment and to maintain the fertility of the soil by avoiding over-cropping.

Chapter IV

THE ROLE OF GOVERNMENT

4.1 INTRODUCTION

So far as the role of government in industrial development after the Second World War was concerned, it was the provision of basic infrastructure - mainly roads, water supplies, health facilities and social infrastucture such as building of schools for primary and secondary education. The development of roads and port facilities after the war was concerned with the expansion of the sugar cane industry. Production of Fiji's major export crop, sugar, recovered quickly after the war, which had not disturbed the local economy seriously. This, together with higher prices of sugar and copra, led to a tripling of merchandise exports earnings between 1945 and 1950. In the 1950s the establishment of the Commonwealth Sugar Agreement encouraged further expansion of sugar cane planting, which meant building of more roads and bridges and improvement of port facilities.

In view of this, the early development plans in Fiji were very much oriented towards the social and infrastructural sectors of the economy. The financing of plans was largely from the Colonial Development and Welfare Grant Scheme from Great Britain, which required colonies to submit development plans to qualify for financial aid.

From 1944 to 1968, Fiji received about $20 million from this source for capital development projects. This amounted to 25 percent of Government's total expenditure on capital projects

1. B Knapman and S Schiavo - Campo, 'Growth and Fluctuations of Fiji's Exports, 1875 - 1978', Economic Development and Cultural Change, Vol. 32, 1983, pp.97-119.

over the period[1]. The major portion of the grants was used for infrastructure development, particularly roads and government buildings, which absorbed 47 percent of the total, with economic services taking 29 percent and social services 24 percent[2]. It would be pertinent to mention here that the development plans that followed marked the adoption by the Fiji Government of a fully comprehensive approach to planning which entailed policies and programmes influencing all the sectors of the economy. The first of such plans that were introduced was in 1966, five years before Fiji's independence covering the period up to 1970. Fiji's development of planning will be discussed in the depth in the following section of this chapter.

As far as rail services were concerned, there were no full scale railways in Fiji but there was a light railway of 2 feet gauge, 440 miles long, owned and operated by the Colonial Sugar Refining Company in Viti Levu and Vanua Levu for the carriage of sugar cane to the mills. The government granted concessions to the company for the construction of the lines on the basis that it should convey passengers along the main route free of charge[3].

The electricity supplies after the Second World War and the decades that followed till the construction of the hydro-electric power supply in the Western Viti Levu in 1981 were

1. Fiji's Sixth Development Plan: Policies and Programmes for Social and Economic Progress, 1971-1975, 1970, Central Planning office, Ministry of Finance, Suva.

2. Fiji Annual Reports, various years, Government Printer, Suva.

3. Fiji 1957, 1958, Her Majesty's Stationery Office, London.

operated by the Suva City Council and in Lautoka, the other major town, by the government. Small privately owned supplies were operated under licence in smaller townships.

Of all the basic infrastructures, roads have been the most critical in the development of rural Fiji, where more than 80 per cent of its people lived before the rural urban drift which began in the late 1970s. In the literature on rural development, roads are described as crucial elements in the expansions of modernisation. In particular, their role is to link rural areas with regional towns and settlements higher up in the urban hierarchy, providing access for rural people to public services, sources of change-inducing information and markets[1]. The increased interaction, it is generally assumed, will promote structural and contextual changes in the rural economy, such as changes in the modes of production and organisation, and increased commercialisation and capitalist penetration. The changes will be reflected in the increased distance and volume of the movement of people, increased cash cropping and local entrepreneurial activity, increased household incomes, and improvements in the quality of life, which may work to reduce the migration from the rural areas.

Such assumptions were central to the spatial strategies for rural and regional development of Fiji that were adopted in

1. J. Overton (editor), Rural Fiji, Institute of Pacific Studies, University of the South Pacific, 1988.

principle first in the 1969 nationwide rural development programme followed by the Fiji Government's Sixth Development Plan (1971 - 1975) and Seventh Development Plan (1981 - 1985)[1].

As mentioned above Fiji adopted a comprehensive rural development programme in 1969 which saw for the first time a proliferation of roads, iris crossings (small bridges), foot-bridges and feeder roads in the rural areas. The rural development work in Fiji was adopted on the basis of a report presented to the Fiji government by Guy Hunter for who had worked in Malaysia on race relations for a number of years. In his report he strongly emphasized the need to co-ordinate the rural development activities in Fiji and provision of infrastructure in the hitherto neglected rural areas of Fiji where the majority of its people lived[2]. Since then there have been several observations in Fiji and indeed in the South Pacific region that the development of rural areas and expansion of commercial agriculture has tended to follow the road construction[3].

As the economy began to expand, particularly after independence in 1970, the role of government also increased as more sophisticated infrastructure and services were needed. There was now a demand for industrial land for growing import substitution industries, cheaper power rather than heavy reliance

1. Atkins Land and Water Management Ltd, Western Vanua Levu Regional Plan, (5 Volumes), 1983, Ministry of Economic Planning and Development, Suva.

2. G. Hunter, Rural Development in Fiji, 1969, Government Printer, Suva.

3. R.G. Ward and A. Proctor (eds), South Pacific Agriculture: Choices and Constraints, 1980, ADB, Manila, 1980; R.G. Ward, 'Roads', in R.J. May and H. Nelson (eds.), Melanesia Beyond Diversity, Vol. 2, Research School of Pacific Studies, A.N.U., Canberra, 1982, pp. 415-433.

on imported fuel, better air and sea port facilities. These economic services were needed to facilitate agricultural and manufacturing development and to stimulate the growth of tertiary industries[1]. A clear government policy was required.

The growth of the tourist industry in the 1960s meant government providing such expensive facilities as electricity and water to encourage building of resorts in many cases in isolated areas. Later it will be seen that with the building of the Monosavu hydro-electric scheme and Vaturu water supply, both fairly large projects, government's role in providing both water and electricity to the new industries greatly increased. This also hastened the development of many new industrial estates that by the 1970s were in great demand, not only by import-substitution and processing industries but by the new export industries that began emerging due to several favourable trade agreements that Fiji signed during this period.

This chapter will examine the specific role of government in the development and building of infrastructure and formulation of industrial policies to assist and give impetus to the industrial development of Fiji.

4.2 DEVELOPMENT PLANNING

The origin of development planning in Fiji, as in most British colonies, may be traced to the Empire Marketing Board of 1926 which sought to promote production throughout the empire through researchers, marketing facilities and efficient

1. Michael Ward, The role of Investment in Development of Fiji, Cambridge University Press, 1971, p.148.

production methods. A further step was achieved in 1929 on the passing of the Colonial Development Act which saw for the first time the earmarking of special funds by the United Kingdom for the specific purpose of colonial developments. By this Act a sum of $2 million a year was allocated for that purpose. This measure, however, was actually conceived at the time as being merely an integral part of British policy to combat internal unemployment. It was conceived not to help colonial development for its own sake, but in order to stimulate that development mostly to bring additional work to idle hands in this country. It was devised as part of our scheme to solve our own unemployment problem[1]. Under the scheme some F$18 million was directly granted by the United Kingdom government over a period of eleven years. But the idea of assisting the development of colonies came in the Colonial Development and Welfare Act of 1940, which allocated a sum of F$10 million a year for the purpose to last for a period of ten years. To ensure proper expenditure of grants, and to institute some measure of control by the metropolitan government, colonies were requested to draw up ten-year plans which required prior approval of the Secretary of State for the Colonies before implementation.

Little, however, was done until 1945 when a further Act increased the sum of grants to $240 million covering a period of ten years. Like the previous Act, that of 1945 required the

1. MacDonald, M. Speech in the House of Commons on 1940 Colonial Development and Welfare Bill, Hansard, May 21, 1940, Col. 451, as quoted in Niculesou, B., Colonial Planning, A Comparative Study, 1958, Allen & Unwin, London, p.61.

Colonial Government to draw up ten year development plans. The main purpose of development planning it was stated, should be to ensure that the resources available were used to the best advantage. It was further stated that Development Plans would require to be carefully reviewed by a central organisation which should be able to take the widest point of view before acceptance as the framework for future development.

Along with the requirements for development plans were a number of instructions in the Act as to the nature of plans. It was stated that a plan should be realistic and the proposals included in it should be graded in a few broad priority categories. Furthermore, it was regarded of the first importance that the interest of the inhabitants should be aroused, their opinion consulted and their co-operation secured wherever possible. "The objectives of the Act would be defeated if development is regarded merely as an activity of Government and not as the concern of the ordinary people of the country"[1]. Finally, a proper balance in investment allocations was stressed. In his despatch to the Colonies, the Secretary of State wrote that a proper balance between different objects of development and welfare was was fundamental to a wise development policy.

Under this stimulus Fiji first embarked on its own development planning. Its first plan was completed in 1945 envisaging an expenditure of $10 million over ten years. Of this amount 71.3% was allocated to social services (medical and public

1. Commonwealth Development and Welfare Act, 1945, Despatch from Colonial Secretary to 16 Colonies for Colonial Governments, H.M.S.O., London.

health, education, water supplies, sewerage work, town development and electric power schemes); 21.25% went to transport and communications, 5.1% to agriculture and forestry and 2.4% to miscellaneous items including geological survey, fisheries census and Public Works Deparment equipment.

On being submitted to the Colonial Office however, the plan suffered a similar fate to that encounterd by many colonial plans submitted at the time. The plan was criticised on the ground of containing "too much welfare and too little development"[1]. As can be seen from the percentage allocated to development expenditure, an overwhelming proportion was committed to schemes not directly in recurrent expenditure. Moreover, Fiji's capacity to sustain the development expenditure was questioned. The Colony had emerged from the war with a debt of $6 million to the United Kingdom and $2 million to New Zealand and no development effort could be undertaken without a satisfactory arrangement being made. Loans on the London market, moreover, were difficult to raise owing to British financial difficulties at the time. With respect to war debts, however, the United Kingdom remitted the whole of the sum owed to her while a satisfactory arrangement for payment was made with New Zealand. Having solved this problem, the colony was requested in 1948 to revise its development plan placing greater emphasis on projects of a definite economic value, presumably those of more direct economic return. In accordance with this directive, a revised plan was completed in 1949 and this became Fiji's first

1. Report of Development Revision Committee, C/P 29/1949, Fiji Government Publication.

operative Development Plan to cover the ten year period 1949 - 1958. Since this plan, seven five year plans have been formulated up to 1986 covering the periods 1956-60 (revised); 1961-65; 1964-68; 1966-70; 1971-75; 1976-80 and 1981-85. In most British colonies the planning body fell into either of two categories. Firstly it could constitute an ad-hoc committee with no special link to any department. Secondly, it could be integrated into the traditional set-up of department administration. In this latter category, the planning body was either a separate department, solely responsible for economic planning, established within a department, usually Finance.

The planning machinery in Fiji started with an ad hoc committee but an economic planning unit was established within the Finance section of the Ministry of Finance. The first Planning Committee comprised nine members, six of whom were members of the Legislative Council.

The Planning Authority either itself formulated an investment programme in the light of current economic conditions and available resources, or alternately it acted as a co-ordinating body for proposals submitted by departmental heads. In the first category the whole Planning process was concentrated within the planning committee, while in the latter it was more decentralised.

As in most British colonies, the function of Fiji's planning committees fell into the second category of co-ordination and establishing priorities among departmental investment projects. There was also provision however, for proposals by the planning committee. Thus in the terms of reference of the Plan Revision Committee of 1948, one of its functions was "to examine proposals which will be placed before the Committee, or which the Committee may suggest"[1]. There was also clear recognition of the need for consultation with local committees on the precise details of schemes; for example with the Works Committee it will discuss Water Supply Schemes and Road Projects.

Before implementation, a plan was needed to be sanctioned by two higher authorities. First was the Legislative Council and second, the Secretary of State for the Colonies. In the past, Fiji's Development Plans were usually approved by the Legislative Council. Criticisms with regards to size of plan and investment allocation however, usually came from the Colonial Office. As intimated above these criticisms necessitated a revision of the first plan formulated in 1945.

Financial control over the implementation of plans was executed by formulating Development Budgets as distinct from annual budgets of government expenditure. This ensured that the priorities established in the plan were adhered to and activities closely followed once implemented.

An indication of the increasing awareness of the need for planning had been the establishment of an economic planning unit within the Finance section of Government. Its impetus came from the Burns Commission of 1959 which attributed some of Fiji's current economic planning problems to lack of appreciation of the elements of proper economic planning. More specifically the

1. Report of Development Revision Committee, op.cit.

Commission pointed out that Fiji's plans have been "thought of almost exclusively in terms of Government activities without consideration of the connection between these activities and those of other parts of the economy and the outside world."[1].

FORMULATION OF PLANS

The above quotation from the Burns Commission illustrated the scope and nature of Development Plans which had been formulated thus far. The Commission severely criticised the fact that plans had been of a partial nature, i.e. merely involving establishment of priorities in public expenditure programmes, without embracing the private sector in an overall plan for the whole economy. As such, the plans were not guided by long term objectives but merely fulfilled what in the opinion of the Planning Committees constituted Fiji's urgent needs on the basis of a superficial survey of the economy.

But in formulating their plans, Planning Committees were concerned with conserving a proper balance between "social" investment and directly productive or "economic" investment. This was in direct accordance with Colonial office instructions. On an evaluation in 1952 of the first ten year plan it was stated: "A study of the balance as between the various types of projects showed that the social services had crept up and were out of proportion"[2]. Again in the 1966-1970 Plan it was

1. Report of the Commission of Enquiry into the Natural Resources and Population Trends of the Colony of Fiji, Council

2. Report of the Economic Revew Committee - 1953, C/P No. 12/1952.

recognised that social and economic development "is best achieved by programmes of balanced development comprising co-ordinated projects designed to achieve balance between the various sectors[1].

Besides the general concern with a balanced investment programme, emphasis on agricultural investment suggested that a "big push" in this sector was recognised as the best course of action. In the preliminary plan of 1945, the Planning Committees stressed the need for avoiding building up an industrial labour force through the execution of the plan "for the major industry in Fiji is, and must continue to be, agriculture". In 1953, the economic Review Committee reported: " ... we believe that the economy of Fiji must for many years be based on agriculture and that the surest way of increasing the national income is to be found through the development of agriculture[2].

INVESTMENT ALLOCATION

Tables 4.1 and 4.2 set out the investment pattern formulated in the first four development plans devised for the Fiji economy since the planning process began. As discussed earlier, the first Ten Year Plan differed appreciably from that formulated in 1945. Social Services had been significantly reduced while "economic" schemes increased. Three items account for virtually the sum total of economic schemes. These were feeder roads, the Navua hydro-electric scheme and agricultural

1. Development Plan 1964-68, C/P No. 33/63, p.1.

2. Report of the Economic Review Committee, 1953.

TABLE 4.1

INVESTMENT ALLOCATION IN FIJI'S FIRST DEVELOPMENT PLAN

Size of plan	1949-58	1956-60	1961-65	1964-68
	£4,250,000	£9,544,084	£12,192,000	£15,000,000
		(Figures in Pounds)		
Sectoral Allocation (%)				
Economic	36.0	13.4	19.4	14.0
Social Services	25.4	24.3	15.8	23.0
Communications	34.2	60.8	50.0	23.0
Miscellaneous	4.4	.5	14.8	14.0

Source: Fiji's Sixth Development Plan, 1971 - 75

Note: Fiji's fifth development plan (DPV), 1966-1970, was a departure from previous plans as it was more comprehensive. It incorporated the last three year of the 1964-68 plan. Total investment allocation under DPV was $40 million.

TABLE 4.2

TOTAL CAPITAL EXPENDITURE & ALLOCATIONS OF DEVELOPMENT PLANS SINCE INDEPENDENCE

DP6	1971 - 75	$ 80,000.0
DP7	1976 - 80	$ 343,000.0
DP8	1981 - 85	$ 322,000.0

ALLOCATION OF THE RESOURCES	DP6	DP7	DP8
	%	%	%
Administration	8.9	8.6	9
Economic Services	14.8	17.6	23.4
Social Services	18.1	14.4	9.6
Infrastructure	41.0	51.1	40.1
Rural Services	3.1	7.2	10.0
Miscellaneous	14	1.1	6.6

Source: Development Plans, Six, Seven, Eight and NIne, CPO, Suva.

credit. Of these the hydro-electric scheme was the most important. It was hoped that such a source of cheap power could stimulate industries in the southern regions of Viti Levu.

In 1951 however, the hydro-electric scheme was found to be impracticable because of the low volume of water. Over half a million pounds had thus to be deducted from the allotment for economic schemes and industries lost a prospective source of cheap power.

Under social services the establishment of the Suva Medical Centre and the building of a secondary school for Fijian boys were the major items.

Communications loomed large in the first three plans. In the first plan, this was largely accounted for by Fiji's contribution to the establishment of the Nandi International Airport, an automatic telephone exchange for Suva, port facilities for Suva and Lautoka, upgrading of roads and construction of new ones.

The plan was thus very much dominated by a few large projects. Emphasis was placed on building up basic economic infra-structure, the pre-conditions for economic development. This was hoped to provide not only an indicator to the private sector as to the direction of government policy, but also be an inducement for private investment.

The main part of the first Ten Year Plan was completed by 1954 and a new plan was drawn up in 1956 for the first five year period 1956-60. From Table 4.1, it is seen that the plan was dominated by communication which accounted for over 60% of the total. Of this, port faciliites provided the largest item, making up something like 50% of the total plan. In addition, there were provisions for construction and tarsealing of roads. The economic schemes were more of experimental work in the development of forestry, cocoa and coconuts. But provisions were also made for agricultural credit. In the social services schemes education was predominant, but a substantial proportion also went to the water supply scheme for Suva. The fall in the allocation to social services was due mainly due to participation of private committees and church groups in the primary and secondary school buildings construction.

In the main the plan for 1961-5 comprised recommendations made by the Burns Commission. Like the previous plan, work on the Suva and Lautoka port facilities was the main priority in the plan's investment allocation. Provision was also made for construction of new roads, improvement of old ones, and establishment of a telecommunication network. Economic schemes largely comprised setting up of agricultural stations, fertiliser subsidies for sugar cane farmers and a grant for the establishment of a land development authority which was set up in 1961 with the task of opening up new land and promoting increased production on lands held by small holders. Besides the above allocations, social services accounted for 14.8% of the plan. Most of these went into education and urban water supplies.

Looking over the early Development Plans the investment pattern has been very much in favour of public utilities - roads, port facilities, water supplies, schools and hospitals. It may be argued that this was a necessary strategy in the early phase of development, for the absence of such utilities could provide bottlenecks to growth. As pointed out by Professor Arthur Lewis, in a country's investment programme the share of public works is likely to be "particularly high in the first decades of development, and decline thereafter. This is because initial development calls for the establishment of a framework of utilities"[1].

Economic schemes in the first four plans were largely associated with establishing agricultural stations, natural resource surveys, agricultural experiments and research. Only in the 1966-1970 plan (DP5) there had been a shift in emphasis away from utilities and experimental work to the direct support of economic schemes such as land settlement.

As the economy grew, GDP at factor cost grew from $120 million in 1965 to $160 million in 1970[2], economic and social problems became more noticeable and as a response to these and other problems, Development Plan Five (DP5) was formulated, the first comprehensive plan to look at the past achievements and future potential. DP5 represented a desire to more actively guide the focus and pace of development efforts It aimed at opening new possibilities for growth in the economy, especially in agriculture, forestry, fisheries and tourism.

After independence, Development Plan Six, 1971-75, (DP6), was formulated on a wider range of overall objectives. While DP5 emphasised growth in the economy, DP6 and indeed DP7 and DP8 (See Table 4.2) recognised growth as a necessary but not a sufficient condition for development; it was felt important to

1. W.A. Lewis, The Theory of Economic Growth, London, 1960, p.211.

focus on the type and distribution of growth. DP6 also set out to solve the problem of urbanisation, firstly, by improving production opportunities and amenities in rural areas, and secondly, by catering for the urban population through employment creation, construction of housing and social infrastructure. Briefly, the objectives of DP6 were: -

(a) to improve distribution of income, including bridging of rural/urban and inter-ethnic disparities;

(b) to achieve moderate growth in per capita incomes; and

(c) to increase employment opportunities.

A large part of Government expenditure during the DP6 period was financed from abroad through borrowing at low interest rates from international agencies[1]. Thus, dependence on external sources continued. The planners and politicians sought to mitigate this position by setting targets for DP7 that no more than 50% of capital finance would come from foreign sources, that local retained earnings from tourism was to be maximised and that hydro electric potential be developed to reduce dependence on imported petroleum fuels. DP7 also recognised that economic activity should be decentralised and involvement broadened by ethnicity, and opportunities, material living standards and the social and cultural amenities of rural areas should be enhanced.

1. Fiji Annual Report, 1974, Government Printer, Suva.

Certain improvements were made in the next Development Plan, DP8 (1981-1985), in that it attempted to formulate detailed sectoral and regional development objectives, strategies and programmes within the overall national development objectives, and those were:

(a) to strengthen and further diversify the economic base of the nation;
(b) to promote a more equitable distribution of the benefits of development;
(c) to ensure that opportunity for productive and rewarding social or economic activity was available as far as possible for those who wanted it;
(d) to promote policies and attitudes to increase self-reliance;
(e) to promote a greater sense of national unity within the framework of a multi-ethnic society; and,
(f) to promote regional and international co-operation.

Fiji's successive five year Development Plans, since independence in 1970, have all focused on economic growth, more equitable distribution of the benefits of development, generation of increased employment opportunities, diversification of the economic base, greater self-reliance and balanced regional development.

FINANCING OF PLANS

Fiji's Development Plans have been largely financed from three sources; (i) local revenues; (ii) loans, both overseas and domestic; (iii) Colonial Development and Welfare grants. See Tables 4.3 and 4.4 for sources of finance for the development plans.

As intimated above, Commonwealth Development and Welfare grants provided the first impulse to planning in Fiji and in most British Colonies. Funds from this source were divided into three categories; (1) central allocations, (ii) allocation to colonial territories, (iii) general reserve.

Central allocations refer to funds provided for specific schemes such as research, higher education, broadcasting and meteorological services. Colonies were allocated funds from this source on the proviso that they were for the approved schemes. The second division, which comprised the major part of total funds allocated to each colony, determined how the funds were to be spent. "No single criterion was adopted for judging the requirements of one colonial territory as against another. All factors which were known to be relevant were taken into account, including the size and population of the territory"[1].

But as pointed out by Dosser, political and strategic motives have been important determinants in colonial allocation of Commonwealth Development and Welfare funds, with little bearing on current standards of living[2].

The Development Plans had to be financed from local sources as well either by appropriation from government revenue or from private sources in the form of loans.

1. Commonwealth Development and Welfare Act, 1945, Despatch from the Secretary of State for the Colonies of Colonial Government, H.M.S.O., London, 1945.

2. D. Dosser, 'The Formulation of Development Plans in the British Colonies', Economic Journal, 1959, pp.255-266.

Table 4.3

SOURCES OF FINANCE, DEVELOPMENT PLANS I - IV

ent Share)	1949-58	1956-60	1961-65	1964-68
ial Develop elfare Grant	27.4	10.5	54.3	28.3
External Aid	-	-	-	-
Revenue	25.6	9.6	-	15.0
	47.0	79.9	45.7	56.7
	100.0	100.0	100.0	100.0

e: Fiji's Sixth Development Plan 1971 - 1975, CPO, SUVA

able 4.4

E FUNDS (DEVELOPMENT PLANS 5 - 8) ($ MILLIONS)

	DP V	DP VI	DP VII	DP VIII
tic	22.56	37.75	137	162.2
nal	16.12	39.73	137	75.1

e: Fiji's Seventh, Eighth, and Ninth Development Plan, CPO, SUVA

4.3 EVOLUTION OF INDUSTRIAL POLICY

The official measures to encourage industries in Fiji after the Second World War followed the same pattern as other developing countries. First of all there was the customs duty concessions on equipment and raw material needs. Concessions on the former were more generous than the latter, it being argued that preferential rates on raw materials would result in a serious loss of revenue.

The second form of concession was established in the Protected Industries Ordinance of 1947, which provided wide powers for the limitation of "uneconomic competition" of industry which established a case of protection operated under an exclusive licence, although it may be that the number of licences issued to applicants was not limited. However, only three protected industries were established under this ordinance, tuna fishing, candlenut oil and button manufacture; all three failed[1].

A third form of official support was provided through the system of income taxation. Initial allowances were granted in 1940 of 20% on all machinery and plant for industrial and agricultural purposes, in addition to the usual depreciation allowances. A further allowance of 10 percent was granted at the end of 1954 to the new industries approved by the Governor in Council, which operated for five years. There was also the usual

1. Report of Commission of Enquiry into the Natural Resources and Population Trends of the Colony of Fiji, 1959, Legislative Council Paper No. 1 of 1960, Government Press, Suva.

"Tax Holiday" for the first $10,000 of company income for a period of two years for an industry which satisfied the Governor in Council that it promoted the economic development of the colony. There were a very few applications for this concession. Finally, it was possible to obtain permission under the Income Tax Ordinance to deduct up to half the capital outlay on improvement to land for agricultural and pastoral purposes up to a maximum of $10,000 per year.

The government industrial policy was reviewed by the Burns Commission in 1959. It seemed that there were various special factors on both the demand and supply side of industrial production which required special attention. The Commission said that with a few exceptions, such as canning and clothing, it was realistic to think of manufacturing demand as confined to domestic demand and to export to nearby island groups[1]. On the supply in 1950s and the 1960s there was a shortage of factors of production in both quantity and quality. Capital was short and all plant and machinery had to be practically imported. Enterprise and managerial skill was also in short supply.

