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Report No. 376-FIJ

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Current Economic Position and Prospects of Fiji

(In Two Volumes)

Volume I: The Main Report

March 27, 1974

East Asia and Pacific Department
Asia Region

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International Development Association

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CURRENCY EQUIVALENTS
(as of December 1973)

US$1.00	F$ 0.8092
F$ 1,000	US$1,236
F$ 1 million	US$1,235,790

FISCAL YEAR

In Fiji the Fiscal Year covers be January 1 to December 31.

This report is based on the findings of an Economic Mission which visited Fiji from July 9 to July 28, 1973. Its members were:

Russell J. Cheetham	Chief of Mission
Kevin Young	General Economist
Reginald Spooner	Agricultural Specialist

Assistance in preparing statistical materials was provided by Mrs. F. Ledesma.

CURRENT ECONOMIC POSITION AND PROSPECTS OF FIJI

TABLE OF CONTENTS

Volume I

		Page No.
	COUNTRY DATA	
	MAP	
	SUMMARY AND CONCLUSIONS	i - iv
I.	THE PAST DECADE: TRANSITION TO A SERVICE ECONOMY ..	1
II.	SECTOR DEVELOPMENT: PROSPECTS AND PROBLEMS	16
III.	POPULATION, EMPLOYMENT AND DISTRIBUTION OF GROWTH BENEFITS	35
IV.	DOMESTIC RESOURCE MANAGEMENT	43
V.	EXTERNAL TRADE AND FINANCING	55

Volume II

I. A REVIEW OF THE AGRICULTURAL DEVELOPMENT .....

II. STATISTICAL APPENDIX .....

COUNTRY DATA - Fiji

AREA
18,271 Sq. km

POPULATION
541 thousand (mid-1972)
Rate of Growth: 2.2% (from 1967 to 1972)

DENSITY
29.6 per sq. km.
.. per sq. km. of arable land

POPULATION CHARACTERISTICS (1970)
Crude Birth Rate (per 1,000) 29.9
Crude Death Rate (per 1,000) 4.7
Infant Mortality (per 1,000 live births) 21.6

HEALTH (1971)
Population per physician ..
Population per hospital bed 341

INCOME DISTRIBUTION
% of national income, highest quintile ..
lowest quintile ..

DISTRIBUTION OF LAND OWNERSHIP
% owned by top 10% of owners ..
% owned by smallest 10% of owners ..

ACCESS TO PIPED WATER
% of population - urban ..
- rural ..

ACCESS TO ELECTRICITY
% of population - urban ..
- rural ..

NUTRITION
Calorie intake as % of requirements ..
Per capita protein intake ..

EDUCATION
Adult literacy rate % 73 (1966)
Primary school enrollment % 100 (1972)[1/]

GNP PER CAPITA in 1971[2/]: US $470

GROSS NATIONAL PRODUCT IN 1972 (current prices)

	F $ Mln.	%
GNP at Market Prices	229.5	100.0
Gross Domestic Investment	67.5	29.4
Gross National Saving	34.5	15.0
Current Account Balance	-33.0	14.4
Exports of Goods, NFS	112.8	49.2
Imports of Goods, NFS	143.6	62.6

ANNUAL RATE OF GROWTH (%, constant prices)

	1963-65	1965-70	1971	1972
GNP at Market Prices	1.2	7.2	6.9	5.9
Gross Domestic Investment	..	7.9	12.9	22.6
Gross National Saving	..	15.2	-39.0	-
Current Account Balance	.	.	.	.
Exports of Goods, NFS	..	8.0	11.2	7.1
Imports of Goods, NFS	..	5.5	15.4	11.5

OUTPUT, LABOR FORCE AND PRODUCTIVITY IN 1972 (at 1968 constant prices)

	Value Added		Labor Force[3/]		V. A. Per Worker	
	F $ Mln.	%	'000	%	F $	%
Agriculture	37.8	22.4	78.3	52.5	483	42.9
Industry	36.1	21.5	28.0	18.8	1,289	114.4
Services	94.4	56.1	42.9	28.7	2,200	195.2
Unallocated	.	.			.	.
Total/Average	168.2	100.0	149.2	100.0	1,127	100.0

GOVERNMENT FINANCE

	General Government (Mln.)	General Government % of GDP		Central Government (F$ Mln.)	Central Government % of GDP	
	1972	1972	1965-72	1972	1972	1969-72
Current Receipts	..	..	..	59.1	24.8	23.8
Current Expenditure	..	..	..	51.0	21.4	20.1
Current Surplus	..	..	..	8.1	3.4	3.7
Capital Expenditures	..	..	..	15.3	6.4	5.8
External Assistance and other (net)	..	..	..	7.2	3.0	2.0

1/ Includes overage students.
2/ The Per Capita GNP estimate is at 1971 market prices, calculated by the same conversion technique as the 1973 World Atlas. All other conversions to dollars in this table are at the average exchange rate prevailing during the period covered.
3/ Excludes unemployed

.. not available
. not applicable

COUNTRY DATA - Fiji

MONEY, CREDIT and PRICES	1965	1969	1970	1971	1972
		(Million F$ outstanding end period)			
Money and Quasi Money	38.7	53.6	62.1	73.9	88.6
Bank Credit to Public Sector) 1/ Bank Credit to Private Sector)	9.5	15.1	20.9	27 7	34.5
		(Percentages or Index Numbers)			
Money and Quasi Money as % of GDP	33.1	33.8	32.4	34.4	37.1
General Price Index (1963 = 100)	111.3	121.1	126.1	134.3	146.5
Annual percentage changes in:					
General Price Index	7.9	8.8	4.1	6.5	9.1
Bank credit to Public Sector) 1/ Bank credit to Private Sector)	..	29.5	38.4	32.5	24.5

BALANCE OF PAYMENTS

	1970	1971	1972
	(Millions US $)		
Exports of Goods, NFS	106.3	128.9	133.8
Imports of Goods, NFS	113.4	148.9	170.2
Resource Gap (deficit = -)	-7.1	-20.0	-36.4
Interest Payments (net)) Workers' Remittances) 2/	-9.4	-12.3	-10.9
Other Factor Payments(net)) Net Transfers	2.5	3.5	8.3
Balance on Current Account	-14.0	-28.8	-39.0
Direct Foreign Investment) Net MLT Borrowing) 3/ Disbursements) Amortization)	8.4	14.8	26.0
Subtotal	8.4	14.8	26.0
Capital Grants 4/			
Other Capital (net) 5/			
Other items n.e.i 6/	9.3	28.1	24.0
Increase in Reserves (+) 7/	+3.8	+14.1	+11.0
Gross Reserves (end year)	..	..	..
Net Reserves (end year)	51.1	65.2	76.2

MERCHANDISE EXPORTS (AVERAGE 1970-72)

	US $ Mln	%
Sugar	39.1	52.3
Coconut Products	4.9	6.5
Gold	3.9	5.2
Other Domestic Exports	4.5	6.0
Re-exports	22.4	30.0
Total	74.8	100.0

EXTERNAL DEBT, DECEMBER 31, 1972

	US $ Mln
Central Government Debt	29.9
Non-Guaranteed Private Debt	..
Total outstanding & Disbursed	..

DEBT SERVICE RATIO for 1972 8/

	%
Central Government Debt 9/	0.9
Non-Guaranteed Private Debt	..
Total outstanding & Disbursed	..

RATE OF EXCHANGE

	1969	1970	1971	1972
US $ 1.00 = F$	.870	.873	.819	.843
F $ 1.00 = US $	1.149	1.455	1.221	1.186

Since June 1973
US $ 1.00 = F$ .8036
F $ 1.00 = US $1.244

IBRD/IDA LENDING, Feb. 28, 1974 (Million US $):

	IBRD	IDA
Outstanding & Disbursed	6.5	.
Undisbursed	11.7	.
Outstanding incl. Undisbursed	18.2	.

1/ Total commercial bank credits

2/ Net investment income

3/ Capital account

4/ Included in net transfers

5/ Included in direct Foreign Investment and net MLT Borrowing

6/ Includes allocation of SDRs and net errors and omissions

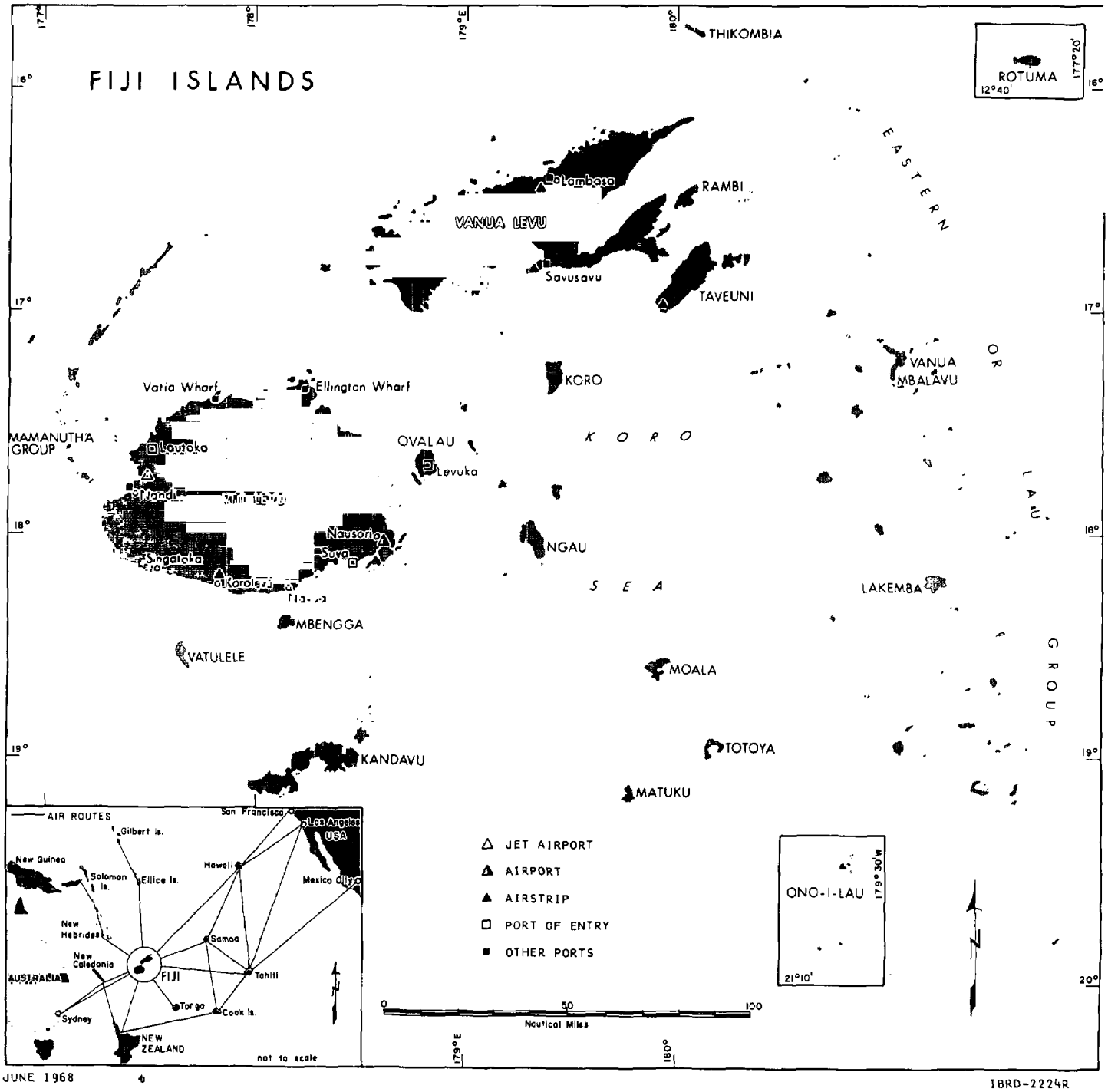
7/ Includes net commercial bank reserves (+ = increase)

8/ Ratio of debt service to exports of goods and non-factor services

9/ Includes ADB loan of $ 4 7 million to Fiji Electricity Authority

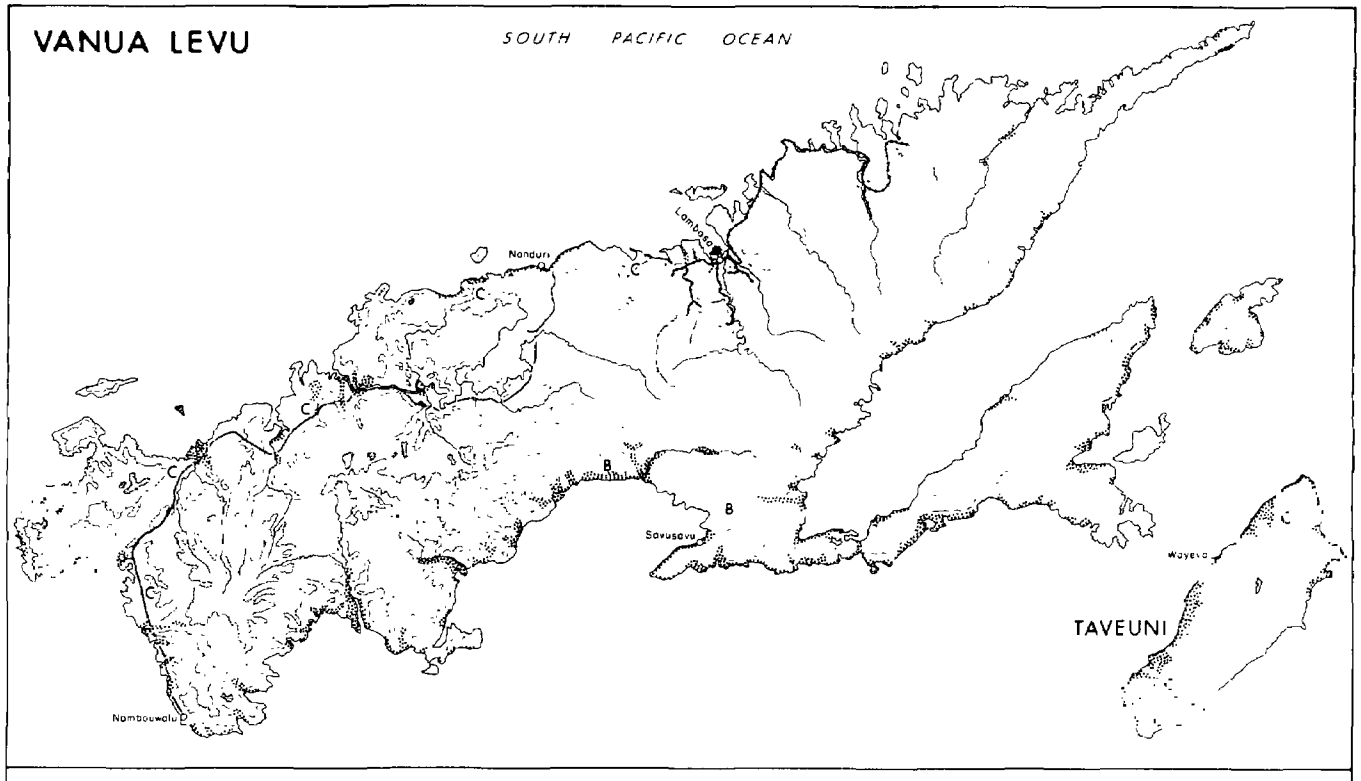
July 18, 1972
EPD/PRD

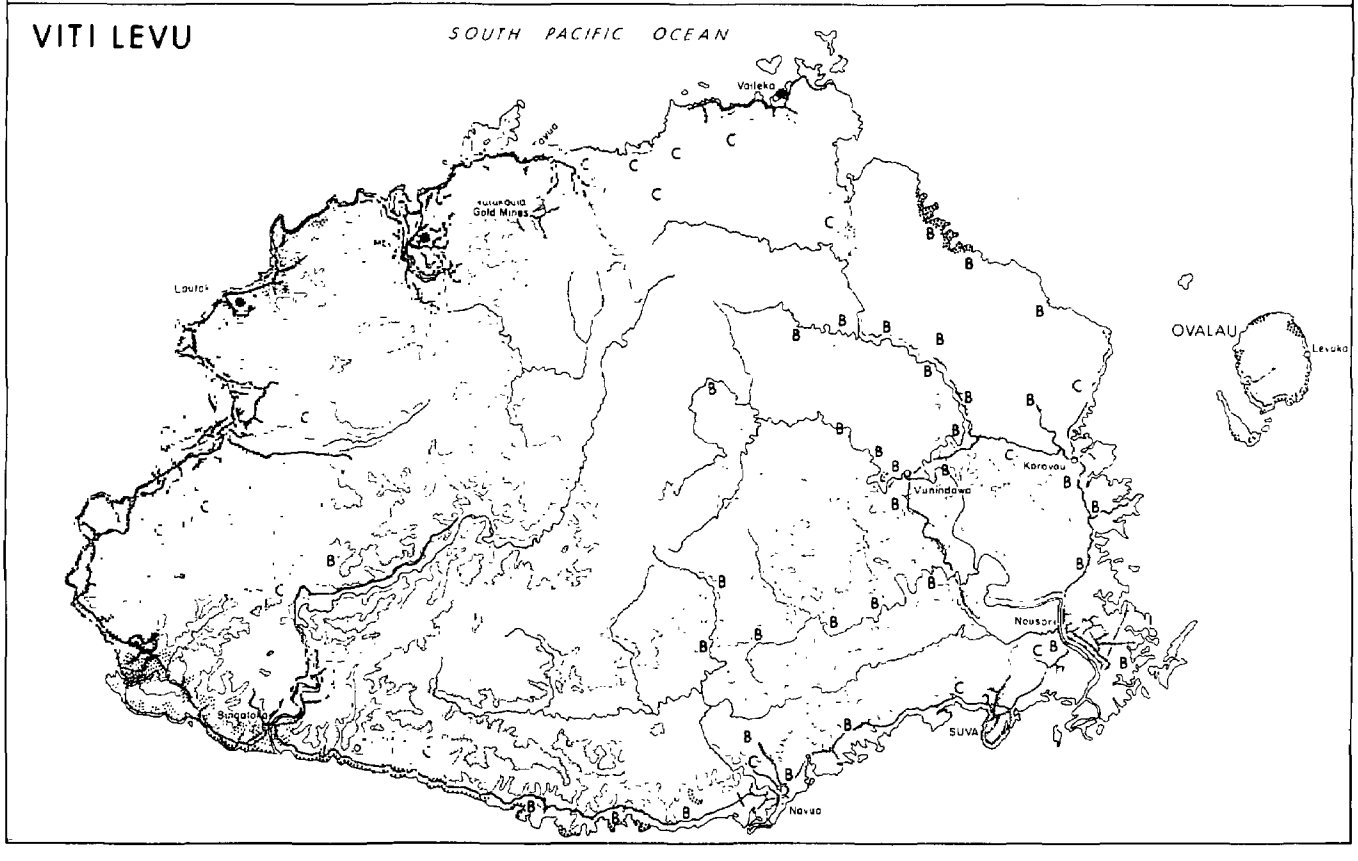
.. not available
. not applicable



JUNE 1968

IBRD-2224R





Urban areas
Roads
Railways
Sugar mills
Sugar cane
B Bananas
Coconuts
C Cattle

N

ALTITUDES IN FEET

0 - 250
250 - 1000
over 1000

0 5 10 15 20 25
MILES

MARCH 1968

IBRD - 2230R

SUMMARY AND CONCLUSIONS

i. The previous Bank economic report on the economy of Fiji (EAP-18a) was issued on October 6, 1970.

ii. Fiji became an independent Dominion within the British Commonwealth on October 10, 1970. Since 1970 GDP has increased at about 6 percent a year in real terms largely because of rapid growth in the service sector of the economy. In 1972 GNP per capita was about US$500.

