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# The Economy, National Budget and Development in Fiji: A Case of Keynesian Economics, Neo-liberalism and Economic Gradualism

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**Abstract**

The Fiji economy underwent a major change in its economic policy approach in early 1980s. The move was away from the traditional Keynesian economics to one of a market-based growth and development. This new approach, based on the Neo-classical ideology, is broadly known as Neo-liberalism. However, over a decade of open economic policies, economic and social indicators reveal a worsening social scenario in Fiji. Poverty level has increased to 33%, about 20% of the children are malnourished, income inequality is increasing every year and crime rate is at its highest ever. With a new labor government elected in 1999, the 2000 budget delivered promised that the government would make a concerted move to refocus attention on the real needs of the people. This paper examines the budget to answer questions such as does the budget represent a new model of development? Has the theory failed? These are some of the questions that the author examines in this paper.

## Introduction

Over the last twenty years, the economic policies of a large number of countries in the world have been driven by the Neo-classical ideology (also know as Neo-liberalism). This is a major change from Keynesian approach, which nearly every Western country followed since early 1940s. The Keynesian approach was strongly supported by the International Monetary Fund (IMF) and World Bank, which were established in 1944 at Bretton Woods to help prevent future conflicts by lending for reconstruction and development and by smoothing out balance of payments problem. The IMF and World Bank, then, did not have any control over individual government's economic decision. However, over time, IMF and World Bank has changed their ideology and have asserted their position on borrowers through their own lending activities.

Since mid 1980's, a number of Pacific Island countries have adopted the neo-liberal ideology and have pursued an export led growth strategy to development. The policies, broadly known as the Structural Adjustment Policies (SAPs) include, in particular, deregulation of the product and factor markets, deregulation of the financial market and liberalisation of trade. These policies are put in place to promote the central doctrine of the neo-liberal ideology, that is the notion of competition. Competition at all levels: individual, firms, regions, and between nations. Another central doctrine of the neo-liberal ideology is

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that of smaller and less government intervention in the market. In effect, what this implies is the privatisation of public enterprises. State intervention in the process of the market, as per the neo-classical theory, will result in inefficient resource allocation and thus retard economic growth.

However, within the neo-liberals, there are two schools of thought. One school relies on the simplified textbook models to argue for rapid transition, with focus being on fast privatisation, liberalisation and macroeconomic stability. The other school believes in the widely known approach of economic gradualism, which emphasises on building an institutional infrastructure: laws to enforce contracts and to ensure competition and effective corporate governance, and regulations to rein in natural monopolies and keep the financial system sound. In Fiji, the rapid reformers had their way.

Over a decade of SAP experience in Fiji, key economic and social indicators reveal that economic growth has generally been sluggish and social problems has increased. The Prime Minister, in his budget address delivered in the parliament of Fiji, revealed the following social indicators, which describe the development status of Fiji:

- One third of our people are living in poverty, many unable to eat even one decent meal a day;
- Our children are seriously malnourished -statistics show one child in every five does not get decent food -how can they when all they get is tea and hard biscuits in the morning before going to school;
- Thousands of workers and rural dwellers earn less than $50 a week -how can any person let alone family be expected to live with dignity with such a paltry sum?
- Our rural areas are depressed and neglected-without clean, piped water, electricity, telephones, television and other amenities those of us who live in towns and cities take for granted; and
- We do not need statistics to show us the great inequities in our societies because the visible differences of wealth distribution are so glaring when more than 70% of the country's wealth is concentrated in the hands of just 10 percent of the population (CHAUDHRY, 1999).

He noted that the above outlined social problems have developed as a result of the previous governments' development priorities being out of touch with the real needs of the people. As such his governments 2000 budget makes a concerted move to refocus attention on the real needs of our people. That is the 2000 budget is more people-focused while mapping out development strategies (CHAUDHRY, 1999).

While there was an overwhelming support of the budget from public in general, there were claims from the opposition parties that the budget was just a continuation of the previous governments' economic policies. Therefore, the question that arises is has the government really changed its development strategy to promote growth and development in the country? Is this an alternative to the neo-classical model of development? Has the theory failed? This paper examines the above questions by analysing the 2000 budget. The past budgets, since 1991, are also examined.