The Burns Commission recommended that government should pursue the general policy of industrial development as outlined above. It was not till early the 1970s when small-scale industrialisation began to emerge in Fiji that more clear-cut guidelines on the establishment of industries were demanded by investors. In view of this and to ensure that industry made a major contribution to development, Fiji from the mid-1970s

1. <u>Report of the Commission of Enquiry</u>, op.cit.

established the most direct and clear statement of policy. They were provided in Fiji's seventh and eighth development plans viz:

(a) to strengthen and broaden the industrial base through:

 (i) expansion and diversification of export markets

 and

 (ii) greater internal product development through import substitution and new industries;

(b) to promote a more equitable distribution of the benefits of industrial development through:

 (i) establishing industries with forward and backward linkages, and

 (ii) increase of local participation and control;

(c) to increase employment generation capacity; and

(d) to ensure that the industrial sector contributed significantly towards the growth of the economy.

The main vehicle for industrial development was to be the private sector, with public sector intervention only to safeguard the national interest in the sense of steering development towards achievement of national, economic and social objectives and to protect the continuing viability of the indigenous private sector in the face of the sheer size and power of foreign competition. Thus the public sector's role was one of being a catalyst, and, through creation of the appropriate environment, stimulation of private sector expansion[1].

1. <u>Fiji's Seventh and Eighth Development Plans</u>, Central Planning Office, Suva.

Within the broad economic objectives, industry was seen as having an impact on the size and growth of the economy (raising retained value added and limiting import leakages, and improving the efficient use of resources - human, physical, financial) and on the distribution of development benefits (through employment equity participation, physical location and increase of the value of resources). Industries were classified into three priorities[1]:

Priority A (high)	-	Industries based on local primary commodities
	-	Industries producing inputs required by primary and other sectors
Priority B	-	Industries based on imported materials but producing either essential items for the domestic market, or goods for export
Priority C (low)	-	Industries based on imported materials but producing non-essential domestic market items.

There were several basic criticisms by the investors of this proposal. First, the priorities were assessed on the basis of one main criteria only, local physical resource utilization. This was a proxy for high retained local value added but very inadequate since it neglected, among other factors, labour as an indigenous resource and an important factor contributing to 'value added'[2]. Indeed, local resource utilisation should have

1. Economic Development Board, Investment Guidelines, 1983, Suva.

2. ESCAP, ADB and SPEC, Country Study for Fiji, 1982, Ministry for Economic Planning, Suva.

followed automatically from competitive factors if priorities had been structured on the basis of value added (raising the tax base and hence Government's ability to raise welfare levels), income generation from both employment and equity participation (increasing the individual's own ability to raise his welfare levels), and net foreign exchange benefit (or the reduction of leakages out of the economy).

Again the secondary criteria, of whether the goods were essential or otherwise, was not really relevant to any consideration of development but rather to a misplaced notion of independence. It was argued by advisers to policymakers that if Fiji could only produce an essential item from imported components at a higher cost than it can import the finished product, then it was clearly nonsense to countenance such a venture. Thirdly, application to all industry implied that all industries were welcomed and beneficial (though not to the same degree).

"Priorities" in truth imply exclusions. If Priority A, however defined, is truly more beneficial, then resources should be concentrated therein. Only by excluding alternatives can it can be certain that every effort will be made to meet Priority A requirements "as a priority"[1]. Besides, as defined in DP8, Priority C would be a definite waste of resources even in countries that can afford it.

1. ESCAP, ADB and SPEC Report, op.cit.

4.4 THE MECHANISM OF CONTROL

More than any other South Pacific country, Fiji has had, since 1975, a clear policy and set of rules for new investment and geared its approval and incentives procedures towards maximising benefits in terms of national objectives[1]. Almost alone in the region, Fiji has taken steps to determine what contribution might be expected from industry and to develop the machinery to steer the sector towards this end.

The mechanism for control comes into effect from the moment applications for special concessions and incentives are submitted. Prior to that both foreign and local companies must be registered according to the Companies Ordinance of 1945. Registration requires the filing of annual returns for income tax purposes but could also be used as a basis for further taxes as introduced (such as value-added tax), or for compilation of statistical returns for output, employment and other data. Foreign companies must conform to certain currency rules laid down by the Reserve Bank, who in practice consults the BIDC (Business and Industrial Develpment Committee) before giving authorization for local registration.

Applications for approval of the project which alone entitles the new investor to concessions, are made to the Fiji Trade and Investment Board (FTIB). The approval of a project by FTIB in principle also results in approval by other departments required by other legislations. Thus, FTIB, in theory, acts as

1. Ministry of Commerce, Industry and Co-operatives, Investment Guidelines, 1976, Development Bank Centre, Suva.

the much vaunted "one stop shop". FTIB is able to do this because it is composed of representatives from all the relevant ministries and departments: The Ministries of Commerce and Industry, of Finance of Labour, Industrial Relations and Immigration, of Lands and Mineral Resources, of Agriculture and Fisheries and of Urban Development, Housing and Social Welfare. In practice FTIB may be viewed as an organization consisting of two committees, one of ministers to actually take the decisions, and one of officials to advise the ministries.

An application to set up an industrial project takes the form of an investment appraisal covering most aspects of national interest such as employment generation; contribution to local value-added; impact on income distribution; net foreign exchange accrual; contribution to South Pacific Trade; reduction of cost of living/input of living/input costs; generation of skills; benefits from linkages; domestic resources mobilization (local shareholdings and raw materials, both aspects of increasing local value-added); and environmental effects[1]. The approval mechanism is designed to guide new investment towards areas that the Government thinks are particularly beneficial for the country, but not to inhibit investment elsewhere. The system does not actually prevent allocation of resources and relies on the favourable concessions to persuade investors to choose high priority activities. As will be seen the concessions are not that favourable, especially when compared to alternative

1. Guidelines to Investors, FTIB, Civic House, Suva, Fiji.

countries for possible location, and it is doubtful whether they represent the determining factor for most overseas investment. Despite these concessions a few new overseas companies have established ventures in Fiji on their own. Some have moved in on a joint venture basis, as will be covered in the chapter on industrial development. However, because these are understood to satisfy the basic economic criteria (as above) which determines priorities, the list takes on the role of a priority list so that local companies appear to be faced, if the object is to obtain concessions, with a set priorities designed to maximise the benefit from foreign enterprises in terms of expertise and capital transfer. Thus, to some extent, the concessions seem designed to attract foreign investors and to indicate to local companies that they need foreign participation to receive concessions. Examples of these are provided in Chapter V, where 20 companies established in the 1970s are listed.

4.5 INCENTIVES

A variety of incentives are offered to companies that receive approval from BIDC. These include:-

- Tariff protection - duty rates to discourage selected imports which compete with a local substitute (higher tariffs can be applied for by local producers).

- Duty concessions - concessional rates on imported plant and machinery and raw materials, draw-back of duty on components of products re-exported and of excise duty on some exports (BIDC can grant special concessions).

- Tax concessions - tax holidays of up to five years with a possible three year extension up to a limit of $5,000 per annum (now $8,000) or, if greater, 15 per cent of the smaller of the paid equity capital or the fixed capital investment of the company.

- Losses can be carried forward by approved companies for up to six years (unless a tax holiday has been granted), except for agricultural and pastoral pursuits when losses can be carried forward indefinitely;

- Generous concessions and incentives are being provided to the tourist sector as it has been seen as an industry with a potential for rapid development. In its efforts to diversify away from sugar, tourism has been seen as one industry which could be as dominant as sugar.

In 1977 an attempt was made by a UNIDO consultant (P.L. Chen-Young) to measure the net benefit/cost of industrial concessions available in Fiji. This involved a sample of 58 "concession firms" out of 162 firms approved for concessions at the time[1]. It is worthwhile to outline the main results of the exercise, drawing attention to major policy implications.

The question of whether tax revenue forgone is necessary to attract industries has always been one of the contentious points in the literature on tax incentives. The findings in most countries suggest that there is little

1. Te'o I.J. Fairbairn, Island Economies, Studies from the South Pacific, 1985, Institute of Pacific Studies, U.S.P., Suva, p. 261.

justification for granting tax incentives to industries with low local value added and operating within a protected market. In Fiji, from interviews conducted by the consultant, it does not appear that income tax concession is considered as an important incentive to invest.

Import duty concession is necessary for industry. With the heavy dependence on imported raw materials it would be reasonable to assume that such concessions are needed and cannot realistically be regarded as unnecessary revenue forgone. Furthermore, with most concession firms not operating under any heavy protective barriers, it would seem very necessary to grant import duty concessions to place them in a position to compete with imports, especially from New Zealand and Australian based companies.

Important factors, as cited by interviewees, which were serving as a disincentive to invest in Fiji were:

- "government bureaucracy" and the absence of a central body to deal with investors (the latter gap no longer holds with the recent establishment of the Economic Development Board).
- difficulty in obtaining work permits and their duration especially with the serious shortage of skilled technicians and management personnel.
- administrative obstacles to foreign investment despite expressed government policy favouring such investment.
- lack of detailed information on industries eligible for concessions.
- unnecessary duplication of plant capacity by the indiscriminate award of incentives under a "survival of the

fittest" policy which has led to excess capacity in certain industries.

- inability to compete with New Zealand and Australia in export markets because of generous incentives offered by those countries to exporters.
- inadequte finance and technical advice to assist local investors.
- tax treatment of dividends to shareholders of local companies being too high when included as part of personal income.
- land tenure.

From the foregoing, there are practical problems facing investors which are not strictly of a tax incentive nature. Also, despite the fact that there are net tax benefits to government from its incentive programme, clear guidelines on qualifying criteria and benefits are missing, resulting in the award of concessions which do not always reflect a consistent approach in accordance with overall industrial policy objectives. The concessions now offered, to emphasize the tax incentive aspect, are not adequate for dealing with the problems facing local investors. Also, while it is the policy to award concession to industries based on their economic contribution, this is not clearly reflected in the approach used to grant concessions. It follows that in any move to restructure the tax incentive programme, emphasis should not be on fiscal incentives. An appropriate strategy should aim at removing the disincentives to investment while broadening the non-fiscal incentive to assist and encourage nationals to invest in manufacturing/processing[1].

4.6 GOVERNMENT PARTICIPATION IN BUSINESS

Fiji Government generally has not participated in business ventures directly except if it was of national importance and private sector was not forthcoming to investment venture. One such major early venture was the Pacific Fishing Company Limited (PAFCO), which was established in 1964 for the canning of tuna for export and the other Fiji Sugar Corporation (FSC). The government's participation in capital investment is by statutory organisations or by the Fiji Development Bank[2] or on a joint venture basis with foreign institutions.

Fiji's approach to economic policy has been characterised as conservative administration[3]. There is considerable reliance on government . This is reflected in the large public sector, which makes up 35 percent of formal employment; in the heavy reliance on five years plans, 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 apparent seamless transistion from colonial paternalism to

1. T.I.J. Fairbairn, Island Economies: Studies from the South Pacific, 1985, Institute of Pacific Studies, U.S.P., Suva.

2. Report on the Fiji Development Bank, Asian Development Bank, 1983, p.38.

3. W.K. Kasper, J. Bennet and R. Blandy, Fiji: Opportunity from Adversity, Centre for Independent Studies, Sydney, 1988, p.27.

state paternalism[1].

As discussed earlier in the section on economic planning, the major investment by government before independence was on infrastructure, mostly under the Colonial Development and Welfare fund. The period saw construction of many new roads, port facilities and the like. The trend continued after independence when infrastructural projects were even larger, funded both by aid sources, overseas and local borrowings and government savings. After independence new roads, airstrips, wharves and water supplies continued to be built. Large projects such as the construction of a hydro scheme, Vaturu water supply, upgrading of Suva and other ports were completed, costing over half a billion dollars. All these projects were fully outlined in the development plan. The plans were prepared by the staff of the Central Planning office whose expertise was mostly related to governmental projects, which were mostly large, and funds were obtained from overseas through government sources. Private enterprise borrowing in Fiji was virtually nil.

It was not till the early 1980s that the Tripartate Forum (of government, trade unions and the private sector) was established, and the private sector was encouraged by government, through its deliberate policy, to invest. The Economic Development Board was created in 1980 to enhance the process of investment by the private sector and the Fiji Development Bank vastly increased its lending to the private sector. The period saw the establishment of many industries as outlined in the

1. Ibid.

industrial chapter. Perhaps the early 1980s began to see the breaking down of state paternalism.

The next section will look at some of the specific activities of the government in providing facilities for the development of the country as a whole.

4.7 DEVELOPMENT OF INDUSTRIAL LAND

The need for industrial land began emerging in Fiji from the late 1960s when small-scale import substitution industries began to be established. The administration, allocation and development of industrialised land has been the responsibility of the Ministry of Commerce and Industries. However, in certain cases industrial lots have been developed and sold by the private sector the prices of which were so high that they were beyond the reach of many local entrepreneurs. Examples of these could be found in Suva and Lami where many lots offered by the private developers were not taken up. At the critical period of the introduction of the industrialisation programme in Fiji shortage of industrial land was also a serious obstacle to industrial development[1].

In order to overcome these problems and to promote decentralisation of industrial development, government undertook to develop and provide land for industrial purposes at reasonable prices to the private sector from as early as 1965 when the first of the industrial sub-divisions were opened up close to the port in an area known as Walu Bay and Lami. Early industries

1. Annual Report, Ministry of Commerce, Industry and Co-operatives, 1975, Government Printer, Suva.

were therefore located in Suva, one of the major ones being the brewery, a subsidiary of Carlton Breweries of Australia. Because of the demand for industrial land this area was quickly taken up and several major industries were established. Subsequently new factories were encouraged to locate out of Suva city along the Nausori road where a progression of industrial zones were established and generally filled up. These were Vatuwaga, Nabua, Kalabo and in Nausori itself a small industrial area was established along the river bank.

In Lautoka, the second city, early development took place behind the main street in a place called Namoli. Initially sites were small and restricted so that many companies had to spread themselves between a number of small buildings. For large operations additional areas were later established. The first such area was developed along Marine Drive near the Lautoka wharf on reclaimed land. The second site was made available at Vitogo, Drasa near Lautoka city[1]. Initially, very few companies showed interest in this area because the site was expensive and away from the market. Factories established were small or of medium size and found it difficult to operate away from the city centre. Other sites included one fairly close to the city at Waigani along the Nadi road, which was quickly occupied, and most recently a fairly large industrial zone has opened up at Navutu not far from the Lautoka city centre. The development of this area was stimulated, as indeed were other industrial facilities,

1. Report of the Ministry of Lands and Mineral Resources, 1974, Government Press, Suva.

by the opening of the Vatura water supply in 1983 at a cost of $60 million. Larger factory premises were established at Navutu. At Lautoka, from the beginning, government adopted a policy of dispersing industry to enable workers to live closest to their work place, thus reducing transport costs.

Other industrial estates were established at Labasa (Vakamamasisuasua), Ba, Vatukoula and Nadi. Small townships such as Sigatoka and Savusavu also had industrial zones based around major government ventures.

Most land for factory development could be obtained by direct leasing. However, in the two major centres of Suva and Lautoka and their environs leases were normally effected by the local councils or the Native Land Corporation, thus avoiding the problems associated with multiple ownership and the need to aggregate a number of small holdings, which has inhibited factory development elsewhere in the Pacific.

4.8 ENERGY AND WATER

Originally all electricity was thermally produced in Fiji by diesel generators. Substantial strides have since been made towards self-sufficiency in energy largely due to the completion of the Monsavu hydro-electric power scheme in 1984, at a cost of F$230 million. This project has sufficient power generation capacity to satisfy Viti Levu's needs until 1992.

Imported petroleum products accounted for 30% of Fiji's energy consumption which, was reduced by up to 50% since the Monasavu Scheme came on stream in 1981, resulting in an annual saving of some $22 million in foreign exchange. The scheme supplies electricity to virtually all areas of Fiji's main island, Viti Levu[1].

Other energy sources have been baggase, which has been used to fire the sugar mills, and scrap wood for the saw mills and the distillery. Piggeries have formed the basis of small biogas units. The use of small solar domestic water heaters has also become common in houses for supplying hot water.

4.9 MANPOWER TRAINING AND SKILLS

Like many countries in the region, there is a shortage of skilled labour and able and experienced entrepreneurs. This is not to say that people are unable to undertake such activities. Indeed, the high rate of literacy (78 percent) and the success of several ventures and individuals point to the abilities of the people of Fiji in this regard. The shortage is rather the result of a number of factors and in some respects is more apparent than real.

The expansion of technical and vocational training has concentrated on the addition of courses to normal secondary school education. However, some teachers and pupils in the early years of their establishment considered such courses as peripheral and accorded them low priority. In recent years technical and vocational training has increased in popularity and status mainly because of the basic skills demanded by employers.

Several technical institutes have been established. In Suva the Derrick Technical Institute, established in 1963, offers

1. Fiji's Ninth Development Plan, Central Planning Office, November 1985, p.119.

training at both diploma and trade level in such areas as aircraft maintenance. Schools of Printing, Maritime Studies, Garments and Hotel and Catering Services also provide training in their respective fields.

Curriculum development in recent years has incorporated in the schools multicraft centres providing practical training in the many social and trade fields such as carpentry, mechanical, industrial, and household skills while new and improved agro-technical courses, from gardening to modern agriculture and animal husbandry are available in most schools.

The labour force includes both those who work and those who are unemployed, that is, all those who are willing to work under the prevailing conditions. Table 4.3 shows the table of Fiji's labour force from 1965 to 1985.

TABLE 4.5 (thousand)

	1965	1970	1975	1980	1985
LABOUR FORCE	120.3	149.5	181.4	218.9	257.4
GROWTH RATE (Annual)		4.4	3.9	3.8	3.4

Source: Bureau of Statistics, Current Economic Statistics, 1985.

Prior to 1966, the labour force was growing at a slower rate than population. However, as a result of the rising birth rate in the 1940s and 1950s, the situation was reversed. After 1965 the labour force grew more rapidly.

Since independence all development plans have stated that one of the major policies of the government was to ensure productive employment opportunities are available to Fiji's growing labour force. However, Fiji began facing a high unemployment problem from the 1970s because of the decline in sugar production, a slowdown in growth of tourist arrivals and a decline in capital inflows. In view of this, government commissioned, in 1982, the Fiji Employment and Development Mission to undertake a comprehensive and independent study of unemployment and related development problems. The Mission presented its report to the Parliament in 1984 suggesting several remedies to alleviate unemployment. They relied heavily on expansion and diversification in agriculture to create employment quickly. Heavy infrastructural investment in order to do this was proposed[1]. This led the Ministry of Primary Industries to undertake a study on development and export on specific agriculture produce such as pawpaws, pineapple, mangoes and vanila, with the view to export under Fiji's trade agreements. As will be seen later, some exports of identified products have begun or expanded.

4.10 FINANCIAL SYSTEM AND BUSINESS SERVICES

The financial system of Fiji is relatively well developed for a country of its size and development. The Reserve Bank of Fiji (RBF), previously the Central Monetary Authority

1. Fiji Employment and Development Mission Report, Parliamentary Paper No. 46, 1984, Suva.

(CMA), is the main regulatory institution while the banking system comprises six commercial banks[1]. Five of these banks are branches of foreign banks while one is state owned. The non-bank financial institutions comprise a provident fund, a development bank, insurance companies, a unit trust and a stock exchange. There are also several co-operative and credit unions. Except for the insurance companies and the credit unions, the non-bank financial institutions are owned by the government.

THE RESERVE BANK OF FIJI (RBF)

The Reserve Bank of Fiji (RBF) was set up in 1984, superseding the CMA. The formation of the CMA in 1973 was influenced greatly by the evolution of central banking in the newly independent countries in the Commonwealth. Being in the Commonwealth, Fiji followed most other newly independent Commonwealth countries in seeking advice and personnel from the Bank of England to set up the Central Monetary Authority.

The RBF performs the traditional roles of a fully fledged Central Bank. Apart from formulating and executing monetary policy the Reserve Bank of Fiji regulates the issue of currency, availability of foreign exchange, and international exchange of money; it acts as banker to the Government, regulates the financial system, and is lender of last resort to the commercial banks. The RBF has all the necessary powers to conduct monetary policy. These include the powers to set legal ratios, vary discount and interest rates, and set the terms of

1. Reserve Bank of Fiji, The Fiji Economy, Parliament of Fiji, 1987.

credit.

The Reserve Bank monitors and regulates the banking system through formal and informal techniques of monetary control. Since its inception these techniques have evolved through the relations that the Reserve Bank developed with the Bank of England and the International Monetary Fund. While the former emphasised a more informal approach to monetary policy, the latter promoted a greater degree of formality. Of course, the Reserve Bank, while accepting ideas from these two sources, had to adopt the principles to its own environment.

Since the Reserve Bank of Fiji's inception the instruments of monetary policy have been selected and shaped in light of the developments in the financial system and from past experience[1].

In regard to assistance to the development of trade since mid 1983, the RBF has provided Forward Exchange Cover facility for exports of non-traditional goods covered by SPARTECA and LOME agreements. The RBF-sponsored forward market is essentially a two-tiered system whereby the RBF buys forward, foreign currencies for specified exports, at a certain discount. If the foreign currency happens to be other than Australian, New Zealand or U.S. dollars, then the commercial banks have to transact forward the second stage of the deal with other parties.

In 1985 and 1986 there was brisk growth in forward business. In 1985, 27 contracts were written by the RBF to the

1. Reserve Bank of Fiji, <u>Operations of Annual Accounts for Fiscal Year 1986</u>, Suva.

value of $732,515, and in 1986, 99 forward deals to a value of $1.6 million were booked by the RBF[1]. Most of these contracts related to Australian dollars which showed good market prospects in Australia due to the SPARTECA agreement.

COMMERCIAL BANKS

The development of commercial banking in Fiji dates back to the early days when Fiji was ceded to Great Britain in 1874. The Australasian banks were the first to set up branches in Fiji. Among these were the Bank of New Zealand, the Bank of New South Wales (now Westpac) and the Australia and New Zealand Banking Group Limited[2]. (The latter bank withdrew and reopened in Fiji in 1953).

Prior to 1953, only two commercial banks, the Bank of New Zealand and the Bank of New South Wales were providing banking services in Fiji. Between these two banks there were four branches in all up to 1940. In addition, the Government established a Post Office Savings Bank (1907) providing savings account services through the Post Offices and postal agencies. The Bank of New South Wales expanded faster than the Bank of New Zealand despite being established later. The former was more closely associated with the expanding Australian business interests in Fiji, particularly in sugar and gold. The Bank of New Zealand, however, confined its activities more to the urban trading sector with a lesser rate of development.

1. Reserve Bank of Fiji, Quarterly Review, March, 1987.

2. R.W. Robson, Pacific Islands Year Book, 1959, Pacific Publications, Sydney, p.233.

It was the post-World War II period that saw major expansion of banking and non-bank institutions. This development closely followed the growth in sugar, tourism and gold. The socio-political changes which saw greater local participation in the policy making of the British administration assisted this process. Mobilisation of domestic savings to meet the targets of development plans came to feature prominently in the government's policies. It was in this framework that the birth of the two leading non-bank financial institutions, namely, the Fiji Development Bank and the Fiji National Provident Fund, is found.

On the commercial banking front also, the 1950s and the 1960s witnessed a most dramatic expansion. The number of branches of the commercial banks expanded from 4 prior to 1950 to 11 in the period 1950-1959. By 1969 there were 15 branches and 10 agencies in operation[1].

The period following the independence of Fiji saw another major phase in the expansion of banking. The number of new branches opened in the period 1970 - 1985 totalled 38 and the number of agencies 50[2].

Since 1970 the banking industry has undergone a major restructuring arising from the Government's desire to institute greater monetary independence by centralising foreign reserves with the newly established Central Monetary Authority, and to bring the operations of the commercial banks within the purview

1. Fiji: Report of the Year, 1970, 1971, H.M.S.O., London.
2. Fiji Annual Reports, various years, Government Printer, Suva.

of the Authority. For the first time since 1973 the commercial banks had to observe formal requirements as was provided for in the Act under which the CMA was consituted[1].

The banks have had to adapt to the new rules within which to operate. The SRD and Government Securities ratios were introduced in 1973. Interest rates which were previously set by the banks through informal consultations with the Minister of Finance, were now set by the CMA. Lending guidelines were issued to the commercial banks specifying the rates within which they could lend.

NON-BANK FINANCIAL INSTITUTIONS

The non-bank financial institutions comprise the Fiji National Provident Fund, the Fiji Development Bank, Housing Authority, Home Finance Company, Unit Trust of Fiji, Suva Stock exchange insurance companies and credit unions.

The Fiji National Provident Fund (FNPF) which was established in 1966, has occupied a prominent position in Fiji's financial system, accounting for about 30 per cent of total financial assets in 1983[2]. The FNPF's investments are determined by broad guidelines issued by the Government. In terms of these guidelines 50 per cent of the FNPF's funds are allocated to the Government and the Housing Authority (Government owned) and at least 20 per cent to the government owned corporations. By mid-1980s over 80 per cent of total funds were invested in the public

1. D.G. Luckett, Monetary Policy in Fiji, 1987, Institute of Pacific Studies, U.S.P., Suva, p.56

2. FNDP, Annual Report, 1984, Raiwaga, Suva.

sector either in government or government guaranteed securities and lands to the public sector. The housing finance companies and the Fiji Development Bank have been major borrowers from the FNPF.