iii. In the past decade Fiji has undergone a major transformation, shifting away from a predominantly rural-agricultural economy to one in which the provision of services is the dominant form of economic activity. Agriculture's share in GDP has fallen to less than 25 percent from over 40 percent a decade ago, and it now contributes less to GDP than wholesale and retail trade. The emergence of the service economy has been made possible by the large and growing proportion of the population in urban areas whose real per capita incomes have been rising at perhaps 3 percent a year, and by the rapid growth in tourism. As a result there has been a rapid expansion in the distributive trades, and transport and financial services that provide mainly for the towns. The greater employment opportunities afforded by the towns, their capacity to pay higher wages, and the large public investment that has taken place in urban areas have combined to attract many people from rural-agricultural areas. Yet despite the drift from the farms the income and productivity gap between agriculture and much of the rest of the economy has increased, probably because agriculture has had difficulty in attracting the resources needed to raise productivity and increase output. The rapid growth in tourism, together with sharply increased inflows of foreign capital, have permitted Fiji to undertake a large investment program and to offset the sluggish growth in domestic food and raw material production with increased imports. However, the growing dependence on imports at a time of world-wide inflation, and rapid wage increases especially in the service sectors, have combined to produce a rapid rate of domestic inflation.

iv. The boom in investment during 1969-73 was made possible by a substantial inflow of foreign capital, much of it in the form of loans with relatively short maturities. As a result, the burden of external debt has risen sharply in the past three years, and in 1973 debt service payments were about 17 percent of exports of goods and services net of reexports. Because most of the existing external debt has short and medium maturities, the debt burden will continue to be heavy for the next few years. In fact, with the sharply increased cost of fuel imports, and a slower growth in tourism receipts in the next few years, maintaining a manageable balance of payments position will be one of the major concerns of the Government.

v. The world energy crisis is likely to have serious repercussions on Fiji, which is totally dependent on imported petroleum products for its energy requirements. It has some hydro-potential for power generation and this is under study. Imports of petroleum products for domestic use were about F$ 7 million in 1973. At present levels of consumption, the value of imports of petroleum products for domestic use could approach

F$ 20 million in 1974 or about 9 percent of GNP. Fuel for motor vehicles accounts for about 36 percent of imports for domestic use; light industrial diesel fuel (mainly for power generation) for about 37 percent; aviation fuel, kerosene, oil products, etc., account for the remainder. In response to the energy crisis the Government has initiated programs designed to conserve energy. The object of Government policy is to conserve energy in low priority areas where the impact on output and employment growth is not substantial. The pattern of consumption suggests that there is some scope for savings in fuel imports.

vi. It will be difficult for Fiji to maintain the past rate and pattern of growth during the next few years. The power and transport sectors will be affected directly by the price of fuel, the tourist trade is likely to grow much more slowly and private construction activity may drop after 1974 because of overcapacity in the tourist industry. Nevertheless, with the labor force continuing to grow at 3-1/2 percent a year it will be important for the Government to pursue policies aimed at maintaining at least a moderate rate of expansion in employment opportunities. More than half the population depend on agriculture for a livelihood and from the standpoint of creating employment, as well as improving income distribution and increasing export income, greater emphasis on the agricultural sector is justified. In the short and medium term priority should be given to revitalizing the sugar to increase exports, and to food, livestock and timber production to reduce import dependence. For the longer term, forestry, livestock and fisheries offer prospects for export development. To ensure success, physical facilities and institutions in the sector would have to be improved, including transportation, processing and storage facilities, as well as agricultural extension and marketing services. Much of the burden of providing the foregoing would fall on the Government and it would probably mean a reassessment of priorities regarding public resource allocations, with relatively smaller outlays in the towns. On balance GDP in real terms will probably not expand by more than about 3-4 percent a year over the next few years. For the longer term the growth rate would rise again as tourism recovers and the increased investment in agriculture begins to yield results.

vii. Domestic prices have risen 8 percent a year since 1970. Import freight payments were almost 10 percent of GNP in 1972 and with the prospect of sharply increased freight rates as well as increased fuel costs, the rate of inflation is likely to exceed 10 percent a year during the next 2-3 years.

viii. With a projected temporary slowdown in the growth of receipts from tourism during the next few years, the large increase in the import bill because of the energy crisis, and a sharply increased burden of debt, Fiji will have to borrow abroad more heavily to maintain the modest growth momentum noted above. Even with optimistic assumptions about the proportion of capital inflows in the form of concessional assistance, there is likely to be a further increase in the debt service burden. The alternative of sharply reducing imports below the level projected by the Mission to avoid further increases in the debt burden would make it difficult to carry out the investment program needed for sustained growth in the longer term.

It would also cause considerable dislocation in the economy and adversely affect prospects for even a modest expansion in employment.

ix. Merchandise exports are projected to grow at about 14 percent a year during 1974-78, with a 6 percent a year increase in prices. Merchandise imports other than fuel are projected to rise at 8 percent a year, or about 2 percent a year in real terms. This assumes that the Government can successfully limit the growth of imports of non-essential consumer goods. If these somewhat optimistic projections of exports and imports were to be realized, the cumulative deficit on the goods and services account would be about F$ 190 million during 1974-78, including oil imports for domestic use of about F$ 110 million.

x. Fiji would need a foreign capital inflow of about F$ 310 million during 1974-78 to cover the goods and services deficit, loan repayments of F$ 110 million, and to permit a modest increase in reserves. Official grants and private remittances would provide about F$ 25 million of this. With the expected slower growth in tourism there probably will be a small inflow of private equity investment, perhaps totalling F$ 15 million during 1974-78. The balance of F$ 270 million would have to come from inflows of loan capital.

xi. Taking account of the status of ongoing projects, and expected new projects, the Mission has estimated that disbursements of project assistance from official sources would be about F$ 25 million during 1974-78. The pipeline for official project assistance is very small at present. The need to build up this pipeline is especially important if Fiji's dependence on cash borrowings is to be reduced. But both Government and foreign donors have to consider carefully the kind of projects to be formulated for external financing. Big projects like the Suva-Nadi road financed by IBRD, Australia and New Zealand can absorb large amounts of budgeted funds and thus make it difficult for the Government to allocate resources appropriately among sectors. Because the available domestic resources fall short of needs, foreign donors should consider financing local expenditures, especially for projects to develop the agricultural sector, where the direct and indirect foreign exchange content is likely to be low.

xii. Thus the balance of the required capital inflow of about F$ 245 million would have to come from other borrowings. Of this, short-term trade finance might account for about F$ 20 million, leaving a total of F$ 225 million to be met from other sources during 1974-78. This would include cash borrowing by the Central Government and other public bodies - for example, the Fiji Electricity Authority - as well as cash loans and suppliers' credits to the private sector. It would also include special borrowing by the Central Monetary Authority in response to the increased import burden caused by the higher oil prices.

xiii. At the time of writing this report the question of how to finance the increased cost of petroleum imports remains to be resolved. If Fiji can, in fact, hold down the growth in the quantity of fuel imports as

projected, the net capital inflow needed to meet the fuel import bill would be about F$ 21 million a year during 1974-78 (at current prices). In 1974 the net oil import bill would rise by F$ 10-12 million over the 1973 level of about F$ 7 million. Fiji has some resources available to meet its needs in 1974. At the end of 1973 net foreign exchange holdings were about F$ 60 million, or about 4-1/2 months of imports. In addition, Fiji has a quota with the IMF of SDR 13 million or about F$ 16 million. If reserves were drawn down in the next year or so, they would have to be built up again later to maintain a minimum adequate level of say 3 months of imports. This would mean that net reserves would need to be about F$ 70 million, by 1978, for example.

xiv. At the end of August 1973, total medium and long-term debt disbursed and outstanding was about F$ 110 million, of which the Central Government held about F$ 25 million. Service payments on medium and long-term external debt are estimated to be about F$ 27 million in 1974, or about 21 percent of exports of goods and services net of reexports. The ratio for Central Government debt is likely to be about 2 percent. According to the Mission projections, total medium and long-term external debt outstanding would be about F$ 250 million by 1978, of which perhaps F$ 90 million would be held by the Central Government.

xv. The extent to which debt payments rise beyond the current level of 21 percent of exports receipts will depend on how successful Fiji is in obtaining liberal terms for its foreign borrowing. Several steps can be taken by Government. It can ensure that the best possible terms are obtained for suppliers' credit and cash loans by carefully monitoring these foreign borrowings. Increased public borrowing, some of which could be onlent to the private sector, will improve the maturity structure of the foreign debt. Foreign donors should consider providing Fiji with loans on as liberal terms as possible to help the Government implement its development program and avoid an excessive increase in the burden of external debt. Even with prudent management, however, debt service payments are likely to be about F$ 50 million, or about 24 percent of exports, by the latter part of the decade. These projections include the additional borrowing needed to offset the burden of increased oil prices. They would therefore include use by the Central Monetary Authority of any special oil financing facilities that may be arranged under IMF auspices, for example.

xvi. Thus, Fiji does face the prospect of a higher debt burden for much of this decade. The Government will have to give very close attention to measures to improve the maturity structure of Fiji's external debt. It will also have to be prepared to adjust its investment and foreign borrowing strategy, as circumstances require, so as to maintain a reasonable balance of payments position. However, with concerted efforts by the Government and private sector, and continued support from the international financial community, Fiji should be able to reduce her dependence on imported primary commodities and increase her exports, thereby strengthening her capacity to service debt. A reasonable measure of success along these lines would also provide for sustained growth in output and employment.

I. THE PAST DECADE: TRANSITION TO A SERVICE ECONOMY

A. An Issue Posed

1. The Fiji economy has traditionally relied upon agriculture, with sugar and copra the main sources of cash income, supplemented by a large subsistence economy. In the past decade, however, Fiji has undergone a major transformation, shifting away from a predominantly rural-agricultural economy to one in which the provision of services is the dominant form of economic activity. A number of important economic and social issues have emerged as a result of this shift. In the face of a dynamic service sector concentrated in urban areas, the agricultural sector has had increasing difficulty in attracting the resources needed to raise labor and land productivity. This has hastened the flow of people to urban areas. Agricultural production has stagnated and this has contributed to a growing demand for imports and to domestic inflation. Because of the rapid growth of the service sector Fiji has been able to cope with the employment consequences of a population growth of over 3 percent a year in the 1950s and early 1960s. However, continued rapid expansion of the service sector is by no means assured. Decisions about the balance to be struck between agricultural-rural development on the one hand, and urban-service sector development on the other are among the most important economic policy questions about longer-term development strategy now confronting the Government. Before this report turns to an examination of these issues, a brief review of some of the highlights of development in the past decade is in order to provide a perspective.

B. Social and Political Background

General

2. Fiji is a small country, physically isolated from the main centers of world population and trade by thousands of miles of ocean. The land area of Fiji is quite limited, covering some 7,000 square miles, of which the majority is steep and mountainous. It comprises two main islands, which contain about 90 percent of the total land area and more than 90 percent of the population. The remaining land is spread over hundreds of smaller islands and scattered over nearly 300,000 square miles of ocean. The land area favorable for agriculture is strictly limited, and that part of it away from main islands further suffers from high internal costs of transport.

3. A second important feature is that Fiji is a multiracial society. The original Melanesian inhabitants, 1/ the Fijians, now account for 43 percent of the population of 541,000. The largest racial group is the

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1/ Unless otherwise stated we will refer to this group as Fijians throughout this report.

Indians (51 percent of the population), who first came to Fiji to provide labor for the emerging sugar industry in the 1880s. The remaining 6 percent of the population is made up mainly of Europeans, part-Europeans, Chinese and other Pacific Islanders.

4. The multiracial character of the society has had an important role in shaping the political and economic organization of Fiji. The Indians own or operate most of the medium and small-scale enterprises, including much of the commercial farming (mainly sugar). The Fijians retain ownership of most of the land and are still heavily engaged in non-monetary subsistence production. The European and Chinese group, whose living standard is substantially better than that of the Fijians and Indians, operate many of the large corporations and institutions, often on behalf of foreign owners.

Political Development

5. Fiji became an independent nation in October 1970, after 96 years as a Colony of the British Crown. Under the new constitution a bicameral Parliament was created, consisting of a Senate and a Lower House of Representatives. The Senate has limited constitutional powers of review and veto. The House of Representatives is the main legislative body and it has most of the traditional parliamentary powers and practices.

6. The two major political parties are the governing Alliance Party supported mainly by Fijians, and the opposition National Federation Party supported almost entirely by Indians. They were formed in the mid-1960s to contest the first elections for a Legislative Council in which elected members formed the majority. During the 1960s the predominant political issue was whether to have a common roll electoral system, or to keep the existing communal role. The Alliance Party resisted the introduction of a common role and constitutional development was impeded because of difficulty in obtaining agreement between the two parties. Agreement was reached in 1969 and independence was granted in 1970. Under the new constitution, the Senate is composed of 22 members who are appointed every six years. Membership of the House of Representatives is determined by a system of communal, "cross", and general voting that is similar to the one in existence before independence. Fijians hold 42 percent of the seats in the House of Representatives. Indians, with the numerically dominant population, have the same representation in the House as Fijians. The remaining group, consisting mainly of Europeans and Chinese, hold 16 percent of the seats. Elections for the House of Representatives are to be held at least every five years.

Number of Representatives in Legislative Council and House of Representatives

Race of Representation	1966 Council		1970 House of Representatives	
	No.	%	No.	%
Fijian	14	38.9	22	42.0
Indian	12	33.3	22	42.0
General	10	27.8	8	16.0
Total	36	100.0	52	100.0

7. The result of this distribution of political power is that a governing majority cannot be secured by the representatives of any one racial group operating alone on communal lines. It can only be secured by an interracial party or by two communal groups operating together. The first elections after independence were held in April 1972. The Alliance Party was returned to power with 33 of the 52 seats in the House of Representatives. 1/ The further evolution of Fiji's political development now depends on the findings of a Royal Commission that will study and make recommendations for the most appropriate method of election and representation for Fiji.

Role of Government

8. Although economic activity in Fiji has been dominated by the private sector, and especially large foreign-owned firms in sugar and trade activities, the public sector still accounts for about 25 percent of Fiji's GNP. At the time of independence the Government inherited an efficient civil service of some 8,300 employees, that had traditionally exercised considerable influence in formulating Government policies. Since 1968 the Government has been carrying out a systematic program of localization and training with a view to gradually replacing all the expatriate permanent and pensionable civil servants either by local citizens or, in some cases, by overseas contract officers for those specialized technical posts which cannot for the time be filled by local officers. At the end of 1970 only about 400 officers, or less than 5 percent of the public service, were overseas recruits. All but 90 were on contracts or secondment, and most were in the ministeries dealing with education, health, public works, posts and telegraphs, and agriculture. Government policy is to continue with the localization program consistent with maintaining reasonable standards in

1/ The Alliance Party won 19 of the 22 Fijian seats, 7 of the Indian seats and 7 of the general seats.

the public service. However, it is apparent that, for at least some time in the future, the Administration will continue to need the expertise and skills of overseas recruits.

9. Until recently, however, perhaps the major administrative problem has been the continuing existence of a separate Fijian Administration which at one time resulted in a dual legislative, administrative and judicial system for the Fijian people. At the head of the Fijian Administration is the Great Council of Chiefs. This Council considers all legislation affecting the rights and welfare of Fijians which is referred to it by the Government. The existence of this dual administration working in parallel but not always in unison, has often been blamed for the poor performance in agrarian development.

10. Since independence the Government has been quite vigorous in promoting development and attracting foreign capital to Fiji. It has also introduced a number of institutional reforms that include creation of a Central Monetary Authority (the forerunner of a central bank), a National Marketing Authority, and a Prices and Incomes Tribunal. In early 1973, ownership of the sugar milling industry was transferred from the South Pacific Sugar Mills to the Government controlled Fiji Sugar Corporation. The Government has also steadily improved its economic planning efforts. Fiji is now midway through its sixth development plan period which extends from 1971 to 1975 (DP VI). Early plans were simply capital development budgets for the public sector. However, the scope and sophistication of the planning has grown to the point where the current plan contains a detailed statement of objectives and programs. In mid-1973 the Government undertook a comprehensive review of progress achieved in the first 2-1/2 years with a view to making any necessary adjustments to its development strategy.

C. Growth and Structural Change

Composition of Output

11. Over the past decade real gross national product has increased at an average of about 5-1/2 percent a year - quite a respectable performance by international standards. With a population growth rate of 2.4 percent a year, GNP per capita has increased at about 3 percent a year to F$ 424 (or US$500) in 1972 (at 1972 prices).

12. The increase in real output in the past decade has been almost entirely concentrated in the service sector of the economy. Output in the agriculture, forestry and fisheries sector has remained stagnant, and as a result its share in GDP has declined steadily from 43 percent in the early 1960s to 22 percent in 1972. Mining and manufacturing has grown at about 4 percent a year, and its share in total output has declined slightly to about 14 percent. With the rapid growth in investment in urban areas, the construction and utilities sector grew by 10 percent a year. The major

source of growth in the economy has been the transportation, distribution and finance sectors. They have grown by 12 percent a year with their share in GDP rising from 20 to 36 percent. The growth in distribution and transportation has been the result of a rapid expansion in tourism, a large and growing urban population and the large and steadily rising proportion of aggregate supply accounted for by imports.

Growth and Compositon of GDP by Main Industries of Origin
(at 1968 constant prices)

Sector	Composition (%) 1963	1966	1969	1972	Average annual increase (%) in output 1963-72
Agriculture, forestry and fishery	43.0	32.8	27.8	22.4	-2.2
Manufacturing and mining	15.9	15.2	14.5	14.1	3.9
Construction and utilities	4.8	5.7	7.0	7.3	10.2
Transport, distribution, finance	20.3	25.5	30.4	35.9	12.1
Public administration and other	16.0	20.8	20.3	20.3	8.0
GDP (at factor cost)	100.0	100.0	100.0	100.0	5.2

Source: Appendix table 2.4.

Population and Employment

13. During the past decade Fiji has experienced a remarkable reduction in its population growth rate. During 1956-66 population grew at an average annual rate of 3.3 percent; by 1972 this rate had declined to 1.8 percent. This has been accomplished by a reduction in the birth rate from 40 per thousand in 1962 to 28 per thousand in 1972. A large part of this reduction is due to the family planning program begun in 1963 which now covers almost a quarter of women in the child bearing ages.

14. In 1966 one-third of Fiji's population lived in urban areas. On Viti Levu, which comprised almost three-quarters of the population, over 40 percent of the population was urban. Vanua Levu, the secod largest island and comprising about a fifth of the population, was only 15 percent urban and in the remaining islands less than 10 percent were classified as urban. No census or survey of population distribution has been undertaken since 1966. However, with non-agricultural employment growing at about 5 percent a year and recorded unemployment (most of which is in urban

areas) increasing even more rapidly, it is likely that Fiji's urban population has increased by at least 5 percent a year since 1966 to perhaps 40 percent of the total population.

15. The labor force has been growing much more rapidly than the population since 1965. During 1966-1972 the labor force grew at about 4 percent a year. There were 161,000 people in the labor force in 1972 and the Government estimates that it will reach 180,000 by 1975, increasing at an average annual rate of 3.8 percent. This trend would continue for much of the decade. Between now and the end of the 1970s the labor force is expected to increase by about 7,000 people a year. Creating sufficient employment opportunities for this burgeoning labor force is a major issue confronting the Government.

