Fiji's Sugar, Tourism and Garment Industries: A Survey of Performance, Problems and Potentials

Paresh Kumar Narayan
Biman Chand Prasad

Abstract

Sugar, tourism and garment industries are three of Fiji's major industries. These industries have been undergoing some serious problems during the past decade. This paper analyses the performance of these industries, examines the problems besieging them, and looks at the potentials these industries have for the country. The paper also offers some suggestions which policy makers in Fiji could consider in order to ensure that these industries continue to benefit Fiji.

INTRODUCTION

Fiji is a small open economy dependent on a few exports such as sugar, tourism and garments. While sugar has been at the forefront of Fiji's economic development, in recent times the garment and tourism industries have emerged as important industries in the country. The tourism industry provided the impetus for economic recovery after the terrorist coup of May 2000. In the first 10-15 years of independence, Fiji's GDP growth rate was promising. However, since 1985 it has been very erratic. The average GDP growth rate between 1985-2001, for example, has been only 2.5 percent per annum. This is a very low growth rate which is clearly indicative of an economy which would not be able to absorb the additional 13-15 thousand entrants to the labour market annually (Government of Fiji, 2002).

The economic crisis after the coups of 1987 forced the subsequent governments to radically change Fiji's economic policies from import substitution to export promotion. In the aftermath of the 1987 coups, when Fiji embraced the IMF recommended structural adjustment policies (SAPs), little did the policy makers realise that the service sector will emerge as the leading sector in the drive for economic growth and development. SAPs were given prominence because they were aligned to drive Fiji towards an export-oriented economy from an import-substituting one. Early signs from Fiji's export-led strategy for growth were encouraging, for it saw the emergence of the labour-intensive garment industry, which in its peak employed some 18,000-20,000 people, of which 79% were female workers (Narayan, 1999, 2001).

A number of reasons have been advanced to explain Fiji's inability to diversify its export base. While it is true that Fiji, like other Pacific Island countries, has a narrow resource base, a sustained period of political instability has been ranked high for the poor progress in export diversification (Prasad and Narayan, 2002; Gounder, 1999; Narayan and Narayan, 2003). This has meant that investment levels have been mediocre. In fact, private investment rate has been at 5% per annum for the last decade against government's expectations of a 20-25% rate.

The failure to diversify, contrary to the expectations of policy-makers, meant that the emphasis had to be shifted to particularly those sectors in which Fiji had a comparative advantage. Fiji's hopes for economic growth and development has for long centred on only three sectors, namely sugar, garment and tourism. However, in recent years, with problems escalating in the sugar and garment sectors, tourism has been hailed as the cornerstone of growth and development. This has been reflected in the vigour with which the government has been pushing state resources in favour of tourism.

This paper reviews the performance of Fiji's three main industries, sugar, garment and tourism; identifies some of the acute problems faced by them; and looks at some solutions to these problems. These three industries collectively provide employment for around 100,000 people and earn around F$1 billion through exports. To this end, the social and economic importance of these sectors cannot be ignored. This calls for prudent economic and investment policies to stimulate growth and development in these sectors.

TOURISM

Since the tourism industry plays an important role in the Fijian economy, the government has increased its emphasis on the development of the industry. The broad thrust of its policies can be summarised as follows:

- active marketing of the tourism industry through the Fiji Visitors Bureau and the private sector to boost visitor arrivals and diversify source markets;

- securing adequate airline capacity through the negotiation of new air service agreements and the acquisition of larger capacity by Air Pacific;
- encouraging new investment in tourism plant to realize the full development potential of the industry;
- strengthening linkages with the rest of the economy to ensure greater retention of the tourist dollar through increased local participation and control;
- promoting education and training to ensure availability of suitably trained manpower and increased tourism awareness within the community; and
- encouraging sustainable tourism development with the setting up of eco-tourism projects and the protection of the environment in the long run (Fiji Trade and Investment Board, 1997: 14).

More specifically, the six focal points listed above have been time-framed and given specific performance indicators. Appendix I provides the details of the policy objectives and the key performance indicators. The main thrust, however, continues to be to increase tourism numbers, retain more tourist dollars and promote the participation of resource owners in the industry.

While the government has rightly emphasized tourism development as a key strategy for economic growth, it does not clearly spell out how it is going to achieve some of the key performance indicators. For instance, one of the performance indicators listed is establishing direct flights to new markets. This is an ambitious task given the stiff competition in the tourism market and the low volume of tourists coming into the Pacific Island region. One serious problem with government policy objectives and performance indicators is that they are put on paper for the sake of it; on the practical side some of these policies and objectives are not feasible.

Tourism Industry Employment, Exports and Investment

The tourism industry provides direct and indirect employment to around 40,000 people (Ministry of Tourism, 1997) and earns over F$550 million in export income. Table 1 provides the export:GDP ratios of tourism, garment and sugar industries.

The value of the tourism industry in terms of its contribution to GDP is twice that of the sugar industry, which has now moved down to the second position in terms of its export importance to Fiji. In 1980, for instance, sugar export was valued at F$174 million, equivalent to over 18 percent of GDP, while tourism export was valued at F$108m, equivalent to 11 percent of GDP. In 2001, on the other hand, sugar exports rose to $222m but its share in the GDP declined to 8.5% while the share of tourism exports rose to 19% of GDP. Furthermore, the average yearly income between 1980-2001 was valued at F$300 million for the tourism industry, which is equivalent to 16 percent of GDP, while for the sugar industry it was valued at F$200.8 million, which is equivalent to about 11 percent of GDP.