The FNPF's interest rate policy is dictated by the yields on long term government bonds. The FNPF being a major investor in these securities, the overall yield is to some extent influenced by the FNPF.

The other important non-bank financial institution is the Fiji Development Bank (FDB), which commenced operations in 1967. The FDB has provided finance for private sector domestic investment, predominantly for agricultural development and manufacturing[1]. The loans have been largely medium to long term and have attracted a range of subsidised interest rates. The FDB's lending rates, though not legally bound by the RBF's interest rate regulations, have been linked to the legal rates applicable to the banks. The FDB derives its funds from equity capital provided by the government and local bond issues and direct domestic borrowings and some amount of foreign funding[2]. Given the development role of the FDB, the government has legislated that the insurance companies and the commercial banks must hold a certain proportion of their assets with the FDB.

There are two housing finance companies in Fiji namely, the Housing Authority and the Home Finance Company. The Housing

1. CMA, <u>Report of Financial Statement, 1981</u>, Parliamentary Paper No. 3 of 1982, p.64.

2. Asian Development Bank, <u>Report of the Fiji Development Bank</u>, 1983, Suva.

Authority provides housing and housing finance to low income workers. It relies for its funding almost entirely on the FNPF on a long term borrowing basis because it obtains these funds at the most competitive rates[1].

The Home Finance Company provides housing loans to middle income earners. It is one third Fiji Government owned, one third by the Fiji National Provident Fund and one third by the Commonwealth Development Corporation.

The FNPF is again the major source of finance for the Home Finance Company.

The Unit Trust of Fiji has grown very slowly since its establishment in 1978. This may be due to the relatively low rate of return on units and weak marketing and administration.

The Suva Stock Exchange, established in 1979, is basically a trading post. Very few companies have been listed on the Stock Exchange and transactions are fairly isolated.

The insurance industry, on the other hand, developed rapidly in the post World War II period. With the introduction of the Insurance Act of 1976 the industry underwent major changes in the late 1970s[2]. The operations of the companies were very much localised, although not the ownership. Apart from the local capital requirement they were required to invest at least 80 percent of the life assurance companies' funds in the public

1. Housing Authority, Annual Report, 1984, Suva.

2. Financial Review Committee Report, 1985, Parliamentary Papers No. 548, 1985, Suva.

sector, and the general insurance companies at least 30 per cent[1]. A major impact of the requirements under the Insurance Act was either the closure or withdrawal from Fiji of some companies.

The money and capital market in Fiji has not been developed despite the level of economic growth and financial structure because it has not been large enough . The interbank money market is the only well-functioning short term money market with participation limited to the banks and the Fiji Development Bank. There has been a significant growth in the issue of government guaranteed securities since the 1970's but secondary market trading is very much non-existent other than with the Reserve Bank. The main dealers in these securities have been the financial institutions. Individual and the corporate sector's participation has been negligible.

4.11 BASIC INFRASTRUCTURE

Fiji is relatively well endowed with basic infrastructure as a result of public works and capital investment made by the Government since independence (1970). It has a relatively well developed transportation system, which includes over 3,300 kilometers of proclaimed roads, airstrips, port facilities and maritime services[2]. The major constraint on development, the fragmented nature of the country, has been reduced by such projects as the Suva - Lautoka highway and the

1. D.G. Luckett, op.cit.

2. N. and N. Douglas, Fiji Handbook, 1987, Pacific Publications, Sydney,. pp.146-156.

improvements to wharves and airstrips on outer islands (Rotuma etc).

TRANSPORTATION

Fiji is very well connected both by sea and by air amongst the South Pacific countries. Nadi, the international airport, is on the trans-Pacific routes of a number of airlines flying to Australia (Brisbane, Melbourne, Sydney), New Zealand (via Auckland), Hawaii, the USA, Canada, and Tokyo, several times a week. At the regional level, both Nadi and Suva are connected into a network over the area.

The development of air transport in Fiji has an interesting history. During the Second World War the Royal New Zealand Air Force arrived in Fiji to set up a fighter base at a small landing field built earlier at Nadi. The United States Force soon followed and they enlarged the strip to take military transport aircraft[1]. Two paved runaways and a hanger were built and there laid the foundation of what was to become Nadi International Airport.

Local air services date from 1951 when aviator Harold Gatty, formed Fiji Airways which provided services to local centres. Following Gatty's death, the company was taken over in 1958 by Qantas which expanded its services to other Pacific Island Countries as well. In the same year the Fiji Government also took up shares in the airline. In 1971, to reflect regional

1. Pacific Islands Year Book, Pacific Publications Pty. Ltd., Sydney, N.S.W.

ownership, the name Air Pacific was adopted. Air Pacific's entry into the jet age came in March, 1972, when it took delivery of first BAC 1-11. In that year Fiji Government took over more than 75 per cent of Air Pacific's shares.

In 1985 the Fiji Government entered into a three-year management contract with Qantas to provide management services to Air Pacific, training of local staff and no-loss guarantee to all its operations. The contract has been regarded as an important instrument in returning Air Pacific to stability and profitability after sustaining losses over a number of years[1].

Suva and Lautoka are the two international ports and most ships call at both, although as with airlines, retrenchment due to the international trading recession of the 70s and viability problems associated with fuel and inflation have resulted in withdrawal of some services. There are large ship wharves in Suva, Lautoka and Levuka.

It is important to note also that since independence there have been significant developments in Fiji's maritime services. Firstly, the Ports Authority of Fiji was established in 1975, a statutory body which became responsible for the administration and control of the ports of Suva, Lautoka and Levuka. Overall efficiency of these ports was greatly improved through the reorganisation of cargo handling, which resulted in reductions in congestion and post-time, and improvement in security. Secondly, the efforts of the Marine Department were concentrated on providing navigational infrastucture and

1. Annual Report, Department of Civil Aviation, 1986, Suva.

expanding the government shipyard for construction and maintenance of vessels both public and private rather than emphasizing the provision of transport for government personnel engaged on official duties. Thirdly, and perhaps most importantly, efforts have been made to improve inter-island shipping services, however with little success. The introduction of a freight subsidy scheme in 1975 was successful only in part in encouraging services on what have been recognised as non-lucrative routes, although the subsidy did have the effect of holding down the costs of goods transported to remote islands[1]. For a variety of reasons, the inter-island shipping industry offers services which are barely adequate to meet the regular and frequent transportation demands of the inter-islands communities.

Internally, most of the island groups are connected by small planes. Including the two international airports, there are 20 landing strips connecting most of the major population centres.

4.12 OVERVIEW

The prime purpose of this chapter has been to survey the role of government in the industrial and trade development of Fiji since the Second World War. It has done so by first discusssing the history of development planning in Fiji, the evolution of industrial policy and finally discussing the provision of both economic and social infrastructure in Fiji.

Firstly, when surveying the history of development

1. Central Planning Office, Eighth Development Plan, 1981-1985, Suva, p.200.

planning in Fiji it has been seen that Fiji began development planning immediately after the Second World War. The plan produced at that time however, was essentially a capital development budget for the public sector. In these early years the main stimuli to planning are apparent: firstly, the acquisition of aid from overseas; secondly, an awareness of the growing role of government and the increasing complexity of government affairs; thirdly, the need to raise awareness of economic affairs.

Under the influence of these three factors the country moved to a more sophisticated form of development planning. The fifth development plan, 1966 to 1970, and the plans that followed provided an integrated macro-economic framework and a comprehensive view of national development. As far as the role of government in the industrial and trade development was concerned there was no comprehensive policy after the war directed towards development of these sectors. The official measures to encourage industries in the 1940s and the 1950s followed the familiar pattern as in other developing countries. The main implication of this objective as contained in each of the successive development plans after independence in 1970 was that the Fiji economy must undergo a productive transformation, that it must grow in order for benefits to be distributed by sector regions and different communities within the country. This objective implied a reduction of excessive dependency on a few main economic activities (sugar and tourism); it also implied emphasis on increasing of production of other commodities, both for exports and internal market development.

In the case of the sugar industry for instance, export took the form not only of sugar exports but more diversified uses of sugar cane and related products: distillery, kethanol, baggase, animal feed stock and particle board.

Another major area of development was import substitution industries some of which later established export markets. The government policy was aimed at influencing the industrial structure by drawing up a framework for the types and location of industry in Fiji. To this end industrial estates, foreign exchange measures (repatriation of profits and local borrowing by foreign investors) technical assistance and incentives were introduced. In mixed economies such as Fiji's, the role of the public sector (Government statutory bodies, and Government-owned enterprises) in relation to the private sector ranges from extreme intervention, in terms of state ownership of enterprises and controls, to relatively free operation of the private sector, depending on the effectiveness of the market system to achieve the development objectives of the economy. The private sector has been the major source of investment for industrial development. The basic aims of the private and public sectors, however, generally differ. The private sector is profit-oriented, while it falls on the public sector to actively promote achievement of the national objectives of equitable distribution of income and employment generation. For the public sector, industrialisation is not an end in itself but rather a means to achieve the development objectives of an economy. In view of this, there was a need to clearly identify the desired pattern of industrial development, and to inform investors about activities in which Government would like to see increased allocation of both private and public sector resources. During DP8 (1981-85) Government attempted to clearly define programmes and policies to encourage, facilitate and guide private and public sector resources into areas identified. DP8 stated that given the small size of the economy, its level of development and heavy dependence on outside resources, Fiji, under totally free market conditions, would be very much subject to outside forces which do not always work in the best interest of the nation. For instance, if dumping policies were to be followed by countries which are our import sources, it would make it extremely difficult for local investors to compete. Similarly, indiscriminate entry of foreign investors into activities where locals are able to function could again make it difficult for local investors. Thus government facilitated private sector investment in desired areas and provided guidelines for both local and foreign investors.

As far as basic infrastructure such as industrial land, marine and air transport was concerned, substantial investments were made in the years since independence in these areas because of the rise in trade and tourism. The issue of energy was not given much importance until the fuel crisis in the 1970s. It became important to reduce the level of imported energy, and efforts were concentrated on the development of indigenous sources of energy to promote self-sufficiency. In this regard the most ambitious and largest project undertaken was the Monsavu hydro power scheme with a cost of $230 million and with a capacity to generate electricity to satisfy Viti Levu's needs up to 1992.

Government's role in the human resource development focused rather narrowly on human capital during the 1950s and the 1960s. It then in the 1970s and the early 1980s moved to a much broader perspective to include improving the quality of life, basic needs, education, health, nutrition and women in development. Manpower development and skills upgrading was a major undertaking after independence in response to the needs of the economy and most particularly the industrial and trade sector.

The Fijian financial system evolved since the 1870s based on the colonial monetary system. The phasing out of the Currency Board in 1973 by a modern system of monetary control under the institutional arrangement of a central authority ushered in a new era of financial development in Fiji. It was in the post World War II period that a substantial increase in the number of financial institutions was seen in Fiji. Except for the Fiji National Provident Fund (1966) and the Fiji Development Bank (1967) the other financial institutions operated virtually in an unregulated environment until the early 1970s. With the advent of political independence the Fiji Government moved gradually to introduce legislation to regulate and monitor financial institutions with a view to ensuring that their operations were suited to the development objectives of the Government and to bring about some degree of monetary independence. In addition, further institutional development became an urgent task. Of course, the overall objective has been to mobilise savings and provide a range of financial services that could develop with the economy.

Rapid institutional development was apparent in the period following 1970. A central monetary institutions with all the powers of a central bank was set up in 1973. With a view to increasing domestic participation in commercial banking, the Savings Bank of Fiji was upgraded to a fully fledged commercial bank. A unit trust and a rudimentary stock exchange was set up. New banking insurance acts were introduced with provision to regulate operations within the country. Savings generated through the financial system were directed through a range of legislative and informal channels to areas identified as priority sectors by the government.

Chapter V

INDUSTRIAL DEVELOPMENT

5.1 PRE INDEPENDENCE INDUSTRIAL DEVELOPMENT

Prior to independence in 1970 manufacturing ventures in Fiji predominantly fell in either of the two broad categories:

(a) The processing of raw materials, essentially for export, and controlled by branches or subsidiaries of overseas companies. The local management and organisation were usually in the hands of European expatriates.

(b) The manufacture of relatively unsophisticated consumer and intermediate goods mainly for the domestic market, but also with some exports to neighbouring island groups. Local participation and ownership of these types of industrial enterprise and manufacturing activity, though predominantly under Indian, Chinese or European control, was to a much greater degree than in the former group.

Table 5.1 shows Fiji's secondary industries established during the 1950s and 1960s. The two major ones, as mentioned earlier, were the milling of sugar and copra. Both were foreign owned. The other large companies, mostly foreign owned, produced soap, biscuits, beer, cigarettes, toilet paper and paints. The ownership and the date on which some major ones began their operation are listed in Appendix 1.

Table 5.1

Fiji Locally-made Industrial Products
(Based on the list compiled by the Ministry of Commerce, Industry and Co-operatives, Suva, 1969)

Product	Firms
Acetylene	1
Adhesives	2
Agricultural Equipment	2
Aluminium Products	1
Bags - paper	1
Bags - plastic	1
Baking powder	1
Batteries	1
Beverages - non-alcoholic	11
Beverages - alcoholic	1
Biscuits	2
Boats	3
Brooms	1
Building materials	5
Candles	1
Carbonic Gas	1
Cement & concrete products	14
Ceilings	1
Cigarettes	2
Clothing	6
Coatings - (Industrial)	1
Coconut products	5
Coir	1
Conduit - electrical	1
Confectionery	4
Containers - metal	1
Containers - paperboard	1
Containers - plastic	2
Curry powder	3
Dairy products	1
Detergents	1
Disinfectants	1
Doors	1
Electroplated goods	2
Fabrics	1
Feeds, animal	3
Fibre	1
Fibreglass products	2
Film processing	1
Fish	1
Fishing Equipment	1
Food products	16
Fruit juices	3
Footwear	3
Furniture - metal	2
Furniture - wooden	10
Gases	3
Handicrafts	20
Hardware	4
Ice cream and allied products	1
Insulation and acoustic material	2
Jelly crystals	1
Jewellery	2
Labels	1
Lead products	1
Louvres - windows	1
Matches	1
Meat products	1
Molasses	1
Motor bodies	1
Nails	1
Oils	3
Oxygen	2
Packaging materials	3
Paint	3
Paper products	1
Pearls - cultured blister	1
Pegs - clothes, wooden	1
Pipes	3
Plastic products	4
Plywood	1
Pumps	1
Putty	1
Roofing materials	2
Sauces	2
Screens	1
Soap products	2
Solder	1
Solvents	3
Spices	1
Staples	1
Sugar	1
Sugar - castor	1
Sugar - icing	1
Suitcases	1
Switchboards - electric	1
Tanks - metal	1
Thinners	3
Tiles	1
Tobacco	2
Toilet preparations	2
Umbrellas	1
Veneers	1
Venetian blinds	1
Waterproofing compounds & materials	2
Windows	1
Wire - barbed	1
Wire - chain link	1
Wire - mesh-work	1
Wood preservatives	1
Wrought iron products	1

Source: <u>Fiji - A Listing of Locally-made Products,</u> Ministry of Commerce, Industry and Co-operatives of Suva, 1969.

(1) RAW MATERIAL PROCESSING

The first group was by far the most important both in size and scope and included processing of cane sugar, copra into coconut oil, timber into veneers and coral (to obtain lime) and sand to manufacture cement. These activites tended to need fairly large technical units as well as quite high sophistication of technological organisation and capital input. They thus also required a more specialised type of management and technical skill. The larger scale enterprises, being mainly foreign owned, also tended to rely more heavily on external finance for raising funds for major capital developments, even though their own reserves were usually sufficient to meet most outlays[1].

They rarely experienced any problems in borrowing working capital from the local banks or in remittance of funds to and from their branches or head offices overseas. The banks themselves were also only branches of much larger foreign enterprises which generally held the accounts of the overseas parent companies of the subsidiaries and branches operating in Fiji. In the manufacturing industry, as in the mining, construction and the service sectors, most of the capital was foreign-owned and controlled. These companies also tended to comprise the most advanced and developed enclaves of the economy, the indirect effects and desirable repercussions on the rest of the economy of their activities were probably small[2]. To operate

1. M. Ward, The Role of Investment in the Development of Fiji, 1971, Cambridge University Press.

2. ibid.

most efficiently, the local processing firms needed not only a steady and continuous supply of domestically produced raw materials but an adequate supply of imported spare parts of machinery, regular and adequate transport facilities, continuous power supplies and the provision of skilled and semi-skilled manpower. All these factors had an important bearing on the supply of inputs, the level and continuity of production (i.e. the utilisation of capacity) and the distribution of the final output. The sugar industry provides an excellent example in which these important factors have been co-ordinated to the mutual benefit of both the supplier of the finished product and the producer of the raw materials. In the case of sugar, the vertical integration in the industry extends to the external sales organisation and includes the provision of the industry's own power supply requirements and a highly developed extension service (incorporating the benefits of practical research and experiments) to the cane growers. It does its own marketing through Fiji Sugar Marketing Corporation. Its power supply comes from bagase, cane waste, and it has a large research station at Lautoka.

(2) OTHER MANUFACTURES

By contrast, the consumer products consisting of the bulk of the productive activities of those firms comprising the second group of industrial activities generally involve a minimum of technological and capital input. The level of production is usually on a comparatively small scale and the manufacturing processes on the whole required rather less sophisticated management and technical skills. Their products tended to be relatively bulky, cheap and sometimes perishable goods, which were difficult or costly to transport. They normally comprised goods previously imported or not generally available before to local markets. The output of this group not only included such consumable products as ice-cream, beer, soft drinks, biscuits and bakery products, savouries, confectionery, clothing etc. as shown in Table 5.1 but also small scale plastic wares, industrial gases, metal fabricating and small shipbuilding and repairs. The latter industries also produced items and repair services for both the consumer and industrial market.

Although the firms concerned in this second category of industrial activity usually operated on only a small scale and were therefore relatively insignificant in terms of both employment and actual net output generated, these industries were important because they provided the essential scope and opportunity for local expertise to flourish. They also provided the base for the industrial diversification which was so necessary and important for the future growth and development of the economy. As a result, most of the firms involved received some measure of official help and protection on traditional "infant industry" grounds of argument. Given the limitations on firm and plant size imposed by the restricted nature and size of the domestic market and the equally restricted export opportunities which existed for many of these products there seemed at the beginning of the 1970's the possibility of progression into larger scale and technologically more complex forms of industry. The goods manufactured, being typically the products of elementary types of simple secondary industry associated with the initial stages of industrial development, were - in many cases - very similar to those produced by other developing countries in the same region. Furthermore, as with agricultural products, the possibility of achieving a larger potential output by penetrating the generally heavily protected Australian and New Zealand markets, seemed extremely remote.

DIVERSIFICATION AND DEVELOPMENT

Because of all these factors, manufacturing development in the early 1970's continued to be limited mainly to the processing of local raw materials and foodstuffs, clothing manufacture and development of the small scale manufacture of relatively cheap and simple products which were relatively expensive to transport over long distances. This was associated with the repair and maintenance of somewhat more sophisticated items such as ships, aircraft and machinery.

Increased industrial development in Fiji was constrained not only by the size of the market, with its limitations on the scale of productive activity, but also by the low level of productivity in relation to labour costs. This tended to discourage labour intensive techniques and inhibit their extension to areas of activity where such methods would be technically permissible and economically viable. However on the basis of Table 5.1 it is fairly evident that significant progress had been made towards greater diversification in the manufacturing sector of Fiji, prior to its independence.

5.2 FIJI'S INDUSTRIAL DEVELOPMENT SINCE INDEPENDENCE IN 1970

In the first fifteen years since independence the manufacturing growth has been stable and encouraging. The non-sugar manufacturing sector proved to be more resilient than all others during the difficult eighties as shown in Table 5.2. However, it has remained small and has yet to mature. As shown, manufacturing accounted for less than 10% of GNP (1975-85) and it employed 18% of the labour force[1]. While manufacturing activities in Fiji were dominated by one industry, sugar processing, (about 27% of GDP on average for 1981-83), a wide range of goods were manufactured. Food processing, outside of the sugar industry, accounted for 29% of value-added in the manufacturing sector. A number of items were produced for local consumption as well as export - canned fish, a variety of fruit juices (eg coconut, orange and passion fruit), bakery products, snack foods, tomato sauce, ghee, and processed ginger. The second largest manufacturing category also reflecting Fiji's apparent competitive advantage in resource-based industries, had been the wood products, accounting for 9.4% of value added. This sub-sector contained a number of medium-sized furniture producers, which had achieved some success in exporting to Canada and Australia.

Machinery and equipment manufacture, the third largest component of the sector, was dominated by shipbuilding and ship-repairing. Small cargo vessels, fishing boats, and coastal

1. Total formal sector employment is 79,000; that in manufacturing is 14,500. Source: Bureau of Statistics, Current Economic Statistics, 1986.

vessels were produced for local, as well as regional companies. In addition to construction activities, servicing and repair work was undertaken in Fiji yards. Some chemical production was also undertaken by two multinational firms with connections to Australia and New Zealand. There was packaging and distributing of bulk chemicals for domestic use and for export to the surrounding Pacific states. Emerging out of the investments by multinational corporations, of which Australian owned Burns Philp and Carpenters were the most prominent, industry during the early seventies was still very much in the grip of foreign capital that has come to service the domestic market and not, so far, in search of an export platform. Since the late seventies, local entrepreneurs have begun playing a more active role in flour milling, coconut oil refining, toiletries and ghee production[1]. The small domestic market size, strict licensing and a pervasive government concern to avoid a high degree of industrial concentration. Several subsectors were the preserve of single firm and in most instances between two and three producers divide the available business among themselves. Industry has run oligopolistically and competition was contained, as in the case of soap, edible oil, biscuit, and paint manufacturing.

The above matter raises the issue of efficiency and

1. Annual Report, Ministry of Commerce, Industry and Co-operatives, 1976, Development Bank Centre, Suva.

protectionist policies of the government in regards to industrialisation. Given Fiji's relatively early stage of development, small size and import substitution policies, it is not surprising to find that its manufacturing sector is small, and growing more slowly than the economy overall and employing only about 14,500 people in 1986[1]. The 10% or so of the share manufacturing in GDP is exaggerated by the price distortions imposed on the economy by protection for manufacturing which raises the price of manufactures in relation to internationally priced agricultural products. In sharp contrast to the planning for costs, the contribution of manufacturing to GDP has not been keeping pace with more rapidly growing sectors of the economy as shown in Table 5.2 - G.D.P. by industrial origin from 1975 - 1985.

In international terms the level of industrialisation in Fiji was not high and the manufacturing sector appeared to make a limited contribution to the national economy. It was, however, more important than its contribution to the GDP might suggest. The industrial sector was the country's second largest employer of wage and salary earners, employing an estimated 22% of wage and salary earners in 1986. However, the importance of the industrial sector went beyond these quantitative indicators. It contained Fiji's key export industries of sugar cane, coconut, fish and lumber. Sugar alone (including molasses) accounted for 55% of Fiji's total domestic merchandise exports in 1986,

1. Rodney Cole and Helen Hughes, The Fiji Economy, May 1987: Problems and Prospects, 1988, Pacific Policy Papers No. 4, National Centre for Development Studies, A.N.U.

Table 5.2

GDP BY INDUSTRIAL ORIGIN

	1975	1980	1985
GDP at market prices (million F$)	502.4	983.7	1,350.0
		GDP Shares	
Agriculture (% of GDP)	25.0	29.3	15.5
Manufacturing (% of GDP) (includes sugar manufacturing)	10.7	10.9	8.7
Wholesale and Retail Trade (% of GDP) (including tourism)	19.0	16.5	15.4

	GDP Growth Rates	
	1975-80	1980-85
GDP at market prices	4.1	1.3
Agriculture	5.4	1.0
Manufacturing	6.6	1.0
Non-Sugar Manufacturing	-	2.8
Wholesale and Retail Trade	3.2	1.1

Source: World Tables, World Bank, 1986.

(calculated from Fiji Bureau of statistics 1987, 58-59) while its contribution (including molasses) to domestic export was as high as 81% in 1980[1].

The manufacturing sector was also critical to Fiji's economy in other ways. As the search for a better material standard of living was the main aim of development planning in Fiji, as indeed elsewhere, increased productivity was the chief means of achieving this. The manufacturing sector has historically and globally been the leader in raising productivity at all levels. As it is elsewhere, the manufacturing sector in Fiji was being seen as a catalyst for change in the rest of the economy. Innovations were being adopted in other sectors, to enhance production. Increase and improvements in agriculture production resulting from the introduction of food processing and presentation was a case in point.

For countries such as Fiji, which wish to exploit their agricultural and natural resource advantages as a major development strategy, manufacturing, specially food processing, is critical in overcoming problems of seasonality and storage of many traditional foods. Moreover, downstream processing of agricultural produce also improves the international bargaining position of Fiji as foods are protected against perishability. Finally, Fiji has been urbanising rapidly[2] and processed foods can significantly aid Fiji's attempts to reduce its high

1. Report of Reserve Bank of Fiji, Reserve Bank Centre, 1984, pp. 143-144.

2. A. Mamak, Colour, Culture and Conflict, 1978, Pergamon Press, Sydney, p.33.

dependency on imported foods. The convenience of imported processed foods is an important reason for their consumption, and long-term solutions to decreasing such import dependency in Fiji will succeed only if locally produced foods are available in processed forms.