16. Despite the reasonably rapid growth in output in the non-agricultural sector of the economy, employment growth did not keep pace with the labor force growth. Employment increased by about 3.3 percent a year during 1966-72 and as a result the unemployment rate rose to about 7-8 percent. About one fifth of the entrants into the labor force during the period remained unemployed. The leading employment growth sectors since 1966 have been construction and commerce (including tourism) which increased by about 9 percent and 7 percent per annum respectively. Together they accounted for one-third of new employment during the period. Except for employment in manufacturing, which increased by about 6 percent a year, employment in all other major sectors grew at between 2 and 3 percent a year. The main structural shift in employment was the decline in agriculture's share from 56 percent to 51 percent of the labor force employed and increases in commerce from 9 percent to 12 percent and construction from 6 percent to 8 percent.

17. As a result of these trends in output and employment the proportion of the national income earned in the rural areas, including sugar, has diminished very rapidly over this decade from one half to one quarter. Although the average income per head has increased somewhat in real terms since the early 1960s, the average income in farming occupations has certainly fallen in real terms, while that in the service sector has certainly increased. This trend has occurred despite the steady movement of people into towns. In part, at least, the story is told by the trends in value added per employee. As the following table indicates, real value added per employee in rural production is only about half the national average. And it has been declining despite a movement out of agriculture. Whereas construction and utilities recorded the most rapid growth in employment, the service sector has shown the most rapid growth in value added per laborer. By 1972 it was almost twice the national average. It is this very large differential in earnings and/or productivity between the service sector and agriculture that has effectively prevented a significant amount of private sector resources from flowing into the agricultural sector. In fact quite the reverse has happened, since slowly growing farm incomes have been supplemented with non-farm earnings.

Trends in Employment and Value Added Per Laborer

Sector	1966 Amount	1966 Composition	1970 Amount	1970 Composition	1972 Amount	1972 Composition	Average annual increase (%)
			Employment ('000)				
Agriculture, forestry & fishery	67.4	55.9	77.0	55.0	78.3	52.5	2.5
Manufacturing & mining	10.7	8.9	14.0	10.0	14.9	10.0	5.7
Construction & utilities	8.2	6.8	11.3	8.1	13.1	8.8	8.1
Services	34.3	28.4	37.6	26.9	42.9	28.7	3.8
Total	120.6	100.0	139.0	100.0	149.2	100.0	3.6
			Value Added per Laborer (F$ at 1968 constant prices)				
Agriculture, forestry & fishery	530	58.9	520	48.1	480	42.5	-1.7
Manufacturing & mining	1540	171.1	1580	146.3	1590	140.7	0.5
Construction & utilities	740	82.2	870	80.6	950	84.1	4.3
Services	1480	164.4	2090	193.5	2200	194.7	6.8
Average	900	100.0	1080	100.0	1130	100.0	3.9

Source: Appendix tables 1.5 and 2.4.

D. Resource Management

Investment and Saving

18. During the past decade gross investment in real terms has risen by almost 10 percent a year to reach F$ 60 million in 1972, with much of the growth taking place since 1968. Prior to 1968 the share of investment

in GNP had been relatively stable at about 20 percent. Since then the investment share has ranged from a low of 23 percent in 1970 to a high of 29 percent in 1972, and has averaged 26 percent of GNP. The main force behind this investment growth has been the rapid expansion of public investment at about 15 percent a year in real terms. By 1972 public investment accounted for almost 40 percent of gross fixed capital investment. Over the decade, private investment has expanded more slowly - at about 8 percent a year - with much of the growth actually taking place in recent years especially in tourism-related facilities. In the case of the public sector the bulk of the investment has been in infrastructure facilities, especially in roads, water and sewerage facilities, and power and communications. Together these probably accounted for about two-thirds of public investment over the past decade. Many of these facilities were located in urban centers, and as the next chapter indicates, the level of public services in towns is quite good by comparison with countries with similar levels of GNP per capita. It is this relatively large proportion of investment in Fiji's basic infrastructure, rather than an unusually large amount of private residential construction, that explains the relatively high incremental capital-output ratio that has prevailed in the past decade. Over the past 6 years the average ICOR (at constant market prices) has been about 4.5.

19. The most striking feature of the investment boom of 1968-72 is the sharp rise in the share of investment that has been financed from overseas. After reaching a peak of 19 percent of GNP in 1968 and 1969, gross national saving (including transfers from abroad) has declined to 14-15 percent of GNP. The share of foreign saving, which averaged about 7 percent of GNP in the latter half of the 1960s, has risen sharply to 14 percent of GNP - to finance half of the total investment program. This rapid rise in the dependence on foreign financing has coincided with the acceleration in private investment since 1969. Most of the investment was concentrated in tourism-related facilities, and most of the resources required were supplied from abroad. Although the very large increase in foreign saving has maintained the high aggregate investment rate, it has resulted in a sharp increase in Fiji's future foreign obligations in servicing loans and equity investment.

Composition of Aggregate Savings
(% of GNP at current market prices)

Item	1963	1966	1969	1970	1971	1972
Gross investment	18.0	21.1	26.2	23.2	25.7	29.4
Foreign saving	-2.5	4.9	7.0	6.6	11.6	14.4
Gross national saving	20.5	16.2	19.2	16.6	14.1	15.0
Transfers from abroad	4.2	2.2	2.8	1.2	1.4	3.1
Net factor income from abroad	-5.3	-2.6	-5.2	-4.5	-4.9	-4.0
Gross domestic saving	21.6	16.6	21.6	19.9	17.6	15.9

Source: Appendix table 2.9.

The Problem of Inflation

20. In the past three years inflation has emerged as a major issue in Fiji. During the 1960s domestic prices increased at an average rate of about 3 percent a year. Since 1970, however, there has been a sharp acceleration in the rate of domestic inflation to about 9 percent a year in 1972. This has been the result of both cost-push and demand-pull factors, including rising import prices, substantial wage increases, and a large increase in demand supported by a rapid credit expansion. In the latter part of 1972 the inflationary pressures were exacerbated by food shortages following the destruction caused by Hurricane Bebe. Recent measures to combat the inflationary spiral have relied mainly on income and price policies, particularly price controls.

21. The rapid rise in the cost of imports since 1969 has undoubtedly been an important source of inflationary pressure. Imports account for about one-third of consumption expenditures and about two-thirds of investment expenditures, for example. Since 1969, the cost of imports has been increasing by at least 6 percent a year, compared with only 2 percent a year in the 1960s.

22. Another important source of domestic inflation has been the sharp increase in money wages in recent years. The index of money wages has risen by almost 11 percent a year since 1970, whereas consumer prices rose by 8 percent a year over the same period. However, these aggregates hide some important divergent trends as between broad industry groups. Real wage increases in mining and manufacturing for example, have grown more rapidly than average product per laborer. In the construction and utilities sector, on the other hand, the opposite appears to be true, with most of the growth in value added going to management and capital. The largest increases in real wages have been consistently recorded in

the service sector, especially in the past three years, when real wage increases outpaced gains in average labor productivity. Substantial wage settlements have been obtained in the service sector mainly as a result of the increased militancy of highly organized traded unions which have frequently resorted to srtrikes. These strikes have caused major disruptions in production; the number of man-hours lost reached 214,700 in 1972 and increased rapidly to 670,000 in the first few months of 1973. This compares with an average of less than 50,000 man-hours a year in earlier years. The trade unions are generally related to an industry, rather than a craft, and a substantial wage settlement achieved by one union has a "demonstration effect" on other unions.

Average Annual Increase in Real Wages
and Labor Productivity (%)

Sector	Real Wages		Average Product per Laborer	
	1966-72	1970-72	1966-72	1970-72
Agriculture, forestry and fishery	2.0	2.2	-1.7	-3.9
Mining and manufacturing	2.5	2.3	0.5	0.3
Construction and utilities	1.5	0.9	4.3	4.5
Services	5.3	7.1	6.8	2.6
Average	2.8	3.1	3.9	2.3

Source: Appendix tables 7.1 and 7.3.

Importance of International Trade

23. There has been a rapid increase in imports into Fiji in the past five years. This has been the result of the boom in investment with its very high import content (about 65 percent), as well as the relative failure of agriculture to meet basic food and raw material demands of the large and expanding urban population. During the past decade the share of imports in aggregate supply has increased from about 30 to 40 percent. However, these figures are somewhat misleading because about one-quarter of Fiji's merchandise imports are fuels for re-export, fish landed by foreign vessels at a Japanese processing plant located in Fiji that are re-exported, and imports for duty-free sale to tourists. The total value of merchandise imports (c.i.f.) retained for use in Fiji has risen from $34 million in 1963 to $100 million in 1972 - an increase of almost 13 percent a year. The share of consumer goods imports has declined from 53 percent to 42 percent, whereas the share of investment goods has increased from 30 to 41 percent. Fuel imports account for 6 percent and other raw materials and intermediates for about 11 percent. Because of Fiji's relative isolation and small size,

freight and insurance represents an unusually large portion of import payments. In recent years it has accounted for about 12 percent of the c.i.f. value of imports, having declined from about 20 percent in the early 1960s. Nevertheless, freight and insurance payments in 1972 were equivalent to about 9 percent of GNP. The rapid increases in freight rates in the Pacific Basin in recent years have contributed to the inflationary pressures in Fiji.

Composition of Imports
(million F$ c.i.f.)

Commodity Group	1963	1966	1969	1972
Retained imports	34.1	40.3	61.1	100.1
Consumer goods	18.2	20.0	29.4	41.7
Industrial supplies	5.5	7.2	10.7	17.8
Investment goods	10.4	13.1	21.1	41.0
Reexport and other	6.3	10.3	16.8	31.4
Total imports	40.4	50.6	77.9	131.5

Source: Appendix table 3.6.

24. Domestically produced merchandise exports have fluctuated considerably over the past decade, largely because of variations in receipts from sugar exports. However, the trend growth rate since the beginning of the 1960s has been about 7 percent a year at current prices. Sugar receipts, which have increased at about 8 percent a year, have accounted for two-thirds of the increase in export receipts. The remaining growth has come from exports of miscellaneous products to neighboring islands. Exports of the other traditional products - coconut products, gold and bananas - have been stable at F$ 7 million for the entire decade. As a result of the slower growth of merchandise receipts relative to imports, the deficit on Fiji's trade account has become quite large in recent years - in 1972 it was equivalent to 25 percent of GNP.

Composition of Major Exports
(million F$ f.o.b.)

Commodity Group	1963	1966	1969	1972
Domestic products	38.8	30.8	40.0	44.9
Sugar	28.8	21.7	28.1	34.3
Coconut products	4.9	3.5	4.5	2.6
Gold	3.1	3.0	3.4	4.0
Other	2.0	2.6	4.0	4.0
Re-exports (including fish)	5.5	8.2	13.2	20.7
Total merchandise export receipts	44.3	39.0	53.2	65.6
Tourism receipts	3.6	7.8	18.5	37.0

Source: Appendix table 3.4.

25. One reason why Fiji has been able to sustain this rapid increase in import dependence has, of course, been the equally rapid growth in service account receipts, especially from tourism. The latter increased from a negligible amount in the early 1960s to F$ 37 million in 1972, when tourism eclipsed sugar as Fiji's major source of foreign exchange. 1/ As a result there has been a growing surplus on the service account in recent years reaching F$ 16 million in 1972. However, this surplus and the modest inflow of private remittances and official grants have not been sufficient to offset the growth in imports. Thus the deficit on the current account has increased from less than F$ 10 million for most years in the 1960s to F$ 33 million in 1972 (Appendix table 3.2).

1/ However, the Government estimates that about 55 percent of the foreign exchange earned from tourism currently leaves the country (45 percent of gross receipts are spent on imports, 7 percent goes out as repatriated profits and 3 percent as salaries repatriated by overseas employees). In the case of sugar, however, the leakage is only about 8 percent of gross receipts. The net foreign exchange from sugar exports in 1972 was about F$ 31 million, compared with F$ 17 million from tourism.

External Financing

26. The exact magnitude of the gross inflow of external capital is not known with certainty because there have not been any requirements for reporting foreign exchange movements in and out of Fiji. Since mid-1972 there have been exchange controls with respect to transactions in the Overseas Sterling Area, and with the establishment of the Central Monetary Authority in 1973 greater efforts are being made to obtain a more complete picture of foreign capital movements. Because only a portion of the past capital movements were recorded, there are large positive errors and omissions in the balance of payments. Assuming these errors and omissions represent unrecorded capital inflows, it is possible to obtain an approximate idea of the magnitude of the foreign capital inflow in recent years. It seems that 1969 was something of a turning point in the balance of payments for it was from this year that the large unrecorded capital movements began. During 1965-68 there was a small decline in Fiji's net external reserves, with most of the current account deficit financed by net capital inflows that totalled F$ 29 million (including errors and omissions of F$ 14 million). During 1969-72, however, the current account deficit doubled to F$ 80 million. Net external reserves increased by F$ 31 million so that net foreign exchange holdings remained at their historic level of about 5 months of imports of goods and services. The net capital inflow thus rose sharply to F$ 110 million in these four years (including unrecorded inflows of F$ 62 million). Of this total only F$ 4 million is accounted for by external borrowing by the Central Government.

Uses and Sources of Foreign Capital Inflows
(million F$)

Item	1965-68	1969-72
Uses		
Current account deficit	34.6	79.5
Increase in reserves, etc.	-5.9	30.7
Total	28.7	110.2
Sources		
Recorded capital inflows (net)	14.7	48.3
Private and Other	13.8	43.9
Central Government	0.9	4.4
Errors and omissions	14.0	61.9
Total	28.7	110.2

Source: Appendix table 3.2

27. There are no complete statistics on the composition of this total net capital inflow of about F$ 140 million during 1965-72. Thus it is not possible to distinguish between inflows of equity capital, short-term trade finance and medium and long-term loans. However, the Central Monetary Authority's recent estimate of Fiji's total external debt, which is discussed below, suggests that most of the inflow has been in the form of medium and long-term loan capital. As an approximate estimate the Mission puts the net inflow of medium and long-term loans at about F$ 90 million during 1965-72, and direct investment at about F$ 20 million (net). The balance of F$ 30 million is accounted for by short-term trade finance and other errors and omissions 1/.

28. The only detailed statistics on Fiji's external debt pertain to the borrowings of the Central Government which have been quite small. At the end of 1972 there was about F$ 10 million outstanding on a disbursement basis, or about F$ 25 million if undisbursed loans are included. Efforts are currently underway to improve the information available on Fiji's total external debt. The Central Monetary Authority has estimated Fiji's total medium and long-term debt outstanding at the end of August 1973 to be about F$ 110 million, of which public debt was F$ 49 million (on a disbursement basis).

Medium- and Long-term Debt Outstanding at end August 1973
(million F$)

Category	Private	Public	Total
Disbursed	61.3	48.7	110.0
Undisbursed	17.5	8.4	25.9
Total incl. undisbursed	78.8	57.1	135.9

Source: Central Monetary Authority.

29. Much of the increase in debt has occurred since 1969. The bulk of the private debt is believed to have relatively short maturities so that a sharp increase in debt service payments is expected in the next few years. In fact, the Central Monetary Authority has estimated amortization and interest payments on the debt outstanding at August 1973 will remain at F$ 20-25 million a year during 1974-78. In 1973 debt service payments probably were about F$ 19 million or almost 17 percent of exports of goods and services net of reexports. 2/ Service payments on the Central Government's external debt amounted to about F$ 2 million or less than 2 percent of export receipts.

1/ See the note on Appendix table 3.2 for further discussion of errors and omissions.

2/ Re-exports including fish are excluded because it is believed that there are no foreign exchange transactions involved.

E. A Recapitulation

30. The picture that emerges from this brief review of Fiji's development in the past decade is one of an economy that has managed its transition to independence extremely well. It has provided increasing employment opportunities and rising real incomes for most of its populace, while maintaining a reasonable degree of stability. But the decade has been a period of rapid structural change and this transformation has created some strains in the economy. The service sector has emerged as the dominant form of economic activity. Its emergence has been made possible by the large and growing proportion of the population in urban areas whose real per capita incomes have been rising at perhaps 3 percent a year, and by the rapid growth in tourism. These factors combined to permit a rapid expansion in the distribution, financial and transport services in urban centers. The rapid growth in employment opportunities in towns, the capacity of the service economy to pay higher wages, and the large amounts of public investment in urban areas have combined to attract many people from rural-agricultural areas. Agriculture has had difficulty in attracting the resources needed to raise productivity and increase output. Despite the flow of people to non-farm employment the income and productivity gap between agriculture and much of the rest of the economy has increased. The rapid growth in tourism, together with sharply increased inflows of foreign capital, has provided sufficient foreign exchange for Fiji to undertake a large investment program and to offset the sluggish growth in domestic food and raw material production with increased imports. However, the combination of lagging food production, growing dependence on imports when world-wide inflation was becoming more serious, and rapid wage increases especially in the service sectors, have combined to produce a rapid rate of domestic inflation.

31. Is a continuation of this past pattern of growth possible, or for that matter, desirable? In the next chapter we will examine in more detail the trends and prospects within the main producing sectors of the economy, including the consequences of the energy crisis. We will suggest that for the next few years at least the service sectors will not be so buoyant and there may be slower growth in export receipts. A slowdown in the economy could bring to the fore the problem of employment creation for a labor force that continues growing at 3-1/2 percent a year. A slower growth in foreign exchange receipts, together with sharply increased prices for fuel imports, will pose difficult choices between reducing import growth and increasing dependence on foreign capital to sustain imports at a level sufficient for domestic requirements. For the longer term, however, the issue of the balance to be struck between raising productivity in agriculture and attempting to hold more population in rural areas or providing rapid growth based on an urban-service economy remains.

II. SECTOR DEVELOPMENT: PROSPECTS AND PROBLEMS

A. The Energy Crisis

32. Fiji is totally dependent on imported petroleum products for its energy requirements. The only local energy source is wood which is used in most rural households for cooking. Fiji has some hydro-potential for power generation and this is under study. Following the discovery of petroleum in Tonga, interest in oil exploration in Fiji increased. Four companies are now actively engaged in exploration work.

33. Fiji does not have an oil refining industry, although the possbility of building a refinery is under consideration. Imports of petroleum products were valued at about F$ 13 million c.i.f. in 1972. In recent years most supplies have come from Australia and Singapore. Approximately 55 percent of the quantity imported was re-exported to other Pacific Islands and sold to international aircraft and shipping. 1/ Fuel for motor vehicles accounts for about 36 percent of imports for domestic use; light industrial diesel fuel (mainly for power generation) for about 37 percent; aviation fuel, kerosene, oil products, etc., account for the remainder. Over the past decade, the value of fuel imports (at current prices) has increased by about 15 percent a year, while the quantities imported increased by about 10 percent a year. The growth was approximately evenly divided between diesel fuel and motor spirits.

34. In response to the energy crisis the Government has initiated programs designed to conserve energy. The object of Government policy is to conserve energy in low priority areas where the impact on output and employment growth is not substantial. Thus, conservation measures aim at reducing gasoline consumption by vehicles, reducing power consumption by restricting use of airconditioners and home and office lighting. The Government also has introduced measures to limit the import of new motor vehicles and it is reviewing plans to curb the growth in demand for power. In 1974 it expects consumption of oil products to be about 10 percent less than in 1973. This will mean that the c.i.f. value of imports of petroleum products for domestic use would rise to about F$ 15-20 million (depending on the extent of the price rise in 1974), or about 8-9 percent of GNP in 1974. For the longer term significant savings in fuel consumption will depend largely on a more modest growth in traffic volumes, and a slower expansion in demand for power. As the subsequent discussion indicates, the possibility of using hydro-power is only in the early planning stages. What is clear, however, is that higher international prices for petroleum products will have major consequences for the balance of payments and for the rate of domestic inflation. These are discussed in subsequent chapters.

1/ Exports of fuel in 1972 were about F$ 7.5 million, the c.i.f. import value of which was about F$ 7 million.