Table 1: Sugar, tourism and garment exports for Fiji, 1980-2001

Year	Sugar (F$m)	Tourism (F$m)	Garments (F$m)	% of GDP		
				Sugar	Tourism	Garments
1980	174.2	108.0	0.2	18.3	11.3	0.0
1981	131.6	122.0	0.1	12.9	12.0	0.0
1982	125.1	142.0	0.2	12.1	13.8	0.0
1983	111.9	135.0	0.5	9.7	11.7	0.1
1984	110.0	161.4	0.9	9.3	13.7	0.1
1985	111.8	168.7	2.0	8.4	12.7	0.2
1986	133.7	185.0	4.8	10.1	13.9	0.4
1987	186.3	148.4	8.8	13.0	10.4	0.7
1988	198.3	186.5	30.1	12.7	12.0	2.1
1989	228.3	295.6	97.3	13.2	17.1	6.2
1990	223.7	294.6	113.7	12.9	17.0	6.6
1991	220.4	286.3	131.1	12.0	15.6	7.1
1992	221.3	328.1	116.7	11.2	16.5	5.8
1993	230.7	347.4	128.1	10.6	16.0	5.9
1994	252.2	393.0	140.9	11.0	17.1	6.2
1995	276.1	405.0	185.0	11.5	16.8	7.9
1996	301.7	415.0	189.9	11.8	16.2	7.5
1997	213.4	447.0	200.1	8.2	17.2	7.9
1998	244.2	568.0	302.8	9.5	22.1	11.9
1999	263.2	559.0	322.1	10.2	21.7	12.6
2000	237.5	414.0	332.9	9.2	16.1	13.0
2001	222.0	496.0	313.9	8.5	19.2	12.3

(Source: Reserve Bank of Fiji (various issues).

Investment in the industry has been less than what the government had been expecting. There are numerous lucrative incentives in place to attract investment in the industry. These include hotel aid and investment allowances, carry forward of losses; accelerated depreciated allowance, relaxation of work permit rules, and duty concessions. Apart from this, F$11 million was allocated for the development of tourism infrastructure in the 2003 budget. There also is an annual government budgetary allocation of F$13 million as marketing grant to the Fiji Visitors Bureau. Between 1986 and 1999, as shown in Table 2, total investment generated by 118 new projects was valued at F$455 million. This created employment for 1954 people.

Table 2: Implemented projects in the Tourism Industry, 1986-1999

Year	Number of projects	Investment ($Fm)	Employment
1986	1	0.25	11
1987	0	0	0
1988	6	9.14	119
1989	6	5.22	206
1990	14	9.09	195
1991	8	14.21	136
1992	5	1.04	38
1993	22	352.19	328
1994	10	4.07	173
1995	13	10.39	187
1996	11	8.38	173
1997	10	35.22	261
1998	8	5.90	101
1999	4	0.50	26
Total	118	455.6	1954
Average	8	32.5	140

(Source: Fiji Islands Trade and Investment Bureau (FTIB), 2000.

Origin of Fiji Bound Tourists

The sources of tourists for Fiji are Australia, New Zealand, the USA, Canada, the UK, Europe, Japan, and the Pacific Island Countries. As shown in Table 3, of these countries, Australia is the single largest tourist source market followed by New Zealand and the USA.

While Australia remains the most dominant source of tourists for Fiji, its share declined from 40 percent in the 1980-1988 period to 27 percent during the 1994-2001 period. One reason for this is the increase in the cost of holiday packages in Fiji for Australians compared to alternative tourist destinations. In Australia, the

Table 3: Visitor arrivals by country as a percentage of total arrivals

Country	1980-1988	1992-2001
Australia	39.8	26.7
New Zealand	12.3	17.5
USA	18.1	14.0
Canada	7.8	3.6
UK	3.3	8.6
Europe	5.2	8.7

Japan	5.5	10.8
Pacific Island Countries	5.5	6
Others	2.5	4.1

Source: Reserve Bank of Fiji, (various issues).

deregulation policies during the early 1990's, especially in the airline industry, had led to more competition and hence cheaper airfares to some well known tourist destinations such as Bali and to states within Australia (Prasad & Tisdell, 1998). Table 4 provides the cost of holiday packages out of Sydney to various destinations during mid 1990's. It shows that Fiji nearly topped the cost of holiday packages out of Sydney.

Table 4: Cost of holiday packages originating in Sydney, Australia, 1995

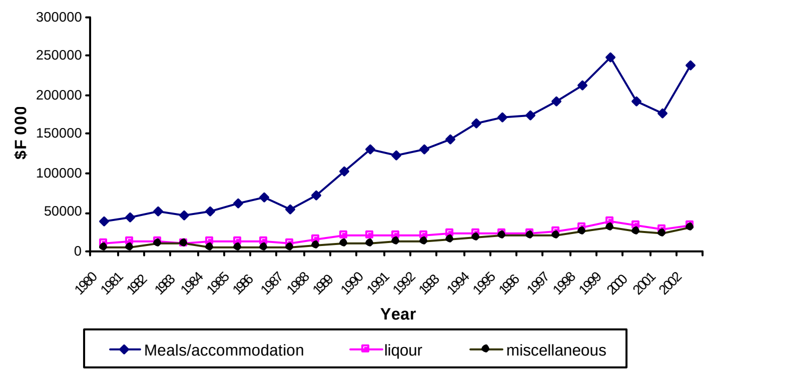
Destination	Price ($A)
Fiji	1,034 - 1,337
Western Samoa	1,073 - 1,380
Vanuatu	929 - 1,132
Bali, Indonesia	926 - 1,132
North Queensland, Australia	854 - 1,087
Queensland Islands, Australia	799 - 1,344

Source: World Bank (1995:. 44).