The following section of the paper provides an overview of the economy since 1985 followed by an analysis of 2000 and previous budgets. The last section of the paper provides summary and conclusion.

## The Fiji Economy 1985-1998

The Fiji economy, in the colonial days, was used for monopoly profit creation, repatriation to the metropolies, and reinvestment with a view to increase future profit repatriation (KNAPMAN, 1987). Land was plentiful while capital and labour was in short supply. The Colonial Sugar Refining Company (CSR) supplied capital to develop the sugar industry and Indian indentured labour was brought in to fill in for labour shortage. The sugar industry developed to being the top most industry in the country over the years. Gold mining was also established during the colonial period. Following independence in 1970, the government got behind the wheels of development. With a heavy involvement of government in the development process, government expenditure continued to increase. To finance governments' budget, extensive borrowing was made which led to a massive build up of government debt (Table 1 and Appendix 1). Corruption and bad governance at various levels was also a serious problem. All these issues led to a strong pressure from International Monetary Fund (IMF) and World Bank to change the economic policy framework of the country, towards a open economy, export led growth. In mid 1980's, Fiji started to open up and deregulate its economy to allow the market to play a greater role. However, the economy continued to lag behind in achieving the desired growth level. Some of the key economic indicators of the ailing economy are discussed below.

*GDP growth*

Approximately 14 years of open economic policies, the economy has not made a major leap forward. In fact, the economy of Fiji plunged into a recession in 1998 (Table 1 and Appendix 1). Both 1997 and 1998 saw a negative growth in real GDP by 1.7% and 1.3% respectively.

*Investment*

The stagnant private sector investment has been a cause of concern for policy makers. As a ratio of GDP, private sector investment has declined since 1985. To make up for the short fall, government has been playing a major role in leading investment in the economy. Currently, approximately 66% of the total investment are made by the public sector. The fall in PI/GDP ratio is a serious issue and needs further in-depth analysis to suggest strong policy measures.

*Trade balance*

The trade balance continues to worsen following the two military coups in 1987. To promote exports and discourage capital outflight, the currency was devalued by 33% in

Table 1. Selected Economic Indicators of Fiji Economy, 1985-1998.

| Year | Real GDP growth (%) | PI/GDP ratio (%) | Trade balance (F$m) | Govt. debt/GDP ratio (%) | Debt charges/ GDP ratio (%) | Inflation rate (%) | FR position (equiv. to months of import cover) | CA balance/ GDP (%) |
|---|---|---|---|---|---|---|---|---|
| 1985 | −5.1 | 12.2 | −236.5 | NA | 5.5 | 4.4 | 3.5 | −0.9 |
| 1986 | 8.1 | 9.9 | −181.1 | NA | 5.6 | 1.8 | 4.8 | −0.6 |
| 1987 | −6.4 | 9.9 | −58.5 | NA | 6.8 | 5.7 | 4.9 | −0.9 |
| 1988 | 2.1 | 6.8 | −120.1 | NA | 11.2 | 11.9 | 5.9 | −5.3 |
| 1989 | 12.9 | 6.2 | −165.9 | NA | 8.2 | 6.1 | 4.4 | −4.6 |
| 1990 | 3.5 | 5.5 | −331.9 | NA | 7.1 | 8.1 | 4.1 | −3.3 |
| 1991 | −2.7 | 5.4 | −269.8 | NA | 7.6 | 6.5 | 5.0 | −0.5 |
| 1992 | 6.1 | 3.6 | −276.1 | 42.5 | 6.1 | 4.9 | 6.2 | −1.1 |
| 1993 | 2.6 | 4.7 | −425.5 | 42.5 | 7.0 | 5.2 | 4.3 | −4.6 |
| 1994 | 5.1 | 4.1 | −326.7 | 42.8 | 6.3 | 0.8 | 3.8 | −3.5 |
| 1995 | 2.5 | 4.1 | −330.0 | 41.7 | 7.1 | 2.2 | 4.8 | −0.9 |
| 1996 | 3.2 | 4.2 | −267.4 | 44.3 | 5.9 | 2.4 | 5.1 | −2.9 |
| 1997 | −1.7 | 4.0 | −421.4 | 52.2 | 6.9 | 2.9 | 4.8 | −0.3 |
| 1998 | −1.3 | 3.7 | NA | 48.2 | 13.6 | 8.1 | NA | NA |

Date source: Reserve Bank Quarterly, Reserve Bank of Fiji, 1980-98.
Note: PI= Private sector investment, FR= Foreign reserves, NA= Data not available, and CA=Current account.