The tourist industry has established some linkages with producers of food and beverages and to a lesser extent with manufacturers of wood products, textiles and toilet articles but as in the Caribbean countries the linkages have remained sparse and tenuous. Quality standards have not improved appreciably and there are few signs of a concerted effort by local entrepreneurs to offer acceptable substitutes for items the hotel industry continues to import. As upmarket hotels are frequently unable to satisfy their requirements from local suppliers in developing countries, which is not too surprising but the weakness of the linkage mechanism around the sugar and fish sectors is more disturbing.

Sugar has the potential for becoming the centre of a thriving manufacturing subsector producing by-products, and as Peru has shown, anchovy fishing can have strong linkage effects[1].

Fiji bagasse is mostly consumed as fuel, possibly ruling out the production of high density thin fibreboard, particle board or packing material. But molasses can be converted into yeast based animal feed, rum, ethanol and a range of chemicals. The three tons of filter muds obtained from every 100 tons of cane pressed can be used as fertilizer, while cane

1. M. Roemer, Fishing for Growth: Export-led Development in Peru, 1950-67, 1975, Harvard University Press.

wax, the preferred coating for citrus fruit, could be marketed commercially. The harvesting and transport of sugar cane can support small scale repair facilities for machinery and metal working to supply spares for equipment used. In many countries such farm level activities have become the backbone of a thriving engineering industry. With Fiji small-holders preferring manual techniques of harvesting, there is less scope for machine rebuilding and repair. Nevertheless, the sugar sector has been strikingly unsupportive of manufacturing development. Fisheries, a far smaller subsector than sugar, has been behind the appearance of a small ship-building industry and of repair services[1]. Perhaps because the total landed catch is still just 5,800 tons (1985) the panopoly of supporting firms that could be observed in Peru during the heyday of anchovy production have never surfaced: suppliers of nets, for instance, fabricators of processing equipment, coolers, dryers; manufacturers of pumps, centrifugal separators and electric motors; metal workers; and firms specializing in fish meal.

To cite just one more example of linkages that have failed to take root, there is the case of the local furniture industry. Certain kinds of local timber are well suited for furniture, but manufacturers also require fabric, springs, material for padding, plastic based panels and sheets, resins, nails, metal brackets, jute backing, not to mention a variety of

1. The shipbuilding industry in Fiji, dominated by Carpenters Industrial (an Australian MNC), has spawned a few industrial linkages into the steel-made equipment sector. See E. Utrecht, Fiji: Client State of Australasia, University of Sydney, 1984, pp.242-244.

tools and machines to cut, shape, polish and assemble the individual pieces. Demand has grown with manufacturers serving a sizable domestic market; yet neither furniture makers nor other producers have found it profitable to exploit the linkages and commence the deepening of the industrial sector.

5.3 TYPES OF MANUFACTURING ACTIVITIES

In manufacturing in Fiji as a whole, sugar cane milling is the foremost activity. It accounted for 25% of national manufacturing value added in 1984 and 29% of the manufacturing labour force (See Table 5.3). This is not very surprising given that the sugar industry has dominated the Fijian socio-political system for more than a century. Writing on the eve of Fiji's independence, Ward for instance, had noted that 'The manufacturing sector is dominated both in terms of numbers employed and in value added by sugar milling'[1].

The overwhelming importance of sugar in the Fijian economy and of sugar milling in the manufacturing sector needs to be emphasised since minor fluctuations in this sub-sector can have drastic effects nationwide.

The literature on manufacturing in the Third World has paid some attention to whether manufacturing output caters to the basic requirements of the population in general or to the more limited luxury market. Amin in particular has claimed that Third World manufacturing in capitalist countries has concentrated on luxury goods, which has been one of the reasons

1. M. Ward, The Role of Investment in the Development of Fiji, 1971, Cambridge University Press, London, p.141

Table 5.3

THE STRUCTURE OF MANUFACTURING IN FIJI 1984

Industry	Establishments	Number of persons engaged	
	No.	No.	%
Butchering & meat packing	5	118	1
Dairy, fruit, fish	14	809	6
Edible & coconut oil	5	234	2
Rice & flour milling	15	315	2
Bakery products	45	625	4
Sugar milling	4	4,100	29
Confectionery	16	200	1
Miscellaneous food	14	133	1
Beer, spirits, cigarettes & tobacco	3	358	3
Non-alcoholic drinks	15	163	1
Textiles and clothes	151	1,647	12
Footwear	6	62	-
Sawmilling	40	866	6
Curios and artifacts	11	91	1
Furniture & upholstery	100	736	5
Paper products	10	182	1
Printing & publishing	36	781	5
Paint	4	97	1
Soap, toiletries & chemical products	14	292	2
Retreading & flip flops	5	107	1
Plastics	17	230	2
Cement, concrete & basic metals	14	453	3
Metal furniture & fixtures	8	190	1
Structural metal products	29	429	3
Fabricated metal products	25	270	2
Agricultural machinery & equipment	18	94	1
Repair and maintenance of industrial machinery and electrical equipment	16	176	1
Ship building & repair	6	236	2
Bus building	6	103	1
Jewellery and related items	9	41	-
Miscellaneous products	16	81	1
Total	677	14,219	102

Source: Fiji Bureau of Statics 1986, 12-15.

for lack of progress in industrialisation in these countries[1].

A survey of manufacturing establishments in Fiji in 1983, found that the most commonly produced items, in terms of the number of establishments in the survey sample, were garments, furniture, printed materials, agricultural implements, sawn timber, raw sugar and molasses, and cement products[2]. Most of these items are widely consumed by the population of Fiji as a whole, rather than by the elite. The manufacturing sector of Fiji has not, therefore, been geared to the production of luxury goods as argued by Amin.

5.4 NUMBER AND SIZE OF FIRMS

Since the Fiji census of industrial production data are collated and reported upon collectively rather than individually, it is difficult to accurately assess the number of businesses in the manufacturing sector. A survey carried out by Dr Ramesh Chandra in Fiji gave an estimate of 600 enterprises in the manufacturing sector in 1983[3].

According to this survey, the overwhelming majority (76%) were individual businesses. While this testifies to the numerical predominance of small firms in the manufacturing sector, there were nonetheless, almost a quarter of the enterprises with multiple establishments: 8% had two, 12% had

1. S. Amin, Accumulation and Development: A Theoretical Model, Review of African Political Economy, 1974, 9.26.

2. R. Chandra, 'Industrialisation in Fiji: Industrial Structure and Organisation', Geo Journal, March 1988, p.171.

3. ibid.

three and 5% had four. The average number of establishments per enterprise was 1.45.

In actual fact some of the operations were much larger than indicated above, since the survey collected data on individual establishments rather than segregation into individual and interconnected ownership. As has been shown by Rokotuivuna[1] many establishments in Fiji are part of quite large enterprises.

These multi-plant companies are some of the largest in Fiji. The largest manufacturer, indeed of any kind, is the state-owned Fiji Sugar Corporation (FSC), which accounted for 29% of manufacturing labour force, 25% of manufacturing value added and 29% of manufacturing gross output in 1984. The FSC has branched out into fertilisers and industrial chemicals.

The longest established manufacturing enterprises in Fiji are foreign-owned trading houses, mainly the Carpenter group and Burns Philp (South Sea) Company limited. Singh and Choo have noted that in Malaysia, the major trading companies moved onto manufacturing after independence, partly to protect their markets[2]. One can see a similar development in Fiji, where the above-named giant trading companies have moved strongly into manufacturing. The Carpenter group had some processing interests from the beginning of its operation in Fiji, with its copra and coconut oil mill, but it has moved into a number of new areas

1. Amelia Rokotuivuna, Fiji: A Developing Australian Colony, Aug 1973, I.D.A. North, Fitzroy, Victoria.

2. M.S. Singh, S.C. Choo, Spacial Dynamics in the Growth and Development of Multinational Corporations in Malaysia, 1981, Progress in Research and Applications Vol. 2, N.Y. p.492.

since independence. It is currently engaged in a wide range of manufacturing, service, and other activities such as engineering works at Walu Bay and coffee processing at Taveuni.

5.5 OWNERSHIP

Government has been playing an increasingly large role since independence, not only in regulating and guiding economic activity, but also in direct economic production. Government participation in manufacturing through agencies other than statutory bodies - such as shareholdings in public corporations, as in the cases of the Fiji Sugar Corporation, Pacific Fishing Company limited and many other companies.

State enterprises have become important instruments of Third world industrialisation, as Lal[1] (1980) points out:

"Public enterprises play a significant role in the industrialisation process in many developing countries... In recent years there has been a resurgence of public enterprise in manufacturing, particularly in oil-rich countries and those seeking to increase local ownership of manufacturing."

In Fiji this has been mainly in high risk areas where the private sector is not so forthcoming. Some of these projects are agriculture based, such as copra mills, flour mills and the dairy company.

Some indication of the extent of the involvement of the Fiji government in manufacturing is evidenced by the fact that

1. D. Lal Public Enterprises: Policies for Industrial Progress in Developing Countries, 1980, Oxford University Press for the World Bank, N.Y., p.211.

its share, based on its corporate equities, of the gross production, revealed in the survey conducted by R. Chandrs, was 48% - an extremely high figure for a capitalist economy. Admittedly, this is largely due to its ownership of the Fiji Sugar Corporation, which is, as we have seen, the largest single corporation in Fiji.

Given this large government presence in Fiji's manufacturing, it is worthwhile to emphasise here, that the Fiji Government is committed to and supportive of, private enterprise, that its acquisition of Fiji Sugar Corporation arose out of the withdrawal of the CSR from Fiji, and the inability of any other groups of organisations to finance such a large purchase.

The census does enable us to look at foreign and local ownership in the manufacturing sector. In 1984 foreign owned establishments accounted for 21% of all employment in the sector, 32% of labour costs, 35% of gross output, 24% of the total book value of fixed capital asserts, 36% of value added and 43% of the operating surplus[1]. This is in marked contrast to Papua New Guinea manufacturing, where in 1978, 85% of all equity in the manufacturing sector was foreign owned.

There has been a significant growth in local ownership in this sector since independence. Belshaw and Ward have both noted that the two foreign-owned giants in Fiji, Emperor Gold Mines Limited (EGM) and CSR, together with Carpenter and Burns Philp groups, had controlled not only the bulk of manufacturing,

1. Source: Bureau of Statistics, 1986, Suva.

but the whole economy prior to independence[1]. Belshaw has estimated that the CSR and EGM had controlld 70% of Fiji's exports by value and 20% of domestic output. Ward has noted that, 'The ownership of the larger, leading manufacturing (and export) industries is almost entirely in the hands of expatriate firms and these have inevitably been the main growth points in the economy[2].

The large degree of local ownership in the Fijian manufacturing sector has resulted from a number of factors. Perhaps the single most important short term reason has been the decision by government to acquire the assets of the CSR in 1973. On the other hand, there has been a rapid growth of local entrepreneurs who have entered manufacturing. Most of these have emerged from distributive trades - general merchandising as well as the sale of duty-free goods in the, until recently, rapidly expanding tourist sector. The rapid development of local operators from small beginnings to major holdings in the manufacturing sector is exemplified by companies such as Punja and Sons Limited and Motibhai and company Limited. The rapid growth of domestic investment policies by the government has strongly encouraged local ownership in all sectors. Local ownership has also been given a major impetus by the increasingly direct government participation in manufacturing. The rapid growth of the local enterprises is also to be seen as part of the

1. C.S. Belshaw, Under the Ivy Tree: Society and Economic Growth in Rural Fiji, 1964, University of California Press, Berkley and L.A., p.19.

2. M. Ward, The Role of investment in the Development of Fiji, 1971, Cambridge University Press, London, p.141.

changed political economy of Fiji, although in recent years several joint ventures have emerged between local and foreign companies where foreign companies supply technology and know-how not available locally.

Another reason for the growing importance of local ownership in Fijian manufacturing has been a slowing down in the inflow of foreign investment in Fiji from its peak immediately after independence[1]. Not only has foreign private investment declined since the early 1970s, but foreign companies in Fiji have been attempting to divest themselves of their holdings. These processes have resulted in the locally-owned companies assuming more importance in the economic life of Fiji. In some ways this has not been very positive because it has created larger local enterprises instead. However in many cases foreign companies had to close their operation because of heavy costs of production, particularly in salaries and wages as most senior staff were from overseas. Where foreign companies quickly localised they were able to compete successfully with local investors.

Listed below are the names of the local companies established in Fiji during the 1970s and their products.

1. R.T. Carstairs, R.D. Prasad: Impact of Foreign Investment on the Fiji Economy, 1981, Centre for Applied Studies in Development, University of South Pacific, Suva, p.45.

	Name of Company	Products Manufactured
1.	Universal Stationery Ltd.	Office & School Stationery
2.	Ocean Soaps Ltd.	Soap & Detergents
3.	Fiji Citrus Products Ltd.	Orange Juice
4.	Hansraj & Co. Ltd.	Garments
5.	Narotam Garments Ltd.	Garments
6.	Flexible Packaging (Fiji) Ltd.	Packaging Materials
7.	Pablo Ltd.	Plastic ware
8.	Suncourt Ltd.	Nails
9.	Manilal Industries Ltd.	Leather Goods
10.	Ba Industries Ltd.	Nails
11.	Domalco Ltd.	Pots etc.
12.	Dalton Engineering Ltd.	Aluminium & Fibre-glass Boats
13.	Lees Trading Co. Ltd.	Biscuits etc.
14.	Steel Tubes Fiji Ltd.	Steel Tubes & Ropes
15.	Lala-Lerace Pty. Ltd.	Wet Suits
16.	Polybag Manufacturers of Fiji Ltd.	Polypropylene bags
17.	Maganlal Jiwa & Sons Ltd.	Confectionery
18.	Lotus Garments Ltd.	Garments
19.	Ranjit Garments Ltd.	Garments
20.	Paper Supplies (SP) Ltd.	Stationery

Source: Economic Development Board, 1983.

5.6 LOCATION

The nature of the manufactured products, most of which are consumer items, and proximity to the main markets and ports have led to the almost total concentration of their production in two areas, Suva and Lautoka. Industry in Suva has now spread outwards, mainly along the roads to Nausori (partly in response to the creation of industrial estates) as the more central areas have become saturated (Walu Bay, for instance). Similarly, both Nadi and Ba which are some 35 kms on either side of Lautoka are attracting new industries, Nadi in particular because of, like Nausori, its proximity to the international airport. Suva and Lautoka have the major port facilities in Fiji's main island. Sugar mills at Labase and Rakiraki, the fish cannery at Levvka, coconut oil mill at Savusavu, the pulp cannery in Sigatota, the citrus juice factory and rice mill on Vanua levu and various saw mills are the major exceptions in the sense that these are located in proximity to raw material resources. Some of these have substantial government involvement. Government policy has been to disperse new ventures where viable.

5.7 DEVELOPMENT OF RESOURCE BASED INDUSTRIES

SUGAR

As mentioned above, despite the conspicous increase in the number of small individual establishments in the 1960s and 1970s, and the rapid advance of tourism since 1960 to a significant status as earner of foreign exchange, Fiji remains a country whose base is predominantly agricultural, which in turn is dominated by one product - sugar.

It may be assumed that if it had not been for sugar the economic, political and demographic history of the country would have been vastly different. The historical development of the sugar industry has already been looked at in Chapter three. We will therefore look at the development of this industry since the 1960s.

The main intermittent conflict between CSR and the cane growers during this period concerned the share of the gross income of the industry between the two parties. Various formulae for this sharing were negotiated in different periods, but of chief interest for the contemporary development of the industry was the controversial outcome of an independent enquiry chaired by Lord Denning in 1969, referred to as the "Denning Award:. The Denning Award advocated a straight split of the gross proceeds from sugar and molasses sales in the proportions of 65% to growers and 35% to CSR irrespective of fluctuations in market prices or in unit costs of sugar processing arising from trends in the volume of production[1]. In earlier contracts the division had been much more favourable to CSR. For example, in the Eve Contract which lasted from 1962 to 1969 the reference split was 57.75% to growers and 42.25% to CSR, and the company was also protected from incurring losses by an adjustment mechanism which ensured that they could recover full processiing costs in the event of adverse prices in a particular year[2].

1. Fiji Government, The Award of the Rt. Hon. Lord Denning in the Fiji Sugar Cane Contract Dispute 1969, 1970, Parliamentary Paper No. 28. (Suva Government Printer).

2. Report of the Fiji Sugar Inquiry Committee (Eve Report), 1961, Council Paper No. 20, Government Printer, Suva.

The Denning Award was vigorously contested by CSR and the company's inability to obtain a reversal of the judgement led to its decision to withdraw from the Fiji Sugar Industry. After prolonged negotiation the ownership of the milling side of the industry was taken over in 1973 by a parastatal enterprise, the Fiji Sugar Corporation (FSC), with majority shareholding by the Fiji Government. At the same time former CSR land came under Government ownership and the tenant farmers of the CSR became tenants of the Government.

THE INDUSTRY SINCE 1973

Production trends in Fiji sugar between 1970 and 1982 reflect the departure of CSR, the change in industry management, a drive for expansion by the new FSC, and the rising grower share in sugar proceeds. Between the Denning Award and the mid 1970s all indices of industry performance showed a marked decline (Table 5.4), reflecting the uncertainty surrounding the future of the industry up to 1973 and deterioration of infrastructure such as sea walls and drainage canals due to lack of maintenance by the outgoing CSR. Under the Fiji Sugar Corporation these trends were sharply reversed, in part by renewal of infrastructure, in part by rapid growth in the issue of new cane contracts and in part by further increases in the grower's share of total income from sugar and molasses sales. The division of gross proceeds was altered further in favour of the growers in 1975 (70% to growers and 30% to the millers), and again in 1980. Hence one of the most significant features of sugar industry development since 1970 was a series of increases in proportion of total income passed back to growers. The average grower share was 71.4% in 1981.

The summary outcome of these events was an expansion of the Sugar industry of the order of 40% between the early 1970s and the early 1980s.

Table 5.4

SUGAR INDUSTRY PRODUCTION 1966-86

Year/ Season	Area Harvested (000 hectares)	Cane Production (000 tonnes)	Average Production per hectare (tonnes/ hectares)	Sugar Production (000 tonnes)
1966	43	2,227	51.8	309
1967	45	2,197	48.8	297
1968	46	2,871	62.4	399
1969	47	2,376	50.6	305
1970	46	2,886	62.7	361
1971	47	2,545	54.1	323
1972	44	2,238	50.9	303
1973	46	2,496	54.3	301
1974	45	2,151	47.8	272
1975	45	2,160	48.0	264
1976	47	2,283	48.6	286
1977	52	2,674	51.4	362
1978	54	2,853	52.8	347
1979	62	4,063	65.5	473
1980	66	3,360	50.9	396
1981	66	3,931	59.6	470
1982	69	4,075	59.1	487
1983	59	2,203	37.3	276
1984	69	4,290	62.2	480
1985	70	3,042	43.4	341

SOURCE: Fiji Sugar Corporation and Trade Reports.

EMPLOYMENT AND INCOMES IN SUGAR

Between 1970 and 1980 foreign exchange earnings from the industry rose from $32.3 million to $186.2 million, which increased sugar's share of domestic exports from 66% to 81%. Over this decade the average share of sugar in domestic exports was 75%, roughly 10% higher than its average share in the preceding decade.

This increased reliance on a single crop for export earnings did not prove detrimental as found in some economies depending on one or two crops only for their export income. In the context of the opportunities and constraints confronting Fiji in the 1970s sugar expansion must be considered in hindsight to have been developed for export quickly enough to compensate for the rising international prices of imports in this period. Table 5.5 shows exports of sugar from 1966-1986.

FIJI AND THE WORLD SUGAR MARKET

The international market for Fiji sugar is obviously crucial to the viability of the industry, especially given the production expansion of the 1970s. International trade in sugar takes place largely under bilateral contractual arrangements, and the residual free market is fairly volatile.

Fiji participates in one of the major bilateral contracts in international sugar trade, the Sugar Protocol of the European Economic Community\Africa Caribbean Pacific Lome Convention. This guarantees an assured market for 172,000 tonnes of sugar at stable prices fixed in close relation to the prices obtained by EEC sugar growers under the common Agricultural

Table 5.5

EXPORTS OF SUGAR 1966-85

Year	Quantity (000 tonnes)	Value (fob) ($000)	Unit Value ($/tonne)
1966	242	21,096	87
1967	323	23,780	74
1968	346	24,856	72
1969	322	28,134	87
1970	334	31,820	95
1971	340	32,851	97
1972	279	34,423	123
1973	271	34,280	126
1974	258	66,952	260
1975	250	94,717	379
1976	250	67,704	271
1977	324	93,576	289
1978	294	83,273	283
1979	428	116,962	273
1980	441	174,175	395
1981	408	131,561	322
1982	411	125,076	304
1983	343	111,935	326
1984	379	109,955	290
1985	410	111,828	273

Policy. This price is substantially above recent world market levels. In addition to the Lome convention, Fiji also participates in other long term contractual agreements for sugar sales to Malaysia, Singapore, New Zealand and China, but these serve mainly to guarantee outlets for the additional volume of sugar produced; they do not generally involve preferential prices.

COPRA

One of the Pacific's earliest plantation crops has declined in importance in Fiji in recent years. The ubiquitous coconut, so easy to grow and seemingly requiring so little maintenance,is still the economic base and chief export earner for a number of Pacific Island countries.

In Fiji its significance has lessened, and that is only partly due to the devastating cyclones of the last few years. Other factors influencing the decline have been falling world prices, and the poor yields of aging coconut palms. Some indifference among growers is also evident. There have been about 160,000 acres of coconut trees in Fiji for a very long time; 90,000 are owned and farmed by some 12,000 Fijians in coconut groves and 70,000 are farmed and owned by non-Fijian farmers in plantations[1]. There is no precise size difference between a grove and a plantation. The former is normally adjacent to a Fijian village and the trees are irregular in density with many self sown. A plantation is the name given to an area originally planted with trees spread at regular intervals. Groves are usually farmed by Fijans and plantations, which could be fairly large, by non-Fijians, predominantly Europeans or some of the early trading companies from Australia, such as Morris Hedstrom Ltd., W R Carpenters, and Burns Philp

1. Lord Silsoe, Report of the Fiji Coconut Industry Survey, Government Printer, Fiji, p.21.

Ltd. These companies are slowly moving away from coconuts into industrial fields.

It is also pertinent to mention here that of the total number of palms, 23% are over 70 years old, and increasingly unproductive. It is possible that, in time, coconut products will be more and more concerned with things other than copra and its derivative, coconut oil. Tests have taken place to find uses for the timber as well as the husk and the milk or cream from the coconut[1]. The latter is at present enjoying the most evident success, as a component in canned foods for export and local consumption. The viability of timber from the coconut palm either in treated or particle-board form, is at present uncertain. The husk is still made into sennit (magi magi), a hand manufactured cord, in some parts of Fiji and fashioned into ornaments and costume jewellery by a few crafts people. Fiji has not developed the manufacture of coir products (door mats etc) on any obvious scale.

THE DEVELOPMENT OF THE RICE INDUSTRY

The development of rice cultivation in Fiji has spanned over a century and has been closely associated with the arrival and dispersion of the Indians, who brought with them dietary requirements in which rice featured prominently as a staple. It is, however, uncertain when rice was first introduced in Fiji, but it is likely that very small areas were under cultivation before the first Indians came in 1879.

As the size and the number of Indian settlements rose,

1. Annual Report for 1982, 1983, Fiji Coconut Board, Suva.

the area under rice increased as well. Mostly traditional varieties were grown.

The early development of the rice industry was influenced largely by CSR policy on land use. Thus rice in the rapidly growing areas, in the early part of the century, was planted in land unsuitable for sugar cane because CSR, which controlled land use, did not permit rice in rotation with cane. The rapidly growing areas had its stronghold until the early 1940's, when increasing concern for a colony to be self sufficient in food production brought about a softening in CSR policy, and the allowing of rice planting on land under its control. Consequently, the area under rice increased from an average of some 8,100 hectares in the 1930's to 14,900 hectares in 1949, when total production was estimated to be 18,590 tonnes[1].

The year 1959 also presented a brighter outlook for the rice industry. The oldest sugar mill, built at Nausori, was closed, and rice cultivation was vigorously encouraged in the adjacent areas previously under cane.

Despite attempts to make Fiji self sufficient in rice, large quantities of this staple are still imported: 20,665 tonnes in 1984, costing $6.2m. 1984 was, however, the first year that local production had actually exceeded imports at 22,246 tonnes, giving 52% self sufficiency[2].

1. The Rice Industry in Fiji, The Food & Agriculture Organization of the United Nations, September, 1982, Suva.

2. Survey on Rice Production by Ministry of Agriculture, Fisheries and Forests (unpublished paper) 1984.

Efforts in the past to achieve self sufficiency in rice have clearly been unsuccessful. This failure is attributed to the uncompetitive price of paddy compared to the alternative commodities produced in rainfed areas, while unexpectedly high development costs have greatly reduced the area that could be brought under double cropped irrigated rice. The Government, however, remains committed to the policy of increasing production to reduce the need for imports and to conserve foreign exchange, although the objective of self-sufficiency is no longer as fervently pursued. The broad strategy is to increase irrigation and cropping intensities in the Northern Division, and in the Central Division of Fiji.

Several other export and import substitution crops have been developed in recent years. These have been maize, ginger, cocoa, coffee, beef production and tropical fruits and vegetables as shown in the table. The export of these has been in small quantities as development to fully fledged exports is still in infancy. However, two industries which have shown a significant potential for exports that need to be mentioned here are Fisheries and Forestry. These resource based industries have also seen a lot of Government assistance in recent years, both directly and from aid sources.

