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FIJI FIRST's FAILED ECONOMY

Overview

An economic recovery needs to address the failures which were evident before the pandemic. The economy will need to be restructured to make it more resilient to global shocks like COVID and to generate meaningful growth that creates wealth for all.

Fiji First (FF) has failed to meaningfully serve the people. In 2009, they began to change the economic outlook for Fiji. They devalued the dollar, engaged in a pro-tourism agenda while reducing support for agriculture. They boosted commercial bank lending and reduced trade taxes to increase imports. Their excessive borrowing has led to a debt and currency crisis.

Fiji is now ever reliant on foreign tourists, foreign investment and foreign currency - this has made the economy defenceless against shocks like COVID.

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Fijians are in a desperate state: the cost of living has skyrocketed and poverty is on the rise, graduates cannot get jobs, decent and affordable housing is scarce, health is declining, personal debt levels are unprecedented, crime has escalated and more people are leaving the country; attempted suicide rates have also increased.

Finding solutions to the problems that people face will be the blueprint to an economic recovery.

Pro Services and Neglect of Agriculture

Investment under FF was directed predominately to the services sector while the local, grassroots economy, especially the agricultural sector, was neglected

Disregard for agriculture has increased rural poverty and migration to urban squatter settlements. It has also threatened food security and more people are increasingly priced out and deprived of healthy food. Backyard farming, as a solution to food security, is regressive and a result of a neglected agricultural sector.

Despite hardship, though, agriculture was not restricted during COVID. If there was more attention given to it prior, the economy would have been resilient to the shut-down of international travel.

The biggest concern is for the sugar industry. Sugar production has decreased to the lowest levels for several decades. The sugar industry is responsible for the livelihoods of many farming households and has tremendous possibilities for the domestic market in biofuels, plastics, local juices etc.

This is especially important at a time when the importation of petrol is causing unsustainable trade deficits and global fuel prices continue to be volatile.

Over Dependence on Commercial Banks

FF's economic growth policy is reliant on commercial bank credit. However, commercial banks alone cannot grow an economy.

Like other private organisations, banks are geared to exploit the economy when times are good and are subdued when the economy is flat, let alone during a crisis.

The high levels of liquidity in the banking sector is not a good thing. Rather, it reveals a disconnect between a government that is over-reliant on commercial bank credit for growth while banks have lost confidence in the economy.

Furthermore, commercial banks tend to lend to the overinflated property market; to a select group of large companies in services, property development and construction; and for general import consumption of such things as cars and white goods. Commercial banks do not lend to agriculture nor small businesses. Wider development requires a broader distribution of more affordable bank credit and other forms of funding such as stronger capital markets and greater state intervention.

Foreign Currency and Debt Crisis

Fiji First has allowed too many non-essential imports into Fiji. The outflow of foreign currency that arises from excessive imports and expatriated profits from foreign owned firms cannot be balanced in the short to medium term, if ever, by money coming in from exports and remittances alone.

Therefore, there is a constant need for Aid and foreign currency debt. The conditionalities aligned to Aid and foreign debt (especially concessional loans) usually revolve around further increasing imports from the countries providing the assistance while also granting them access to local resources and contracts for large infrastructure projects. This creates a feedback loop of debt obligations and reliance on overseas help.

Aid from China, for example, is on the condition that Fiji opens its markets to Chinese exports while Chinese firms are given road construction contracts and the rights to gold, fishing, woodchips etc.

International agencies are concerned about Fiji's foreign currency situation and have directed the RBF to hold above-average levels of foreign reserves. However, the reserves are a result of overseas borrowing, rather than diligently balancing trade.

Excess liquidity in foreign reserves only indicates that the Fijian dollar is in trouble. As reserves are expected to decrease in the short term, there is the threat of devaluation. FF has raised a concerning amount of foreign debt. Although, loans may be 'concessional', the debt principal and repayments will increase with devaluations of the Fijian dollar as the debts are in foreign currencies. This will make them expensive to pay off.

Sri Lanka had adequate reserves over the last several years that unravelled rapidly due to unsustainable debts, excessive government spending and an over reliance on imports, coupled by the COVID crisis. This resembles the situation in Fiji. FF's capacity to borrow externally has diminished while foreign currency outflows continue to increase. If remittances simmer down after the drama of the pandemic, or if there is a natural disaster, or a global economic shock, Fiji, more vulnerable than ever, may see itself spiralling in the same way as Sri Lanka.

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