1987. Due to inelastic demand for export goods from Fiji in the short run, immediate positive effects from devaluation were not evident (REDDY, 1997). However, the effect was visible in the longer run, a "J Curve" effect, but the currency was devalued again in 1998 following the Asian crisis. Failure of trade balance to improve has implications on the current account balance. The current account balance as % of GDP was 5.3% in 1988. The low level of CA/GDP ratio experienced now should be maintained or else a worsening CA balance would exert downward pressure on the dollar.

*Government debt*

Another issue of concern is the mounting government debt, which currently stands at 40-48% of GDP. This consumes a massive amount of government budgetary expenditure for debt servicing. In 1998, the debt charges, as % of GDP was 13.6%. Apart from consuming a large chunk of current periods budgetary expenditure, the mounting debt level also has intergenerational concerns. If the accumulated debt has been incurred to finance consumption expenditure of the current generation, then it is the current generation who should pay off the debt. However, this does not seems to be the case.

*Inflation rate*

Inflation control is a major issue for policy makers. In 1998, inflation was around 8.1%. The high rate of inflation is attributed to the devaluation of the Fiji dollar in early January. It is expected that inflation will be much lower in 1999 given the reduction in import duty.

*Foreign reserve*

The foreign reserve of the government is also not in a extremely safe position. A safe position would be reserves equivalent to 7 months of imports. Data in table 1 shows that reserves in Fiji has been around 5 months generally. Therefore, both visible and invisible export should increase to improve the foreign reserve position.

## Fiji Governments Year 2000 National Budget

The national budget, through its expenditure, determines the wellbeing of any individual, family, firm or business. The budget reveals, in detail, all the expenditure that the government intends to incur during the following year. In doing so, it shows the magnitude of expenditure that the government intends to make and into which activities. Both the magnitude and the nature of the expenditure also determine the overall government policy direction. This, in itself, makes the budget a very important document. As outlined in the earlier section, Fiji's economy has a number of problems. Escalating government debt, widening trade deficit, relatively high inflation, large budget deficit and high levels of unemployment and poverty. Therefore, the following analysis of the budget will take into account how government intends to address these social and economic problems of the country. The analysis is divided into two sections. Section 1 examines the budgetary allocations and its implications while section two examines the specific policy measures advanced with the budget but not captured by the allocations.

### Budgetary Allocations

*Government Revenue, Expenditure and Budget Deficit*

One of the important elements of economic restructuring is smaller government. Through smaller government, operating expenditure can be reduced and thus its implication on national debt. Furthermore, less government intervention in the market is expected. The size of government, measured in terms of its expenditure, has increased by 2.1% over last year and by 81% since 1991 (Table 2). However, the government expenditure to GDP ratio shows a declining trend. In 1991, the ratio was 33.5%. The 2000 budget shows expenditure to GDP ratio of 29.6%. What it means is that less and less GDP goes through the public sector. This size of government seems quite reasonable when compared to some of the other developed countries where market plays a much greater role. For Australia and Canada, government expenditure to GDP ratio was 34% and 43% respectively in 1991. However control over expenditure is important, as it will blow out the budget deficit. The net deficit/GDP ratio has been declining since 1991 while the gross deficit/GDP ratio peaked in 1996 (6.1%) and started to decline again. It is estimated that in 2000, the gross deficit/GDP ratio will be 5.2%. The high deficit levels has implications on government debt which in turn has intergenerational implications.