B. The Service Sectors

Trade and Distribution

35. Wholesale and retail trade, including hotel and restaurant trade associated with tourism, has been a major source of growth in the economy. By 1972 the sector accounted for 23 percent of GDP and employed about 17,000 or 10.5 percent of the labor force. Since 1966 employment in the sector has grown at 7 percent a year, and it has absorbed 17 percent of entrants into the labor force. In terms of output and income it now rivals agriculture as the dominant sector, although agriculture is much more important in terms of employment. A major share of fixed capital formation, especially in the past five years, has gone into this sector. At current prices investment in the sector averaged about F$ 7 million a year during 1968-72, or about 20 percent of total fixed investment in the economy. The bulk of this investment has, in fact, gone into tourist-related facilities: the number of hotel rooms available doubled to 2,600 by 1972.

36. The Mission estimates that import trade accounts for abour 35 percent of total output of services in the distribution sector, services to tourists accounts for about 25 percent and trade of domestically-produced goods and services accounts for the remaining 40 percent.

Sources of Value Added by Distribution Sector
(in million F$ current market prices)

Type of Service Activity	1968	1969	1970	1971	1972
From import trade	7.0	8.7	10.7	13.7	15.9
From tourism trade	3.8	5.2	6.6	9.8	11.2
From domestic production trade	9.2	11.1	12.5	18.3	19.9
Total value added	20.0	25.0	29.8	41.8	47.0

Source: Mission estimates based on input-output and national accounts data.

37. Because of the small size of the domestic market and the dominant position of a small number of firms in trade activities, Fiji continues to face special problems regarding the degree of competition among firms. It has often been claimed that because of the small size and monopolistic nature of the market, trade margins represent a large proportion of final selling prices. There is some information on trade margins for various categories of domestic trade. The margins (or more accurately, value added) on sales of domestic consumption goods appear to be about 12 percent; in the case of tourism the margin is close to 30 percent. Much smaller margins seem to apply in the case of sales to other industries.

Less reliability is attached to the margins on inter-industry sales, but given the interlocking nature of industrial ownership it would not be surprising to find generally smaller margins on this portion of trade.

Trade Margins on Various Expenditure Categories[/a]
(million F$)

Type of Expenditure	1970 Total Expenditure	1970 Trade Margin	1970 %	1971 Total Expenditure	1971 Trade Margin	1971 %
Intermediate demand[/b]	285.5	6.1	2.4	328.2	6.8	2.4
Private domestic consumption	106.9	11.5	10.8	129.8	16.4	12.6
Tourism consumption	23.4	6.7	28.6	33.1	10.1	30.5
Re-exports	13.5	1.6	11.9	12.9	1.7	13.2
Investment	42.0	4.0	9.5	54.4	6.7	12.3
Other[/c]	92.6	0.1	0.1	98.9	0.1	0.1
Total Expenditures	563.9	29.8	5.3	657.3	41.8	6.4

/a Trade margin refers to value added by the trade sector.

/b Margin computed only on expenditures by those sectors receiving services.

/c Includes subsistence consumption, government and other exports.

Source: Bureau of Statistics, The National Accounts of Fiji: Input-Output Tables for 1970 and 1971, April 1973.

(a) Wholesale and Retail Trade

38. Three distinct classes of goods enter the distribution network: imports, local manufactures, and local primary produce. Imports enter only at Suva, Lautoka and Nadi, while most local manufacturing is located in the main cities of Viti Levu. Distribution of these goods involves both land and inter-island sea transport. Marketing of local produce is usually simpler, less frequently involving inter-island transportation. But the market structure of this sector is poorly developed. There is a need for more efficient channels to facilitate the flow of perishable products to the major consumption centers. This is true of the outlying islands and in rural areas of the two main islands.

39. The trade sector is dominated by a few major foreign-owned (mainly Australian-based) companies. There are several medium-sized firms owned and controlled by Indians, Chinese, and retail cooperative associations. The rest of the sector is charcaterized by a large number

of small urban and rural owner-occupied independent retail businesses, operated mainly by Indian or Chinese families. However, many of these enterprises rely both for their supplies and credit on the few major firms which control the main import agencies and dominate the sector. The economic importance of the large expatriate firms lies partly in their ability to benefit from economies of scale in buying, partly because they can carry a wide range of stock, and partly in their strong power over the market as a result of their involvement in or control of import agencies. The high degree of market concentration in trade activities is reinforced by extensive vertical and horizontal integration with inter-linked companies, both within the retail sector and with the transport sector including shipping, import agents and wholesalers.

40. Retail, wholesale and marketing cooperatives have been seen as one way of improving the competitive environment in Fiji. However, the cooperative movement is still quite small and its history has not been a happy one. By 1972 the number of cooperatives had increased to 850, with a membership of 34,000 or about 6 percent of the population. They had a turnover of about F$ 6 million so that their share of the wholesale and retail market was probably less than 5 percent. More recently a National Marketing Authority has been established to facilitate the flow of produce from rural to urban centers. It has advisory, regulatory and executive functions. It can create or financially assist warehousing, storage, grading and handling facilities. The Government has also recently introduced a freight subsidy scheme to improve the shipping service to outlying islands.

(b) Tourism

41. Tourism has been Fiji's most dynamic sector. Over the past decade tourist arrivals have increased by almost 25 percent per annum to 166,000 in 1972. The United States, Australia and New Zealand account for about three-quarters of the tourists; Britons, Canadians and Pacific Islanders most of the other (see Appendix table 16.2). Since 1967 about 1,500 additional hotel rooms were added to the existing stock of 1,100 bringing total rooms in 1972 to about 2,600. This suggests an investment of about F$20 million during 1967-72. Value added by tourism has been growing at close to 20 percent in real terms since the mid-sixties. Although its share of GNP is only about 4 percent, tourism has contributed to the rapid growth of construction, transport and communications. Employment in tourism was about 4,200 in 1972, or about 2 percent of the labor force. Since 1965 gross tourist receipts have increased fivefold to F$ 37 million. Although about 50 percent of tourist receipts are spent on imports directly and indirectly, tourism has been a significant help in moderating Fiji's growing current account deficit.

42. An important question facing the industry is what is the appropriate growth rate to plan for. A recent UNDP financed study of the tourist industry recommended that a desirable target would be a growth in visitor arrivals of about 18 percent per annum. Such a growth rate would result in about 800,000 tourists by 1981, a fourfold increase in

the number of hotel rooms, a significant growth in output and employment in other sectors, and increased foreign exchange earnings and government revenues. As a result of recent trends however, it appears that at least for the next few years tourist demand would not be sufficient to justify an early start to such an expansion program.

43. There was a marked slowdown in tourist arrivals in 1972 and 1973 when visitors increased by only about 9 percent a year. The main reasons for the slowdown have been the dislocation caused by Hurricane Bebe in late 1972, an airport strike, the devaluation of the US dollar and the introduction of low charter airfares between Australia and other East Asian and European countries. More important for Fiji's future tourist growth is the current rapid increase in the price of crude oil. Because of its isolation, Fiji will likely prove quite vulnerable in the current crisis. It is unlikely for instance, that there will be any increase in 1974 in tourists from Britain, the U.S., and continental Europe which comprise about a third of total tourists. Tourists from Australia, New Zealand and Canada, which comprise about 55 percent of the total, would probably register only small increases. The Mission estimates that tourist arrivals would increase by about 5 percent this year. While it is hazardous to make even short-term forecasts in the prevailing world situation, with a settling of conditions, growth in tourists could begin to recover in 1975 and reach 12 percent a year in 1976. The Mission's forecast of tourist arrivals would generate a total demand for only about 3,000 rooms by 1976.

44. At the end of 1972 there were an estimated 2,600 hotel rooms available. Completion of hotels now under construction will add another 1,200 rooms by the end of 1975. Three quarters of these additional rooms were approved in 1972 and construction is probably well underway by now. There does not appear to be a convincing case for a continued rapid expansion of additional tourism facilities at least until there is a clearer picture of the likely future growth in demand for facilities. With no further construction in 1975, and assuming the above projections of demand were to be realized, there would be an excess of some 600 rooms in 1976. This would mean a drop in the occupancy rate from 74 percent in 1971 to 54 percent by 1976. With a recovery in tourism growth to perhaps 12 percent a year after 1976, it would not be until the latter part of the decade that capacity utilization was sufficiently high to warrant additional rooms.

45. The projected slower rate of expansion in tourism will have an adverse effect on the labor market. From 1973 to 1976 tourism employment would grow on the average only marginally faster than the labor force, reaching about 6,200 persons and representing 3 percent of the labor force by 1976.

46. Similarly, a slower expansion of tourism would result in a slower growth of foreign exchange receipts. Gross travel receipts would increase to about F$ 100 in current prices by 1978. This represents an average annual growth rate of about 16 percent from 1974-78 compared to about 25 percent per annum for 1969-73; most of this growth however would be

in 1976-78. As a result, tourism will be less important in moderating the growth in the current account deficit, at least during 1974-78, and the agricultural sector will have to bear a larger burden of increasing export receipts and hence import capacity.

C. Agriculture, Forestry and Fisheries

General

47. Despite the decline in agriculture's share of output and income to about one quarter of the national total, some 60 percent of the population still live in rural areas and about 78,000 people, or half the labor force, depend primarily on agriculture for employment. The sector will undoubtedly continue to absorb much of the increase in the labor force, especially if for the time being at least, the urban-service economy experiences somewhat slower growth. Increasing rural-agricultural incomes must continue to be a major policy objective. This can be accomplished by expanding production into new land areas and by raising productivity in existing areas. Moreover, the sector continues to offer reasonable opportunities to expand and diversify exports. Greater efforts will be needed in both the public and private sectors to ensure that there is a larger flow of resources into the sector. Achieving a better performance will not just depend on an increased resource flows, however. There will also be a need for further institutional reforms.

48. A detailed review of individual sub-sectors within agriculture is provided in Annex I of this report. In this section we restrict attention to general issues related to agricultural development. It is convenient to divide the discussion into two parts: first, a review of the prospects for the next few years; and second, a review of longer term questions relating to the balance between agriculture and the rest of the economy.

Short-term Outlook

49. There is the prospect of slower growth in the service sector of the economy, at least for the next few years. This would mean a slower rate of emigration to urban areas (or even a return flow), and slower growth of non-farm incomes. Slower growth in domestic incomes and tourist expenditures is more likely to result in a relatively slower growth in demand for imported foods. Demand for most locally produced food items is not likely to be affected. In fact, with the rapidly increasing cost of food imports, expanding domestic food production to reduce imports is clearly a high priority. There are opportunities for significant increases in the production of poultry, beef, dairy products and rice, for example, which in 1972 accounted for about F$ 10 million of imports. As Annex I indicates, the Government is making concerted efforts in these areas. However, the diversity of conditions and crops in Fiji means that the Government is involved in many different programs for agricultural development.

It has only very limited staff resources and institutional support for these programs which, in the short run, cannot be increased appreciably. In these circumstances, it may be important to concentrate efforts on a limited number of high priority projects over the next few years, rather than to try and obtain results on a much wider front.

50. A second issue for the short-term is whether production of agricultural exports can be increased. The outlook for increased production is less sanguine. The main opportunity for a substantial increase in export receipts would be in sugar. Apart from the vagaries of the weather, and the prospect of higher world prices for sugar (which is discussed in Chapter V), increases in receipts will depend on obtaining additional foreign markets and on measures to expand production. There is scope for expanding the area cultivated in Vanua Levu. Greater productivity can be achieved in Viti Levu through improved drainage and the transfer of production quotas from growers who have failed to achieve them to more efficient farmers. On balance the outlook is for a rise in production to about 365,000 tons of sugar equivalent by 1975, and exports of 340,000 tons. However, with the better prices for Fiji sugar that we forecast in Chapter V, export receipts would rise to about F$ 56 million in 1975. Except for export earnings for coconut oil which could increase because of higher prices, export income from other agricultural products is not likely to show any significant change in this period.

51. A third issue in agricultural policy for the short-term is the scope for increased employment creation within the sector to help ease pressures on the labor market. Efforts to expand food production would help with employment creation, but in some instances increased output hinges on improved management and productivity (e.g. the dairy industry) more than on a substantial expansion in the scale of operations. There does appear to be a case for Government initiatives that would create more employment. One such opportunity is in the forestry sector. The impressive results with pine reafforestation programs in the Western Division suggest that serious consideration be given to accelerating and increasing the scale of this program. The longer term prospects for exports of wood products are encouraging and with concerted efforts to enlist the cooperation of local land owners, a larger planting program could have an important employment effect in view of the rather labor intensive nature of the work. It would also make an important contribution to Fiji's longer-term production and export capacity. There are similar opportunities for employment creation with a large scale drainage rehabilitation and improvement program within the sugar growing areas. Lessees on cane farms have been reluctant to undertake needed long-term improvements to cane fields because of the relatively short period of their leases. Better drainage would help increase productivity of these lands and it could create substantial employment. The Government may need to meet part or all of the costs of the drainage program as they are incurred. However, with suitable arrangements between owners and lessees about sharing the benefits, the costs could be passed on using term loans from the Fiji Development Bank.

The Longer Term

52. Of the 80,000 people currently employed in the agricultural sector about 30,000 (mainly Fijians) are believed to be engaged mainly in subsistence agriculture. Of the 50,000 engaged in cash agriculture, probably about half are wholly or partially involved in sugar cane production. The other half are involved in production of other cash crops, livestock, forestry and fisheries.

53. The pressure of population on land resources, leasing of land to commercial farmers, and growing diversion of village lands to cash crops such as tobacco will place increasing strains on the traditional subsistence farming sector in the coming decade. Rotations will be shortened and subsistence gardens pushed back onto land that will eventually require higher labor inputs to maintain the required level of production. The present development plan does not have any specific provisions for channelling new resources into subsistence agriculture, the philosophy being that with the expansion of opportunities for cash cropping and non-agricultural employment, there will be a gradual transition from subsistence farming. It is not obvious that the cash incomes of those who remain in the subsistence sector will grow sufficiently rapidly to offset any declines in the productivity of subsistence labor activities. The outcome depends on the growth of non-subsistence employment opportunities, availability of land and accessible markets for producing and disposing of a surplus and so on. For these reasons, closer attention to the problems of raising productivity in village agriculture will be needed.

54. In the case of the sugar industry, there is some scope for increased production by expanding the cultivated area. Substantial amounts of good cane land are being lost to urban expansion in the Lautoka-Nadi-Sigatoka areas. Expansion of the industry on Vanua Levu is possible. At this stage, however, it seems that the main thrust for the future will be to increase land productivity within the presently cultivated areas. Increased productivity is needed to raise farm incomes and to ensure Fiji a continued competitive position in world markets. There is scope for raising productivity in the industry, but in part, progress depends on improving tenure arrangements so that lessees are encouraged to make longer-term investments in land improvements.

55. With the prospect of rapid growth in import payments and only limited growth prospects for sugar exports, there is a strong case for priority being given to diversifying agricultural exports. For the longer term the best opportunities appear to be in forestry, livestock and fisheries development. About 1.7 million acres, or 40 percent of Fiji's total land area, is suitable for grazing. Relatively large amounts of capital would be needed to expand the industry, but besides meeting the growing domestic demand, there are export opportunities in the Pacific. A large part of the 2 million acres in Fiji that is unsuitable for cropping or grazing, is suitable for forestry development. As already noted there is a case for accelerating the program of planting 50,000 acres of *Pinus* sp. by 1978. Export prospects for timber products appear

to be good and the possibility of a much larger program should be considered.

56. More vigorous development of the agricultural sector in the years ahead will require better infrastructure and other supporting services. It will also require suitable channels through which resources can be invested in agricultural production. The main vehicles at present are the Fiji Development Bank (FDB) and the various Government subsidy programs. The commercial banks have been reluctant to lend in agriculture because of the small size of individual loans, high administrative costs, and lack of suitable collateral. The problem has been compounded by the difficult question of land ownership - with relatively short leases, it is difficult to encourage investment in long-term improvements. Yet the sustained development of industries like forestry, livestock and dairy products will require long-term investment. Greater efforts to attract capital and managerial skills to these kinds of industries will be needed. It is not necessarily a question of encouraging foreign investment in these sectors. There may be a case for examining ways in which local landowners, for example, can incorporate to provide a channel for resources from the Fiji Development Bank or the Fiji National Provident Fund to develop these sectors. If necessary, foreign donors could be approached for technical assistance programs to prove managerial or technical skills that may be needed for a period.

D. Mining and Manufacturing

Mining and Quarrying

57. Output of the mining and quarrying sector has been declining during the past decade, with the sector's share in GDP falling from 3 percent in 1965 to 1.2 percent in 1972. The sector currently employs about 2,300 people, or 1.4 percent of the labor force. Gold mining is the most important activity in the sector, and gold exports accounted for 8 percent of domestic exports in 1972. Gold production has been declining since the mid-sixties (Appendix table 9.1). This downtrend is attributable to the gradual exhaustion of high-grade reserves and to increased production costs. Since there are no advanced refining facilities in Fiji, the entire gold output is sold to Australia in a partly refined form. The Government is not directly involved in the marketing of gold, but the possibilities for such participation are under study. Because of the importance of the gold mining industry as an employer and foreign exchange earner, the Government provides special assistance in the form of cash grants for the general development of mining operations, including exploration work. These grants amounted to F$ 2.4 million during 1968-70, but declined to F$ 150,000 in 1971 and F$ 6,200 in 1972.

58. The rise in world gold prices in 1972 and 1973 has provided an incentive to increase exploration and production, and deposits which were formerly uneconomic to mine will now be exploited. Although the hopes for increased gold production have improved, the outlook for manganese and other

metallic minerals is less promising. Manganese mining was supended in 1972. Hopes for a bauxite mining project producing 300,000 tons a year were disappointed in 1972 when the company suspended all activity. Most of the prospecting now going on in Fiji is concerned with the search for large low-grade porphyry ore bodies. Expenditures have been averaging about F$ 1 million a year. In these circumstances most of the growth in the sector in the next few years at least will come from increased gold exports as a result of higher gold prices.

Manufacturing

59. Manufacturing accounts for about 12 percent of GDP and employs about 8 percent of the labor force. Over the past decade manufacturing output has expanded at an average of 4-5 percent a year in real terms and the sector's share in GDP has fallen. The sector is dominated by the sugar milling industry which currently accounts for about 45 percent of the total value added by the sector. Sugar production has remained at about 300,000 tons a year over the past decade, except for 1968 and 1970 when higher outputs were recorded. Other industrial activity involves processing local raw materials like copra and timber, food production and some simple processing of intermediate goods. The sugar mills are at Lautoka, Mba, Penang ang Lambasa. Most other industries are located in Suva.

60. The scope for manufacturing in Fiji is limited to products for the local market for which economies of scale do not give the overseas producer advantages that outweigh the disadvantages of distance and transport costs, and to the processing of food and raw materials both for local consumption and for export. The Government's policy is to encourage both import substituting and export-oriented industries, and a range of incentives are available for this purpose. Approved enterprises are entitled to exemption from income tax within specified limits, and may be fully or partially exempt from duties on imported raw materials, building materials and machinery; other incentives include accelerated depreciation allowances and tariff protection during the initial stages of operation. An Industrial Review Committee appointed in 1972 appraises projects and recommends the type and level of concessions to be given to new local and foreign industries; the criteria applied by the Committee includes labor intensity, conservation or generation of foreign exchange, use of local raw materials and services, technical training, local equity participation and regional location.