Tourist Expenditures

Total sales resulting from tourism in Fiji increased from F$52,629m in 1980 to around F$267,864m in 1998- a fivefold increase. Figure 1 provides a breakdown of tourism expenditure between 1980-1998. The bulk of the expenditure was on meals and accommodation. In 1980, for instance, sale of meals and accommodation contributed 71 percent to total sales, which by 2002 had increased to 88.8 percent. Sales of liquor made up 12.4 percent of the total sales while miscellaneous sales represented 11.5 percent of total sales in 2002.

Fig. 1: Tourist Expenditures, 1980-2002



Source: Reserve Bank of Fiji, (various issues).

The major drawback concerning tourist expenditure in Fiji is the fact that a large part of the income leaks out of the country. According to the Tourism Council of the South Pacific (1992: 16), as much as 62% of the tourist expenditure is incurred at the place of stay, that is, hotels, resorts and other commercial accommodation establishments for boarding, lodging and other services. Leakage is high because of the higher degree of foreign ownership in tourism-related activities, particularly accommodation. Most of the food, where the bulk of the expenditure is concentrated, is also imported. Investment in tourism plants is also largely foreign. Table 5 shows the ownership of tourist investment between 1988 and 2000. It shows that out of the 132 projects implemented in the tourism sector between 1988 and 2000, 94 percent were foreign owned including joint ventures with other foreign nationals, while only 6 percent had local ownership status. This is another source of leakage of tourism earnings.

Problems facing the Tourist Industry

The Fiji tourism industry is without doubt a victim of a sustained period of political instability. Amid an unstable political, and the associated depressed economic, climate, the growth of the

Table 5: Implemented Projects by Foreign and Local Ownership in

Fiji's Tourism Industry, 1988-2000

Year	Local ownership	Foreign ownership
1988	1	5
1989	0	6
1990	2	12
1991	1	6
1992	0	5
1993	1	21
1994	0	11
1995	0	13
1996	1	7
1997	2	9
1998	0	14
1999	0	12
2000	0	3
Total	8 (6%)	124 (94%)

Note: Foreign ownership includes joint ventures between foreign nationals and figures in brackets include ownership as a percentage of total ownership in the industry. Source: Fiji Islands Trade and Investment Bureau, (2001).

tourism industry has backtracked in the years of the coups. During the 1987 coups, for instance, hotel occupancy rates fell to 25%. Similarly, during the 2000 coup, hotel occupancy rates plummeted to 15% as against the normal occupancy rate of 70% (Narayan, 2000). Recent empirical studies show that in the years of the coups visitor arrivals fell by between 30-40% from Fiji's main tourism source markets (Narayan, 2002; Narayan, 2003a). Given the fall in visitor arrivals, it is obvious that tourist expenditure would also fall. Narayan (2003_b) shows that in the year of coups in Fiji tourist expenditure by Australians fell by 30%, expenditure by New Zealanders fell by 35% and expenditure by Americans fell by 32%.

Untoward policies for the tourism industry have also emerged as an impediment to the growth of the industry. The recent immigration policy, for example, seems to be misguided from the tourism point of view. In April 2002, the Fiji government introduced a new policy that requires a tourist to reapply for a visitor's permit after a month's stay. The visa extension fee per tourist amounts to F$82.50. This policy obviously enticed a strong opposition from industry stakeholders and investors. The *Daily Post*, for instance, reported the concerns of one hotellier:

> Most of our guests like to stay for 2-3 months, with many of them travelling by yacht ... . Usually they come in groups of 3 or 4, so if a family of 4 wishes to stay for another month, they would have to pay a total of F$330 just to renew their visas. ... we have people who own beach houses and who live in guest houses who come in and out of the country and who have

> invested a lot of money in the country and who are very much hard done by this policy … . (28 April, 2002)

Another specific issue constraining tourism development in Fiji is the land lease system. Under the present arrangement, in addition to the normal lease payment, 2.5-3.5% of the gross turnover of hotels situated on native land is to be paid to the landowners (Narayan, 2002). This serves as a disincentive to investment, as well as creates clientelism within the industry. Another disincentive emerges from the landowners' insistence that tourist plants employ members of their own villages, where appropriate, as first priority (Narayan, 2000 and King and McVey, 1997). The imposition of this extra rental, while making investment and reinvestment options less attractive, creates an added cost for hotel operations which is eroding price competitiveness of the industry as the added costs are reflected in the cost of a holiday package (Narayan, 2002).

Fiji's tourism industry is a victim of the growing land problem in Fiji. Indigenous Fijians own 83% of all land. About 20% of this is leased for agricultural purposes. The administration of native land is done by the Native Land Trust Board. Tourism is one of those industries that makes extensive use of land particularly for hotel/resort development. In 1989, 43% of all hotel rooms were on native land. With freehold land at suitable tourism sites now exhausted, new plants would necessarily have to be situated on native land. Landowners, amidst the inability of the Fiji government and the NLTB in solving landowner claims, have regularly disrupted hotel/resort operations, often seeking hefty compensations from operators.