*Expenditure Allocation: Capital vs. Operating*

Any long-term solution to problems of unemployment, poverty and increasing private sector investment and thus job creation should include more capital expenditure relative to operating expenditure. The nature of expenditure is very important, as it will determine the rate of economic growth in the country in the longer run. The budgetary allocation for capital expenditure remains at 18.5%. This is in fact a reduction of 1% over 1999 and 0.4% over 1991. This is certainly not what is to be expected if the budget is to display indicators of long run sustainable development objectives.

*Expenditure Allocation by Functional Categories*

The budget has three major functional categories. These are social, economic and infrastructure. The economic and infrastructure sector is important from long term sustainable development point of view. Therefore one would expect that these sectors would receive more budgetary allocation. The analysis in table 2 reveals that relative to 1991, all these sectors have received increased budgetary allocation. However, relative to 1999, there is no major change in allocation to the economic sector. As expected, the social sector has received a major boost in its allocation, an increase by 2.2%. Given the state of poverty, unemployment and lack of social security for a large number of the elderly in the population in this country, the case for much higher allocation for social services can be justified. However, this is a short-term solution only. It will only lead to the temporary alleviation of the symptoms of underdevelopment (KORTEN, 1987). One must realise that economic services and infrastructure development plays a direct role in creating employment, raising income, lowering crime and other social ills, which in fact is a long-term solution. Therefore, a much balanced approach to budgetary allocation to these sectors would been a much better way ahead. The allocation to economic and infrastructure could have still increased without disturbing the social services if the operating expenditure for general administration was reduced. At the moment, general expenditure budget takes a major chunk of total expenditure (20.16%). The allocation to each of the three categories can also be analysed in terms of operating and capital expenditure. In 1999, capital expenditure in the economic, infrastructure and social services were 39.9%, 48.8% and 5.5% respectively (Table 2). In the 2000 budget, we see an increased allocation to capital expenditure for all the three, 44.7%, 50.1% and 9.7% for economic, infrastructure and social services respectively. The trend is similar when one examines the figures for 1991.

*Expenditure Allocation to Key Ministries*

Health, Education and Agriculture are seen as the three crucial sectors for any developing country. The allocation to all these sectors has been increasing over the last decade. Agriculture sector received a reduced allocation in 1996. While the overall trend shows an increasing allocation to all three sectors, the 2000 budget shows notable increase to all these three sectors. The increases are more visible when one examines the per capital expenditure analysis to all these three sectors. Among other activities, the education budget also shows an allocation of F$1m for interest free loans to tertiary school children. This will play a major role in human capital development in the country. It will also dampen some of the social problems via reducing the number of drop out due to lack of financial support. The increased allocation to agriculture sector recognises the role of agriculture in the development of the country. The allocation will reach the population mass that is in the rural areas and thus increase their livelihood. It will also retain a significant portion of the population in the rural areas, who otherwise may immigrate to the urban areas and cause a number of social and environmental problems. As the Minister outlined, a healthy and educated society is key to sustained long-term growth. The boost in Health budget by F$15m reveals the governments' commitment to create a healthy and productive population. In the longer run, it will certainly lead to a more productive labour force. It is yet to be seen how much of this allocation is for primary health care as a large proportion of the population is found in the rural areas.

*Deficit Financing and Government Debt*

An interesting feature of Fiji's budget has been the financing of the deficit. Almost 80-90% of the deficit is financed by domestic sources (Table 2). An increasing amount of borrowing from the domestic private sector may crowd out private sector investment. There is only a limited pool of resources that is available for the private sector to play with and thus government proposal to borrow extensively from it may not be good in the longer run. JAYARAMAN (1998) shows that at a low significance level, government investment has a crowding out effect. However, he suggests that no robust inference can be drawn with such low significance level. Since increasing deficit levels add up to government debt government needs to re-look at ways in which it could increase its operating revenue and reduce its operating expenditure thereby reducing the overall deficit and thus government debt. Government needs to also examine ways of recouping lost revenue from direct and indirect taxes which may stand around F$200m (on the conservative side). This when combined with the revenue foregone from concessions, around $50m, amounts to a meagre F$250m per year.