61. The growth in manufacturing output will, of course, continue to be dominated by the sugar milling industry. As indicated earlier, apart from fluctuations in output due to climatic factors, the prospects are for a modest increase in output, at least for the medium term. The outcome for the longer-run depends on whether Fiji can secure additional markets and whether domestic cane production can be increased on a sustained basis. The outlook for other manufacturing activities is for continued modest expansion. A number of new plants have been established in recent years, including an automated match factory, a flour mill, and a cold steel rolling plant. Projects being implemented or planned

include additional sawmills, a leather tannery, and wood and paper factories. An industrial estate was recently established in Vatukoula to provide employment opportunities for workers discharged from the declining gold industry. These investments will provide for further expansion in output and employment. Some additional expansion in other established manufacturing activities like beer, clothing, paint and soap production will occur as the size of the local market expands. For the longer-term there are prospects for establishing a wood processing center and meat and fish canning facilities. The Government is also examining the scope for setting up a duty-free zone in Fiji for manufacturing and packaging industries, but it would be several years before this would have an impact on employment and export receipts, if the Government decides to go ahead and suitable foreign investors can be found. On balance then, output from the manufacturing sector may be expected to expand at about 4 percent a year for the remainder of the decade with a comparable growth in employment.

E. Infrastructure and Service Sectors

Building and Construction

62. Substantial growth in the construction industry since the early sixties has made it an important sector in the economy. As a percentage of GDP, construction has increased from 4 percent in 1968 to 6 percent in 1972, and it now accounts for 8 percent of total employment and 14 percent of wage and salary employment. Since 1970 growth in value added has averaged almost 13 percent per annum in real terms, more than double the growth rate of GDP. This rapid growth has been mainly the result of the large investment in tourism facilities, together with continued rapid growth in the public investment program. There has also been a rapid increase in construction costs, and shortages of skilled labor and materials have emerged. The Government estimates that since 1970 demand has exceeded capacity in the industry by at least one-third. Wages in construction have been increasing at an average rate of 10 percent per annum since 1970 (Appendix table 7.3) and building material prices at 5 percent (Appendix table 7.4). 1/ It was noted in the Sixth Development Plan that shortages of skilled manpower were developing in the industry and the Government cut its own capital works program for 1973 by 15 percent to alleviate pressure on the industry. The Government is attempting to alleviate the shortage of skilled manpower by increasing facilities for technical education, particularly in the construction trades.

1/ There is an unresolved discrepancy between these estimates and the estimate made in the Government's 1973 review of the Sixth Development Plan which refers to average price increases in construction of 16 percent a year since 1970.

63. These pressures in the construction industry could continue if all hotel construction plans currently planned actually materialize. During 1970-72 the value of building permits issued totalled some F$ 50 million, while completion certificates were issued for F$ 20 million. In addition, the Government approved plans for tourism facilities that totalled F$ 48 million in 1972 and 1973, These expansion programs are likely to maintain a high level of activity in construction until the end of 1974. Beyond 1974 expansion of the industry will depend on new approvals. Prior to the energy crisis further increases in approvals in 1974 and 1975 were expected. As the earlier discussion of tourism suggests, however, there is the prospect of a substantially slower growth in tourist arrivals at least for the next few years. The completion of hotel construction currently underway probably would provide sufficient room capacity in the tourism industry until the latter part of the decade. It seems likely therefore that the pressures in the construction industry may be much less acute that could have been anticipated a year ago. Indeed there is a danger that the uncertainties generated by the energy crisis could result in large slowdown in the rate of expansion of private demand for construction. Construction activity probably increased by about 25 percent in 1973 to almost F$ 30 million (at 1972 prices) and it probably would stay at about that level during 1974. However, with over capacity in the hotel industry and slower growth of other private construction activities, output in the sector could fall by about 20 percent in 1975. As tourism growth begins to accelerate in the latter part of the decade, construction should gradually pick up. However, the projected slowdown in private construction activity from 1975 could cause substantial lay-offs unless the Government is able to accelerate its public works program to maintain a reasonable level of activity for the industry as a whole.

Public Utilities

65. The provision of electricity, water and sewerage services is largely the responsibility of the public sector. Over the past decade this sector has expanded at about the same rate as aggregate output and its share in GDP has remained at about 1.5 percent (Appendix table 2.3). The sector employs less than 1 percent of the labor force, but it accounts for about 7 percent of total fixed investment.

(a) Electricity

66. A statutory body, the Fiji Electricity Authority (FEA), is responsible for provision of power in all areas except the City of Suva, where the City Council is responsible for the service. The FEA currently services the urban centres of Nadi, Lautoka, Mba and Sigatoka (Viti Levu), Lambasa and Savusavu (Vanua Levu), and Levuka (Ovalau). The FEA is expected to assume control of the Suva facilities as soon as agreement is reached about the manner in which the City Council would be compensated for the considerable revenues it derives from providing the service. The Government hopes agreement can be reached in the coming year. One further power station is controlled by the Emperor Gold Mine at Vatukoula, which also supplies electricity for public use. Apart from a low

capacity line connecting Nadi, Lautoka and Mba, the above systems are not inter-connected. The sugar mills operate and control their own supplies. Fiji does not have any hydro-power generating capacity. All electricty for public supplies is generated by diesel alternators, and with the current world energy crisis the costs of providing power in Fiji will escalate sharply.

67. The combined capacity of the Suva City and FEA systems grew from 13.2 MW in 1966 to 47.3 MW in 1972 - an average rate of increase of about 24 percent a year (Appendix table 12.1). More than 70 percent of installed capacity is in Suva. Over the past five years, investment in public power facilities has amounted to about F$ 9 million at current prices, or about 4.5 percent of total fixed capital formation during 1968-72. The total amount of power produced was about 190 million KWH in 1972. Since 1966 consumption increased at an average rate of about 18 percent a year. Production by the FEA and Suva City systems, which supplied about 112 million KWH in 1972, has been growing at about 14 percent a year in the same period. Most of the growth has resulted from the 20 percent a year increase in the number of establishments supplied with power. The largest increase in demand has been taking place in the Nadi and Lautoka areas where the Asian Development Bank has recently made a loan of US$4.7 million for a 10 MW generating station at Vuda and Nadi, 33 KV transmission lines from the station to Vuda and Nadi and Lautoka, and distribution rearrangments. Rural electrification is still at a very early stage as FEA provides connections only to rural households in the vicinity of existing transmission lines and where costs are recoverable. Under the Sixth Development Plan only $140,000 has been appropriated for this purpose.

68. For the decade 1971-81 an overall average growth rate of 12-14 percent a year had been forecast prior to the energy crisis. Moreover, this forecast did assume a continued rapid expansion in demand from the tourist industry. With the prospect of a slower growth of tourism in the next few years at least, and the need to keep the fuel import bill within manageable bounds these forecasts would need to be revised.

69. The Government is now interested in the possibilities for hydro-electricity. The growth in demand over the last five years, projected demand increases and rapidly increasing fuel costs appear to establish a case for exploiting Fiji's hydro potential. Feasibility investigations are being carried out under a New Zealand Government aid project. Preliminary engineering investigations, which were completed in 1972, examined the possibility of a project at Monasavu Falls with diversion to a power station on the Wailoa River. The preliminary report indicates that a hydroelectric project with a capacity of 77 MW is technically and econonmically possible, delivering power to Northwestern and Southeastern Viti Levu. The project would involve construction of reservoirs, dams, spillways, power stations and transmission lines, and access roads. Capital costs for the project are tentatively put at about F$ 30 million at 1972 prices. This project, if undertaken, would not begin to meet Fiji's requirements until the mid-1980s. Until then the country will be totally dependent on imported fuel and will have to absorb the rising cost of imports.

There may be some scope for reducing power consumption and hence the growth in the fuel import bill, but the main issue is likely to be the extent to which the power system should be expanded in the future.

(b) Water and Sewerage

70. Treated water supplies of good quality are available at all main urban centers in Fiji. These supplies are continually being improved to keep pace with demand. Public investment in sewerage works began in the latter part of the 1960s when the Government began projects in Suva and Lautoka. During 1965-70 the capacity of the water system was increased from 8 to 10 million gallons a day - an average increase of about 5 percent a year. About 170,000 people, or about one-third of the population, were served by these facilities in 1971. In addition, 435 of the 1,140 villages in Fiji had piped water supply.

71. Until 1973 no significant changes in water rates had been made since the introduction of country-wide standards in 1965. Faced with rising recurrent costs and the need to make greater provision for recovery of capital costs, the Government raised water rates in 1973 by an average of about 23 percent.

72. For the Sixth Development Plan period 1971-75 the Government has planned capital expenditures on water supply and sewerage projects of about F$ 12 million or about 13 percent of the capital works budget. This compares with F$ 3.2 million spent during 1966-70, or 8 percent of the budget (both at current prices). All but about F$ 1 million of the planned expenditures would be for urban center needs. About half of the total outlays would be for sewerage in main urban centers.

Transportation

73. Real value added in the transportation and communication sector has expanded at about 13 percent a year over the past decade and by 1972 it accounted for about 8 percent of GDP. The sector employs about 10,000 people or 6 percent of the labor force. Much of the growth in the sector has occurred in the past four years as a result of the influx of people into urban areas and the expansion of the trade and tourism sectors.

74. The rugged topography and dispersal of more than 300 islands over a very large expense of ocean poses special problems in developing an adequate transport network in a country the size of Fiji. These geographical obstacles have deterred transport investment, except in urban and sugar growing areas of the two main islands. Inter-island shipping is irregular and at times hazardous. The Government has repeatedly stressed its commitment to improve the transportation. A comprehensive study of the sector was completed by UNDP in 1969. According to the survey, a balanced extension of all modes of transport is a pre-requisite for further economic growth.

(a) Road Transport

75. Publicly maintained roads fall into four general categories: main roads, secondary roads, country and residential roads. By 1970 there were about 1,560 miles of public roads, of which main roads accounted for 700 miles. Only 180 miles - 12 percent - were paved (Appendix table 13.1). In addition there were about 100 miles of unproclaimed roads. About 1,050 miles of the network was on Viti Levu, with the principal element being the main road that mostly follows the coast and includes the Suva-Nadi link. Despite the limited road mileage, there was a threefold increase in the number of vehicles registered in Fiji during 1963-72 to a total of 24,300 in 1972, of which 12,000 were private cars, 5,300 trucks and 700 buses.

76. In 1972 imports of fuel for automobiles were about F$ 2 million, or about one-third of total fuel imports for domestic use. Gasoline consumption has grown at about 10 percent a year since the mid-sixties, corresponding with the sharp increase in the number of vehicles registered and the rapid growth of the transport service sector generally. With private automobiles accounting for half of all registered vehicles there are opportunities for foreign exchange savings.

77. During the previous Plan period public capital expenditures on roads totalled about F$ 7.5 million, of which urban roads accounted for F$ 2 million. Public investment on roads accounted for about 19 percent of the capital budget in that period. For the period 1971-75, the Government plans to spend about F$ 28 million (at current prices) or about 24 percent of the capital works budgets, on road works. Of this, the first stage of the Suva-Nadi road would absorb F$ 26 million, or 80 percent of capital expenditures on roads and one-quarter of the total capital works program. Urban roads would absorb a further F$ 1 million, leaving about F$ 5 million for other roads. There has been a sharp escalation in the cost of building the Suva-Nadi road. The original budget estimate in 1970 of F$ 13.7 million has been revised up to F$ 26 million. This has led to reductions in allocations for other road works after allowing for the effects of inflation.

78. This raises a question about the scale and timing of outlays to improve the middle section of the Suva-Nadi road which is not part of the present project. At current prices the cost of the middle section is likely to be at least F$ 20 million if standards used in the present project are maintained. This would almost certainly result in continued strains on the Government capital budget and perhaps again result in insuffient funds for needed work in other parts of the transport sector. In view of the sharply escalating construction costs in Fiji, and the possibility of a slower growth in traffic on the middle section because of the projected slower expansion of tourism and the effects of high fuel costs, the economic feasibility of the project needs to be re-examined. There may be a case for a more modest improvement of the center section so that more resources can be allocated to other priority public works programs in agriculture, transportation and perhaps hydro-power development.

(b) Ports and Shipping

79. Ships travelling between Australia and North America, as well as those plying among the Pacific Islands, use Fiji's port facilities. There are two main ports - Suva and Lautoka - a smaller port at Levuka, and about 300 loading points in Fiji. The total amount of cargo handled at all ports, which was about 1.23 million tons in 1972, has increased at about 4 percent a year over the past decade (Appendix table 13.5). Most of the growth has occurred in the past 5 years, and it has been mainly the result of increased inward movements of cargo from overseas. Suva and Lautoka account for about 75 percent of the total cargo handled. The number of international passengers entering Fiji's ports increased from 51,000 in 1963 to 89,000 in 1972. Almost the entire growth was accounted for by the increase in cruise ships in the Pacific (Appendix table 16.1).

80. Over the past five years the number of vessels registered in Fiji has increased by about 4 percent a year to 124 in 1972. Total net tonnage is 3,900 (Appendix table 13.6). Most of the vessels are less than 20 tons net and many are obsolete. One of the main problems with the inter-island shipping services is that the vessels are concentrated on the more profitable routes that have the larger volumes of cargo and passengers. Services to more remote islands tend to be irregular. There is also a proliferation of loading points that results in small cargo volumes at individual loading points. To overcome these problems the Government is providing more central loading points for cargo and passengers.

81. According to revised estimates about F$ 3.8 million in public capital outlays are planned for ports and shipping in 1971-75, compared with about F$ 0.7 million in 1966-70. The bulk of the investment would be for improving and building new wharf facilities.

(c) Air Transport

82. Fiji has an international airport at Nadi which serves as a refuelling stop for trans-Pacific flights. The airport is owned and operated by the South Pacific Air Transport Council and administered by New Zealand. Operating costs are borne by Australia, New Zealand, United Kingdom and Fiji. A three-year expansion program for Nadi involving outlays of about F$ 5 million was begun in 1970, with Fiji providing about F$ 0.5 million. Because of the tourist boom the number of international visitors at Nadi has increased from 21,000 in 1963 to 161,000 in 1972, an average rate of increase of 25 percent a year.

83. There are two domestic airlines which provide services within Fiji, one of which also provides regional services. The number of regional and domestic passengers carried has grown by about 20 percent a year over the past decade to 212,000 in 1972. During 1971-75 the Government plans to spend about F$ 4.5 million on airport and other improvements. Of this F$ 3.3 million will be for the Nausori airport near Suva.

(d) Communications

84. The Government is responsible for telecommunications within Fiji. The main international telegraph, telex and telephone services are operated by a private company under a license. All main centers of population in Fiji are linked by telephone, and subscriber trunk dialling services now operate between the largest towns. Radio-telephone services are also available to most of the outlying islands. The total number of subscriber lines at the end of 1972 was 13,500 (total telephones 22,500). Demand for service is growing rapidly and the waiting list is now about 3,100 or 22 percent of installed lines. The telephone density was about 4.0 per 100 people in 1972, placing Fiji well above average when compared to other developing countries. During 1966-70 F$ 3.3 million or 14 percent of the capital budget was allocated for communications. During 1971-75 the Government plans capital outlays of F$ 6.8 million, or 7 percent of the capital budget for telecommunications. Most of the expansion would be for telephone services. In 1972 the Government obtained an IBRD loan of US$2.2 million for development of telecommunications facilities in Fiji. An additional project is under consideration.

85. The transport and communications sector has been an important source of income and employment growth in Fiji, especially in recent years. The combination of a slower growth in tourism, rising gasoline prices and efforts to curb gasoline demand, together with a slower growth in the volume of merchandise imports, is likely to affect the growth of the sector. In these circumstances, it is unlikely that real value added in the sector would expand by more than about 4-5 percent a year at least for the next few years.

Education

86. Fiji has made significant progress in developing its education system, particularly at the primary level. Enrolment ratios for the primary level have increased from 80 percent in 1963 to 92 percent in 1972. While secondary school enrolment ratios are much lower, about a third of the 14-17 year old population was in secondary school in 1972, enrolments have more than tripled since 1966 while the number of secondary schools has almost doubled. Perhaps the weakest component of the education system is technical education which is failing to provide adequate skilled manpower in a wide range of occupations.

87. An important feature of the sector is that education is largely in private hands. Although there has been a steady increase in Government expenditures on education, it has mainly taken the form of aid to the private sector rather than the creation of a state education system. Thus in 1972, of a total of 747 primary, secondary and technical schools in Fiji, only 35 were government schools. This proliferation of private schools has both relieved the Government of the obligation to provide state-owned schools and has caused it to evolve an elaborate system of Government aid. For example, by 1970 the Government had assumed 100 percent of the cost of trained primary teachers salaries, 60 percent of

salaries of secondary school teachers, provided grants for the remission of fees in non-Government schools and various other recurrent costs. In 1972 the Government's education expenditures totalled F$ 10.8 million, about 90 percent of which was for recurrent costs. This amounted to 19 percent of the total government recurrent expenditures compared to about 15 percent during thr 1960s.

88. Among the Government's long-term educational aims as stated in the Sixth Development Plan were: (1) to provide all children with at least 10 years of education; (2) to introduce free education; and (3) to orient technical and vocational education to meet manpower requirements. Satisfactory progress is being made towards the target of getting 97.5 percent of all 6-11 year olds in school by 1975. In 1972, 93.7 percent of this group were enrolled. The Government has been reducing the costs of education to parents by introducing free primary education in 1973 and by increasing grants to schools. Free education is being extended to cover an additional class each year, starting with Class 1 in 1973, Classes 1 and 2 in 1974, so as to cover classes 1-6 by 1978. Government grants (excluding salary payments), including those to secondary schools, have increased from F$ 9 per student in 1970 to F$15 in 1973.

89. The revised capital expenditure program for education for 1971-75 is F$ 9.5 million or about 10 percent of total capital expenditure. The Government places considerable emphasis on the need to expand specialist technical facilities to meet Fiji's manpower requirements at the craft and technician level. During the last few years a number of steps have been taken to expand technical/vocational education, particularly at the secondary level. There are plans to provide a new Technical Education Centre at Mba as well as to further expand the existing Derrick Technical Institute. A pilot Hotel and Catering Services School, which had staffing problems in 1973, should begin full operations in 1974. In addition, a National Training Council was established in 1973 which will raise levies and make grants for industrial training, and a training course began at the Ministry of Labour training center at Vatuwaqa. There appear to be shortages in a wide number of technical vocational occupations particularly in the construction industry. There is, however, no comprehensive manpower survey estimating the demand and supply of technical, vocational and professional manpower. Because the Government will considerably expand technical training over the next few years, a manpower survey would make a valuable contribution to the design and the scope of the programs.

F. An Overview

90. For the next 2-3 years at least, the service sector of the economy is likely to grow more slowly. The power and transport sectors will be affected directly by the price of fuel, the tourist trade is likely to grow much more slowly and private construction activity may drop after 1974 because of overcapacity in the tourist industry. Agricultural

production cannot be expanded substantially in the short-term. On balance the Mission believes that over the next 2-3 years, GDP in real terms probably would not expand by more than about 3-4 percent a year.

91. As the analysis in the following chapter indicates, this is likely to create difficulties in the labor market, for the labor force continues to grow to about 3-1/2 percent a year. The best opportunities for dealing with this problem appear to be in agriculture, where production to replace food imports can be developed reasonably quickly, and where labor-intensive programs that will contribute to increased output and exports in the longer-term, can be undertaken. Efforts should also be made to maintain or temporarily expand the public works programs in 1975 and 1976, but as the subsequent analysis in Chapter IV indicates, the Government is likely to face resource constraints in trying to expand its program.

92. For the longer-term a recovery in the growth of tourism to perhaps 10-12 percent a year, as well as a more buoyant service sector, would relieve much of the pressure in the labor market. However, the question of the appropriate balance between rural-agricultural and urban-service sector development would certainly reemerge. Because of Fiji's small size and limited domestic market, continued prosperity will, for many years to come, depend largely on its capacity to export goods and services. However, the experience of the recent past does highlight the disadvantages of relying on one sector alone for growth in foreign exchange receipts. In the Mission's view diversifying Fiji's export capacity should be an important element in future development strategy. Apart from revitalizing the sugar industry, the best opportunities appear to be in forestry, livestock and fisheries development.

