
Exploring the nexus between urbanisation, services sector expansion, aid and growth in Fiji

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Abstract: The study explores the contributory powers of urbanisation, services sector expansion and development assistance on per worker income in Fiji over the periods 1981–2009 using the ARDL bounds approach. The results show that sectors like tourism, information and communications technology, financial sector development besides urbanisation and development assistance are positively contributing to long-run growth and development. Therefore, sound urban planning, improving infrastructure, promoting Fiji as a choice of tourist destination, advancing and improving availability, affordability and accessibility of technology, financial inclusion and strengthening donor relations are pertinent matters for policy discourse.

Keywords: urban growth; tourism; financial sector development; information and communications technology; ICT; official development assistance; ODA; Fiji.

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1 Introduction

The developing countries in the Oceania region have been largely characterised as sea locked and remote from the major international and financial market. Many of these countries are by and large dependent on development assistance from developed and industrialised economies for infrastructural development.

Growth in tourism coupled with a reasonably well developed banking and financial institutions and the booming information and communications technology (ICT) services further support growth in economic activities in many Pacific Island Countries (PICs).

Another interesting development over the last three decades has been the growing urban share of population in these countries. The growth in urban population has been largely attributed to growth in concentration of firms and the consequent employment opportunities at the core on the one hand and the declining agricultural production in the rural and peripheral areas as a result of inadequate resources availability and accessibility such as land and capital driving the population to the centre, on the other.

In light of these developments, there has been no study done on the PICs to explore the nexus between and contributory powers of these variables towards economic growth. Besides modestly filling this lacuna using Fiji Islands as a case study, the objective of the paper is at least threefold. First, we underscore the growth in urbanisation and its role in the economy; second, we analyse the role of critical-to-growth sectors like ICT, financial development, tourism and development assistance; thirdly some recommendations are put forward to policy makers with respect to urban development, service sector expansion and aid inflows.

The rest of the paper is divided into five sections. Firstly, to set the scene, a brief literature on urbanisation, tourism, financial development, ICT and development assistance vis-à-vis economic growth is provided. Secondly, a section on sectoral trends and patterns, urbanisation growth and development assistance inflows are analysed for selected developing PICs. The third and fourth sections are on data and method; and results respectively. Finally, conclusion and some ensuing policy matters are put forth which can be mapped to other developing PICs after accounting for some heterogeneity.

2 A brief literature survey

With modern technology, the economy realises various developments which contribute towards its productivity level. In a book on *Modern Economic Growth*, Acemoglu (2009) provides a somewhat detailed exposition of the factors defining the notion of contemporary economic growth and development. According to Acemoglu, the structural changes and transformation are largely characterised by inter-alia, changes in the composition of production and consumption, that is, the shift from agriculture to industry and to services, urbanisation, financial development, changes in inequality of income and inequality of opportunity, the transformation of social and living arrangements, technological diffusion, financial institutions, changes in internal organisation of firms and the demographic transitions. The paper explores some of these variables with a view to understanding the modern economic growth and development in the PICs with specific focus to Fiji Islands.

2.1 Urbanisation

Urbanisation is a process in which an increasing proportion of an entire population lives in cities and the suburbs of cities, giving greater merit to the economic, political and cultural importance of cities relative to rural areas (Soubotina and Sheram, 2000). Moreover, urban development is further defined as the process of demographic and