FISHERIES

Unlike many other Pacific Island countries, which have enormous marine resources but lack of equipment and skills to fully exploit them, Fiji has made quite a success of its own fisheries. In 1984 exports of fish amounted to $14.7m, of which

$14.2m was in canned fish, making this the country's fourth largest export, after sugar, gold, and coconut oil[1].

Primary Production: Selected Agricultural Product

Table 5.6

PERIOD	COPRA tonnes	PADDY RICE tonnes	COCOA tonnes	GINGER tonnes
1983	23,956	16,168	224	3,832
1984	24,661	22,246	235	4,059
1985	21,112	27,574	225	3,839
1986	22,510	24,600	286	5,518

Source: Current Economic Statistics, Bureau of Statistics, Suva, 1987.

There has been rapid development of the industry since 1974 due to a combination of factors: the establishment of a Government-sponsored corporation, the IKA Corporation of Fiji; the setting of a canning factory at Levuka, the Pacific Fishing Company Ltd (PAFCO); and the activities of the National Marketing Authority, NMA.

NMA is a Fiji Government Statutory body which assists fishermen in collection of fish from the rural areas, and its export. Because of its financial resource and knowledge of the market, NMA has become one of the largest exporters of fish and marine produce from Fiji, although its role has been criticised in recent years by the private exporters who feel the Body has an

1. Fiji Trade Report 1985, Bureau of Statistics, Government Printer.

advantage in securing sources of supply by being financed by Government.

THE PACIFIC FISHING COMPANY LIMITED

This company commonly known as PAFCO, was established by a Japanese company in Levuka in 1964 for the freezing and export of canned tuna. Ten years later the company entered a joint venture with the Fiji government and then added canning to its operations in 1976[1]. The rapid expansion of the venture has made it one of the most active tuna canneries in the Pacific and with a product of a consistently high standard. The cannery benefits from the presence nearby of the Fiji Can Co., another joint venture with Japan. The company has been working at 50% of its total capacity in recent years because of constraints on the fish supply. In 1983, $548,466 cartons of canned fish were produced using 766,053 tonnes of tuna, a figure some 13% lower than that of 1982. A small proportion of these were sold locally.

Ironically, Fiji still imports a considerable amount of canned fish; $5.4m worth in 1984, but these are mainly canned mackerel in oil, which has almost become a 'staple' diet of the Pacific. However, in 1983 a mackerel fish canning factory was established in Fiji as an import substitution venture.

THE IKA CORPORATION OF FIJI

This is a Government Statutory Authority, established in 1975 after a UNDP feasibility study. Its present

1. Fiji Seventh Development Plan, 1976-1980, Central Planning Office, November 1975, p.94.

fleet consists of 13 pole and line vessels, eight of which are on charter from overseas. Most of Fiji's tuna is landed by pole and line, this method accounting for a tonnage of 4,573 tonnes in 1984. Long line fishing was responsible for 1,832 tonnes. As at this time there is relatively little purse seine activity being carried out. All of the Ika Corporation's catch is sold to PAFCO, a value of $3.91m in 1983.

Table 5.7

INDUSTRIAL FISHERIES PRODUCTION 1981 - 1985

	Weight tonnes	Value of purchase $000s	Export Value $000s
1981	9,819.81	10,464.30	18,178.21
1982	7,810.64	8,013.60	11,083.91
1983	7,474.67	10,589.91	17,184.86
1984	6,982.54	6,536.81	16,762.52
1985	5,800.00	5,476.19	18,130.53

Source; Fisheries Division Statistics, 1986.

TIMBER PRODUCTION

Fiji has been self sufficient in sawn timber, plywood and veneers for some years, and generally limits timber imports to those types of boards or panels for which no local substitutes are available. Paper products are also imported. Exports of timber have increased substantially in recent years, although there is a ban on export of indigenous logs. Export consists of timber, veneer and plywood.

6,400 cubic metres of sawn timber, valued at $1.6m, were exported in 1982, something of a decline from previous years as a result of a depressed market, but the increase in veneer and plywood exports was substantial - 40% and 112% respectively. 33.4m square metres of veneer valued at $2m, and 258,000 square metres of plywood, valued at $625,000 were exported, mainly to New Zealand and Australia, a result for which SPARTECA trade concessions are largely responsible. Fiji's other major buyers of timber are the UK, the USA, Japan and Taiwan.

The other important development in this area has been the Fiji pine planting scheme as a basic wood, pulp, chip, and timber export industry. In 1976 the Fiji Pine Commission was established to facilitate and develop an industry based on the growing, harvesting, processing and marketing of pine and other species of timber grown in Fiji. The Commission is a statutory body which has formed partnerships with landowners to develop their lands for industrial wood production, and to encourage them to participate in the industry. The export of pine wood chips and sawn timber began in 1986[1].

MINING AND MINERALS

At present gold and ancillary silver constitute the only mineral exporting activity of any consequence in Fiji, the operation being solely in the hands of the Emperor Gold Mining Company Ltd. There have been considerable investigations in the 1970s and early 1980s into possibly viable deposits of other minerals; a good deal of time, energy and expense has been

1. Annual Report of Fiji Pine Commission, Government Printer, 1980.

devoted to searches for copper, oil, bauxite and other gold deposits, which have so far proved unrewarding. In the last few years, however, the rate of production from Fiji's only gold mine has increased significantly.

GOLD MINING

In 1929 gold was discovered on Vanua Levu at Mt Kasi, near the Yaniwai River. The discovery confounded geological experts who had declared that Fiji did not have the formations which yielded this type of metal. By 1932 production was in full swing at Mt Kasi and the mine continued with gold yields until mid-1943, when it was closed down.

In 1932 an Australian prospector Bill Borthwick had come across rich veins of gold in Tavua and while he and his Suva merchant partner, Pat Costello, did well from their finds, they had but scratched the tip of the enormous deposits which were later found in the area.[1] However their mine is important historically for pointing Fiji's economy in the direction of what was to become one of its major exports for many years.

1934 - 35 saw Fiji's own gold rush days as men from everywhere arrived to peg out their own claims on the well publicised ore-rich Tavua fields. During the heyday of claims much of Viti Levu and Vanua Levu was prospected by eager miners but virtually all were disappointed. The big deposits at Tavua had already been well and truly staked out. By 1936 most had

1. D.L. Oliver, The Pacific Islands, 1951, Harvard University Press, Cambridge, p.293.

given up the dream of striking it rich and departed Fiji.

Meanwhile, Melbourne investors under the leadership of E G Theodore had begun developing the area around Tavua giving rise to Emperor Mines Ltd and Loloma (Fiji).

A few years later Loloma and Dolphin closed but their operating companies combined with Emperor and continued to operate as the Emperor Mines Ltd until April 1983, when it entered into joint venture agreement with Western Mining Corporation.

In 1959 Emperor received a subsidy of $4 an ounce from the Fiji Government, the rising costs of production and falling world price of gold having forced the company to seek assistance. This continued until 1962. In 1967 the government made a $2m grant available to be paid over a period of the next three years. Having supported the operations with loans and grants for nearly 10 years, the Fiji government began negotiations to buy the mine outright but without success, mainly because the high price put by the company and when it found later the heavy cost of operating the mines and the expertise required were not available to the Government.

The mine created Fiji's first and only "company" town - Vatukoula. By 1977 nearly 2000 men were employed at the time, they and their dependents giving Vatukoula a population of over 9000. The company provided heath care, schools and recreation areas as well as housing. Since 1977 the population has declined considerably, the major reason being the laying-off of workers. In November 1978 1300 people left Vatuloula following the sacking of 1100 men after a strike by the Fiji Mineworkers's Union. The mine has been plagued by strikes for the last decade and numbers have continued to dwindle.

Since the joint venture between Emperor and Western Mining has been in operation there has been an enormous injection of funds into updating equipment, thus increasing yields per tonne of ore, and further exploration for new deposits[1]. In 1985 the partners began to sink a new shaft two and a half kilometres south of the main mine. Improved equipment has lifted extraction of ore from 360,000 to 500,000 tonnes per year and gold extraction rose from 30,000 to 54,000 ounces a year in 1986[2]. See Table 5.8 for production of gold and silver in recent years.

This renewed vigour and interest in Vatukoula is part of a growing international opinion that the South Pacific could well be an area of huge, as yet undiscovered, gold deposits. Geologists have identified another geological phenomenon which can produce the precious metal; young volcanic formations which have epidermal deposits. Thus geological areas previously ignored by mineral experts are being re-examined with renewed interest, and the Pacific Islands are attracting many mining exploration companies in search of new deposits; Papua New guinea is already revealing some of its vast hidden treasures and revenue earners.

Mining activities in Fiji are generally carried out by foreign companies, but local companies are beginning to play some part. A general reduction of exploration throughout the world in 1982 - 83 had its effect on Fiji; the companies Goldfields Consolidated and Anglo-American closed their offices and ceased

1. N. and G. Douglas, Fiji Handbook, 1987, Pacific Publications, Sydney, pp.130-131.
2. Current Economic Statistics, Bureau of Statistics, Suva.

active operations in Fiji. They were, however, immediately replaced by Newmont Pty Ltd., Freeport and Placer Minerals, with the result that exploration activities have been maintained, some as joint ventures. In 1983 17 prospecting licences were held, covering a total area of 57,617 ha, a considerable reduction from the 1980 figures of 35 licences and 337,219 ha[1].

COPPER

Exploration for this mineral in both Viti levu and Vanua Levu during the 1970s led to the discovery of two large and several smaller deposits in the Namosi district of southern Viti Levu. Detailed evaluation of the two main deposits was completed in 1980, by which time more than $15m had been spent[2]. Pre-feasibility studies indicated that the ore content was insufficient to permit a viable mining operation under prevailing world prices. A subsequent updating showed that the situation had deteriorated over the following years and that the capital estimates and working costs had increased, whereas the price of copper had declined. Although the commencement of mining operations in the near future seems unlikely, efforts to seek other developers are continuing.

1. Annual Report, Department of Mineral Resources, 1984, Government Printer, Suva.

2. Fiji Ninth Development Plan, Central Planning Office, 1985, p.80.

Table 5.8

PRODUCTION OF GOLD AND SILVER 1981-85

Period	Gold (kg)	Silver (kg)
1981	959	261
1982	1,423	576
1983	1,248	405
1984	1,509	473
1985	1,865	459
1986	2,856	774

Source: Current Economic Statistics, 1986, Bureau of Statistics, Suva.

TOURISM

Tourism in Fiji is often regarded as a very recent phenomenon, and references to its beginnings in the late 1960s when the first luxury resort, the Fijian, opened, and a number of land water excursions began operating, are frequent[1]. In fact the visitor business in Fiji goes back at least as far as the later years of the Nineteenth Century, when the trans-Pacific vessels of a number of shipping companies found Fiji's geographical location as the "crossroads of the Pacific" a great convenience for breaking the relative monotony of a long sea voyage.

Much of the tourist development came about quite incidentally as the result of the Pacific War. Before that there were few substantial airfields in the Islands. War's necessities

1. Fiji Bureau of Statistics Report, 1985, A Statistical Report on Tourism, Suva.

accounted for the construction of airfields, or, at the very least, landing strips on Islands which had barely been introduced to phenomenom of flight1. Throughout the Pacific, airfields, now used for commercial and especially for tourist purposes, owe their existence to the exigencies of World War II. Fiji's geographical position was again to its advantage; trans-Pacific flights were far more likly to want to put down there, and as the size of aircraft grew, so Nadi Airport grew to accommodate them, considerably faster than most other Island airfields in the South Pacific.

For at least a few years tourism development in Fiji took the form of a struggle between optimistic investors, mostly foreign, who predicted that this must inevitably become the country's major source of revenue, and cautious Government, both late-Colonial and independent, who had doubts about the wisdom of funding the Fiji Visitors Bureau, one of the country's earliest estabished statutory bodies. Subsequently, tariff and taxation concessions were given to hotel builders and to tourism entrepreneurs, though only after considerable persuasion. Early in the 1960s the Colonial Government was persuaded to introduce the "Duty Free" shopping system as a lure to tourist spending. It was quite popular, as long as the watches, cameras, radios, perfume etc, to which it applied seemed to be available more cheaply in Fiji than in the tourists' country of origin. But with the decline in the value of the value of the Australian and New Zealand dollar compared with that of Fiji due to their

1. Fiji Business and Travel Guide, 1986, Pacific Publication, Sydney, p.172.

economic conditions and the greater degree of "Duty Free" choice now available in those countries, this business has declined rapidly, but a number of specialty shops oriented towards tourist spending has taken up the commercial slack.

Government also began taking an increasing interest in tourists from the 1980s and this was indicated in Fiji's Eighth Development Plan (DP8) and in many other Governmental publications which stressed that "in the short to medium term, the Tourism Sector appears best placed to contribute most towards economic growth and employment generation"[1]. Fiji's previous plans did not devote much to Tourism.

In 1984 visitor arrivals by air in Fiji totalled 235,227, while another 60,000 were cruise ship passengers. From 1968 to 1973 visitor numbers increased at the annual average of 20 per cent, but growth has been much more modest since then. From 1974 to 1980 visitor numbers increased on average by 4 per cent and despite some downturns caused by world recession and Cyclone Oscar in 1981 and 1983 respectively, they have grown at 6 per cent per annum on average this decade[2].

Between 1979 and 1984, 42 per cent on average of all visitors to Fiji were from Australia, 21 per cent from North America, 16 per cent from New Zealand, 7 per cent from Europe, and 6 per cent from Japan. The number of tourists rooms available in Fiji in 1986 was 4138.

1. Fiji's Eighth Development Plan (1981-1985), Central Planning Office, Suva, 1985, p.195.

2. Larry Dwyer, Tourism in the South Pacific, Pacific Policy Papers, 1986, pp. 226-262.

Except for 1983, the year of cyclones, gross tourist expenditure has been steadily increasing as shown in the table below.

Table 5.9

GROSS TOURIST RECEIPTS, 1975-1984

	(F$ m)
1975	66.7
1976	76.0
1977	80.0
1978	98.0
1979	105.0
1980	108.0
1981	122.0
1982	142.2
1983	135.0
1984	161.0

Gross tourist receipts as % of all exports - 35%.

Gross tourist receipts as % of G.D.P. - 16-22%.

In 1984 gross tourist expenditure of $161 million was significantly higher than the $110 million from sugar exports, traditionally Fiji's major source of foreign currency earnings. Nonetheless, the DP8 made it clear that tourists account for only 16% of Gross Domestic Product (GDP) and that compared with other sectors of the economy had low linkages as a result of its high import content; about one quarter of tourism is spent directly on imported goods and services; about two-thirds of total receipts flow out of the country. In 1985 gross receipts from Tourism amounted to $168.7m; the repatriation factor means that only $56.2m was retained. In the same year export value of sugar and its by-products was almost $112 million.

With respect to the contribution which tourism made to employment, in 1971 an estimated 7,000 direct and indirect jobs were created by tourism, 9.4 per cent of those in paid employment[1]. The most recent estimate of tourism generated-employment is that of 1981, when the tourist industry provided 22,040 jobs and 27 per cent of the total paid employment[2].

Another important development in this area has been that NLTB which began leasing Fijian owned land for tourist development, primarily hotel sites in the 1960s, a move which gave some land owners an income greater than they might otherwise have obtained, from leases and a percentage of profits earned by resorts built on their land. Since the participation of NLTB in tourism industry there have been some major hotels constructed in joint venture with overseas companies. As 83% of Fiji's land is owned by the Fijians and administered by the NLTB, this move has been the most positive step towards the development of the tourism industry as it has opened up new sites for tourism development particularly in the fast growing areas of the Yasawas the the coral coast.

1. E.C. Dommen, 'The economic impact of tourist spending on the economy of Fiji', 1973, in J. Harre (ed.), Tourism in Fiji, Ray Parkinson Memorial Lectures, USP, Suva.

2. Fiji's Eighth Development Plan, 1981-1985, 1980, Central Planning Office, Suva.

5.8 OVERVIEW

This chapter has presented an outline of the development of manufacturing industry in Fiji. It would have become clear that Fiji's manufacturing has some distinguishing features that set it apart from most of the developing countries. Firstly, the informal sector is relatively insignificant. Its small size may be broadly related to the relatively high standards of living in Fiji, and the stringent licensing and regulatory system imposed from the beginning of colonialism. It may also be due to the absence of an indigenous informal system, and to the presence of a highly literate population organising their businesses formally to take advantage of government assistance.

The second feature that distinguishes Fijian manufacturing from most of the developing countries is the high degree of local ownership in the sector, which has increased rapidly since independence[1]. This increase derives from three basic sources. One of the most important is the presence in Fiji of a well organised group, as shown by Chandra, members of which came to Fiji specifically to trade[2]. The contribution of this group to the increase in local ownership in the manufacturing sector has been very significant. The second important source has been the increasing level of governmental direct participation in manufacturing, perhaps triggered by its

1. Annual Reports - 1982-1986, Economic Development Board, Suva.
2. R. Chandra, Industrialisation in Fiji, Geo Journal, March 1988, London.

profitable acquistition of the CSR assets. The third factor has been the government's industrial policies as outlined in detail in the chapter on the Role of Government.

Finally, we have seen that the output of the manufacturing sector is closely related to the basic needs of the local population. It is, thus, not an enclave, specialising in the production of luxury items for the elite, when, as claimed by Amin, a domestic market does develop in peripheral social formations.

As we have seen, other than sugar, the industrial structure is dominated by the food and beverage sector, servicing the domestic consumers. For this reason it was important to highlight the significance of resource based industries and service industries in the second half of this chapter. In the last ten years more and more efforts have been directed towards identifying and establishing resource based industries both for domestic reason as rice and or for both, such as manufacture and processing of ginger, timber, and marine products. In a small island developing country like Fiji where internal market is small and there is no comparative advantage for manufactured products, the establishments of resource-based industries in recent years be it agriculture, marine or mining or forestry, and the service industry such as tourism, have proved valuable in creating employment and generating foreign exchange.

CHAPTER VI

TRADE DEVELOPMENT

6.1 Introduction

This chapter will examine the development of exports in Fiji from the Second-World War when the question of the mono-cultural nature of the economy of Fiji began to be discussed seriously. Sugar had accounted for about 70 to 80 per cent of Fiji's total exports for decades, with gold and coconut oil playing minor roles.

The first part of the chapter will therefore look at the steps taken by the government to introduce measures to lessen Fiji's dependence on only a few products for export income. The early step taken was the introduction of import substitution industries from the 1960s, which have been amply covered in the chapter on industry. However, as the opportunities for import substitution industries diminished, the government decided to promote export based industries which would benefit from the three non-reciprocal trade agreements, under which Fiji is a beneficiary: SPARTECA, LOME and GSP. In addition, lucrative export incentives provided added encouragement to exporters, as did Fiji's comparative advantage and attractions for investors wishing to establish enterprises with a view to export.

In view of the government's efforts to diversify its exports, this chapter will explain the developments in other products exported since Fiji introduced positive measures in this area from the 1970s. The Development Plan 7 which covered the period 1975 - 80 was perhaps the first plan in which government policy on diversification was clearly spelt out, although, as mentioned before, ad-hoc measures were taken to diversify from the Second World War[1]. The 1970s therefore saw the development of new products for export such as canned fish, timber products, cement, biscuits, paints and cigarettes. This chapter will also focus on the direction of trade in the light of the new initiatives.

Finally this chapter will discuss in detail the government's decision to promote export based industrialization in the export processing zones. Since EPZs were introduced in 1987, and this thesis covers up to 1986 only, the emergence of Fiji's tax free system will be reviewed only briefly. The chapter will conclude by looking at the efforts of government and the private sector in identifying areas for export in agro-based industries.

6.2 FIJI'S EXPORT DEVELOPMENT

In recent times international trade is being subjected to pressures from many directions. Unemployment, deindustrialization and balance of payment worries have revived protectionist tendencies in the western countries. A large share of the manufactured exports from the developing world are subject to quotas or voluntary restrictions, and having learnt their lesson, industrial groups in the West are now quick to react pre-emptively at the first sign of an impending attack by foreign suppliers by asking for legal or legislative restraints. Close to one-fifth of manufactured exports from the developing

1. Ministry of Commerce, Industry and Co-operatives, Report of the Trade Promotion Council, 1975, Suva.

countries to the industrial nations are subject to non-tariff barriers[1]. As protectionism affects the high volume items such as textiles and garments as well as the faster moving products in world trade, for example micro chips, it is capable of arresting certain trends and profoundly influencing the product mix as well as the geographical pattern of exports. Hong Kong firms, feeling the pinch of quotas, began establishing subsidiaries in Malaysia, the Caribbean and Mauritius. China and Thailand enlarged their share of the garment business. Products are being upgraded; silk and ramie have partially displaced cotton and synthetic fibres. In short, the political tug of war is no less significant than economic forces. The LOME Convention, the Caribbean Basin Initiative, SPARTECA as well as other trade agreements have joined resource, as will be discussed later in this chapter, endowments and industrial policy as the arbitrators of comparative advantage.

The durability of trade patterns might also be compromised by two other developments: automation and movements in exchange rates. Revolutionary electronic innovations are making possible the automation of numerous labor intensive assembly operations in industries such as garments,[2] semi-conductors, machinery and automobiles. Since these are the very activities which have enabled developing countries to

1. Fiji: A Transition to Manufacturing, World Bank Report, November, 1986.

2. Kurt Hoffman, Clothing, Chips and Competitive Advantage: The Impact of Microelectronics on Trade and Production in the Government Industry, World Development, March 1985, Vol. 13, p.3.

industrialize and export, automation poses a serious threat. A reverse migration of assembly industries to the advanced nations could be immensely damaging to the industrial hopes of developing countries and it would certainly require a fundamental rethinking of what constitutes the best export opportunities.

Secondly, the flux in exchange markets. The realignments which have occurred between the currencies and the aggressive use of exchange rate policy to secure a trading advantage makes for great uncertainty, especially for small economies seeking exports. This is the backdrop against which Fiji's past export performance must be assessed.

As discussed in detail in Chapter three, like most ex-colonial countries, Fiji's early economic development was based on the promotion of primary produce such as coconut oil, sugar and exports to meet the demands of expanding metropolitan economies.

The only other significant modification of Fiji's dependence on sugar and coconut over the years was the discovery and mining of gold in Northern Viti Levu, beginning in 1934 and still continuing. In some years it supplied more of Fiji's export earnings than copra.

Since the Second World War up to 1958 Fiji successfully exported sugar, gold, copra, bananas, biscuits, pineapples and green ginger[1]. In 1958 the export of canned pineapple ceased due to the policy of CSR to concentrate more on sugar exports. The trend of this export pattern continued in the 1960s and 1970s.

1. Pacific Islands Year Book, 1959, Pacific Publications, Sydney. p. 235.

Until up to 1986 gold, coconut oil and sugar continued to be the major exports of Fiji although tourism and garments export has expanded greatly in recent years. Table 6.1 shows the percentage composition exports of Fiji, showing the dominance of the three export products mentioned above.

Table 6.1

PERCENTAGE COMPOSITION OF EXPORTS 1960 - 1980

Year	Sugar and Molasses	Coconut Products	Gold	Other	Total
1960	67	19	8	6	100
1965	71	14	9	6	100
1970	65	10	10	13	100
1975	83	5	7	5	100
1980	82	*3	5	10	100
1985	62	*4	12	22	100

Source: Overseas Trade, Fiji 1986, Bureau of Statistics, Suva

* Heavy decline due to effects of cyclones.

In regards to manufactured goods when compared to Mauritius or Jamaica, both island nations that are broadly similar, Fiji's products have been a much smaller percentage of the total. They amounted to as little as 5% in 1985 whereas manufactures comprise close to 43% of Mauritius and 20.5% of Jamaica's exports[1]. Table 6.2 shows the broad range of

1. 'Fiji: A Transition of Manufacturing, 1986', World Bank Report, East Asia Program Dept., Washington, D.C.

TABLE 6.2 FIJI - MAJOR EXPORTS BY THREE DIGIT SITC
(US$ million)

	1975	1980	1983
Total (incl.gold)	138.3	283.0	174.0
Gold	10.4	15.2	16.4
Total (excl.gold)	127.9	267.8	157.6
Food & Live Animals (0)	117.9	248.6	136.0
Fish Tinned (032")	0.2	10.6	14.5
Cereal (048)	0.6	1.9	1.9
Fruit preserved (053)	0.3	0.9	1.2
Sugar and honey (061)	114.4	229.6	112.6
Spices (075)	0.7	1.5	2.2
Animal feeding (081)	0.7	0.9	1.0
Beverages & Tobacco (1)	0.1	0.1	0.2
Crude Materials (2)	1.0	6.2	2.8
Wood shaped (243)	0.4	3.5	1.7
Crude animal materials (291)	0.1	0.3	0.6
Crude vegetable materials (292)	0.2	0.3	0.2
Mineral Fuels (3)	0.0	0.0	0.0
Animal & Vegetable Oils (4)	6.0	8.1	10.4
Fixed vegetable oils (422)	6.0	8.1	10.4
Chemical (5)	0.4	0.9	1.7
Pigments, paints (533)	0.2	0.3	0.5
Perfume, cosmetic (533)	0.0	0.3	0.3
Soaps, cleaning (554)	0.0	0.2	0.5
Plastic material (581)	0.0	0.1	0.3
Basic Manufactures (6)	1.9	2.4	4.2
Veneers, plywood (631)	0.7	1.2	2.5
Articles of paper (642)	0.2	0.1	0.2
Iron, steel univ. (674)	0.0	0.1	0.4
Steel, copper nails (694)	0.0	0.2	0.5
Machines, Transport Equipment (7)	0.0	0.1	0.0
Misc. Manufactured Goods (8)	0.3	0.7	1.1
Clothing (841)	0.0	0.1	0.5
Goods, Nel (9)	0.3	0.8	1.1
Special transaction (931)	0.3	0.8	1.1
Memo Items			
Manufactured (5-8)	2.6	4.1	7.0
As % of Total			
Sugar	82.7	81.1	64.7
Gold	7.5	5.4	9.4
Manufactures (5-8)	1.9	1.4	4.0

Souce: UN Trade Systems, 1984.

manufactured goods produced in Fiji. Plywood veneer is one of the larger items with a 35% share followed by clothing, soap, plastics, paint and perfumes. The direction of trade is heavily influenced by sugar contracts with the U.K, Malaysia and Australia as well as the sale of gold to Australia. Once these transactions are netted out and the focus narrowed to manufactures, Fiji's principal trading partners are respectively: Australia, the U.S, New Zealand and the neighbouring Pacific Islands (see Table 6.3). To Australia and New Zealand, Fiji sends vegetable oil, preserved fruit, clothing, plywood, veneers, tinned fish and spices. This is a good mix of commodities since it includes some of the fastest growing imports into these markets. Garments are also exported to the U.S.. and the country is an expanding market for Fiji's fruit juices and its high quality ginger.