A group of tourism experts summarised their findings on land and fishing rights in Fiji as follows: 'The group raised concern at the increase in hotel cases where indigenous Fijian landowners opt to take unlawful acts such as road blocks to express their grievances as it relates to the application of their land and fishing rights' (Fiji Government, 1995: 40). The report further highlighted that these types of unlawful intermittent interruptions cause significant delays in setting up hotel projects and discourage investment in the industry. The incidence of such disruptions had increased after the 2000 terrorist upheaval in the country.

It is also notable that the cost of travelling to Fiji from Fiji's major tourist source markets has increased over the last decade. Narayan (2003) argues that a major factor contributing to the increased cost of travel to Fiji is the decline in the number of international airlines using Fiji as a stopover destination. The growth of Fiji's tourism industry was anchored to transit stops by a wide variety of carriers on east-west routings from Australia or

New Zealand to USA or Canada; and on north-south routings from Japan to New Zealand. Over the last decade, however, many airlines have withdrawn from these routes (Fiji Ministry of Tourism, 1997). Fiji now has only three airline carriers: these are Air Pacific, which is Fiji's main carrier operating to and from the major source markets, the Air Pacific's joint owner and code-share partner, Qantas, and Air New Zealand. In this light, again, as argued earlier, it is difficult to see how government can establish direct flights to new markets and therefore, meet a performance indicator listed as part of government's commitment toward developing the tourism industry.

GARMENT INDUSTRY

The success of the garment industry in many of the developing countries largely owes to the establishment of the tax free zones or export processing zones. Export processing zones are special enclaves, effectively outside a nation's normal customs barriers which provide favourable incentives to investors (Warr, 1993: 19). These incentives normally include duty free imports of raw materials, company income tax holidays, streamlined administration, well-developed infrastructure and subsidized utilities. These incentives are available subject to the condition that the firms in the zone export bulk of their output.

A necessary, though by no means sufficient, condition for the success of export processing is cheap labour. Bangladesh, for instance, has relatively cheap and abundant supply of labour force. Before 1983, the country had virtually no clothing enterprise. In 1985, however, with the creation of TFZ's, a large number of foreign investors established export-processing enterprises. In 1985 there were 450 such enterprises; by 1990, the figure rose to 1,000 (ILO 1994:9). The majority of the enterprises produce for exports leading to increasing levels of export revenue for the Bangladesh garment industry. In 1992, Bangladesh's clothing exports as a proportion of total export was valued at around 52 percent. Similarly, with the introduction of TFZ's, China succeeded in increasing its clothing exports from 4.8 percent of total developing country clothing exports in 1970 to 25.6 percent in 1994 (Yang and Zhong 1998:5). Today, China is one of the main suppliers of the North American market. Likewise, the Mexican clothing industry has attracted around 8,000 enterprises since the establishment of TFZ's.

It is clear that the benefits from trade agreements and TFZ's has allowed garment industries to expand trade by increasing exports. The expansion of the industry has also created significant levels of employment, mainly for female workers. In 1990, for instance, about 89 percent of the workers in the Sri Lankan garment industry were females; and in Bangladesh women make up almost 90 percent of the total garment industry workforce. Similar trends in female employment follow in other countries (ILO 1994: 31-34).

In Fiji's case, the tax free factory (TFF) system, also known as the tax free zones, has played a crucial role in developing trade, mainly with Australia and New Zealand. Another equally, if not more, important incentive has been the trade agreements such as South Pacific Area Regional Trade and Economic Cooperation Agreement (SPARTECA) and the Multi-Fibre Agreement (MFA).

Under the TFF/TFZ scheme, companies exporting over 70 percent of their annual production were granted a corporate tax holiday for 13 years. That is, these companies were not required to pay any tax on corporate profits. The following benefits also applied to those companies granted TFF/TFZ status:

?? Total waiver of licensing for import of capital goods and other production materials;
?? Exemption from customs duty on imported capital goods and equipment, raw materials, spares and packaging materials and other items purchased to set up a TFF (for example, building material, furniture, office equipment); and
?? Exemption from excise duty on products manufactured within the zone.

In addition, there was no withholding of tax on interest, dividends and/or royalty payments paid abroad if they are not subjected to tax in the shareholders' country. Furthermore, final dividend was taxed at a rate of 15 percent when paid to resident shareholders compared to the then normal rate of 35%.

Another benefit offered by the TFF/TFZ scheme is a streamlined bureaucracy which ensured that a lot of time is saved regarding application outcomes from the time it is made. The Fiji Trade and Investment Board, now known as the Fiji Islands Trade and Investment Bureau, which is responsible for screening applications, has promised results of applications to be released within six weeks of the date of application. Lastly, the tax-free status, together with the investment permits granted by the FTIB, entitled firms to import 'specialist labour' without passing the stringent tests of importing labour from other countries as provided for under the immigration laws.

Garment Exports, Employment and Investment

Garments manufactured for export have emerged as an important industry accounting for the bulk of Fiji's manufacturing sector export earnings. Table 6 shows garment exports for the years 1986-2001. Garment exports have risen steadily, growing from F$131.1 million in 1991 to over F$313.9 million in 2001 representing around 25.6 percent of total exports. Similarly, garment exports as a percentage of nominal gross domestic product almost doubled during this period - from around 8.3 percent in 1991 to around 14.8 percent in 2001.