III. POPULATION, EMPLOYMENT AND THE DISTRIBUTION OF GROWTH BENEFITS

A. Population and Employment

Population

93. Fiji's population has grown very rapidly over the past half century, more than tripling since 1921 to a present level of 554,000 (Appendix table 1.1). During this period Indians replaced Fijians as the largest racial component. The population growth rate has been particularly high since the Second World War, although the birth rate has declined from 36 per thousand in 1965 to 28 per thousand in 1972. This rapid growth means that Fiji's present population is very young with 41 percent of the population under age 15. It also means that the recent encouraging drop in the birth rate will not reduce the number of persons who will enter the labor force over the next 10 years.

94. Over the next few years the number of women entering the child bearing ages will increase from 4,000 a year to about 5,000. In order to achieve the target production in the birth rate to 25 per thousand by 1975, the family planning program will have to expand its coverage. Assuming the target would be achieved, Fiji's population would increase from 554,000 in 1973 to 577,000 by 1975. With a continuation of this annual trend, the population would reach about 607,000 by 1978, at an average annual increase of about 1.8 percent over the period from 1973.

Population and Labor Force, 1971-78
('000)

Category	Actual			Projected		Average Annual Growth Rate
	1971	1972	1973	1975	1978	1973-78
Population	535.4	545.2	554.4	577.0	607.0	1.8
Population 15 years and over	311.5	322.4	331.5	356.0	291.0	3.2
Labor Force	155.2	160.5	167.0	180.0	199.0	3.6

Source: Based on data provided by Central Planning Office.

97. Besides an overall slowdown in the growth of output the analysis of Chapter II suggested that there will be a shift in the sources of growth and hence in job creation. In contrast to the past five years, the rural-agricultural sector would have to absorb or retain a much bigger portion of new entrants into the labor force if large amounts of urban unemployment are to be avoided. The slowdown in tourism discussed in

Chapter II will mean prospects for much slower growth in employment in the service sectors. The problem is likely to be compounded by trends in the construction industry. A downturn in the construction industry in 1975 could mean substantial layoffs. Unless the slack is taken up by public sector investment, employment expansion in construction of even only 2 percent a year over the period may be difficult to achieve. With only very modest growth in manufacturing output and employment, the burden of absorbing a large part of the new entrants into the labor force would fall on agriculture. Even with significant growth in production of poultry, beef, fish, dairy products and rice, slow growth in sugar production will hold the growth in total agricultural output to less than 3 percent a year. With agriculture absorbing about 15,000 additional persons or half the total job creations it would be difficult to foresee any increases in average labor productivity in agriculture over the next five years, and there may well be a rise in the amount of underemployment in the sector. People may remain in rural areas in preference to unemployment in urban centers. However, as the previous chapter indicated public resources can be used to create employment as well as to increase the productive potential of the agriculture, fisheries and forestry sector.

B. Distribution of Growth Benefits

Dimensions of the Distribution Problem

98. One of the main objectives of the Sixth Development Plan is to improve the distribution of incomes in Fiji, and in particular to moderate the gap between living standards in urban and rural areas. The rapid expansion of the urban-service sector, together with a concentration of Government investment in urban areas, has certainly not moved Fiji any closer to achieving this particular objective. However, the problem of income distribution in Fiji cannot be simply reduced to an urban-rural dimension. The distribution of the benefits of growth is, and for the foreseeable future, will continue to be conditioned by the rather distinct economic roles of the three main racial groups in the country. The most important factors influencing these roles are the pattern of asset ownership, the geographic distribution of population and the associated predominant form of economic activity in each geographic region, and the access to employment opportunities of each group.

99. There is a rather distinct geographic distribution of the three main racial groups, as the following table indicates. The European and Chinese group is very largely an urban population. On the other hand, the Fijians, and to a less extent the Indians, are largely rural. About 76 percent of the Fijians and 61 percent of the Indians were living in rural areas at the time of the 1966 census. While there has been significant urban drift since 1966 the basic distribution remains in force. The rural Indian population is heavily concentrated in sugar producing areas of Western Viti Levu, the Rewa River Valley and northern part

of Vanua Levu. The Fijian population on the other hand is much more widely and evenly spread over all rural areas, and almost exclusively inhabits the outer islands.

Population Distribution, 1966

Group	Urban '000 of Persons	%	Rural '000 of Persons	%	Total '000 of Persons	%
Fijian	48.5	24.0	153.5	76.0	202.0	100.0
Indian	89.2	37.0	151.8	63.0	241.0	100.0
European, Chinese	10.2	85.0	1.8	15.0	12.0	100.0
Other	9.5	43.2	12.5	56.8	22.0	100.0
Total	157.4	33.0	319.6	67.0	477.0	100.0

Source: Legislative Council of Fiji, Report on the Census of the Population, 1966. January, 1968.

100. An important additional factor determining relative income levels is the pattern of land ownership. There are considerable differences in the quantities and types of land available to the various groups in Fiji. Moreover, access to land varies greatly. Some 83 percent of all land in Fiji, or about 3.8 million acres, is owned on a communal basis by over 6,000 Fijian land-owning units **(mataqalis)**. Just over 6 percent belongs to the Crown and the remainder is freehold. The alienated land now under freehold is the land originally selected and negotiated for by the settler-immigrants, mostly Europeans, before Fiji became a British Crown Colony, and thus it includes much of the best land suited to the cultivation of cash crops. Indians, on the other hand, own very little land (only about 2 percent), although they farm some 450,000 acres of the best land in the country including most of the land producing sugar. Of the Indian farmers, more than 80 percent are tenant farmers leasing their land from Fijian communities, from the Crown, or from other freeholders. With a large amount of the good commercial farming land alienated or leased out, much of the remaining land occupied by rural Fijians is of a poorer quality. Much of it is unsuited to permanent cultivation and it mainly has potential for grazing and forest development. There are some moderately sized pockets of good land in areas designated as native reservations and in areas remote from good communication. The Fijians still have quite substantial areas of less fertile or rather steep land suitable for traditional shifting subsistence agriculture.

Classification (%) of Economically Active Population
by Racial Group and Main Activity, 1966

Category	Fijian	Indian	Other	Total
Subsistence agriculture	46.3	0.2	1.4	21.4
Cash employment	50.5	94.7	93.2	74.3
Primary production	21.5	51.1	14.9	35.3
Secondary production	3.6	9.5	16.2	7.2
Tertiary production	25.4	34.1	62.1	31.8
Unemployed	3.2	5.1	5.4	4.3
Total economically active (%)	100.0	100.0	100.0	100.0
Number economically active ('000)	56.2	58.7	7.4	122.3

Source: Legislative Council of Fiji, Report on the Census of the Population, 1966. January 1968.

101. Against this background of population distribution and land-ownership is a segmented pattern of participation in economic activity. In 1966 almost half of the Fijian economically active population was engaged in subsistence agriculture. Less than 30 percent of the Fijian labor force was employed in secondary and tertiary production. Virtually no Indians and Europeans were engaged in subsistence agriculture, but half of the Indians were engaged in commercial agriculture, especially in sugar farming. Varying rates of growth in the productive sectors over the past five years have had significant effects on the employment and hence income growth of the major groups. Most of the new employment created has been in urban areas and participation in this growth by the Indian and Fijian population has led to significant rural-urban migration. This migration is borne out by the very low growth in agricultural employment. The growth of non-agricultural employment and income probably was especially important for Fijians in the subsistence sector where there were fewer meaningful opportunities for increasing cash farm incomes because of the poorer land resource base, high transportation costs and lack of access to markets.

Classification of Labor Force by Skill Category and Race, 1966

Skill Category	Fijian %	Indian %	Others %	Total %
Commercial sector	49.4	99.2	98.8	76.6
Proprietor, managerial and executive	9.4	31.1	35.6	20.8
Agriculture	8.3	26.2	8.5	16.8
Other	1.1	4.9	27.1	4.0
Supervisory	2.1	4.9	18.3	4.6
Skilled	5.1	11.6	18.3	9.0
Semi-skilled	8.7	13.8	18.3	11.8
Other employees	24.1	38.4	18.3	30.4
Subsistence sector	50.6	0.2	1.2	23.4
Total Employed	100.0	100.0	100.0	100.0

Source: Legislative Council of Fiji, Report on the Census of the Population, 1966. January 1968.

102. Another important dimension of the income distribution problem is the difference in educational attainment by the various racial groups and the influence this has on labor force participation. In 1966 only 8 percent of the Fijian labor force was in managerial, executive, supervisory and skilled jobs (other than self-employed in commercial agriculture). On the other hand hand, 21 percent of the Indian and 54 percent of the European, part-European, Chinese, etc., labor force held such occupations. Indians formed the bulk of the semi-skilled in unskilled occupations. No doubt the rapid growth of the service sector since 1966 and the Government programs of localization have moderated some of these extremes. Nevertheless, the economic roles of the three main racial groups remain largely the same, with Fijians concentrated in the subsistence and low-skill occupations, Europeans and Chinese concentrated in the managerial, executive and supervisory positions, and Indians occupying a somewhat broader spectrum of positions.

103. Within the agricultural sector the burden of adjusting to a relatively slower growth in wage employment opportunities probably will be most acute for those (mainly Fijians) entering the labor force from the subsistence sector. Development of forestry and livestock on some of the extensive grassland areas would make an important contribution

to incomes and employment for this group, but it would not have a major impact. In the case of the sugar industry there are opportunities for raising land productivity and hence for maintaining average labor incomes. With a much larger portion of the labor force dependent on income and employment growth in the service sector, the Indian component of the work force will also be adversely affected by the slower growth. For this group, however, there may be higher open unemployment rates because of more limited opportunities to move back into the rural-agricultural sector.

C. The Problem of Inflation

Prices and Income Policy

104. Because of the rising cost of fuel and international freight rates the problem of rapid inflation is likely to persist in Fiji. Since 1971 attempts have been made to reduce the rate of price increases. In May 1971 price controls were introduced on a selected number of imported items, and these were partially successful. The measures were strengthened on several occasions in 1972, but in view of continuing price increases, major price and income policy measures to combat the inflationary spiral were initiated in early 1973. In April the Government introduced a freeze on prices, charges, rents, remunerations, and dividends for a period of 90 days (Phase I). The Prices and Incomes Board (PIB) was established in July 1973 with broad powers to formulate and implement controls on prices and incomes, and the National Economic Council (NEC) was established as an advisory body consisting of representatives of business, labor and government. The PIB set price and wage guidelines for the period July-December 1973 (Phase II). The price guideline, which limits the rate of increase in prices to 5.5 percent per annum, was determined after taking into account the likely rise in import prices and allowable increases in prices of domestic goods. Maximum retail prices and mark-ups were fixed initially for two months after which they were revised. The prices of other commodities must be maintained at the pre-Phase II level. Price increases must be approved by the Prices and Incomes Board.

105. The wage guideline limits increases in wages and salaries to 8 percent per annum during Phase II. However, workers receiving 37 cents per hour or less are permitted to bargain individually or collectively within a limit of 40 cents per hour; the maximum permitted increase for any individual has been set at F$ 500 a year. Moreover, increases in remuneration for individuals or groups cannot take place within a period less than 12 months after their last increase. The wage guideline was determined on the basis of an expected rise of 2.5 percent in productivity and the allowable 5.5 percent increase in prices. All wage arrangements made during Phase II and all existing wage agreements expired at the end of December 1973; in the meantime, discussions were to be held on the formulation of a policy to rationalize differentials within the wage structure. New wage agreements were expected

to be made by late 1973, and these will help determine appropriate wage guidelines for Phase III. Rent controls have been formulated on the basis of a 5 percent annual return on the capital value of land and 8 percent on buildings. Controls on dividends are under consideration.

106. The implementation of Phase I of the prices and incomes policy was generally successful. The consumer price index fell by 1.2 percent during the period of the freeze; seasonal factors, particularly the improvement of the food supply situation, contributed to the decline. No major trade disputes occurred during Phase I. In July 1973, the first month of implementation of Phase II, the consumer price index rose only marginally. However, shortages of some imported commodities, such as flour and textiles, emerged in late July and August.

107. Sharp increases in the cost of fuel imports, manufactures based on petroleum products, and international freight rates, are likely to have a substantial effect on the price level in Fiji over the next few years. With imports accounting for 40 percent of aggregate supply, Fiji is especially vulnerable to increases in freight rates. Payments for freight and insurance accounted for about 9 percent of GNP in 1972. The extent to which international freight rates will rise as a result of the rising costs of fuel is not yet apparent, but they are likely to be very substantial. Moreover, fuel imports retained in Fiji in 1972 were equivalent to 2.5 percent of GNP. A fourfold increase in fuel costs to about F$ 19 million in 1974 would mean the same quantity of fuel imports would be equivalent to about 8-9 percent of GNP. The domestic inflationary consequences of these two items alone are likely to be quite severe, at least for the next few years. In these circumstances it is unlikely that the rate of domestic price increases could be held down to the levels expected under the price guidelines of 1973. Indeed, efforts to do so may adversely affect production and thus contribute to domestic shortages and further price pressures. For the next year or so, a domestic rate of inflation in excess of 10 percent a year may result from the effects of rising fuel and freight costs, after which a somewhat more moderate rate of price increases could be expected.

108. Rapid inflation will result in some redistribution of incomes. The Denning Award of 1970, which providing for a 65/35 split of the proceeds of sugar between growers and the millers, means that with recent increases in the world sugar prices, sugar farmers should fare relatively well. On the other hand, significant increases in cost of transport as a result of oil price increases will adversely affect commercial farmers on the outer islands, although this may be partly offset by higher prices for coconut products. Cash crop farmers on the two main islands could probably get higher prices for their products and be able to keep up with the expected relatively rapid rate of inflation. The effects of inflation on traders would depend on the government's price policies. Although traders can usually increase profits during inflation because they can pass on higher costs and because of the increasing value

of their inventories, government price controls could eliminate or reduce this extra profit. Unduly strict price controls could hurt some traders, however, if allowance is not made for the higher prices of imported goods. How wage labor fares would depend on the Government's wage policies. Given existing regulations inflation in excess of 8 percent would result in a real fall in this group's income. Relatively rapid inflation would probably worsen the income level of Fijian farmers, particularly those on the outlying islands relative to other groups in the economy.

IV. DOMESTIC RESOURCE MANAGEMENT

A. Investment Strategy

109. During 1974 gross capital formation is likely to remain at high levels because of the large amount of construction work in progress in the private sector in tourism-related facilities. If the growth in tourism demand does indeed slow down as projected in Chapter II, there is likely to be a sharply reduced level of private construction activity in 1975. As a result, the share of gross capital formation in GNP is likely to fall from an average of 28 percent in 1972-74 to about 22-23 percent in 1975 and 1976.

110. One of the most important current issues regarding Fiji's investment strategy is the question of resource allocation among sectors. What balance should be struck between urban-service sector and rural-agricultural development? In the Mission's view greater emphasis should be given to production activities outside the service sector that will contribute to income and employment growth in the economy, and to investments that will reduce import dependence and improve or diversify Fiji's capacity to earn foreign exchange. To a large extent this would mean greater emphasis on agricultural production, for this sector offers the best opportunities for employment creation and production for import substitution and exports. The main outlines of the investment priorities within the sector were set forth in Chapter II and in the Annex on agriculture. For the short and medium term, priority should be given to revitalizing the sugar industry to increase exports, and to food, livestock and timber production to reduce imports. For the longer term, forestry, livestock and fisheries offer prospects for export development. At this stage a major increase in forestry development seems to be justified.

111. To ensure success physical facilities and institutional support for the sector would have to be improved. This would include transportation, processing and storage facilities for the sector, as well as agricultural extension and marketing services. It would require increased emphasis on farm to market roads and inter-island transportation facilities. The burden of providing much of the foregoing would fall on the public sector, and as the subsequent discussion indicates, it would probably mean some reassessment of priorities regarding public resource allocations.

112. The problem of channelling additional resources into the farming community will need close attention. In the case of developing land already under lease, it would involve efforts to satisfy the needs of landowners and lessees alike. Ways need to be found to ensure that the present relatively short-term leases do not inhibit the flow of capital for long-term investments designed to raise the productivity of the land. Ways will also have to be found to bring new lands into productive use with crop, forestry and livestock development. In cases requiring extensive tracts of land, for

example forestry and livestock, efforts to ensure the participation of local landowners are likely to be important. These kinds of development projects should seek to utilize local resources as much as possible, and in those cases where the capital requirements are considerable, the involvement of some of the large local institutional investors, like the Fiji National Provident Fund, should be sought. An improved performance by the agricultural sector will also require close coordination between organizations like the Departments of Agriculture and Public Works, the Native Land Trust Board, the National Marketing Authority and the Fiji Development Bank.

113. Investment priorities within the public sector for the remainder of the 1970s need to be examined closely. Because of the prospective slowdown in private construction efforts should be made by the Government to maintain the level of the public capital works program. Increased public development programs in areas like forestry may be justified to help with employment creation. It may become necessary to reassess priorities for new works starting in 1975 so that projects having a larger employment impact are given priority. Such a reassessment would be needed in any case because of the energy crisis and the prospect of sharply increased costs of fuel in the future. In the power sector itself there are the questions about whether to accelerate the proposed hydro-power project, and whether present plans for expanding the power distribution network should be modified to conserve fuel consumption. In transportation, the main issues continue to be the problems of allocation within and between modes. There is a need for larger allocations for farm to market road development. However, the existence of large projects like the Suva-Nadi road may create some problems in determining sectoral allocations. As indicated in Chapter II the timing and scale of improvements to the middle section of the Suva-Nadi road needs to be reassessed. With lower design standards on this portion of the road more resources could be made available for other public works. Increased resources for agricultural development would undoubtedly mean proportionately less public investment in other sectors. The burden of adjustment probably would have to fall on the urban-service economy, particularly on capital-intensive projects like urban roads, sewerage expansion, and household power.

B. Domestic Resource Mobilization

Sources of Domestic Saving

114. The relatively rapid growth of domestic savings in the 1960s, and the decline in savings performance since 1969, was noted in Chapter I. Examination of the components of domestic savings reveals divergent trends that will have a considerable influence on the savings performance over the next few years. First, the savings of the Central Government rose from about 3 percent of GNP in the latter half of the 1960s to about 4 percent in 1972. Savings by statutory bodies, and in particular the Fiji National

Provident Fund (FNPF), increased even more rapidly, rising from 0.4 percent of GNP in 1966 to about 4 percent in 1972. During 1966-70 the savings rate of the remainder of the economy (mainly the private sector) was quite stable at about 14 percent. In 1971 and 1972, however, the private savings rate was less than 9 percent of GNP. This slump in savings may in part reflect the shift in incomes from the private to the public sector because of the effects of inflation in 1971 and 1972 on taxable incomes. It may also reflect the shift in incomes to the statutory bodies over the period, or the effects of the rapid increase in wages relative to total value added in the service sector since 1970 that was noted in Chapter I. In the latter case, redistribution of income to wage earners may have led to a somewhat poorer savings performance if the propensity to save from wage incomes is less than from property incomes. Yet another explanation is possible understatement of income in the national accounts.

Composition of National Savings
(as % of GNP)

Category	1966	1969	1970	1971	1972
Gross national savings/a	14.0	16.4	15.4	12.7	11.9
Net factor income paid abroad	2.6	5.2	4.5	4.9	4.0
Gross domestic savings	16.6	21.6	19.9	17.6	15.9
Central government	1.9	4.3	2.8	5.2	3.4
Statutory bodies	0.4	3.3	3.5	3.8	3.9
Other	14.3	14.0	13.6	8.6	8.6

Sources: Appendix table 2.9. Central Government savings equals current account savings in Appendix table 5.1. Savings by statutory bodies is a mission estimate based on data in Bureau of Statistics, An Economic and Functional Classification of Government Accounts for National Accounts 1968-1972. October 1972, and on Annual Reports of Fiji National Provident Fund.