On the positive side it can be shown that exports of manufacturers have risen steadily, between 1980 and 1985. But the magnitudes involved are modest in comparison to other developing countries. Fiji has been slow in diversifying its exports, seeking new outlets, and in forging links with the dynamic economies bordering the Pacific basin. This has been mainly due to lack of market opportunities in Australia and New Zealand because of heavy protection against the manufactured goods and tropical fruit and vegetables into these markets. However, as it will be seen later Fiji has been able to successfully penetrate in these markets following the signing of the SPARTECA agreement which has allowed duty free entry to Fiji products in these markets. The most successful one has been

TABLE 6.3 FIJI - EXPORTS BY SITC SECTIONS AND DESTINATION - 1984
(%)

SITC	(0) Food	(1) Bev. & tobacco	(2) Crude materials	(4) Oils & fats	(5) Chemi-cals	(6) Manufac. goods	(7) Machi-nery	(8) Misc. commodities Manufac.	(9) Misc. commodities NES	Total
Destination										
UK	51.6	0.5	3.3	0.0	0.0	0.0	0.9	0.0	0.4	37.3
Australia	1.2	0.0	14.4	41.6	9.0	34.9	16.5	35.6	97.8	17.1
US	9.9	1.4	2.3	57.8	0.4	17.4	0.0	9.1	0.2	13.3
Malaysia	16.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	12.0
New Zealand	3.6	40.4	37.1	0.4	6.6	13.6	35.8	13.5	0.6	4.4
Japan	4.1	0.0	19.1	0.0	0.0	0.8	0.0	0.9	0.1	3.5
Canada	2.9	0.5	1.4	0.0	0.1	0.0	0.0	0.3	0.0	2.2
China (PRC)	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.5
Singapore	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.8
Hong Kong	0.3	6.9	1.7	0.0	0.0	0.1	0.0	0.3	0.0	0.3
Pacific Islands	3.0	8.3	1.3	0.2	51.0	28.0	23.9	30.8	0.2	3.8
Others /a	3.6	42.2	19.5	0.1	32.9	5.2	22.9	9.3	0.8	3.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Memo Items										
SITC as % of Total Exports	72.0	0.1	2.9	9.4	0.9	3.0	0.1	0.9	10.7	100.0

/a Includes ship stores.

Source: Bureau of Statistics Fiji, Current Economic Statistic, April 1985, T. 84.

garment export which from zero export in 1981 rose to about F$10 million in 1986.

As shown in Table 6.3 the pattern of export markets is fairly well spread when reflecting the sales of sugar. However, as mentioned above, the three most important markets for Fiji, once sugar is excluded, are Australia, New Zealand and the South Pacific.

In 1986 the Pacific Islands were Fiji's fifth largest export destination after the U.K, Australia, the USA and New Zealand[1]. As the three major important markets for manufactured goods for Fiji are Australia, New Zealand and the South Pacific it is vital at this stage to look at them in some detail.

AUSTRALIA

With its 17 million people, advanced urbanization and high standard of living, Australia is considered the giant market for the South Pacific countries, and indeed for Fiji. From the position of the Pacific Island countries, the Australian market-place is more geographically convenient due to the concentration of the Australian population on their Pacific coast. As a result shipping and air links are well developed and comprehensive, and, in the case of many of the South Pacific countries including Fiji, services are direct.

Australia has also been the main source of imports into Fiji, which has resulted in a major imbalance of trade between these countries. In spite of this imbalance, Australia's

1. Overseas Trade Fiji, 1987, Bureau of Statistics, Suva.

importance as a market for Fiji is underlined by the following points.

- Shipment of Australian exports to Fiji provides ample and competitive back-loading for Fiji developmental exports to Australia;
- the Australian market accepts a wide range of Fiji products, which contributes to the important goal of export diversification.

Australia's 1986 imports from Fiji were as usual dominated by gold (A$39M) but the major new entry was clothing (A$2.5 million) while wood products (A$3M) coconut oil (AF2.4M) and veneers/plywood (A$1.5 million) also continued strongly. Seafood was also in keen demand[1].

In spite of Australia's tropical and competitive north-east there remains a good market for Fiji's fresh fruits and vegetables. The growing South East Asian population in Australia is providing an expanding market for yams, taro, okra, cassava, and other tropical produce which is not widely grown in Australia. The high cost of internal freight in Australia allows Fiji to compete with Australian tropical producers, as does the fact that some tropical resources in Australia such as hardwood forests, are being preserved for conservation reasons.

Australia's clothing market has proved a growing attraction for Fiji in the 1980's and concessions have been made in Australia's TCF sectoral policy for a special quota for FICS

1. Current Economic Statistics, 1987, Bureau of Statistics, Suva.

garment exports to Australia. Fiji has made full use of this quota,[1] and has been successful in entering and selling in global quota market.

The Fiji garment export industry got underway in 1982, when a few of the Fiji garment manufactures, interested in exporting to Australia under the SPARTECA Agreement, began investigating opportunities in Australia. Despite their repeated efforts they found that Australian importers were unwilling to use their quotas to source garments from Fiji, due to doubt about quality, delivery and price. Established suppliers especially from Asia, were preferred, despite the duty advantages accruing from sourcing from Fiji.

Because of this resistance, the Prime Ministers of Fiji and Australia met in 1981 and agreed that a special free quota of 66,000 units for Fiji garments should be introduced into Australia's clothing import quota system. This was conceived as a "seeding" arrangement, and while the special quota has now been broadened to include all FICS and has been increased in size as part of Australia's new TCF sector policy, the planting of the 1982 seed has certainly produced a good crop for Fiji in the late 1980's and beyond[2].

However, the main area of concern that Fiji has had with SPARTECA and other preferential trade agreements, as we will see later, is the inflexibility of the rules of origin

1. Report of the Economic Development Board, 1984, Velop House, Suva.

2. Peter W. Thomson, Trade and Investment in the South Pacific Islands : A Diagnostic Study, 1989 ,Pacific Island Development Programme, East West Centre, Honolulu, Hawaii p.30

provisions. Donor countries respond that derogation procedures are provided for, but beneficiary countries say that these are of little use because:

- derogation procedures are protracted and over-demanding on the limited commercial resources of developing country exporters; approvals of applications have also been rare.

- in a case where a product is just outside rules of origin regulations, exporters would rather "chance it" with trial exports than apply for derogation because application would bring attention to their products rules of origin problems and against their access possibilities.

Despite these difficulties Fiji's exports of garments to Australia since the introduction of special quota in 1982 has been increasing as shown below:

1982	:	$77,000
1983	:	$300,000
1984	:	$500,000
1985	:	$1,500,000
1986	:	$2,500,000

Source: Fiji Trade and Investment Board, 1987

In its efforts to diversify from its narrow export base and the creation of new employment, garment manufacturing has been one of the most successful industries in Fiji in recent years. SPARTECA Agreement could be attributed as a prime instrument in this success.

THE PACIFIC ISLANDS

Fiji's central position in the South Pacific has resulted in her use as entrepot to many other small South Pacific countries both for shipping and as freight. Re-exports are valued at about 25 per cent of total exports, or one-third of domestic exports. Important items are food and clothing. Exports to other Pacific Islands are 11 per cent of total exports indicating that they take over a third of all re-exports. Over 20 per cent also goes to refuelling and restocking ships and aircraft in transit. The remainder involves some transhipment of exports from smaller neighbouring islands, mainly copra to the U.K., Germany and the Netherlands, but the amounts are small.

The total population of the South Pacific islands exceeds five million. Though this is small by world standards and goods produced by the islands are mostly similar in nature it has not deterred Fiji[2] from expanding its export as shown in the Table below. Some of the major items exported to these islands by Fiji are sugar, biscuits, corrugated sheets, paints, clothing and cement.

1. Group Secretariat Department of Trade, A Study of Import Export Profiles of CRCGT Member Countries, Canberra, 1985, p. 143.

2. P.W. Thomson, Trade and Investment in the South Pacific Islands, A Diagnostic Study, PIDP Hawaii p.198.

Table 6.4

FIJI'S TRADE WITH THE PACIFIC ISLANDS (F$000)

Year	Imports	Domestic exports	Re-exports	Total exports
1970	49	1,1813	3,513	5,326
1980	1,779	6.098	29,618	35,716
1983	1,812	8,177	31,438	39,615
1984	2,022	9,583	32,658	42,241
1985	3,889	12,942	33,181	46,123
1986	6,026	12,636	25,223	37,859

Source: Bureau of Statistics, 1987, Suva.

NEW ZEALAND

The third market which has been of significance for Fiji and the Forum Island (FIC) countries as a whole has been New Zealand. It is a market in which there exists a significant immigrant population from the Pacific islands, particularly from Western Samoa, the Cook Islands and Tonga. This population has provided a nucleus of demand for Pacific Island produce both for these expatriates' own consumption and the generation of interest in the indigenous population. Unlike Australia, New Zealand does not have a tropical zone so it must look to the countries to the north to provide tropical produce[1]. The market is also enhanced by the fact that New Zealand, with its close geographic links to the Pacific Islands, is a popular tourist destination.

Geographic links have been strengthened by strong historical cultural, educational and political ties particularly in the case of Polynesia. Economic links between New Zealand and the Islands have seen New Zealand as being a major supplier of

1. Ministry of Foreign Affairs, South Pacific Trade 1972, 1973, Wellington.

food, building materials and manufactured goods to the Islands over the years. Until recently FIC exports to New Zealand have largely been raw materials and the balance of trade has been substantially in New Zealand's favour.

With the commencement of SPARTECA in the early 1980s and the removal by the New Zealand Government of all import licensing and tariff restrictions on FIC products from July 1988, the islands, dominated by Fiji began to approach the New Zealand market as a destination for a wider range of island products[1]. This has caused some concern in New Zealand, particularly in the apparel industry that more competitively manufactured goods from the FICs will exacerbate New Zealand's serious unemployment problem. The FICs Governments and, it would appear, the New Zealand Government are adamant that there should be no backing away from SPARTECA concessions.

In terms of a market intensity index, New Zealand's importance as a market arising from its high G.N.P. per capita, is greatly diminished by its relatively small population of 3.2 million people[2]. However, even a population as small as this represents an important market for small to medium sized FIC enterprises. It is well acknowledged also that, that FIC exports often see New Zealand as a first export destination, a place where they can "cut their teeth". Given the familiarity of business, language and geography, New Zealand is often the easiest nut for a Fiji exporter to crack.

1. Bureau of Statistics, Overseas Trade Fiji 1985, 1986, Suva.
2. Peter Thomson, op. cit.

6.3 IMPORTS

Imports have been vital to the operation of the Fiji economy and to the welfare of the population. Despite the increasing amount of import substitution which has been taking place since the Second World War imports grew very rapidly and much faster than exports. Although the proportion of food imports in the total import bill have been substantial over the years, the total share of food items has gradually been declining. In the aftermath of the 1960s the increases in imports were mainly capital goods and machinery for new developments or replacements and in tourist items. The former reflected the small size of the domestic market and thus the economic dependence on other countries for a wide variety of goods, particularly capital goods and fuels, while the latter reflected the "duty free" nature of tourist trade and the buoyancy of the tourist industry in the late 1960s and the early 1970s. The increase in capital items/machinery imports were encouraged by special concessionary rates of import duty. These imports were almost entirely financed by inflows of foreign private capital or public grants and loans from abroad whereas imports of consumer "duty free" tourist goods were mainly financed by local trading banks, and short term credit to the commercial sector.

Another large and growing item in the total import bill was mineral fuels. This can be partly attributed to the increasing amount of international air and sea traffic making re-fuelling stops in Fiji, partly to growth of re-exports to other

Pacific Islands, and partly to the increase of private transport, both by tourists and local people. Increased economic development clearly demands an increasing supply of machinery - as well as spare parts and proficient engineers - if it is to be sustained, and, for both physical and economic reasons, such imports obviously cannot be replaced (at least not in the short term) by domestic production[1].

In the 1960s the United Kingdom's position as the major supplier of imports was gradually replaced by Australia, together with a growing increase of imports from Asia.

Over the ten years from Fiji's independence to 1980, the value of imports grew at an average of 17.6 per cent per annum or only slightly above that for exports (17.2 per cent). The major items in the import bill were fuel and machinery which in 1980 accounted for approximately 23 per cent each compared to almost the same figure in 1985. See Table 6.5 for Fiji imports by commodity groups.

Imports include some for re-export. Machinery and parts on the other hand were not all capital items as they included such consumer durables as electrical appliances and motor vehicles. Manufactured goods accounted for nearly 19 per cent and also included some re-exports (especially textiles) and some articles for sale to tourists. Imports of miscellaneous articles (just under 9 per cent) also included re-exports (clothing for example). Food imports, although less significant than at the time of independence, still accounted for 14 per

1. Michael Ward, The Role of Investment in the Development of Fiji,1971, Cambridge University Press, p. 91.

Table 6.5 FIJI - IMPORTS BY COMMODITY GROUP (%)

	1970	1973	1974	1975	1978	1979	1980	1985
	18.7	19.4	18.8	17.4	20.0	15.7	14.2	15.8
ges and Tobacco	1.9	1.7	1.3	1.4	1.2	1.2	0.8	0.9
Materials	1.4	1.5	1.5	0.9	0.8	1.0	0.7	0.7
	11.0	8.9	15.7	17.4	15.8	18.4	23.0	22.7
nd Fats	1.5	1.4	1.6	1.6	1.5	1.3	1.1	2.1
als	6.5	6.2	6.7	7.5	7.4	7.0	6.7	7.6
ctures	19.5	18.4	20.4	17.9	19.2	19.1	18.7	19.8
ery	20.8	23.6	16.4	20.2	19.5	22.5	22.6	18.0
.e.s	3.7	4.3	2.3	2.8	3.4	3.2	3.6	2.6
($F Million)	91.00	176.00	219.00	221.00	300.00	459.00	540.00	508.00

: Bureau of Statistics, 1981.

cent. Imports of other items (including such inputs as crude materials and chemicals) were relatively insignificant.

Nearly a third of all imports came from Australia and another 15 per cent from New Zealand. Furthermore, this concentration was increasing with the share of imports coming from these two countries growing throughout the last ten years. In 1980, Singapore (11 per cent) also became important as a source of petroleum imports, supplying about 43 per cent of Fiji's needs (the bulk of the rest coming from Australia).

Japan provided 14 per cent of Fiji's imports mainly in the form of cars and tourist goods. The UK and USA each supplied about 7 per cent, mainly in the form of machinery and other manufactured goods. Otherwise supply was fairly spread. Other Pacific Island countries supplied less than 1 per cent of the total and much of that was in the form of copra (from Tuvalu, etc.) and food items (e.g. kava from Tonga).

BALANCE OF PAYMENTS

As discussed above, the economy of Fiji is heavily dependent upon international trade and finance, making it sensitive to changes in international economic conditions. Retained imports in 1975 were 38 per cent of GDP and in 1980 it was 42 per cent[1]. The trade account has been in substantial deficit, with a surplus on service transactions, principally attributable to tourist earnings, reducing the current account deficit. The average trade deficit in the 1980s has been F$150

1. Bureau of Statistics, Current Economic Statistics, 1981.

million with an average deficit in the current account of F$32 million[1].

As a capital-importing country, Fiji's current account deficit has been financed by substantial capital inflows, especially public capital inflows and, to a lesser extent, direct private capital inflows related to domestic investment activity. As mentioned above, the composition of Fiji's exports has changed little in the recent past as sugar has retained its predominance, with coconut products, gold and molasses as minor export commodities. Because of the economy's high degree of openness, swings in export earnings, whether induced by changes in terms of trade or external demand, or by domestic supply conditions, in turn significantly affect, through their impact on domestic incomes, the country's imports and associated capital inflows[2].

FOREIGN CURRENCY RESERVES

Fiji has been able to finance its deficits in both trade and current account without substantial drawing down of its foreign currency reserves. Even so these remained small and did not increase commensurate with the value of trade. Thus by the end of 1986 they stood at about $195.3 million as shown on Table 6.6 below.

1. Reserve Bank of Fiji, Quarterly Review, September, 1985.

2. World Bank, Country Economic Report, Fiji, Washington D.C., 1985.

Table 6.6

FOREIGN CURRENCY RESERVES 1975-84

End Year	Official Reserves (F4 million)	Coverage of Imports (months)
1975	125.8	6.8
1980	132.7	3.5
1985	146.5	4.1
1986	195.3	5.5

Source: Bureau of Statistics & Reserve Bank of Fiji, 1987

6.4 COMPARATIVE ADVANTAGE

Industry in Fiji generally encompasses all those activities in which the country has comparative advantages. Comparative advantages are determined by the relative costs of production and distribution and marketing between competitive locations, which are largely determined by factor endowments availability of materials, labour, energy, skills and management and other inputs) and the physical and institutional environment.

Comparative advantage, however, is not a static phenomenon and it changes over time. The value and nature of resource endowments can be changed or redefined by developments in technology and market demand both as applied to the activity in question and to other related activities. Furthermore comparative advantage is profoundly affected by the absence of the free play of market forces ranging from subsidies and tariffs, which affect costs and prices, to the imposition or removal of other trade restrictions, the pricing and scheduling policies of freight services, the provision of expertise and guidance under aid schemes, and the gaining of market entry through the efforts and expertise of the entrepreneur concerned[1].

With a country such as Fiji, comparative advantage is profoundly affected by the impact of freight costs (including such factors as frequency, delivery certainty, routing, damage and loss) so that on the more usual comparative advantage considerations must be imposed a matrix reducing the impact of freight (high value products for export, low value for import substitution, compact products for export, the opposite for import substitution, low cost routes and distance relative to competitors, which can mean close or distant target markets, for export, high cost for import substitution etc.)[2].

Several foreign and many local attempts have been made to identify new investment opportunities in Fiji particularly since the advent of EDB in 1980. A joint ADB, ESCAP and SPEC industrial study in 1983 identified export-oriented and import substitution projects for the South Pacific countries. Most of the projects suggested were of a resource base nature drawing as much local value added as possible[3]. The EDB in Fiji with assistance from CFT and UNIDO undertook several studies in 1982 and 1983 to identify new areas of investment in Fiji and expansion of existing ventures where possible. In 1982 a joint exercise was conducted by the World Bank and UNIDO to identify

1. Pak-Poy & Kneebone Pty Ltd, Exporting Fiji, 1982, F.T.I.B., Suva, p.6.

2. Fiji Eighth Development Plan 1981-85, Vol 1., Central Planning Office, Suva, Dec. 1980.

3. ESCAP, ADB and SPEC, Industrial Survey of the South Pacific, 1983, Bangkok, Thailand.

specific priority investment in the context of increasing export earnings and reducing food imports in Fiji. The mission did an in-depth study on selected agro-industrial opportunities such as pineapples, fish, pawpaws, fresh mangoes, maize, onion and garlic, to assess their production potential and constraints, their demand projections and the marketing and distribution systems and compiled extensive background information[1].

In another study in 1985 the Commonwealth Regional Consultative Group (CRCGT) identified a range of products in which Fiji statistically demonstrated comparative advantage in the intra-CRCGT trade[2], that is, the products have shown relatively significant growth in total value as well as significant increase in the share of exports going to the CRCGT region compared with the rest of the world. Table 6.7 identifies the relevant products.

Several important features of the Fijian economy can be discerned from the above table. First, the economy is moving on the path of industrial diversification, with an increasingly more diverse industrial and export structure. Secondly, the importance of the fishing industry is reflected in the size of Fiji's exports of tinned fish which, at about $US 19 million, represents the country's third largest foreign exchange earner after sugar and gold. Thirdly, exports of logs, sawn timber and

1 World Bank/UNIDO Co-Operative Programme, Fiji, Agro-Industrial Development, Ministry of Primary Industries, Suva.

2. CRCGT, A Study of the Import Export Profiles of CRCGT Member Countries, 1985, Group Secretariat, Canberra.

Table 6.7

Fiji's Intra - CRCGT Comparative Advantage Products

Sector	Exports ($US '00)		CRCGT Exports/ World Exports (%)	
	1975	1981	1975	1981
d Items				
fish	214	19,226	1.9	6.9
nd Honey	114,389	163,466	20.6	33.7
roducts	102	374	22.5	55.9
	98	347	0.0	1.1
	741	2,596	3.1	7.2
resh Nuts Frsh Dry	139	559	20.1	63.7
Feeding Stuff	716	963	5.7	30.6
g Oil, Non Soft	6,037	7,363	29.1	35.3
tural Raw Materials				
Skins, Undressed			0	69.2
tured Goods				
s, Paint, Etc	232	338	18.1	23.7
, Cosmetics, Etc	0	91	0	43.3
, Plywood, Etc	750	2,258	72.4	52.4
s of paper	155	317	38.1	56.1
extiles Non Cotton	1	1,389	0	22.9
Fabrics, Woven	0	1,609	0	32.1
bbon	0	110	0	37.2
Textile Etc Prod	0	106	0	32.0
Etc Prod NES	0	350	0	28.2
anks, Boxes, Etc	16	102	37.5	62.7
oducts	31	183	25.8	78.0
l House hold Equip	2	128	-	32.8
achinery Non-Elec	0	316	0	31.0
tural Machinery	0	286	0	89.8
Machines	0	192	0	58.3
rking Machinery	0	121	0	99.1
r Mach, Switchgear	1	111	0	79.2
munications Equip	0	484	0	33.6
cal Machinery Nes	0	239	0	21.3

Derived from ESCAP Data Base, 1982 Bangkok wood products have become important export earners, and reflect the successful development of the forestry industry, which began with large-scale pine planting in 1972. About 15.0% of Fiji's sawn timbers and veneers are now exported, whilst imports have dropped to negligible levels.

Despite the emphasis of Fiji's earlier industrialisation particularly in the 1970s on import substitution, each exercise has resulted in a still significant number of import substitution opportunities and a rather limited range of export opportunities[1]. In each instance, prospects were identified through an analysis, inter-alia of Fiji's comparative advantage.

While labour costs in Fiji are below those of her potential developed country markets, relatively lower levels of productivity and skills, high freight and energy costs, plus the greater problems of management and quality control more than compensate for this. As a result, opportunities for export to those markets identified by various missions and organisations mentioned above, are almost exclusively based on downstream processing of raw materials, many of which are also present in quantity in Fiji's major traditional market, Australia, which can also take advantage of scale economies based on sizeable markets not open to Fiji.

Under normal conditions many of the suppliers of import substitution items appear not to have a comparative advantage

1. Exporting Fiji, op. cit.

over overseas competitors. Considerations of comparative advantage, however, for import substitution commodities, especially those without any local material input, are distorted by various factors. Foreign suppliers are disadvantaged by:

- the relatively high freight costs, especially for finished and low value products;
- the small size and hence high unit marketing cost for foreign suppliers of the market (although intense brand loyalty, especially among Fijians, does much to overcome this);
- generally lower quality demands which often make foreign products overpriced and therefore, relatively expensive;
- artificial costs as a result of tariff protection; and
- preferential market access provide on the one hand by import restrictions and on the other by the intimate connection of suppliers and distributors, the latter frequently providing their own inputs.

The benefits for local producers of these items are largely derived from:

- the ability to import in less costly bulk form;
- the use of inferior local packaging;
- only a marginal additional management cost;
- the use of widespread underutilised capacity in both workers and plant and equipment as a result of other similar activities;

- limited marketing costs due to the use of own or captive outlets;
- the ability to take advantage of cheap and family labour offsetting low productivity with long runs or pay below the statutory minimums;
- a willingness to operate on narrow real margins accompanied by a reduction in risk exposure resulting from being integrated within the system;
- a group system of accounting that fails to recognise,or require, incremental profit in normal terms.

Because the nature of these distortions in comparative advantage are peculiar to local production in the domestic market, the export of such items (or re-exports involving suitably processed and assembled essentially imported inputs) to developed countries is difficult. Fijian products in this category tend to be disadvantaged by:

- the freight content of the imported inputs, often a substantial component of costs;
- the higher quality, packaging, and design requirements, not only adding costs but frequently outside the experience of local producers to meet or even recognise without assistance;
- competition with producers able to take full advantage of scale economies not only in production but also in distribution and marketing;

- competition with either low cost or high productivity producers frequently operating under a similar regime or tariff and access concessions;
- the difficulties of access to highly organised retail markets with established sources of merchandise;
- the high volume requirements of the wholesale and retail buyers;
- the strength of the retailer both in terms of dictating design and quality and in terms of enforcing very tight margins;
- the strength of established brand names already adequately catered for by established producers either directly or under licence.