Table 6: Trend in Fiji's garment exports, 1986-2001

Year	Garment exports ($Fm)	As % of Total exports	As % of GDP
1986	4.8	1.6	0.36
1987	8.8	2.2	0.66
1988	30.1	5.7	2.10
1989	97.3	14.8	6.24
1990	113.7	15.5	7.73
1991	131.1	19.7	7.14
1992	116.7	16.8	5.78
1993	128.7	17.5	5.92
1994	140.9	18.4	6.20
1995	185.0	21.4	6.62
1996	189.9	21.3	7.41
1997	200.1	22.9	7.70
1998	302.8	29.8	10.8
1999	322.1	31.6	11.4
2000	332.9	32.7	11.8
2001	313.9	30.8	11.1
Av. 1986-2001	171.8	18.9	6.6

Source: Fiji Bureau of Statistics (Various issues).

The increased export potential of the industry led to a surge in employment. The industry currently employs around 15,000 workers in Fiji - with approximately 79 percent being female workers. As Table 7 shows, garment industry employment as a percentage of total manufacturing sector employment is estimated to average 41 percent (Narayan, 1999, 2001).

Table 7: Manufacturing and Garments Employment, 1986-98

Year	Manufacturing sector	Garment industry	Garment as % of manufacturing
1986	13,973	1,547	11.0
1987	13,814	2,069	14.9
1988	14,040	3,299	23.4
1989	19,666	5,934	30.1
1990	21,051	7,212	34.2
1991	23,400	7,495	32.0
1992	21,181	7,955	37.5

1993	23,479	8,807	37.4
1994	23,677	9,015	38.1
1995	25,309	9,845	38.9
1996	24,635	10,186	41.3
1997	27,041	13,051	48.3
1998	27,604	18,000	65.2

Source: Fiji Bureau of Statistics (various issues); Bureau of Statistics (1999)

Problems in the Garment Industry

Some major problems besiege the garment industry. First, is the likely loss of preferential markets. By the year 2010, Australia and New Zealand aim to adopt free trade. This means that whatever benefits Fijian garment manufacturers enjoy from SPARTECA will come to an end. Initially, SPARTECA provided both quota and tariff protection to Fijian manufacturers. This changed as New Zealand abolished quotas in 1987 followed in 1994 by Australia.

The second major problem is that the tax concession scheme under the TFZ scheme was suspended by the government. Without SPARTECA and/or the tax free concessions, the competitiveness of garment manufacturers will be heavily eroded because the cost of wage labour in Fiji is relatively high compared to other major developing country garment producers, mainly those in Asia. In 1993 for instance, the hourly wage rate for garment workers in Fiji was US$0.71 compared to US$0.16 in Bangladesh, and US$0.25 in China. The comparative wage rates for other countries are shown in Table 8. The relatively low wage rates have given the Asian developing countries an advantage over their competitors. The tax incentives which Fiji had removed earlier reduced the shareholder profit competitiveness of the industry in Fiji.

The third major problem in the industry concerns work practices. Recent studies on the industry report that the industry is experiencing high rates of absenteeism (see Chand et al., 1997; Grynberg, 1996). This leads to declining productivity in the industry. According to Chand, et al. (1997:23), garment owners offered two reasons for high rates of absenteeism: workers do not care about work or work ethics, and workers take time out to attend social/cultural obligations. This implies that Fiji lacks disciplined and committed workers for its garment industry. Absenteeism in the industry has emerged as one of the major factors affecting productivity and hence remains of concern to factory owners and potential investors.

Table 8: Clothing Industry Wages for selected Asian countries (US$)

	1990	1991	1993
Fiji	0.63	..	0.71
Bangladesh	..	..	0.16
China	0.26	0.24	0.25
India	0.33	0.25	0.27
Indonesia	0.16	0.18	0.28
Malaysia	0.56	0.62	0.77
Pakistan	0.24	0.24	0.27
Philippines	0.46	0.46	0.53
Thailand	0.63	0.59	0.71
Vietnam	..	..	0.26
Sri Lanka	0.24	0.39	0.35

Source: International Labour Organization (1994); Bureau of Statistics (1996)

A new problem facing the industry is the shortage of skilled labour. The garment industry currently employs around 1500 expatriate workers. The industry's success partly owes to the contribution of the expatriate workers who are more productive, willing to work longer hours and do not have problems with absenteeism. Expatriate workers are also used to teach skills to local workers. The industry's rapid growth in the last decade or so has increased the demand for skilled workers, which Fiji has not managed to supply. This gap is filled by expatriate workers. One likely implication of labour shortage is the closure of those garment factories that cannot rely heavily on expatriate workers like the Chinese owned garment factories. A good example of this is the Ghim Li factory in Lautoka, which employs 1000 locals and 200 expatriates; when the government announced in 1999 that it was strengthening immigration laws to curb abuse, the company announced that it was considering relocation to Samoa (Singh 1999: 15).

THE SUGAR INDUSTRY

The sugar industry was the single largest industry in the country during the 1970's. Since mid 1980's, however, its significance started declining, both, relative to other industries as well as relative to the size of the economy. The slide gained momentum since the late 1990's when land lease problems began haunting the industry. This was compounded by the emerging financial crisis in the Fiji Sugar Corporation. Today, the industry accounts for about 20% of total export earnings, and contributes to 7 percent of the GDP. The industry, however, is still vital for Fiji's economy in the short to medium term.

The importance of the sugar industry to Fiji's economy cannot be underestimated at least for the next decade. First, despite a marked reduction in its share of export earnings from about 70 percent in the 1970's, it still accounts for 22 percent of total domestic exports. Unlike other export-oriented industries, most factors of production in the industry are domestic. The industry has a much stronger linkage to other sectors of the economy and a large multiplier effect.