/a Excludes transfers from abroad.

115. A recovery in the level of domestic savings is clearly a matter of considerable importance if Fiji is to avoid undue reliance on foreign capital to finance its development program. As the subsequent discussion of public finance indicates, prospects for public savings are mixed. Rapid domestic inflation is likely to continue shifting income from the private

to the public sector, and this would help to sustain the current savings rate. On the other hand, the slower economy-wide income growth will probably mean a slower increase in public revenues. In the private sector the outcome depends very much on the extent to which money wages are raised to maintain real wage levels. It is unlikely that there would be much growth in average product per laborer over the next few years, and if money wages do rise more rapidly than the rate of inflation there may well be some further deterioration in private savings. Mobilizing resources among small savers will undoubtedly continue to depend largely on attracting time and savings deposits. With the increase in domestic inflation, the deposit rate in real terms has been negative since 1970. As the subsequent discussion indicates, deposit rates were increased in 1972 and again more recently, and deposits have continued to grow. But little is known about the extent to which savings of this group are sensitive to sustained changes in real deposit rates. The small savers have only limited alternative opportunities for savings-investment. Apart from time and savings deposits, one of the principal outlets for them has been property investment. With the recent inflation property values have risen sharply in urban areas, perhaps reflecting a growing demand for property as a hedge against inflation.

116. On balance a strong recovery in domestic savings seems unlikely for the next few years. Nevertheless, concerted efforts will have to be made to maintain the current level of domestic savings at 15-16 percent of GNP. This will require that savings by the Central Government be maintained at 3.0 - 3.5 percent of GNP; that savings by the statutory bodies remain at 4 percent of GNP, and private savings remain at 8-9 percent. A deterioration in domestic savings would mean a choice between even larger inflows of foreign capital than projected in the following chapter, and curtailing imports. To the extent that imports of investment goods and intermediates were affected, there would be an adverse impact on output and employment growth.

Financial Intermediation

(a) Structure of Banking System

117. Since independence, the Fijian authorities have been planning to establish a central monetary authority to take over currency issue and to assume the powers and operating characteristics of a central bank. The Central Monetary Authority of Fiji was created in April 1973. It is an autonomous body governed by a six-member Board appointed by the Minister of Finance. The Act empowers the Minister of Finance, after consultation with the Board, to issue directives of a general nature to give effect to the economic policies of the Government.

118. Prior to the establishment of the Central Monetary Authority (CMA), the Currency Board issued or redeemed currency on demand from the commercial banks against the purchase or sale of foreign currency. As backing to the currency, the Board held sterling assets with or invested through the

Crown Agents in London, and some securities of the Government of Fiji denominated in Fiji dollars; since 1968 the limit on the amount that could be invested in such securities had been F$ 4.6 million. On July 1, 1973, when the CMA took over the assets and liabilities of the Currency Board, the so-called Currency Fund amounted to F$ 5.4 million. Monetary control and certain other functions of a central bank (except currency issue) were carried out by the Ministry of Finance.

119. The principal functions of the Authority are: (a) to regulate the issue of currency, and the supply, availability and international exchange of money; (b) to promote monetary stability; (c) to promote a sound financial structure; and (d) to foster credit and exchange conditions conducive to economic development. The broad powers of the Authority are similar to those of most central monetary authorities and includes responsibility for currency issue, external reserve management, prescribing reserve requirements for financial institutions, setting interest rates, dealing in Treasury bills and regulating and dealing in commercial paper. With respect to external reserves the Authority is required to maintain these at not less than 50 percent of its total demand liabilities including currency in circulation. Government borrowing from the Authority may not exceed 30 percent of the average annual ordinary revenue of the Government during the three preceding financial years.

120. There are at present six commercial trading banks in Fiji. Each trading bank operates a savings bank. All commercial banks are foreign-owned, and Fiji operations represent only a relatively small part of their total business. There is also the Government-owned Savings Bank of Fiji which uses post office facilities to mobilize savings particularly in small towns and rural areas; it has an upper limit of F$ 20,000 on individual deposits. At present about 50 percent of the Bank's assets are invested in Fiji and the remainder is held abroad; the intention is to increase the proportion invested locally.

121. The authorities have taken certain measures to promote money and capital markets. The Central Monetary Authority has been dealing in government securities since April 1973, and the first Treasury bills were issued in the latter part of 1973. Also, a stock exchange is being considered, and the creation of an institution similar to a mutual fund is being planned. A market in interbank deposits has been established, and a request by commercial banks to issue certificates of deposits is under consideration.

(b) Other Institutions

122. Other important financial institutions are the cooperative societies and credit unions, the Fiji National Provident Fund, the Fiji Development Bank, the insurance companies, and institutions providing finance for housing. Compared with many other developing countries, the non-banking financial institutions are well developed in Fiji and provide valuable financial services to the economy.

123. The Fiji Development Bank (FDB) is the only development financing institution in Fiji. At June 30, 1973, the FDB's total assets were about F$ 5.6 million, of which F$ 3.4 million had been provided by the Government in the form of grants. Since its inception in 1967 the FDB has made loans totalling F$ 3.3 million, consisting of F$ 1.2 million to agriculture and F$ 2.1 million to industry. During FY68/69 - FY72/73 a total of 1,273 agricultural loans and 168 industrial loans were approved. The average size of the agricultural loans was about F$ 1,400 compared with F$ 16,300 for the industrial loans. The interest rate varies from 6.5 to 9 percent per annum and maturities ranged from 1-12 years. The average term of loans to date is less than 6 years. Problems have been experienced with the agricultural loans which, because of their small size, have high administrative costs. Most of FDB's bad debts have occurred in the agricultural lending program. Because of a lack of funds the FDB has not been able to meet some requests for large loans. However, negotiations are currently underway for a loan of US$2 million from the Asian Development Bank for onlending to industry.

124. Finding suitable investment opportunities in Fiji for the larger non-bank financial institutions is likely to become an increasingly important issue. The Fiji National Provident Fund (FNPF), for example, accounts for more than 10 percent of total domestic savings and its funds available for investment are expected to continue to grow rapidly. In 1972 its membership had reached 88,000 employees, or more than half of the labor force. Net contributions received in FY 1971-72 totalled about F$ 4.7 million. At the end of FY 1972, total investments by the FNPF totalled F$ 19 million, of which F$ 8 million was in Government securities, F$ 5.3 million was loaned to municipal and other statutory bodies, and F$ 5.7 million was loaned to the private sector. The FNPF is constrained by the Trustees Ordinance and lends only as first mortgagee. With the prospect of having in excess of F$ 5 million a year to invest in the next few years, the FNPF may encounter difficulties in finding a sufficient number of attractive projects in the private sector that require funds on the scale that it has to invest. There may be a case for allowing it to take an equity position in private ventures, especially in association with foreign investors that the Government may encourage to come into Fiji.

(c) Interest Rate and Credit Policies

125. Until the Central Monetary Authority was established bank deposit rates followed the rates set by the Savings Bank of Fiji. Until 1972 deposit rates had been at 2.25 percent for many years. In 1972, the rates were raised. Further increases were made in February 1974, when the savings deposit rate was raised to 4 percent per annum. The rates for 3, 6 and 12 month time deposits were increased to 5%, 6% and 6 1/2% respectively. With the prospect of continued rapid domestic inflation at least for the next few years, further increases in deposit rates may be needed if savings are to be attracted by the banking system.

126. Higher deposit rates would, of course, mean increased lending rates. At present the structure of lending rates is set by agreement among banks. The maximum rate that commercial banks can charge is 10 percent per annum. Government development loans placed on the market in 1973 carried interest rates ranging from 6 percent for 3-year bonds to 7.25 percent for 10-year bonds. The prospect of higher lending rates would have an important impact on public sector borrowing. As one of the largest borrowers in the domestic market, the Government has been one of the chief beneficiaries of the low interest rates in Fiji. With the prospect of sharply increased amounts of Government borrowing to finance the capital works program, higher interest rates would have an important budgetary effect.

C. Public Finance 1/

Current Revenues

127. The Government's fiscal effort in the past decade has been impressive. Current revenues of the Central Government have increased at about 10 percent a year in real terms and the ratio of revenues to GNP has increased from less than 20 percent in the early 1960s to 26 percent in 1972. Tax revenues account for about 30 percent of total receipts. Throughout the 1960s taxes on international trade (mainly customs duties) accounted for 30-40 percent of total revenues. Since 1970, however, taxes on income and wealth have grown very rapidly. They now account for one-third of total receipts, or 8 percent of GNP. The strong growth in these taxes reflects the expansion in the personal and corporate real incomes in the service sector, as well as the effects of inflation in shifting incomes to higher tax brackets.

Composition of Current Revenues
(as percent of GNP)

Category	1963	1966	1969	1972
Tax revenue	13.7	15.1	17.7	20.0
Income and wealth	4.3	6.2	6.6	8.1
International trade	7.9	7.6	9.1	9.5
Domestic consumption and other	1.5	1.3	2.0	2.4
Other revenue	5.4	6.3	7.1	5.7
Total	19.1	21.4	24.8	25.7

Source: Appendix table 5.2.

1/ The discussion in this section is restricted to the Central Government.

128. Despite the buoyancy of the urban sector, revenues have increased by only about 3 percent a year in real terms since 1970. The main reason has been the relatively slow growth of customs collections despite the rapid growth of imports. Many imports enter Fiji with nominal or no duties; they include essential foodstuffs, raw materials and industrial equipment. The ratio of customs duties to the value of imports has fallen from about 16 percent in the early 1960s to about 12 percent at present. As the economy develops, raw materials, intermediates and capital goods are likely to account for larger shares of total imports, and under existing arrangements the contribution of customs to the revenue is likely to continue declining. Consequently, a reassessment of the average level of duties may be warranted, especially in those cases where there is scope for some expansion in domestic manufacturing.

129. One of the declared objectives of the Sixth Development Plan was a more even distribution of disposable income, to be achieved largely through fiscal policy. Marginal income tax rates range from zero to a maximum of 65.5 percent for those earning over F$ 40,000 a year. These rates have not changed since 1970. There have also been only minor changes in the tax structure. Duties on motor cars, motor spirit, alcohol and tobacco have been increased, while the list of duty-free tourist goods has been extended. However, the Government is currently reviewing proposals for tax reform. 1/

130. With the prospect of a slower growth in real incomes in the next few years, together with continued stagnation in customs collections, the prospect is for continued slower expansion in real revenues.

Current Expenditures

131. In the latter half of the 1960s, current expenditures increased at about the same rate as output expansion in the economy, and remained at about 19-20 percent of GNP. Since 1970, however, expenditures increased at about 10 percent a year in real terms - a rate that was considerably greater than real revenue growth. The main reasons for these increases are the substantial salary increases granted to civil servants in this period and growth in the size of the civil service.

132. Since the mid-sixties, the share of expenditures accounted for by general, social, and economic services has increased. It was about 75 percent in 1972, compared with about 60 percent in the mid-sixties. The share of recurrent works has fallen from 16 percent to less than 10 percent. There has also been a drop in the share of miscellaneous items (financial transfers etc.). These shifts probably reflect the combination of increased staffing of the departments concerned and the effects of higher salaries, more than any radical change in Government spending priorities.

1/ The proposals were contained in R. L. Mathews, Review of Fiscal Policy in Fiji, Suva, 1972.

Composition of Current Expenditures (%)

Category	1963	1966	1969	1972
General services	14.5	14.5	16.2	16.4
Social services	29.2	29.0	30.0	32.4
Economic services	16.8	17.9	24.8	23.7
Recurrent works	15.9	15.7	13.7	9.9
Interest and other	23.6	22.9	15.3	17.6
Total	100.0	100.0	100.0	100.0

Source: Appendix table 5.3.

133. The future growth in current expenditures will depend largely on Government policy with respect to salaries and on the rate growth in civil service employment. Faced with the prospect of continued slow real revenue growth the Government faces difficult choices. There is a need to maintain the level of real current account saving. On the other hand, there is a need to expand staff at least in some departments. The Ministry of Agriculture, Fisheries, and Forests, for example, has only about 70 percent of its established positions filled, yet increased extension work on priority projects will be needed.

Capital Expenditures

134. The original estimates for the Sixth Development Plan put total capital expenditures at F$ 75 million (at 1970 prices) during 1971-75. More recent estimates forecast outlays for the period to be aboutF$ 86 million - or 14 percent more than the original forecast - despite the fact that actual expenditures in 1971 and 1972 were 20 percent less than originally estimated. The main reasons for the overestimation of outlays have been optimistic estimates of lead times needed for project preparation, including site acquisition and obtaining overseas financing. In addition, some public works projects were postponed in 1972 because of the strains on the construction industry. The main delays have occurred on the Lautoka Hospital, and the Suva-Nadi Road. If past experience is a guide it seems unlikely that public capital outlays would exceed F$ 75 million (at 1970 prices) for the period as a whole. However, with the prospect of continued rapid cost increases, capital expenditures at current prices will probably exceed F$ 100 million during 1971-75.

135. When compared with actual outlays in 1966-70, there have been substantial changes in the allocation of capital outlays between sectors in the Sixth Development Plan. The share of agriculture, forestry and fisheries has been reduced from 17 percent to 10 percent, and in real terms there has been no increase in public capital expenditures in the sector. The share going to education and health has increased slightly to 19 percent. The shares going to water and sewerage and to transportation have been

increased appreciably. As noted in Chapter II the IBRD-financed Suva-Nadi road accounts for about 19 percent of total capital expenditures (or 80 percent of road expenditures) so that the share of capital outlays on other road works throughout the country has been sharply reduced. With the level of outlays on urban roads being maintained, the large size of the Suva-Nadi project has meant a reduction in the share to new rural road works undertaken.

Composition of Central Government Capital Expenditures (%)

Sector	Actual 1966-70 /a	Projected 1971-75 /b Original Plan	Revised
Agriculture, forestry and fisheries	16.8	12.4	9.9
Communications	10.9	7.7	7.6
Roads	19.3	25.4	23.8
Other transport	3.5	7.1	7.9
Water and sewerage	8.4	7.5	12.6
Education and health	16.0	22.9	18.8
Other sectors	25.2	17.0	19.4
Total	100.0	100.0	100.0
(Amount in thousand F$)	($38,680)	($74,230)	($77,713)

Source: Fiji's Sixth Development Plan, 1971-75, and Central Planning Office.

/a Actual expenditures at current prices.

/b At 1970 constant prices. Note that total excludes F$ 8,133 thousand from unallocated reserve that is included in the revised estimates. These are capital transfers for IMF, World Bank, and ADB subscriptions and for purchase of sugar industry assets from Colonial Sugar Refining Co., and South Pacific Sugar Mills.

Financing the Capital Budget

136. At current prices total capital expenditures during 1971-75 are likely to be at least F$ 110 million. About F$ 40 million could be expected from savings on the current account (a fall in the share financed from 52 percent in 1966-70, to 38 percent). Moreover, with Fiji not eligible for Commonwealth Development and Welfare grants from the United Kingdom since independence, external grant financing would only be about F$ 6 million. As a result, the Government would have to borrow about F$ 60 million (net) to finance its capital development program. This represents an increase in the share financed by borrowing from 42 percent in 1966-70, to 55 percent

in 1971-75. It will require a substantial increase in both domestic and foreign borrowing, but it is not yet clear whether the Government would be able to increase its domestic borrowing from non-inflationary sources and its foreign borrowing as rapidly as needed. It not, it would have to rely on deficit financing through the Central Monetary Authority or make cutbacks in its capital development program. If the latter course had to be followed most of its impact would be felt in 1975 when maintaining the public works program would be an important means of offsetting the projected slowdown in private construction activity.

137. The domestic capital market is limited. The Government borrows domestically by issuing bonds which are subscribed by insurance companies, commercial banks, the Savings Bank of Fiji, the Fiji National Provident Fund and the public. Of the total outstanding debt at the end of 1972 of F$ 38 million, 29 percent was held by the public, 23 percent by insurance companies, 15 percent by the FNPF, and 18 percent by the Savings Bank of Fiji and other statutory bodies. For several years now the Government has been borrowing domestically about F$ 2-3 million a year. To obtain the projected amount of F$ 34 million for 1971-75 as a whole, net domestic borrowing in 1973-75 would have to average F$ 9.5 million a year. This would have a major impact on the domestic capital market, and probably restrict the amount of credit available to the private sector.

Financing of Capital Expenditure Program
(million F$ at current prices)

Category	Actual 1966-70	Projected 1971-75
Capital expenditures	38.6	110.0
Financing		
Current account savings	20.1	42.0
Foreign grants	13.0	6.4
Domestic borrowing (net)	11.4	34.2
Foreign borrowing (net)	4.7	26.8
Other items	-10.6	1.6

Source: Appendix Table 5.1 and Mission estimate based on data supplied by Central Planning Office.

138. There would also have to be a large increase in public external borrowing. The Central Government's external debt is relatively small, consisting of loans from the United Kingdom, the Republic of Nauru, the

World Bank and securities outstanding from loans raised in the Australian capital market. Outstanding Central Government external debt amounted to about F$ 10 million in 1972. Net external loan inflows are estimated at F$ 27 million during 1971-75. Of this F$ 1 million was received in 1971 and 1972, and net disbursements from the IBRD, loan for the Suva-Nadi road, and the IBRD loan for telecommunications development are likely to be about F$ 14 million during 1973-75. The balance of F$ 12 million would have to be obtained from new borrowing. New project loans from multilateral sources could not provide substantial disbursements of funds in this period given the lead time needed for project preparation, and spending lags after commitment. Thus, the external borrowing would have to be cash loans, unless Fiji is able to obtain more commodity aid from foreign donors. In recent years the main foreign capital markets for Fiji have been Australia and Nauru. It remains to be seen whether Fiji could obtain access to these markets on this scale and on a sustained basis, assuming favorable terms for borrowing there. Other capital markets may have to be developed to meet future needs.

139. Because domestic resources will continue to be substantially less than Fiji's aggregate needs, foreign aid donors should consider financing local expenditures. This would be especially important for projects in the rural-agricultural sector where the direct and indirect foreign exchange costs are likely to be relatively small. However, there will have to be more forward planning on a project basis if Fiji is to take greater advantage of foreign project financing. At present, the Government obtains authority for the projects in its five-year capital works program at the time the Development Plan is approved by Parliament. This appears to be unduly restrictive. In the latter part of plan period, new, high priority projects may need to be started. Lack of authority to undertake such projects may result in undue delays in project preparation and appraisal, especially if projects are to be financed from abroad.

V. EXTERNAL TRADE AND FINANCING

A. Merchandise Trade

Exports

140. The Mission forecasts that during 1974-78 exports of domestic products excluding fish would grow by 1.3 percent a year to about F$ 95 million. This is a faster growth than the 7 percent a year recorded in 1969-73, mainly because of the higher price of sugar that is expected.

141. During the period 1974-78 about 70 percent of the increase in domestic exports would come from sugar. Until recently Fiji had guaranteed markets for 335,000 tons of sugar exports. Under the Commonwealth Sugar Agreement (CSA) Fiji has a quota of 140,000 tons, under the American Sugar Act (ASA) a quota of 40,000 tons, and until it expired in 1973, a quota of 155,000 tons under the International Sugar Act (ISA). In recent years, Fiji has failed to achieve its total quota allotments due to weather and other production problems. Forecasting Fiji's sugar exports for the next few years is complicated by the different prices paid under each of these agreements, by the termination of the CSA and ASA in 1974, and by the recent breakdown of the ISA. An additional uncertainty is the effect of the higher transport costs from recent oil price increases on sugar exports.