This is not to say that Fiji producers do not operate in these markets. They have succeeded in some cases through the provision of low volumes of inferior products on concessionary terms to small outlets, usually through personal or family contact, as in the Pacific Island countries, and in other cases through concentrating on small scales of upmarket speciality products, garments in Australia and New Zealand, or lines, particularly those where small changes in product design has resulted in discontinuous production thereby offsetting scale advantages.[1]

However as already evidenced in Table 6.1 it is very clear the great advantage which is being exploited by Fiji in its natural resources. In the main, the tropical climate and soil allows sugar, coconut products, tropical timber, ginger and other

1. Allan Small, Export Promotion - Fiji, 1982, Report prepared for EDB, p. 18.

such products to be produced economically. Similarly, gold exports depend on the availability of this mineral in sufficiently concentrated locations to make extractions economic; and the fish industry is likewise dependent upon natural resources.

6.5 MECHANISM OF PROMOTION

Promotion of the local private sector is the major element of a strategy for industrial development and encompasses a wide range of activities. The idea of promotion is not restricted to publishing an investment booklet, offering a handful of financial incentives, and advertising for foreign investment in the economy[1]. Promotion covers every activity that aids and motivates local entrepreneurs to start up and succeed in business. In a country such as Fiji where local involvement and experience were fairly limited industrialisation began in earnest from the 1980s. It has been the government that generated the interest and overcame the shortfall in knowledge and expertise and essentially made it possible and profitable to be in business. Support for this approach was contained in the Fiji Government's Development Plan Eight[2]. It involved two aspects. The first was the encouragement of new investment in export-oriented activities and additional investment by existing companies. The second was assistance for these investors in overcoming the constraints to successful exportation. Encouragement of export oriented investment was considered as

1. EDB, Fiji Trade and Investment Guide, Suva, Fiji, 1982.

2. Fiji: Development Plan Eight, 1981-1985 Vol. 1, Central Planning Office, December, 1980.

simply part of the process of promoting new investment in accordance with government priorities. Notable amongst these was the promotion of a viable local industrial sector.

In Fiji promotion of new investments and of exports is largely under the Fiji Trade and Investment Board (FTIB). Although linked to other primary product sectors through ad-hoc committees the main concern of FTIB is with secondary industry ventures, processing and manufacturing.

Promotion has been tackled by FTIB in two divisions, one covering investment, the other trade. The Investment Promotion Division has facilitated new investment in Industry, both local and foreign, either through new ventures or the expansion of existing ones. Activities included communication and discussion with foreign investors on possible opportunities in Fiji and the arrangement of contacts with local businessmen interested in joint ventures, liaison with other government departments to identify and wherever possible overcome potential constraints, and to a limited extent (limited largely by manpower constraints), the identification and subsequent investigation of new opportunities. However, a great deal of the Project Division's promotion took the form of preparing, developing, and analyzing from BIDC, the Secretariat itself being the "one stop shop" single interface with authority that has been frequently recommended, though staffing deficiencies (both in number and expertise) have tended to curtail the full realisation of this objective.

Responsibility for promotion of industry has also been ascribed to various financial institutions, most notably the Fiji Development Bank (FDB) and the National Provident Fund (NFP), to the primary sector ministries, the National Marketing Board (although this tends to promote primary production by providing its own public sector marketing channel), and the former Ministry of Commerce and Industry in its roles of developer of industrial estates and overseer of pilot projects.[1]

In Fiji, Trade Promotion has concentrated largely on communicating on behalf of Fiji exporters with overseas trade missions (largely adjuncts of the Ministry of Foreign Affairs), Chambers of Commerce, foreign legations in Fiji, overseas importers etc. and on the provision of exhibits in response to requests from sponsors of trade fairs abroad featuring island products. The Trade Division and its forebears have commissioned market surveys of select products and markets which are then disseminated to relevant local producers and where possible followed up by discussions on implementations. So far product markets covered by such surveys included[2]:

- ginger to the U.K.[3];
- tuna to the U.S.A.;
- coconut oil soaps to Australia, New Zealand, Hong Kong and the U.S.A;

1. EXCAP/ADDB/SPEC, op. cit.
2. EDB, <u>Annual Reports</u>, 1983, 1984 and 1985, Velop House, Suva
3. Commonwealth Secretariat, <u>Market Survey for Ginger and Ginger products</u>, 1980 London.

- agricultural produce to the EEC, USA and Japan;
- fruit juices to the EEC, USA, and Japan;
- coir products to Australia, New Zealand, USA and Japan;
- timber products to Japan, Korea, Australia, and the EEC
- furniture to Australia.
- the Canadian market surveys[1];
- sales mission to the U.K.[2];

In addition, the Trade Division of FTIB assists exporters to fulfil the requirements, mainly clerical, to obtain concessions under Fiji's various trading agreements: SPARTECA with Australia and New Zealand, Lome II with the EEC, and the GSP for the USA, Canada, Japan, etc. It has also been involved, but in an advisory rather than negotiating role, with attempts to widen the coverage or improve the terms of these various agreements, most notably the granting of quotas for the South Pacific by Australia for garments.

The results from the above-mentioned trade promotion efforts have been an increase in exports (soap, timber, furniture, tuna and fruit juices) or opening new markets for exports such as garments in Australia and New Zealand or fresh tropical fruits and vegetables in Australia, New Zealand and Japan. According to annual reports of the Economic Development Board, the market

1. CFTC, Survey of Canadian Market for Non-Traditional Exports from Fiji, 1986, London.

2. Commonwealth Secretariat, Contact Promotions Programmed for Fiji in United Kingdom, 1984, London.

surveys for various products and the trade missions to various countries have been most successful, resulting in increased sales to the participants. These promotions began in Fiji soon after the establishment of EDB in 1980 as this was specified as one of its important responsibilities by the Board[1].

6.6 EXPORT INCENTIVES

For exports, incentives are of three kinds:

- relief from tax on profits accruing to exports for a period of eight years of:
  50% where the local manufacturing cost is 30-40%;
  75% where the local manufacturing cost is 40-50%;
  100% where the local manufacturing cost is 50% and over, of F.O.B. value of exports. Such relief cannot be carried forward and must be claimed within the first nine months of the fiscal year in question;
- drawback of duty on imported materials and of excise on inputs. Relevant inputs must be separately identifiable as used in the exports and generally should be actually present in the exported product not simply used in its manufacture (though discretionary powers can, and do, vary this);
- assistance with marketing expenses indirectly through aid funded missions, trade fairs, and market surveys, although not in any formalised or generally available way.

These export incentives do not require the approval of

1. EDB Act, No 11 of 1980, 1981, Government Press, Suva.

BIDC though it is frequently sought. The tax concessions are covered by the Income Tax Act and, therefore, are automatically available on application to all who qualify. Similary, although negotiation through BIDC facilitates the process, duty drawback is covered by the Custom Duties Act and, therefore is open to all applicants. In addition, government's commitment to continued negotiation for better terms and preferences in trade agreements has created a major factor in the encouragement of exports.

6.7 TRADE AGREEMENTS

In several instances, trade agreements have served to trigger export growth. Mauritius is a good example. Market access to the EEC gained through the Lome Convention has resulted in a flourishing garment industry which in 1985 displayed sugar as the principal export. Several of the Caribbean countries have begun to attract the attention of foreign investors following the Caribbean Basin Initiative and are starting to make their mark as exporters of light manufactures, processed food, fruit and vegetables. Haiti has, in a few short years, become a leading producer of baseballs, while a number of Central American countries do a thriving business in assembling garments from material shipped to them by U.S. firms who take advantage of their low labour costs and U.S. customs regulations[1].

Fiji has gained from three trade agreements which are covered in this section, which are designed to increase the

1. Fiji: A Transition to Manufacturing, World Bank Report, Nov., 1986, p 69.

opportunities for exports of Fiji products, i.e.:[1]

- South Pacific Regional Trade Agreement (SPARTECA);
- African, Caribbean and Pacific Convention - Lomé II and III;
- Generalised System of Preferences (GSP).

The size of the markets offering duty free entry, or special concessions to Fiji is large both in terms of consumers and geographical areas.

SOUTH PACIFIC REGIONAL TRADE AND ECONOMIC CO-OPERATION AGREEMENT (SPARTECA)

SPARTECA was completed in Canberra during May 1980 and signed shortly thereafter at the Eleventh Pacific Forum held in Kiribati. It is a comprehensive non-reciprocal pact under which Australia and New Zealand provide privileged access to exporters located in the Forum Island countries. SPARTECA did not immediately become a hinge for export-led growth in Fiji because of problems that are gradually being resolved. First, the rules of origin provided under this agreement were difficult to satisfy, particularly the value added component from New Zealand and Australia. The rules of origin specified that, in order to prevent the use of the islands as way stations for exports by third countries to Australia and New Zealand, at least 50% of the value-added must be from a Forum member and/or from Australia/New Zealand. But this was complicated by the additional provision

1. EDB, Fiji Export Guide: Handbook in various trade arrangements, 1985, Velop House, Suva.

that if the goods were exported to New Zealand, 50% of the value had to originate in a Forum member or only New Zealand, and if the goods were exported to Australia, they must contain Australian value-added rather than New Zealand value-added. This arrangement involved numerous inconveniences: a manufacturer of knitwear, for instance, who exported to both New Zealand and Australia, had to separate his raw materials and guarantee that sweaters bound for the Australian market were made with wool from that country. This provision was an outgrowth of the wool trading relations between New Zealand and Australia, which were resolved in 1985. The rules of origin were Australia New Zealand Closer Economic Relations Trade Agreements (ANZCERTA). In late 1985, the rules of origin were changed allowing 50% value-added from a Forum nation and from either New Zealand and Australia. This move effectively removed the constraint to the value-added provisions of the rules of origin[1].

A second constraint on the operation of SPARTECA arose from the range of goods embraced by the agreement. From the start New Zealand adhered to a negative list of items, not permitting passionfruit products, coconut cream, lime juice, footwear and apparel imports. Australia meanwhile, maintain a three-tier system of approved products with varying tariffs according to the tier in which the product was listed. The rule was considered unfair by the Forum members, who preferred the

1. Max Robson, SPARTECA - A Critique, 1985, Price Waterhouse Urwick, Sydney.

E 6.8 FIJI - SPARTECA TRADE WITH AUSTRALIA AND NEW ZEALAND (F$ f.o.b.)

	1983	1984	1985
ia Sparteca Items			
onal			
oil	4,281,218	7,709,883	4,474,179
d dressed timber	97,626	685,961	516,191
and plywood	1,521,199	1,630,277	2,030,257
ditional			
nd vegetables	610,081	837,850	604,427
fruit pulp	32,204	44,619	28,039
alo)	25,463	142,199	75,338
l and lyes	-	30,828	42,224
es and skins	86,023	51,622	36,166
ery	20,528	83,843	116,450
re	920	35,458	59,281
	364,357	510,558	1,1516,243
Total	7,039,619	11,763,098	9,498,795
land Sparteca items			
onal			
(dressed & undressed)	926,352	2,111,643	1,435,221
	174,333	309,315	297,433
	154,330	342,377	500,629
ditional			
& beer	47,314	87,806	228,823
	171,802	99,652	160,570
& varnishes	13,857	12,949	8,746
	325,978	157,548	12,510
	43,029	2,638	37,891
fish	252,080	107,509	136,336
onfectionary	142,877	118,560	37,865
ery	154,217	1,261	6,750
goods	43,846	28,769	-
oil	116,095	70,838	290
Total	2,576,110	3,450,865	2,863,064

Bureau of statistics, Overseas Trade, 1985, .

approach taken by New Zealand[1]. After prolonged debate, the Australians agreed to adopt a negative list begining on July 1, 1986. This includes the following items: steel products, motor vehicles, sugar and textiles, clothing and footwear, the last-named items being subject to quota. There is a separate agreement between the Australians and the Forum countries allowing about 67,000 units of clothing to be imported, as a special free allowance, under the Australian textile quota scheme.

SPARTECA exerts a powerful attraction for Fiji exporters because the proximity of Australia and New Zealand, together with traditional trading links, identify them as the markets of choice. Table 6.8 shows the SPARTECA trade with Australia and New Zealand. However as seen in the table, the quantum of goods bound for Australia and New Zealand has increased very modestly between 1983-1985, with the exception of apparel exports.

ACP EEC CONVENTION OF LOMÉ

The Lomé Convention is a trade and aid agreement between the EEC and the 57 African, Caribbean and Pacific States comprising the ACP group. Lomé II was signed in October 1979 and expired in March 1985. This was then followed by Lome III.

Fiji is a member of the ACP group and a full beneficiary of these conventions. The Lomé Convention guarantees duty free access to the EEC markets for 99.5 per cent of ACP

1. J. Sutherland, Australian Economic Relations with the South Pacific, 1983, ANU Centre for Continuing Education.

exports. The 0.5 per cent are products covered by the Common Agricultural Policy (CAP) of the EEC.

Free access to the agricultural supply sector by ACP countries is on the basis of quota, where exports of the specific product constitute a significant component of the national economy. A special provision of importance to Fiji is sugar. Under the Sugar Protocol, the EEC undertakes to purchase at guaranteed prices, specific quantities of sugar cane, raw or white, which originated in ACP member states. As will be noted in Table 6.9, Fiji receives the second highest allocation:

Table 6.9

CURRENT SUGAR QUOTA IN THE EEC MARKET

	Tonnes
Mauritius	487,200
Fiji	163,600
Guyana	157,700
Jamaica	118,300
Swaziland	116,400
Trinidad & Tobago	69,000
Barbados	49,300
Malawi	20,000
Madagascar	10,000
Congo	10,000
Tanzania	10,000
Kenya	5,000
Uganda	5,000
Total	1,300,000

Source: Ministry of Foreign Affairs, Suva, Fiji.

RULES OF ORIGIN

Only products originating in the ACP States qualify for the preferential arrangements described above. The body of provisions relating to the origin of the products and the proof of origin required are set out in Protocol No. 1 to the Convention. They may be summarised as:

a) Products wholly obtained in one or more ACP States,

b) Products obtained in one or more ACP states in the manufacutre of which products other than those referred to in (a) are used, provided that the said products have undergone sufficient working or processing.

The Rules of Origin are applicable to all the ACP States which are considered as being one territory, and also to products manufactured in the ACP States from one or more components obtained in the EEC or one of the associated countries and territories. Fiji's major exports to EEC are shown in Table 6.10 below.

Table 6.10

	VALUE (F$ F.O.B)		
	1983	1984	1985
Total domestic exports to EEC countries	70,667,863	75,451,066	83,448,610
of which major items			
sugar	60,513,689	61,944,364	72,696,356
canned fish	8,539,482	10,092,452	8,564,499
coconut oil	551,659	-	310,026
cork and wood	292,211	207,217	232,337

GENERALISED SYSTEM OF PREFERENCES (GSP)

The GSP is the system whereby industrialized countries grant special treatment to imports from developing countries, in the form of concessions, reductions, or duty free access for their products. The GSP is a non-reciprocal scheme.

As far as Fiji is concerned, the GSP is replaced by the ACP/EEC Lomé Convention for the nine member countries of the EEC, and by the SPARTECA Agreement for Australia and New Zealand[1]. Consequently, Fiji benefits from the GSP preferences applied by the USA, Japan, Norway, Switzerland, Sweden, Canada, Australia and certain Comecon countries.

Special conditions govern the quantity of goods that are granted access under GSP. Annual tariff ceilings and quotas are imposed on the GSP schemes of the USA and Japan. Definition of rules of origin vary according to the GSP donor country.

RULES OF ORIGIN

Details vary among the numerous schemes, but in general, the criteria stipulate that goods must be either (a) wholly produced in the beneficiary country, i.e. grown, extracted, harvested or manufactured from local goods exclusively within the exporting country; or (b) manufactured wholly or partly from materials or parts imported into the beneficiary country which must have undergone a substantial transformation there.

1. Fiji Trade and Investment Board, Fiji Export Guide, 1982, Suva.

6.8 EXPORT PROCESSING ZONE

Fiji, which had been attempting to reduce its very high levels of protection to domestic producers, streamlined its system of incentives and bureaucratic controls. The government had begun to examine the possibility of establishing export processing zones as early as 1973. However, it was not till 1987, after a decade of deliberations and vacillations, it was announced that export processing zones would be established in Fiji[1]. This section will review Fiji's emerging tax free system and its place in the developing of Fiji's industrial policy framework. As the cut-off point of this thesis is 1986 the paper will not discuss the features of Fiji's tax free system which can be found amply explained by Rajesh Chandara[2]. The thesis will discuss the lead-up to the establishment of EPZ in Fiji in 1987.

Fiji policy-makers were not unresponsive to the mushrooming export processing zones in the world. In 1970 there were already eight export processing zones in developing countries[3]. These had increased to 52 in 1979, 94 in 1981[4], and

1. Qionibaravi, M, Budget 1987, 1986, Government Printer, Suva Fiji.

2. Rajesh Chandra, Fiji and the New International Division of Labour, A Study of the Tax Free System; Paper presented at the 29th International Geographical Union Congress, University of Sydney, August 1988.

3. Jean Currie, Investment: The Growing Role of Export Processing Zones, 1979, EIU Special Report No. 64, London: The Economist Intelligence Unit Ltd.

4. L. Sklair, Free Zones Development and the New International Division of Labour, 1986, Journal of Pacific Studies, 22(4), pp. 752-759.

were expected to have increased very substantially since.

The Fiji Cabinet first deliberated fully on the issue of export processing zones in July 1973, when it reviewed a cabinet paper which sought to determine whether the idea of industrial free trade zones was desirable, and if so, how its implementation would be handled. The Government discussions were prompted by an Australian-based syndicate to examine the feasibility of such zones in Suva and Lautoka. The Ministry of Commerce, Industry and Co-operatives strongly supported the proposal and urged a further study without delay[1]. It was envisaged that the development of industrial trade free zones in Suva and Lautoka would establish Fiji as a strategic South Pacific commercial entrepot. The cabinet, however, did not take a firm decision on the issue but decided to seek UNDP funding for an expert from the Port of Singapore Authority to advise Fiji on export processing zones.

The Ministry of Commerce, Industry and Cooperatives was supported in its attempt to establish free trade zones, in Fiji by the Fiji Manufacturer's Associations, which in 1975 strongly urged the government to establish these zones, expecially since they were being proposed for New Hebrides (now Vanuatu) and Tonga.

Following that early decision by the Cabinet, the assistance of the Commonwealth Fund for Technical Cooperation (CFTC) was sought in 1976. The CFTC engaged Coopers and Lybrand Associates Limited in association with Sir Alexander Gibb and

1. Export Promotion Council, Monthly Reports, 1974, Ministry of Commerce, Industry and Co-operatives, Suva.

Partners to carry out a detailed feasibility study on industrial free zones. The CFTC study favoured the establishment of export processing zones, using the Mauritius models and beginning with a small zone. The Cabinet, however, did not make a firm decision on the issue after receiving the report of Coopers and Lybrand Associates but instead supported the idea in principle.

The next step in the establishment of the export processing zones in Fiji was in 1978 when the Prime Minister, Sir Kamisese Mara, who had visited South Korea, requested two Korean experts to advise the government on export processing zones. The Korean Report did not favour the site proposed by the Coopers and Lybrand Associates (Navutu), and instead proposed a site midway between Lautoka and Nadi. The report also highlighted the high cost of the establishment and servicing of the zone. On the basis of the Korean Report, the government once again supported the idea of export processing zones in principle and decided to form a high-ranking and broad based committee to study the proposals made for establishment of export processing zones and to prepare a formal submission to the cabinet on the issue. Much of the discussions on the export processing zones in Fiji used the Act No. 51 of 1970 of Mauritius as a model, following its recommendation by the Coopers and Lybrand Associate's study.

After the contradictory advice from the CFTC and Korean studies, the Fiji government asked the United Nations Industrial Development Organisation to advise it on export processing zones. The Ryan study recommended a compromise whereby financial incentives were to be reviewed and strengthened, bureaucracy streamlined, and overseas promotion stepped up. It also recommended that new investors be located in specific sites pending the development of an EPZ. The study also warned the government that the earlier studies on the issue had been overly optimistic about Fiji's industrial prospects. It pointed out, for instance, that given Fiji's high labour cost and remoteness from the major markets, there was little incentive for foreign manufacturers to locate in Fiji.

In 1981, the terms of reference were drawn up for yet another study on the export processing zones, undertaken by Pak-Poy and Kneebone Pty Limited (Pak-Poy hereafter) of Australia under the Australian Development Import Grants Scheme. The Pak-Poy report, which was entitled "Exporting Fiji" attempted to look comprehensively at Fiji and its potential for export. The study also suggested an overhauling of Fiji's industrial policy but did not favour the setting up of an export processing zone mainly because of Fiji's high labour cost[1].

In the discussion arising out of the Pak-Poy study, the Ministry of Economic Planning and Development took the view that Fiji should not proceed with the establishment of an export processing zone.

It recommended that Nauvutu, a proposed site for an EPZ, be developed as an industrial estate.

After the Pak-Poy study, the government asked the Fiji Employment and Development Mission (FEDM) to include advice to

1. Pak-Poy and Kneebone Consulting Group, Fiji Export Promotion Study Preliminary Report on the Desirability of an Export Processing Zone in Fiji, 1982, Adelaide, South Australia, pp 176-181.

the government on the zones. The FEDM, which carried out most of its work in Fiji between 1982 and 1984, recommended that Fiji should not establish a zone, asking why a "genuine high wage economy" should behave like a low wage economy[1].

The mission went on to say that EPZs which have mushroomed in the Third World have been connected with labour-intensive and low wage operations and the second wave of countries entering the competition to attract EPZ investments are low wage and poor Asian economies such as Sri Lanka, China, Bangladesh and Pakistan. Fiji would make a distinctly odd addition to that list.

Indeed, for Fiji to think in terms of an EPZ would appear to run directly counter to its present comparative advantage. Given its strong natural resource base, its competitive primary resource based industries such as sugar, and its high wage levels, it would make little sense to compete for low-wage and labour-intensive industries. Apart from being against the current comparative advantage, an EPZ, even if successfully established, was not likely to be viable in the longer run unless income and wage costs were to fall sharply in relation to those in other EPZs.

The above was not the same as saying that Fiji should not industrialise, but that it must adopt an industrialisation strategy appropriate to a country in its specific circumstances.

1. Fiji Employment and Development Mission, 1984, Final Report to the Government of Fiji. Parliamentary Paper No. 66 of 1984, Government Printer, Suva, pp 507-509.

The mission report said that looking to inappropriate models or misreading the experience of EPZs would not constitute a helpful starting point. Rather the challenge which had to be faced was to find an answer to the following basic question: what types of industries would be most appropriate for a small, high wage economy seeking to industrialise rapidly and to expand manufactured exports? The main difficulty in answering this question was that this was largely uncharted territory as far as the industrialisation experience of developing countries was concerned.

An EPZ was but one mode of attracting foreign investment and it has proven to be a blunt and indiscriminate instrument. The mission suggested that a country in Fiji's position should seek to be selectively attracting foreign investment, so that even if an EPZ were established, it should seek to aim at attracting certain types of industries producing higher value-added, more skill intensive products and it would have to be complemented by appropriate policies for skill formation and for communications and technical support. But, in fact, the options were wider and should almost certainly focus on export promotion policies directed at local firms in most cases. These should be using favoured market access as a measure of protection for 'infant exporters' rather than as an inducement to foreign investors.

The issue of export processing zones was still alive but not actively pursued until the decision by the government, announced in its 1987 budget address, that Fiji would proceed to establish the zones in 1987. After the second military coup in

Fiji, the issue of EPZs was picked up by the Military government in 1987, which introduced measures to implement the earlier proposals[1].

The discussions on the establishment of EPZs in Fiji have to be seen in the context of a growing realization by the policy makers that the industrial sector in Fiji was stagnating because of the very high rates of protection accorded to domestic producers, and the overall domestic market orientation of Fiji's industrial sector. The government had as early as the Sixth Development Plan 1971-75 indicated its wish to change the orientation of Fijian industrialization away from import substitution to export orientation[2].

The idea of the export processing zone was, thus, an extension of the government's shift towards an export oriented industrialization scheme. The government's disenchantment with the performance of the import substitution oriented industrialization was apparent in its review of the Seventh Development Plan.

Government efforts to facilitate the establishment of private sector import substitution and/or export industries have had very little impact on employment, and in many cases have resulted in the creation of excess capacity, the development of industries which produce questionable substitutes at higher cost,

1. T. Kelleher and S. Murray, Establishment of Tax Free Zones in the Republic of Fiji, 1988, UNIDO, Vienna.

2. R. Chandra, Industrialisation in Fiji, 1985, Unpublished Phd. Thesis, Department of Geography, University of British Columbia, Vancouver.

and the encouragement of other industries which exist solely on the basis of tariff differentials between their imported inputs and final output. While such industries may have been encouraged with other objectives in mind, they have done little or nothing to further the redistribution and employment objectives, and can be seen to have caused wasteful foreign exchange outflows and less-than-optimum allocation of scarce local resources. Where the price of the products of industries receiving concessions is further enhanced by tariffs on competitive imports or through import restrictions, it is the consumer who ultimately pays, an outcome which can have possible negative effects on the distribution of real income.