The significance of the industry to the country's rural economy is still immense. The industry dominates the rural landscape and the economy of a large part of Western Viti Levu and large areas of Vanua Levu. This is, in part, indicated by the fact that the sugar industry provides employment directly and indirectly to about 51,000 people (Government of Fiji, 2002). The government's estimate of the number of people employed by the sugar industry is quite unreliable. There are currently 21,000 farmers and another 20,000 cane harvesters. An estimated one third of the farmers are also cane harvesters, thus there is direct employment of 42,000 in the sugar cane industry. Another 4,000 people are directly employed in the sugar transportation, milling and marketing areas. The 50,000 or so people directly employed in the sugar industry means that over 250,000 people, or 31% of the country's population, are directly reliant on the sugar industry. Added to this is the fact that the sugar industry has an extensive chain of linkages. There is no official estimate of the employment generated indirectly by the industry, but the Retailers organisations and the municipal councils in Labasa, Rakiraki, Tavua, Ba, Lautoka, and Nadi have been on record as saying that without the sugar industry these towns would become ghost towns. In the absence of official statistics, one can only say that many more thousands of people are dependent on the sugar industry for their sustenance. It is, thus, certain that the loss of confidence in the industry and any likely collapse of the industry would spell disaster for Fiji as a whole.

It is for these reasons that the government has, rightfully, refocused on the sugar industry after its neglect between 2000-2002. The industry at the moment is besieged with numerous fundamental problems. Its milling efficiency has been consistently declining since the mid 1980's. Farm productivities have also not kept pace with the changing international market for sugar. Farmers have also been losing confidence in the industry due to the state's inability in solving the land lease problems. The new international trading environment, ushered in by a neo-liberal regime, also poses serious problems for sugar prices and markets. The government has responded with a plan to restructure the industry. Details of the plan are sketchy and by no means firmed up, but the government's strategic plan for 2003-2005 assumes that the restructure within the industry would be achieved successfully.

While the various stakeholders agree that there is a need to restructure the industry, there seems to be little consensus as to how this could be started. The problem is clearly one where different parties have different perceptions of the 'problem' within the industry. The millers blame the farmers while the farmers blame the millers. The shareholders of the milling company, of which the government is the largest one, do not have adequate information on which to base their decisions on.

The original restructure plan included disintegrating the 4-mill company into four Stand Alone Companies (SACs), with the growers, workers and landowners having shares in these companies. However, this plan has been shelved and the government, in conjunction with the FSC, has developed its own plan which includes amending the institutional structure within which the industry operates, and farming and milling changes. The details of the plan are provided in Appendix II.

To a large extent, the problems in the sugar industry stem from the inability of the FSC, over many years, to improve its efficiency and provide leadership to the industry (Prasad, 2003). When Japan, for example, rejected a sugar shipment in early 2003 on grounds of poor quality, the FSC and the government immediately blamed the farmers for burning sugar cane before harvesting which allegedly resulted in poor quality sugar. However, a closer look at the problem shows that the problem was not burnt cane, but the inability of the FSC, over/ the last couple of decades, to develop its milling capacity to mill cane within 24 to 48 hours of it being burnt and harvested. A contributory problem has been the FSC's inability to maintain the rail system so that cane could be quickly delivered to the mills for processing, hence, preserving the quality of sugar produced. In Brazil, for example, most of the cane supplied to the mills is burnt cane, yet the quality of sugar is still very high because the transport system is very efficient and cane is supplied to the mills within 36 hours (Prasad, 2003).

In the last two decades the FSC invested about $300 million dollars in mill upgrading, averaging to about $20 million dollars a year. But there is no evidence of any marked improvement in the milling capacity. At the Lautoka Mill, for example, only recently, $10 million dollars was spent on a new mill to improve efficiency; however, the crushing capacity of the new mill, at 30,000 tonnes per week, is 15,000 tonnes per week lower than the capacity of the older mill. This has resulted in long delays in milling as well as large stand-over cane. In addition, at the start of the 2003 crushing season, the FSC announced that it had spent another $6m in mill maintenance at Lautoka. But within the first week of crushing, the mill broke down.

Allegations of corruption and mismanagement in the FSC have surfaced quite often. However, to date, there has been no systematic and independent investigation of the allegations. Bad governance is a high ranking probability contributing to the financial crisis within the industry. So far, however, this matter has not been addressed by the authorities.

The real question in the proposed restructure is: what will be the role of government in the industry. At the moment, the government owns 67% of the FSC shares. Its approach, therefore is partial. As a shareholder, it wants a good return, and if this comes from exploiting the farmers, then the shareholder would have no qualms. But exploiting the farmers further would compound the problems. It is more than clear that the government can not distinguish its role as a shareholder and its role as an independent arbiter ensuring a just and fair approach to restructuring.

If the government's intention is to maintain FSC in a different form and expect the industry to bear all the costs, then the farmers, landowners and workers will have little incentive to make the industry work. The government needs to inject funds initially to ensure that the SACs, to be owned by the landowners, growers and the workers, begin their operations. The attempt by the FSC and the government to keep the present structure, and demand that proceeds be shared after all the industry costs are met, would be like going back to the days of the Colonial Sugar Refining Company (CSR). This is bound to be rejected by the farmers as well as possibly the landowners, for any reduction in the cane proceeds to the farmers would have a consequence on the rental income which the landowners are receiving.