142. The recent tripling of the world sugar prices from 4.5 cents per pounds in 1971 to over 15 cents per pound in early 1974 is not wholly reflected in Fiji's sugar earnings to date since less than half Fiji's sugar is sold on the world market. During the sixties, prices under the CSA and ASA were generally somewhat higher than the world prices; since the end of 1972, however, these agreed prices, particularly under the CSA, have been substantially below the world prices. As a result, Fiji's earnings would probably increase from about F$ 38 million in 1973 to only F$ 43 million in 1974, because only a small part of Fiji sugar exports would be sold at the higher world price. At this stage it is unclear what would replace the CSA and ASA after 1974. If agreements are renegotiated their prices would have to reflect the higher world prices that are expected to prevail. The prospect of continued higher world sugar prices, combined with substantial increases in the cost of transporting sugar, is likely to reduce substantially the difference in the farm gate price of sugar between the low cost exporting countries and the major importing countries. This will probably stimulate importing countries to increase domestic production of sugar and slow the growth in demand for sugar exports. We have therefore assumed that the average current price for Fiji sugar in 1978 would be about 50 percent higher than the price received in 1972. Exports in 1974 will probably be about 330,000 tons. With expansion of area cropped and greater attention to productivity, export production could rise to about 355,000 tons by 1978. The overall value of sugar exports would then increase by an average of 12 percent a year during 1974-78 to reach F$ 67 million by 1978.

Actual and Projected Merchandise Exports
(million F$ f. o. b.)

Commodity Group	Actual 1969	Actual 1972	Actual 1973	Projected 1974	Projected 1978	Average Annual Growth Rate 1970-73	Average Annual Growth Rate 1974-78
Domestic products	40	45	52	63	98	6.8	13.5
Sugar	28	34	38	43	67	7.9	11.9
Coconut products	5	3	4	7	7	-	11.9
Gold	3	4	5	5	10	13.6	14.9
Other	4	4	5	8	11	5.8	17.1
Re-exports incl. fish	13	21	25	46	80	17.8	26.5
Total exports	53	66	77	109	178	9.8	18.3
Less adjustment /a	6	7	9	11	16	10.8	12.1
Total exports (BOP entry)	47	59	68	98	162	9.6	19.0

Source: Appendix table 3.4 and Mission estimates.

/a Sales to aircraft and ship stores and other miscellaneous adjustments included elsewhere in balance of payments.

143. Other domestic exports should make significant gains over the period. Higher prices for coconut oil as well as a small increase in quantity may lead to a doubling of coconut export receipts in 1974 to about F$ 7 million. A small decline in the price together with some growth in output would keep coconut earnings at about this level for the rest of the period. Like sugar, gold export earnings have not increased *pari passu* with the increase in the world price of gold because of existing trade arrangements. It is likely therefore that prices received for gold exports will only approach world levels over a few years. Since output of gold is expected to remain constant at about 80 thousand ounces, higher prices would result in an increase in the value of gold exports from F$ 5 million in 1973 to about F$ 10 million by 1978. The category of "other" exports should increase more rapidly than in the past few years. Notable among other exports would be an increase by 1978 in exports of forest products. Most of the increase in export earnings from forestry would not be realized until the end of the decade however. Significant increases would probably be registered in a number of smaller manufactured products such as bakery products, cement and paints.

144. Re-exports including fish are projected to reach F$ 80 million by 1978 compared to F$ 25 million in 1973. This is mainly the result of a

projected increase in the price of fuel which constitutes over a third of total re-exports. The other rapidly growing item is fish re-exports. Fiji is currently exporting about F$ 9 million worth of fish. However, these are almost wholly imports from foreign vessels operating in South Pacific waters and are basically only held in storage in Fiji. Fish exports from this source have been projected to continue increasing at a relatively rapid rate (17 percent a year) reaching F$ 18 million by 1978. Apparently Fiji does not earn any significant amounts of foreign exchange from this re-export trade, the difference between import and re-export value of the products traded is mainly a book-keeping entry.

Imports

145. Given Fiji's very high import dependence, import management will have an important influence on the extent to which the Government is able to maintain a manageable balance of payments position over the next few years. The c. i. f. value of imports retained for use in Fiji is expected to grow rapidly in 1974, largely because of the increased cost of fuel imports. Beyond 1974 a more moderate rate of increase is projected with the current value of retained imports reaching about F$ 180 million by 1978. This would mean an import growth rate of about 10 percent a year during 1974-78, or about 4 percent a year in real terms assuming an average increase in the unit value of imports of 6 percent a year. The slower import growth rate reflects the expected impact on import demand of higher prices, slower growth in real domestic incomes and production, and efforts by the Government to restrain some categories of imports.

146. Retained imports of oil products are projected to increase from F$ 7 million in 1973 to F$ 15-20 million in 1974, and then grow more slowly to F$ 25 million by 1978. We have assumed that the average unit value of petroleum products in 1974 would be about three times that of 1972. This reflects current expections about the future world price of crude oil. In response to the energy crisis the Government has initiated a range of energy conservation measures to reduce imports. These are likely to reduce the quantity of petroleum products imported in 1974 by about 10 percent. Thereafter, we have assumed that the quantity of fuel imports for domestic use would increase at 3 percent a year, and the unit value of these imports would increase at about 6 percent a year.

147. Apart from energy conservation measures, priority will have to be given to increasing domestic production of essential food items like meat, rice, fruits and vegetables and dairy products. As indicated in the earlier discussion about agriculture, with concerted efforts by both the public and private sectors there are reasonable prospects for increased output of these items. In addition, however, the Government can restrain demand for imports of luxury consumer goods with fiscal measures that would also help maintain customs duty revenues. On balance, we have projected the real value imports of consumer goods to remain at 1973 levels.

Actual and Projected Import Payments c.i.f.
(million F$)

	Actual			Projected		Average Annual Growth Rate	
	1969	1972	1973	1974	1978	1970-73	1974-78
Retained imports							
Consumer goods	29	42	48	51	66	13.4	6.6
Food, beverage and tobacco	14	21	24	26	33	14.4	6.6
Other	15	21	24	25	33	12.5	6.6
Industrial supplies	11	18	21	34	46	17.5	17.0
Fuel	3	6	7	19	25	23.5	30.0
Other	8	12	14	15	21	15.1	8.5
Investment goods	21	41	46	47	71	21.5	9.1
Total	61	100	115	131	183	17.2	9.8
Non-retained imports /a	17	31	38	51	92	22.5	19.2
Total imports c.i.f.	78	131	153	182	275	14.4	12.4
Estimated f.o.b. value	69	115	134	158	225	18.1	10.9

Source: Appendix table 3.6 and Mission estimates.

/a Includes estimated import value of re-exports, fish from Taiwan, Japan, Korea and duty-free goods which are not retained in Fiji.

148. Investment goods and industrial supplies other than fuels are forecast to increase by about 9 percent per annum during the period. Apart from some construction materials all investment goods must be imported, so that the growth in these imports will depend largely on the behavior of investment demand during 1974-78. We have elsewhere suggested that investment outlays will slacken substantially in 1975 because of the expected decline in hotel construction in that year. Beyond 1975 a recovery in the growth of investment goods imports could be expected. Growth in imports of raw materials and intermediates will be related to real growth in the economy which, for the next few years, is projected at 2-4 percent a year. There are only limited opportunities for import substitution in investment goods, raw materials and intermediate manufactures. The best prospects appear to be in wood products.

149. The current value of non-retained imports, which include the import value of re-exports, duty free goods and fish imports from Taiwan, Korea and Japan, would continue growing at relatively high rates. The composition

of growth would change markedly, however, with a more rapid increase in oil re-exports because of the price increases and a slower growth in duty free goods due to the projected slower growth of tourist arrivals.

150. Because of the much larger fuel import bill, Fiji's merchandise trade account deficit is unlikely to moderate during 1974-78. By 1978, for example, the trade account would show a deficit of about F$ 60 million, of which F$ 25 million would be for domestic fuel needs.

Invisibles

151. Net service receipts are projected to remain relatively stable at about F$ 23-24 million a year until 1976, after which it would rise to about F$ 30 million. The main reason is the projected weaker performance by tourism for the next few years followed by a recovery in 1976. Tourism, which was particularly buoyant until 1971, slowed considerably in 1972 and in 1973. It is expected that the oil shortage will exacerbate this slowdown so that growth in tourist receipts would slow from an average annual rate of almost 25 percent during 1969-1972 to about 15 percent during 1974-78, with much of the growth in 1976-78.

Actual and Projected Services Receipts and Payments
(million F$)

	Actual		Est.	Projected	
	1969	1972	1973	1974	1978
Receipts	34	60	70	78	134
Transportation and insurance	10	13	13	15	23
Travel	19	37	47	52	97
Investment income	2	5	5	5	6
Other services	3	5	5	6	8
Payments	27	42	46	55	97
Transportation and insurance	13	21	24	30	60
Travel	2	4	5	5	8
Investment income	10	14	14	16	25
Other services	2	3	3	4	4
Net services	7	18	24	23	31

Source: Appendix table 3.2 and mission estimates.

152. On the payments side, higher oil prices will cause substantial increases in the transport cost of imported goods. Transportation and insurance payments are estimated to jump by 30 percent in 1974 and increase

thereafter at an average rate of about 20 percent a year. On the receipts side, however, transportation is likely to grow more slowly since the bulk of the transport revenues are derived from Fiji's regional airline operations in the Pacific. Demand for this service would be quite sensitive to price increases. Investment income payments may also increase rapidly during the period as a result of the recent large capital inflows, and the further large inflows projected during 1974-78. A large portion of the current investment income payments are remittances and dividends on private equity investment. The future growth in these payments will depend on the level of profits which, for these next few years at least, may not be so buoyant, and on Government policy about these remittances. The Mission estimates total payments to increase from about F$ 14 million in 1973 to F$ 25 million by 1978. Most of the increase in investment income payments is due to interest on debt which is estimated to rise to F$ 15 million in 1978.

B. External Financing

Requirements

153. With some adjustments in investment strategy there are reasonable prospects for reducing dependence on imported primary commodities over the next few years. For the longer-term there are also good prospects for a strong recovery in exports. An investment strategy designed to take advantage of these opportunities will not only strengthen the balance of payments, but it will also make an important contribution to employment creation. However, with the projected temporary slowdown in export growth during the next few years and the sharply increased import bill because of the energy crisis, Fiji will have to borrow abroad more heavily to accomplish these objectives and maintain reasonable growth momentum in the economy. The alternative of sharply reducing imports beyond the level already projected in the previous section would make it difficult to carry out the investment program needed for sustained growth in the longer term. It would also cause considerable dislocation in the economy and adversely affect job creation at a time when the labor force continues to grow at about 3-1/2 percent a year.

154. If the Mission's projections of exports and imports were to be realized, the cumulative deficit on the goods and services account excluding net oil imports would be about F$ 80 million during 1974-78. The net oil import bill would require an additional F$ 107 million and amortization of existing and new loans (including oil import financing) would require about F$ 113 million. After allowing for a small increase in foreign exchange reserves of F$ 10 million (net reserves would be equivalent to 3 months of imports in 1978), the foreign capital inflow to be met from transfers, direct investment, loan capital and special oil financing facilities would be about F$ 310 million.

External Capital Requirements and Sources of Financing, 1974-78
(million F$)

Item	1974-78
Requirements	310
Deficit on goods and services account (excluding oil)	80
Net oil imports	107
Increase in reserves and other	10
Amortization of MLT loans	113
Disbursements	310
Private remittances and official grants (net)	25
Direct investment (net)	15
Short term trade finance (net)	20
Medium and long term loans (gross)	250
Official project loans	25
Central gov't cash loans	45
Other loans	180

Source: Mission estimates.

155. At the time of writing this report the question of how to finance the increased cost of petroleum imports remains to be resolved. If Fiji can, in fact, hold down the growth in the quantity of fuel imports as projected in the previous section, the net capital inflow needed to meet the fuel import bill would be about F$ 21 million a year during 1974-78 (at current prices). In 1974 the net oil import bill would rise by F$ 10-12 million over the 1973 level of about F$ 7 million. Fiji has some resources available to meet its needs in 1974. At the end of 1973 net foreign exchange holdings were about F$ 60 million, or about 4-1/2 months of imports. In addition, Fiji has a quota with the IMF of SDR 13 million or about F$ 16 million. However, if reserves were drawn down in the next year or so, they would have to be built back up again later to maintain a minimum adequate level of say 3 months of imports. This would mean net reserves would need to be about F$ 70 million by 1978, for example.

Sources

(a) Grants and Direct Investment

156. Official grants and private remittances would provide about F$ 25 million of this total of F$ 310 million required during 1974-78. Since independence Fiji has not been eligible for Commonwealth Development and Welfare grants from the UK Government, so that the net inflow of official grants during 1974-78 is projected at about F$ 20 million. This assumes continued grant aid from Australia and New Zealand and some technical assistance from UN-related agencies like UNDP. The remaining F$ 5 million would be from private remittances.

157. The inflow of private direct investment during 1974-78 will depend a great deal on the extent to which investment opportunities continue to be attractive in Fiji. The policy of the Government is to encourage the inflow of private capital. As indicated elsewhere a variety of incentives are offered to do this. Guidelines were formulated in 1972 limiting domestic borrowing by foreign investors to the proportion of local equity participation in business; however, if a particular project is considered desirable from the national standpoint, foreign investors are allowed to raise loan capital locally in higher proportion.

158. As noted in Chapter I there are no detailed data on the amount of private investment inflows to Fiji in recent years, but the Mission tentatively estimates that it may have totalled about F$ 20 million since 1965. It is probable that much of this was financing for the rapidly expanding tourism industry. The prospect of a slower rate of growth of tourism, at least for the next few years, may lead to a slower rate of growth in private investment inflows, although foreign investment in mining, petroleum exploration and in manufacturing probably will expand. The Mission therefore estimates the net inflow of private investment capital at about F$ 15 million during 1974-78.

(b) Central Government Borrowing

159. In the past the Government has found that it has not had to rely much on external borrowing to finance its development program. As the analysis in earlier chapters indicated, this has been because of the quite large savings on current account, the availability of funds in the domestic capital market at interest rates substantially below those prevailing in international markets, and the substantial inflow of grants from the UK Government.

160. Over the next five years at least, the Government will have to depend quite heavily on foreign borrowing to undertake its development program. The Mission attaches considerable importance to the need for maintaining the planned level of public development expenditures, with the qualification that some re-ordering of priorities seems warranted. This will require an increases in both project financing from bilateral and multilateral sources, and additional cash loans. The main constraint on increasing the amount of project financing from bilateral and multilateral sources is the current small pipeline of projects ready for consideration. Because of the limited amount of past external borrowing only about F$ 14 million in project loans from the World Bank and the ADB remained to be disbursed at the end of 1973. New commitments of project loans will provide only limited inflows of capital during 1974-78 because of the time required for project preparation and the inevitable lags between commitment and disbursement. The Mission estimates that with a combination of loans for public works projects and for on-lending to the private sector, new commitments of project loans would be about F$ 40 million during 1974-78. In the

same period disbursement of project loans would be about F$ 25 million. To finance the Central Government's development program this would mean that the Government would have to obtain cash loans of about F$ 45 million, unless substantially larger amounts of grants or some quick-disbursing commodity assistance becomes available. This amount of cash loans probably would require that Fiji develop new capital markets besides Australia and Nauru which have provided most of the cash loans obtained abroad in recent years. There is a need for foreign donors to give Fiji larger amounts of quick-disbursing commodity aid on concessional terms at least for the next few years while the economy is adjusting to the effects of the higher costs of petroleum. This will moderate the increase in the debt burden and assist the Government to maintain a modest rate of growth in the economy. Efforts will also have to be made to build up the project pipeline in coming years to avoid undue reliance on external cash loans and take advantage of the generally better terms offered by external donors.

Actual and Estimated External Central Government Borrowing
(million F$)

Category	Commitments 1969-73	Commitments 1974-78	Gross Disbursements 1969-73	Gross Disbursements 1974-78
Project loans /a	19	40	5	25
Cash loans	5	45	5	45
Total	24	80	10	70

Source: Appendix table 4.3 and Mission estimates.

/a Includes loans from the Asian Development Bank to public bodies other than the Central Government.

(c) Other Capital Inflows

161. Thus the balance of the required capital inflow of about F$ 200 million would have to come from other borrowings. Of this, short-term trade finance might account for about F$ 20 million, leaving a total of F$ 180 million to be met from other sources during 1974-78. This would include foreign borrowing by public bodies other than the Central Government - for example, the Fiji Electricity Authority - as well as cash loans and suppliers' credits to the private sector. This category would, for example, include special borrowing by the Central Monetary Authority in response to the increased import burden caused by the higher oil prices.

Servicing External Obligations

162. An accurate assessment of capital outflows to service Fiji's external obligations is not possible at this stage because of the lack of information about the composition of past private capital inflows and because the magnitude and method of financing for oil imports is still to be determined. Prudent balance of payments management requires that the Government ascertain

the nature of these past inflows and systematically record future inflows. The Government will also have to give close attention to policies designed to improve the maturity structure of Fiji's external debt.

163. At the end of August 1973, total medium and long-term debt outstanding was about F$ 110 million, of which the Central Government held about F$ 25 million (on a disbursement basis). According to the Mission projections, total medium and long-term external debt outstanding would be about $250 million by 1978, of which perhaps F$ 90 million would be held by the Central Government.

Service Payments on Medium and Long-term External Debt
(million F$)

Category	Estimated	Projected	
	1973	1974	1978
Central Government loans /a	2	3	10
Interest	2	3	6
Amortization	..	..	4
Other loans	17	24	41
Interest	7	9	12
Amortization	10	15	29
Total	19	27	51
Interest	9	12	18
Amortization	10	15	33
Debt Service Ratio (%) /b	16.8	20.7	24.0
Central Government	1.8	2.3	4.6
Other	15.0	18.4	19.4

Source: Mission estimates.

/a Includes loans from Asian Development Bank to public bodies.

/b Amortization plus interest payments as a percent of exports of goods and services less import value of reexports.

164. The extent to which debt payments rise beyond the current level of 21 percent of export receipts will depend on how successful the Government is in obtaining liberal terms for its foreign borrowing. Several steps can be taken by Government. It can ensure that the best possible terms are obtained for suppliers' credit and cash loans by carefully monitoring these foreign borrowings. Increased public borrowing, some of which could be onlent

to the private sector, will improve the maturity structure of the foreign debt. Foreign donors should consider providing Fiji with loans on as liberal terms as possible to help the Government implement its development program and avoid an excessive increase in the burden of external debt. Even with prudent management, however, debt service payments are likely to be about F$ 50 million, or about 24 percent of exports, by the latter part of the decade.1/ These projections include the additional borrowing needed to offset the burden from increased oil prices. They would therefore include use by the Central Monetary Authority of any special oil financing facilities that may be arranged under IMF auspices, for example.

165. Thus, Fiji does face the prospect of higher debt burden for much of this decade and the Government will have to be prepared to adjust its investment and foreign borrowing strategy, as circumstances require, so as to maintain a reasonable balance of payments position. However, with concerted efforts by the Government and private sector, and continued support from the international financial community, Fiji should be able to reduce her dependence on imported primary commodities and increase her exports thereby strengthening her capacity to service debt. A reasonable measure of success along these lines would also provide for sustained growth in output and employment.

1/ To calculate service payments on new debt contracted during 1974-78, the following assumptions were used:

Type of loan	Interest Rate (%)	Maturity	
		Grace	Repayment
Project loans	7-1/4	5	15 (equal annual payment)
Central Government cash loans			
- 1/2 of total	9	-	10 (sinking fund)
- 1/2 of total	9	-	10 (equal annual payment)
Other loans	9	-	8 (equal annual payment)