6.9 HORTICULTURAL EXPORTS

Exports of fruit and vegetables, except when they have been processed and packaged, fall outside the ambit of the manufacturing sector, but it is worth examining their potential as niche fillers for two reasons. First, Fiji appears to have a comparative advantage in producing so-called exotic tropical fruit. Second, advances in technology and marketing have rendered commercialized horticulture an activity akin to manufacturing. The horticulture trade expanded rapidly during the late seventies attracting much attention world-wide. A change in European eating habits away from bulky traditional winter vegetables high in carbohydrates such as turnips, potatoes, and cabbage and towards fresh imported choice items, for example, green beans, eggplant, zucchini and strawberries, was one factor. Another was the vast increase in demand from the oil-rich Middle East for a whole range of fresh fruit and vegetables. These two markets took their place alongside the U.S. as major consumers of these items. In fact, the EEC is now the largest market for horticulture products absorbing 55% of total fresh fruit imports and 60% of the worldwide sales of vegetables, while demand from the Middle East exceeds US$1 billion[1].

Experience that has been gained in producing and trading bananas, pineapples and kiwi fruit indicates that a determined campaign can catapult countries like Thailand, Philippines and New Zealand to the front ranks, but the road to export success is a long and costly one. Large-scale commercial production managed by skilled personnel is definitely advantageous from a financial angle because there are scale economies and the application of technology is facilitated. As the market for horticulture products has developed, it has adopted the standards and conventions applied to manufactures. Quality, shelf-life, standardization, ease of handling, uniform attributes, packaging, constant supply, steady improvement - all of these are demanded by customers and retailers. This requires continuous research and its conscientious application. Since the mid-seventies, horticulture has become a research intensive activity.

In recent years Fiji has concentrated on the

1. World Bank, Fiji: A Transition to Manufacturing, Washington, D.C., p.94.

development of the agro-agricultural sector, particularly horticulture, with the view to exporting products that have a specified market. The industrial development strategy of Fiji's Eighth Development Plan, 1981-85, aimed at the expansion of export-oriented and at import substitution industries based on local agricultural resources. The plan for the first time identified elements of agro-agricultural development strategy.

Fiji has successfully exported fresh and processed ginger of high quality for a number of years[1]. On a limited scale it has also exported taro and other root crops amongst Pacific Islanders settled in Australia, New Zealand and the U.S.

In the horticultural area, ginger has become a dominant export crop, first grown by Chinese farmers as a local cash crop and later for export. Ginger has become a significant export earner, achieving $2.4 million in 1984, a fact which has encouraged other local farmers to enter the industry. Some 300 farm-families were engaged in 1980. By 1985 over 500 were producing the crop. In 1985 a total of 175 ha were planted in ginger giving a production of 3870 tonnes. Export markets include the U.S. West Coast, Australia, New Zealand, the United Kingdom and Canada[2].

TROPICAL FRUITS AND CITRUS

In recent years the promotion of tropical fruits has

1. Commonwealth Secretariat, Market survey for ginger and ginger products from Fiji, 1980, Ministry of Agriculture, Suva.
2. Bureau of Statistics, Current Economic Statistics, 1986, Suva.

been designed to achieve a number of objectives: broaden the economic base of the country, increase export revenue, create more job opportunities and generate additional farm income. Although tropical fruit exports have not yet contributed greatly to foreign exchange earnings, they have already figured prominently in terms of creating employment and supplementing farm incomes.

Their export significance is expected to increase, despite constraints in a number of areas including lack of organisational structure, low quality produce and lack of research into the regularity of supply and marketing. In this sector natural disasters have proved extremely frustrating in production. In 1983 92 per cent of the passionfruit was destroyed by cyclone Oscar. Nevertheless, passionfruit is one crop - oranges the other - which is being developed under some organised structure.

Table 6.11

FIJI EXPORTS OF FRUIT IN 1985 HAVE BEEN AS FOLLOWS:

Fruit	Tons
Passionfruit	520
Pineapples	36
Mangoes	130
Pawpaw	Limited sales to Australia and New Zealand

Source: Fiji's Ninth Development Plan, 1986.

South Pacific Foods Limited, an Australian-owned venture at Sigatoka, is involved in the processing of a wide range of tropical fruits for both domestic and export markets, but the major focus of its operations is passionfruit. Over 500 farmers are contributing to the industry, which slumped badly in 1984 with exports worth only $71,000. Altough the bulk of exports go to Australia, pulp and juice are also sent to New Caledonia and New Zealand.

In citrus production, considerable progress has been made on the Batiri Citrus Project (on Vanua Levu) since its inception in 1977. Commercial harvesting began in 1982 and by 1984 1154 tonnes were being picked. The Batiri development is managed by Fiji Citrus Products Ltd, a joint venture of Fijian and overseas interest. All fruits are processed in the company's factory, located on site.

Pineapple production has grown steadily and although the bulk of pineapples are grown for local consumption, increasing quantities are being exported. About 1000 farmers are engaged in pineapple production and there are no fewer than five processors of pineapple products: Food Processors of Fiji Ltd; South Pacific Foods Ltd; Fiji Citrus Products Ltd; Tropical Food Products Ltd and the National Marketing Authority. Identified markets suggest that 80 per cent of production needs to be of the more readily saleable Smooth Cayenne variety[1]. Locally, tourist resorts and hotels provide the biggest outlet for pineapples, with big growers supplying directly to this market.

1. World Bank/UNIDO, Fiji, Agro-Industrial Development, 1983, Washington, D.C.

Mangoes and pawpaw (papaya) have historically been relatively unimportant economically, with production based on casual and scattered plantings of non-commercial varieties for local consumption via urban market outlets. However, according to recent studies by the Ministry of Primary industries there is much potential for the development for export of both these fruits and several varieties have not yet been established. Japan is seen as the most important overseas market for both products, providing high standards and regularity of supply can be achieved[1]. At present annual commercial demand for mangoes stands at about 1000 tonnes with about 350 tonnes processed by South Pacific Foods Ltd and 130 tonnes exported. Pawpaw production is around 115 tonnes per year, a figure based on sales to hotels in Fiji. About 50 tonnes are processed annually in Fiji.

Other tropical fruits including bananas and avocados are easily grown in Fiji but exported in small quantities only.

6.10 OVERVIEW

Fiji's export trade has been heavily dependent on five staple industries namely, sugar, gold, canned fish, coconut oil and timber of which sugar has been the most important export commodity. These five commodities have been subject to fluctuation in prices and thus have often caused changes in the composition of Fiji's exports in the short term. Fiji's trade in recent years and particularly after independence in 1970 has

1. Commonwealth Secretariat, A Study of Market Opportunities for selected Pacific Island products in Japan, 1982, SPEC, Suva.

operated within the context of its economic development plans. The plans recognised the adverse effects of the price fluctuations faced by Fiji's commodity exports of sugar and copra and of income fluctuations from the tourist industry. The major objectives of the plans therefore were to

a) tighten and further diversify the economic base; and

b) promote policies and attitudes to further self reliance.

The basic strategy was to improve and diversify output from the primary sector with increasingly expanded processing activities. Accordingly, the emphasis for the major primary exports - sugar cane and copra - was more on increasing value-added processing (for example molasses, distillery, dessicated coconut, coconut cream) rather than increasing production per se.

In addition, emphasis was given to the production and export of new commodities; for example, production of commodities such as tropical fruits (mangoes, passionfruit and pineapples) cocoa, ginger and citrus oranges were encouraged. Export of these commodities began in the late 1960s.

Since the war, increased forestry exports have also been encouraged by planting of pine and hardwood, and a greater attention to marketing. Fiji is party to three preferential trade agreements - G.S.P., Lome, and SPARTECA. Since their introduction, the latter two have been the more important in influencing Fiji's trade patterns - the Lome convention being introduced in 1975 while SPARTECA came into force in 1981.

Sugar has been the dominant export item under the Lome convention, which is a trade and aid agreement between the EEC and the African, Caribbean and Pacific countries. In a major protocol, attached to the Lome convention agreement, Fiji and a number of sugar producing countries can supply fixed quantities of sugar to the EEC at guaranteed prices. Given the collapse of the sugar market in the 1980's, the value of this protocol to Fiji was immense in that the guaranteed price was considerably higher than international spot prices.

Under SPARTECA, Fiji has been able to increase its exports of a number of items to Australia and New Zealand. It provides a non-reciprocal access to a wide range of Fiji exports at free or low duty. Exports of the following items have thereby increased: timber, veneer sheets, plywood, ginger, paints and garments. Although there has been some disagreement, over the 50% rules of origin requirement, exporters see various advantages from SPARTECA which is bound to influence the future pattern and Fiji's trade.

The Fijian economy in recent years has developed a well-run and efficient manufacturing sector with plants operated mainly by a number of well-known Australian and New Zealand based companies, along with small local companies. Although production was first aimed at domestic or inter-Pacific Island consumption, the advent of SPARTECA and other trade agreements has given opportunities to markets in Australia, New Zealand, the USA and other developed countries.

The success of these exports and the failure of the important substitution policy has led Fiji to adopt an open export-oriented industrializalition policy, from the early 1980s and most recently in a form of the tax-free zone system. Under the system, encouragement is given to export-oriented manufacturing enterprises ranging from manufacturing based on local raw materials to very labour intensive consumer goods and electronics and other light engineering products. One of the industries that have flourished under this scheme in Fiji has been the garment industry, the base of which, as we have seen, was established before the introduction of the Trade Free Zone system. However, because of Fiji's distance from the main markets and lack of technical skills, it is doubtful if Fiji's Trade Free Zone will have similar success in the manufacturing of products involving advanced technology, for which many of the South East Asian export processing zones are famous. From the statistics available, and as discussed in this chapter, it is clear that Fiji has been successful in diversifying its exports since the Second World War from the narrow base in the 1940's and the 1950's to a wide variety of products - albeit in quantity and value they are comparatively small.

Chapter VII

SUMMARY AND CONCLUSIONS

The thesis examines the trade and industrial development of Fiji with special reference to the period since 1970, and assesses the degree of success (if any) that can be attributed to the objective constraints imposed by smallness and remoteness. The chapter also attempts to summarise how successful government planning has been with the policy of diversification of the Fiji economy from its narrow export and industrial base.

By 1945 Fiji could be considered a relatively prosperous colony. However, its economy was vulnerable to changes in world commodity prices. The development of the island economy had been influenced by a number of factors: the remoteness of the islands, the small land mass, the small population and the late colonization by Europeans. In the late 1800s two decisions were made which had a profound effect on Fiji and created the type of society it is now. The first was the decision by the Europeans to develop a sugar industry and the second by the colonial administration to recruit indentured labour from India to work on the cane fields and cotton plantations. At the beginning of the post second world war era an overview of the Fiji economy could be summarised as follows:-

a) the population of the colony had reached 259,638 in 1946 which was divided into three distinct ethnic groups, of which there were two major groupings, with a minority third group. The first were the native Fijians. The second were the descendants of the indentured Indian labourers, and the third and minor group in terms of population were the Europeans and Chinese.

b) the activities of the population roughly collated to the ethnic groupings. The Fijians were primarily subsistence farmers, the Indians worked in the sugar industry or on plantations with a small number engaged in small businesses and the Europeans and Chinese were the managers and owners in the commercial sector of the economy.

c) the economy was primarily dependent on three commodities, sugar, gold and copra. Other activities were shipping, the retail trade and a tourist industry in its nascent stage. The timber industry had slipped into decline and the fishing industry was almost non existent.

d) the commercial sector was almost totally under the control of Europeans and Chinese. Sources of capital investment were limited to public expenditure, administered by the colonial or private capital.

e) all previous attempts at diversification of the economy away from its total dependence on sugar had failed.

f) land ownership was almost totally in the hands of the Fijians who leased it for commercial cropping mostly by the Indians.

In the colonial period the economy had been an open one. However, in the 1950s and up to independence, the colonial administration implemented a highly regulated internal structure similar to that of the British economy. This was not necessarily the best arrangement for an island economy like Fiji, as the regulations were appropriate to the economic and social conditions of Britain which was a major industrial nation.

Economic planning had been established in the 1950s, according to the spirit of the times, to conserve the scarce resources of a developing country. For the most part the techniques were crude, enabling only an indicative path to be sketched for the economy as a whole, leaving detailed planning to public expenditures on sectors such as roads, ports, power and telecommunications. The system worked reasonably well by placing growth targets in the public domain and ensuring greater foresight in public expenditures than annual budgets provided. The colonial government's expenditure requirements could be targeted.

In the 1960s the colonial administration intensified their interests in resource based industrial development, especially in the neglected timber and fishing industries. With the support of the colonial administration the nascent tourist industry began to develop with its potential for foreign exchange earnings and employment opportunities. Recognition was also given to the concept of the establishment of small locally owned industry in the import substitution sector of the economy.

After independence, economic planning moved from indicative to detailed, and targeted specific sectors of the economy to receive government assistance. The first of these government attempts was into the agricultural, manufacturing and tourist sectors of the economy. The results were to be new jobs and improved foreign exchange earnings. The objective in the agricultural sector was self sufficiency for Fiji plus continuing export earnings, the objective in the manufacturing sector was import substitution and the tourist sector objective was expansion.

In the 1970s a global debate was taking place as to the merits of government planning in economies. In the case of Singapore, five year plans had been abandoned when the economy grew so fast the planners could not keep up with it. The East European economies on the other hand were almost totally planned but lagged behind the rest of the world. In Fiji detailed economic planning continued to be regarded as critical for economic management of the economy. This was reinforced as colonial budget support was replaced by aid flows and funding of projects from multilateral assistance agencies such as the World Bank and the Asian Development Bank and bilateral assistance. These organizations required comprehensive project proposals from governments when considering allocation of funds.

The national development strategies in regards to industrialisation implemented by the independent government in the 1970s were heavily weighted towards import substitution. The method of achieving the objectives was by way of policy instruments which acted through the prices faced by enterprises (both private and public) and entrepreneurs. The most important of these were:

- tariff implementation geared towards import substitution in the manufacturing sector
- incentive packages such as tax holidays aimed at further protection for selected manufacturing industries.

These initial policies were perceived to be insufficient to achieve the government's objectives so they were supplemented by a series of detailed and direct controls over enterprise and entrepreneurs including:

- limitations on the right to import goods that bolstered tariff protection for selected primary and secondary goods.
- production 'promotion' regulations that in effect restricted entry by local and particularly by foreign producers to those approved by the bureaucracy.

These additional policies and regulations were strongly criticised by both local and foreign businessmen because they contended it would create opportunities for monopolistic exploitation of markets.

Government effort in the agricultural sector was a new attempt at an old problem, how to diversify the economy away from overdependence on sugar. To "strengthen and diversify the economic base" primary export commodities such as cocoa, coffee, tea, ginger, citrus, passionfruit and pawpaw were identified for development. The success rate was varied. Ginger production showed a steady growth because of its good quality and the lucrative markets available. Cocoa output was low, but appeared to have good potential, the same with traditional root crops, fruits, vegetables and high quality horticultural products such as pineapples, pawpaws and mangoes. Potted plants, orchids and cut flowers were also developed for the Japanese and European markets.

The policy of diversification was not always successful. In one example attempts made to expand the domestic beef output were unsuccessful. Locally bred beef was expensive and of such poor quality that tourist hotels were forced to import beef to meet the quality requirements of their guests.

In a review of the government plan in 1986 it was concluded that import substitution in the post independence agricultural sector was generally disappointing due to the constraints imposed by a small and scattered population. The planners felt however, that disadvantages were off-set in part by a high rate of protection imposed by Fiji's location and government policy. It was felt in general that continued promotion of import substitution in agriculture was an appropriate and desirable policy objective. In certain areas where imports were high, such as fishing, vegetables, pulses and goats, it was thought that considerable economic gains could be made if this policy was vigorously pursued. In the case of DP6, DP7, and DP8 priority was given to agro-industrial development.

Attempts to expand other resource based areas such as forestry, fisheries and mining have met with some success. For example in the forestry sector the Fiji Pine Commission has introduced pine plantations in areas North and West of Viti Levu and Northern Vanua Levu. The inauguration of a wood processing plant at Lautoka in 1987 marked the effective exploitation of these commercial pine forests.

The manufacturing sector of the Fiji economy is still relatively small. It has however developed enough to reduce some economic dependency subject to sugar exports, food production and tourism levels being maintained. The development of manufacturing may have required the Fiji Government to put greater emphasis on this sector at the expense of the agricultural and fishery sectors. However, manufacturing is an integral part of any diversification strategy.

At the beginning of the 1980s the industrial sector began showing signs of stagnation following a decade of growth in the 1970s. Investment began to decline and its contribution to employment generation had more or less plateaued. Import substitution of consumer goods had reached the saturation point.

From this it was implied that a thorough analysis of alternative industrial strategies was needed, in particular renewed development by way of an export led strategy through export processing zones.

The planners and others now began to recognize that industrial development in Fiji tended to be seen only in the narrow sense of manufacturing. The broader links between industry and natural resource development had neither been fully appreciated nor realized. The need to establish inter-sectoral linkages was crucial if industrialization was to be a force in helping to expand the economic base, raise productive capacity and engender structural changes conducive to development. The linkage for instance, between manufacturing, the electricity, gas and water sector, mining and quarrying, communication and even construction needed to be more systematically utilised. These sub-sectors could have been utilized to provide skills, management expertise, technological choices, and the research and development necessary for expanded industrial production.

It could be summarised therefore that although the Fiji manufacturing sector makes a small contribution to the GDP, its importance to the economy as a whole is much greater because of its close links with Fiji's most important foreign exchange earners. Although the volume of industrial production has increased in Fiji since independence, its share of the GDP has not altered significantly due to similar expansions in other sectors of the economy.

The manufacturing sector consists of a large number of small units and a small number of large units that provide the bulk of employment and output. Intramanufacturing sector linkages are weak, but resource processing activities have strong backward linkages with the primary sector. The government has maintained its commitment to the private sector since independence, although its ownership of the sugar corporation makes it an important direct producer in the manufacturing sector. State policies relating to the manufacturing sector have evolved steadily in Fiji, although it has not been effectively co-ordinated.

In the world of international trade, Fiji is a very small contributor to international markets, even in sugar. It is a 'price taker' in the world sugar scene, that is, its total output is too small to influence world prices. Its strategy in the industry has been to increase productivity and marketing skills with the object being sustained high quality output and the ability to sell at peak prices at any phase in market cycles. Fiji has targeted certain markets that have been complimentary rather than competitive. They include North America, Japan and Western Europe. A feature of these markets is low protection for many horticultural and most manufactured goods.

Another important market that Fiji has turned to is that of Australia and New Zealand. They have been influenced in this by the creation of SPARTECA which was designed for trade diversion rather than trade creation. The agreement designed has been a catalyst in developing new agricultural products such as passionfruit and assisted in labour-intensive manufacturing products such as garment manufacturing.

LOME is another scheme of which Fiji is a member that was devised by the European Community to assist trade in former European Community colonies. It has been restricted in its success due to limited market access and the complicated nature of its production requirements. Fiji has also been hampered in taking the full advantage of the scheme due to distance from the markets.

A great deal of attention has been paid to proposals for turning the South Pacific into a regional customs union or even common market. There is undoubtedly scope for regional co-operation in areas such as education, transportation, telecommunication, tourism, diplomacy, co-ordination and political issues, but such co-operation is quite different from a trade agreement. The South Pacific cannot provide an economic base for a regional trade arrangement even if Papua New Guinea was included. The reasons are many: the total population of a Pacific economy would be only 5 million and in terms of purchasing power very limited; the distances that would have to be covered are large and even with steady economic growth over the next 20 years, a Pacific market would not provide an economic base for manufacturing except for a few activities such as biscuit making. All the regional markets created by developing countries (about thirty) since World War II have failed. The island initiative in the Caribbean - the Caribbean Free Trade area - Common Market - is a notorious failure. All the developing countries regional arrangements were, moreover, very costly in poverty alleviation and equity terms. Any import substituting inward-orientated regional arrangement has generally raised costs to member countries and if large enough, injured world trade. The European Community's Common Agricultural Policy is a prime example. The European Community's success has been in manufacturing where it has opened its borders to world markets. The Association of South East Asian Nations (ASEAN) is the only developing country regional arrangement to have succeeded. It is because it is primarily a political alliance arrangement. Common industrial investment and implementation proposals have in effect been dropped.

The Closer Economic Relations agreement (CER) between Australia and New Zealand is succeeding because both countries are reducing protection to become more competitive. Thus far New Zealand firms have been the principal beneficiaries because New

Zealand policies are forcing New Zealand to be more competitive than their Australian counterparts. It remains to be seen whether Fiji would consider a request to join the CER. A thorough analysis of the effects would need to be undertaken.

Given the smallness of the economy and of production for any one market, Fiji's strategy has been to identify niches in markets to which it is a specialized supplier, complimentary in terms of the goods sold, and competitive in price and quality. Fiji's source of imports are moving from traditional colonial links with the United Kingdom and Australia to East Asia. With the widening range of goods and services available in the newly industrializing countries at keenly competitive prices, this has been beneficial for Fiji's balance of payments. Like most small countries Fiji is threatened rather than helped by trends towards bilateral and regional trade arrangements. It therefore has an open global trading system to exploit the benefits of trade fully.

APPENDIX 1

SECONDARY INDUSTRIES ESTABLISHED IN THE 1950s AND THE 1960s

BISCUITS: An old-established factory in Suva manufactured navy-type and fancy biscuits for the local trade and also for export to neighbouring territories. There was also a biscuit factory in Lautoka.

BREWERY: A company owned by Carlton United Brewery of Melbourne, Vic. and W.R. Carpenter & Co. Ltd., went into operation at Walu Bay, Suva in 1958.

CEMENT: A consortium of local companies built a cement works at Lami near Suva in 1962. Cement is made using raw material taken from local reefs.

CIGARETTES: Two factories in Suva began operations in the 1950's producing cigarettes and smoking tobacco. They amalgamated in 1971. Local brands of cigarettes as well as overseas brands under licence are manufactured.

TOILET PAPER BAGS AND WRAPPING PAPER: A factory at Walu Bay, Suva began operations in 1965 making paper products including corrugated fibre containers and printed paper and polythene bags.

GARMENT MANUFACTURE; One large garment factory in Suva, a number of smaller establishments making sports and resort clothes and innumerable tailors all over the Dominion supply local and tourist needs.

PAINTS: A number of internationally known brand paints and enamels etc. manufactured in four factories established in the Suva area.

INDUSTRIAL GASES: Oxygen and acetylene gases were manufactured in Suva. Domestic gas was bottled in the Dominion.

GALVANISED ROOFING: Two companies in Suva manufactured corrugated steel sheets for building purposes.

POULTRY AND STOCK FOODS: Pellets, mash meal and stock foods were manufactured at Nausori using local and imported grain etc.

ICE CREAM: A long established factory manufactured all varieties of ice cream from a factory near Suva.

FRUIT JUICES AND PULP: Two factories in the Sigatoka district were processing passionfruit and other fruits that are grown extensively in the Sigatoka Valley.

CANDLES: The manufacture of candles was begun in a factory in Suva in 1968.

PLASTICS: A factory at Lautoka began manufacturing combs, tumblers, clothes-pegs, cups, saucers and owls in 1968.

BOAT BUILDING: Repairs to and the building of small ships was a long-established industry; a factory to make small fibre-glass boats was set up in Suva in 1967.

MATCHES: A factory at Samabula began manufacturing safety-matches in 1968.

NAILS/BARBED WIRE: A factory for making all varieties of nails and galvanised barbed wire has been in operation in Suva since 1964.

AERATED WATERS: There were several factories in Suva and in other centres that make aerated waters and cordials. These were mostly Chinese owned.

MEATS: Ham, cooked or raw bacon, meat, smallgoods, smoked fish. Canning of corned beef began in 1968.

SHOES: There were numerous Indian shoe makers who usually made to order. A factory at Nausori made rubber thongs. In 1971 a U.N. expert was appointed to advise on the tanning of local hides for large-scale local shoe manufacture, hides being a waste product of the meat industry.

FURNITURE AND FURNISHING: (Office and Domestic). There were numerous firms making furniture both for stock and to order. This included all the usual pieces plus mattresses and pillows and a firm made venetian blinds. Another made wrought iron and tubular aluminium furniture.

(Compiled from <u>Fiji Annual Reports</u> from 1965 to 1970 and <u>Fiji Hand Book</u>, 4th Edition, 1972).

PRINCIPAL ABBREVIATIONS AND ACRONYMS USED

ACP	-	African, Caribbean and Pacific (Trade Group of Countries)
ANZCERTA	-	Trading Agreement between Australia and New Zealand
BIDC	-	Business Industrial Development Committee
CER	-	Closer Economic Relations
CMA	-	Central Monetary Authority
CPO	-	Central Planning Office
CSR	-	Colonial Sugar Refining Company Limited
EDB	-	Economic Development Board
EEC	-	European Economic Community
FAB	-	Fijian Affairs Board
FDB	-	Fiji Development Bank
FEA	-	Fiji Electricity Authority
FNPF	-	Fiji National Provident Fund
FNTC	-	Fiji National Training Council
FSC	-	Fiji Sugar Corporation
FTIB		Fiji Trade and Investment Board
FTUC	-	Fiji Trade Union Congress
GSP	-	Generalised System of Preferences
LOME	-	EEC trade convention with ACP countries
NLTB	-	Native Land Trust Board
NMA	-	National Marketing Authority
PIB	-	Prices and Incomes Board
PIDP	-	Pacific Islands Development Program (based in Honolulu)
RBF	-	Reserve Bank of Fiji

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