Land lease issue is also a serious problem facing the sugar industry. The restructure process will not bear fruits if the land issue is not resolved immediately. Sugar industry means sugar cane farming and for this to take place the land lease problem will have to be amicably resolved. Leases under the Agricultural Landlords and Tenant Act (ALTA) began expiring in 1997. Between 1997 and 2002, while some leases were renewed, the majority of them reverted back to Native Lands Trust Board (NLTB). The NLTB is the sole administrator of all land owned by ethnic Fijian communal groups. The role of the NLTB has been controversial over the last 10 years, as it has not been able to clearly develop guidelines on how to deal with expiring ALTA leases. The monopoly power that the NLTB possesses makes it even more difficult for it to deal with the tenants fairly (Prasad and Tisdell, 1996). While in recent months the NLTB has indicated its willingness to renew some leases it has not been able to bring back the confidence of the farmers in the land lease system. The schedule of leases expiring under ALTA, given in Table 10, shows that most of the sugarcane leases would expire by the year 2009.

Table 10: Expiry of Cane Farm ALTA Leases, 1997-2024

Year of Expiry	All Cane Leases	
	No.	Ha
1997	27	232
1998	128	1,463
1999	170	1,962
2000	1,218	8,838
2001	1,542	8,337
2002	322	2,912
2003	465	3,240
2004	231	2,390
2005	245	2,490
Averages over remaining years		
2006-09	319	3,810
2010-14	239	2,621
2015-24	65	886
Total 1997-2024:	7,473	69,069

Source: Native Land Trust Board, 1995.

Sugarcane leases held by Indo-Fijian tenants comprise 83.2 percent of the number of cane leases. About 95 percent of the total cane leases will expire by the year 2009. Of these, 83.2 percent point would be sugar cane leases held by Indo-Fijians. At present, for land for which the NLTB wants leased out, the NLTB has been giving them out under ALTA. But not all land leases are being renewed. In any case, if the government were to revert to its earlier position of not renewing any lease under ALTA, Indo-Fijian tenants would be forced to quit sugarcane farming in large numbers. If these leases are transferred to indigenous Fijian farmers and if the productivity levels are maintained then production may not be a serious problem. However, past statistics show that productivity difference between Indian and Fijian farmers could lead to a production loss of about 16 percent (Prasad and Tisdell, 1996). This assumes that all the leases not renewed would be given to indigenous farmers and others may be occupied by new tenants from others ethnic groups.

Sugar production has been on the decline particularly after the May 2000 coup when many farmers were forcefully evicted from their land. As a result several cane farms are now lying idle. The consequence has been that the production of raw sugar declined by about 47,837 tonnes, a decline of about 14 percent between 2000 and 2001. Table 11 shows the trends in the production of raw sugar between 1980 and 2001. While the 2002 sugar production increased by about 13 percent, it remains lower than the 1991 and 2000 output.

CONCLUDING COMMENTS AND POLICY IMPLICATIONS

The Reserve Bank of Fiji (2003) points out that the prospects of the Fijian economy remain promising in the medium term. However, there still exist fundamental problems relating to the level of investment, the declining agricultural sector and a stagnant urban manufacturing sector. The contribution of the agricultural sector to GDP has declined by about 16% during the last decade, while the manufacturing sector's contribution has increased only marginally. This is causing serious unemployment problems in urban areas. The tourism industry is doing well as visitor arrivals are projected to increase to 417,000 in 2003 and to 442,000 in 2004. The hosting of the South Pacific Games was a further bonus to the tourism industry. Despite the relatively impressive performance of tourism, we believe that the government has overemphasized the importance of tourism in the economic recovery of Fiji and ignored the fundamental problem of lack of investment in the economy.

Tourism has a large leakage component. While tourism expenditure on food is high, the bulk of the food consumed is imported.

Table 11: Sugar Production and Proceeds: 1980-2001

Years	Raw Sugar (tonnes)	Molasses (tonnes)	Sugar & Molasses proceeds ($m)
1980	396,157	128,939	166.2
1981	469,972	151,824	144.5
1982	486,679	150,049	152.4
1983	275,877	83,955	93.3
1984	480,107	188,475	136.8
1985	341,011	108,434	107.5
1986	501,800	158,689	210.9
1987	401,056	130,185	219.8
1988	362,818	129,856	199.8
1989	460,601	150,700	268.7
1990	408,204	164,120	234.9
1991	388,962	138,453	243.5
1992	426,484	128,981	273.4
1993	442,156	135,967	255.8
1994	516,589	154,634	288.8
1995	454,447	181,332	310.1
1996	453,757	185,857	275.3
1997	347,389	138,559	232.2

1998	255,703	96,122	245.1
1999	376,501	159,339	282.0
2000	340,972	164,159	236.6
2001	293,133	106,033	239.4

Source, FSC and Growers Council.

Only 6 percent of the total tourism related projects implemented during 1986-1999 is owned by local investors; 94 percent of these are foreign owned. Given the government's current policy thrust (like lucrative tax holidays for investments worth over $10m, a level which most local entrepreneurs can not afford, and no such incentives for investments lower than these sums - the trend is not likely to change in the near future.

The garment industry has contributed positively to the economy in terms of employment generation and increasing the contribution of the manufacturing sector to the GDP. This sector, however, is vulnerable to a number of constraints. Internal constraints include lack of appropriate and skilled labour. The industry is also vulnerable to the international trading environment where access to traditional markets such as Australia and New Zealand are no longer guaranteed. On the same token, unstable investment policies brought about by intermittent coups in the country, has not assisted the growth of the industry.

