Rough Global Tide and Political Storm in Fiji
Call for Swimming Hard and Fast But With A Different Stroke

Fiji Economic Survey 2009
Outline

- Overall Economy
- Sectoral Analyses
  - Sugar
  - Fisheries
  - Garment
- Impact of Financial Crisis
- Policy Options
- Other Continuing Challenges
  - Lack of Private Investment
  - Poverty
  - Environmental Sustainability
Key Points

- Bleak economic outlook for Fiji due to:
  - Stagnant economy, Global financial crisis, Political situation
  - 2008 GDP growth was 0.2%;
  - possibly -5% or lower for 2009

- Solutions
  - Appropriate reforms; hasten reform on all fronts
  - Policy-making must be holistic and coherent
  - Domestic reform must be balanced with creating internal demand due to global crisis
Fiji & Developing Regions - GDP Growth 2002-08
Fiji – Unemployment 1971-2008

- 8% average rate of unemployment
- Inflation was 0.8% in May but year-end rate of 9.5% expected
Sugar

- Most important agribusiness
  - 6% of GDP and 25% of exports in 2008

- Challenges
  - Average technical efficiency of cane farmers is 70%
  - Commercial farming is the way to go
  - Critical lack of coherent policy implementation of Fiji Sugar Corporation
    - Mill upgrade 85% complete but transportation services still lacking
    - Under utilisation of capacity

- Impact of the Erosion of EU sugar preferences
  - Mitigated when Fiji becomes certified Fair Trade supplier

- Opportunities
  - Tate and Lyle contract for 2008-15 of 250 000 tons
Fisheries

- Current contribution of fisheries sector
  - 2.5% of GDP (2007)

- Challenges
  - Unstable growth since 1999
  - Lower catch rates due to over-fishing & adverse climate
  - Lack of domestic fishing fleets
  - Private investment still sluggish despite incentives
  - Quality issues

- Review of 1942 Fisheries Act
Garments

- Evolved on the back of various trade schemes
  - South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA) - Duty-free and unrestricted or concessional access to Australia and New Zealand markets
  - Export quotas for US markets

- Challenges
  - Increasing competition from China, Indonesia & Bangladesh
  - Minimum wage law on 1st July 09 will hurt manufacturing cost
  - Limited attempt to move up the value chain
Impact of Financial Crisis

- Direct impact – minimal
  - No direct exposure and financial system is sound
  - Domestically oriented – depositors and loans

- Indirect impact
  - Economic contraction
    - Impact on demand for exports and tourism
    - Secondary impact on local investment in tourism & construction
  - Reduce government revenue
  - Reduction of overseas remittance inflows, 3.5% of GDP in 2007
Monetary Policy & Budget Financing

- **Monetary Policy**
  - Tight monetary policy since late 2008
  - Reserve Bank of Fiji has eased credit

- **Fiscal Policy**
  - Forecast budget deficit for 2009 is 3% of GDP (1.5% in 2008)
  - Issues
    - Financing through domestic liquidity vs external borrowing?
    - Rationalising civil service remuneration
Devaluation

- **Historical**
  - **1987**: To boost economy and reduce political instability after coups
    - 2 rounds: 17.75%, 12.25%
  - **1998**: To boost exports and in response to Asian financial crisis
    - 20%
  - **15 April 2009**: To restore external balance
    - 20%
Devaluation - Assessment

- 2009 devaluation not optimal
  - Current financial crisis is global
  - Foreign exchange earnings may not increase
  - Foreign exchange rate market volatile
  - Impact of more expensive imports on Fijians

- Move away from much needed reform to improve productivity and competitiveness
Lack of Private Investment

- Private Investment to GDP ratio < 10%

- Foreign direct investment flows are erratic
  - 7th lowest (of 50 small island developing states) for attractiveness and success in securing foreign direct investment
  - Foreign direct investment to GDP ratio averaged 5.5% over 2000-2007

- Constraints to private sector development
  - Lack of microeconomic incentives
  - Weak property rights
  - Relatively high corporate tax rates
Ease of Doing Business – Start-up Time

Time To Start A Business (Days)

- New Zealand: 1 day
- Australia: 2 days
- Singapore: 4 days
- Mauritius: 6 days
- Jamaica: 8 days
- Marshall Islands: 17 days
- Kiribati: 21 days
- Tonga: 25 days
- India: 30 days
- Samoa: 35 days
- Vanuatu: 39 days
- China: 40 days
- Fiji: 46 days
- Papua New Guinea: 56 days
- Solomon Islands: 57 days
The ICT Sector

- ICT area of potential growth
  - Contribution of communications sector to GDP about 3.4% since 2005
  - Increased use of computers, mobile phones & internet penetration
    - Internet users per 100 inhabitants was 6.1 in 2002 and 10.9 in 2007
    - Mobile phones per 100 inhabitants 10.9 in 2002 and 63.2 in 2007

- Liberalization efforts
  - Internet and mobile service providers in early 2009
  - International telecommunications for leased lines as well as voice & data communications later in the year

- ICT Economic Free Zone in Kalabo & ICT Park at University of South Pacific
  - Supporting infrastructure critical
  - ICT Skill Index in 2007 was ranked 87th of 154 economies
ICT Price Basket

Australia
New Zealand
Malaysia
Thailand
Mauritius
India
Fiji
Tonga
PNG
Vanuatu
Extent of Poverty – Poverty Incidence

- 41% in 2009
- Human Poverty Index 78/135
Poverty Alleviation Initiatives

- Government poverty alleviation ineffective
  - Racial bias towards indigenous Fijians
  - Assistance has not reached the poorest

- Decline in budget allocation for poverty alleviation
  - 2007 – F$54.56m
  - 2008 – F$60m
  - 2009 – F$41.72m

- Urgency of intensifying efforts
  - Increasing poverty even before global crisis
Environmental Sustainability

- Key Challenges
  - Continued forest degradation through unsustainable logging
  - 70,000 hectares of forest area lost
  - Sustainable management framework exists
    - Little implementation and no monitoring

- Soil erosion
  - Results in high cost from dredging rivers around Fiji
  - Caused 9% loss in cane output in farms and loss of US$12m in sugar sales
  - Loss of 6.8% in ginger output