Since 1987 subsequent governments have also ignored the agricultural sector, including the sugar industry. The sugar industry is still vital for Fiji's economic stability. If the government does not show immediate leadership in resolving the land issue and milling inefficiency problems, the sugar industry is certain to collapse. This is going to have serious implications on the economic, social and political stability of Fiji. With respect to the sugar industry, the government must move out of the industry and provide initial funding for the restructure programme where the landowners, growers and workers become co-owners of the industry. Government must also ensure that it moves quickly to resolve the land lease problems. It must examine the land lease problems with impartiality and logic rather than with emotion. Insisting that the only solution is to provide leases through the Native Lands Trust Act (NLTA) will not resolve the problem.

The fact that 48 percent of the leases between 1997-2002 have been renewed under ALTA implies that land leases could be resolved within the ALTA framework. To bring about immediate stability in the agricultural sector, the government should consider a concept of a master lease. This would mean that the government leases all agricultural land from the NLTB and subleases them to the tenants. This would ensure that government pays a lump sum rent to the NLTB and is responsible for collecting rent from the tenants. This would have two advantages. First, it will remove the often unstable relationship between the tenants, NLTB and the local land owning units, bringing about stability and harmony between the local *mataqalis* and tenants. Second, it will allow the NLTB to reduce administrative costs, and pass on higher rents to the landowning units. Since land issue is a national issue, the use of taxpayer funds to resolve land leases should not be a problem as the long-term benefits to the country will outweigh the cost of this investment.

Appendix 1: Policy Objectives and Key Performance Indicators

Policy Objectives	Key Performance Indicators
?? To increase visitor arrivals	?? Direct flights to new markets. ?? Over 448,000 visitors by 2004 ?? Improved target marketing by FVB ?? Additional 2000 rooms available with the new 3 to 5 star hotels completed by 2005 ?? 'Keep Fiji Clean' program established by 2003
?? To increase economic contribution and the retention of the tourist dollar.	?? 26,500 new jobs by 2005 ?? Tourism Satellite Accounts implemented by 2004 ?? Establishment of Nadi Bay AND Mamanucas as Pilot Tourism Development Area by 2005 ?? New Duty-free regime introduced by 2003 ?? More senior management positions held by resource owners
?? To increase resource owner's participation in the tourism industry	?? New Hotel Training School established by 2005 ?? Scholarship provision for higher education
?? To promote human development in tourism	?? New Hotel training school established by 2005 ?? Implementation of Management cadet scheme by 2005 ?? Scholarship provision for higher education
?? To promote sustainable development	?? 2 nature parks and walkways by 2004 ?? 2 marine parks by 2004 ?? Best practice framework for ecotourism by 2003 ?? At least 50% of nature based and community based tourism operations to meet or exceed ecotourism best practice guidelines and standards by 2004 ?? Ecotourism awareness education for hosts and guests established by 2005

Source: Government of Fiji, 2002.

Appendix II: Strategic Plan for the Sugar industry in Fiji: 2003-2005

Policy Objectives	**Performance Indicators**
To review and restructure the sugar industry into a commercially viable and efficient industry	?? Review the Sugar Industry Act of 1984 and the Fiji Sugar Corporation Act of 1973 ?? Sugar Research to be independent by 2003; ?? Transport System upgraded by 2005 ?? Sale of 17 % of government shares to strategic partners by 2003; ?? Mill workforce level determined based on commercial viability by 2003.
To improve milling efficiency and linkage of the payment system to the quality of sugar in cane.	?? Quality cane payment system established by 2003 ?? Cases coming to the sugar industry tribunal reduced by 50 %. ?? Crop Insurance scheme established by 2003 ?? Work productivity pay system implemented in the mills by 2003. ?? Controllable mill production costs lowered by 15 to 20%, in 2004 ?? Stale cane delivery time reduced by 50% ?? User pay system for transport introduced by 2003
To increase the efficiency, productivity and quality of sugarcane production in farms.	?? Farm productivity raised by growing 20% additional cane per hectare ?? Controllable farm production costs lowered by 15 to 20% by 2004; ?? Cane burning banned by 2003 ?? 80 mechanical loaders introduced by 2003 ?? Expired land leases resolved by 2003 ?? Farming Assistance Scheme in place for incoming/new sugarcane farmers ?? Land conservation board to ensure compliance with best practice management guidelines established by 2003.
To diversify the range and production of sugar by-products	?? Research and development initiatives implemented to grow high value crops by 2003; ?? 10 cane and sugar by-products developed by 2005. ?? Sale of energy to FEA increased by 20%
To pursue long-term reforms in the sugar sector to be internationally competitive	?? The ADB 'Alternative Livelihood' and intermediation of the sugar Sector Restructuring studies ongoing by 2003 ?? ADB recommendations and Action Plan reviewed by 2003 ?? The Sugar Industry Reform Programme sequenced and implemented by 2003.
To maximize returns to shareholders	?? Acceptable return to equity (minimum of 4-5% by 2005

Source: Government of Fiji (2002)

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Authors

Paresh Narayan is at the Department of Economics, PO Box 11E, Monash University, 3800, Australia.
E-mail: Paresh.Narayan@BusEco.monash.edu.au.

Biman Prasad is Senior Lecturer at the Department of Economics, University of the South Pacific, Suva. Fiji. Email: chand_b@usp.ac.fj