*Expenditure allocation and Employment Creation*

Approximately 11,000 students drop out of the school system every year. If appropriate jobs are not available, and the family does not have a strong financial support system, then a significant portion of these teenage kids resort to crime as a means of earning a leaving. A number measures adopted by the government can lead to the reduction of unemployment. These include the following:

- Provision of F$15m to promote agricultural diversification and marketing;
- Provision of F$1m to establish a loans scheme for students entering tertiary education. This will reduce school drop-out rates;
- To extend fee-free education to forms 5 for rural secondary schools and those from underprivileged families. This will reduce school drop-out rates;
- Provision of F$2m to launch the integrated human resource development program which is expected to create 9000 jobs over a three year period;

- Provision of F$1.3m for micro-finance program;
- Provision of F$1.5m for poverty alleviation projects;
- Provision of F$81.5m for infrastructure development. This could boost up other economic activity and investment leading to new jobs; and
- Promote the establishment of tourism/hotel industry projects totalling around F$350m.

While these allocations will generate the projected number jobs or not is a question that cannot be answered now, the allocations itself shows the will of the government to tackle a serious problem in the country.

Table 2. Budget Analysis, 1991-2000.

| Item | | 1991 | 1994 | 1996 | 1999 | 2000 |
|---|---|---|---|---|---|---|
| Total Revenue ($,000) | | 535,689.2 | 694,851.8 | 737,273.3 | 997,298.5 | 1,027,911.2 |
| Total Exp.($,000) | | 605,415.0 | 832,100.3 | 893,824.4 | 1,074,990.4 | 1,097,959.8 |
| Budget Deficit ($,000) | | 69,725.8 | 68,882.5 | 92,240.8 | 77,691.9 | 70,048.6 |
| Capital Exp./Total Exp. (%) | | 18.9 | 13.5 | 15.4 | 19.5 | 18.5 |
| *Exp. as a % of Total Budget by Functional Categories* | | | | | | |
| Economic (%) | | 9.9 | 7.8 | 7.5 | 10.7 | 10.3 |
| Infrastructure (%) | | 12.2 | 13.4 | 13.0 | 11.4 | 13.5 |
| Social (%) | | 26.1 | 26.0 | 27.0 | 28.7 | 30.9 |
| *Capital Exp. as % of Total Exp. in each Functional Category* | | | | | | |
| Economic | | 43.2 | 30.2 | 26.5 | 39.9 | 44.7 |
| Infrastructure | | 38.9 | 46.0 | 45.9 | 48.8 | 50.1 |
| Social | | 7.3 | 4.3 | 6.0 | 5.5 | 9.7 |
| *Exp. Allocation to key Ministries* | | | | | | |
| Education: | Total amount (F$,000) | 112,996.2 | 141,059.6 | 154,283.4 | 189,020.7 | 217,050.8 |
| | Per capita amount (F$) | 152.3 | 185.9 | 199.1 | 240.0 | 275.6 |
| Health: | Total amount (F$,000) | 40,117.4 | 60,324.4 | 72,029.2 | 79,927.1 | 94,884.7 |
| | Per capita amount (F$) | 54.1 | 79.5 | 92.9 | 101.5 | 120.5 |
| Agriculture: | Total amount (F$,000) | 39,737.5 | 25,897.3 | 23,271.7 | 40,308.9 | 63,835.9 |
| | Per capita amount (F$) | 53.6 | 34.1 | 30.0 | 51.2 | 81.1 |
| *Deficit Financing* | | | | | | |
| Domestic Loans | | 74.1 | 97.4 | 81.2 | 89.1 | 89.0 |
| Overseas Loans | | 25.9 | 2.6 | 18.8 | 10.9 | 11.0 |
| Net Deficit as a % of GDP | | 3.9 | 3.0 | 3.6 | 2.6 | 1.9 |
| Gross Deficit as a % of GDP | | —— | 5.9 | 6.1 | 5.6 | 5.2 |
| Government Exp. As % of GDP | | 33.5 | 36.3 | 34.9 | 30.9 | 29.6 |

Note: 1) Figures in parenthesis are per capital expenditure analysis
2) 1999 and 2000 population figures are not available. Therefore, 1998 estimate are used.
Data source: Fiji Government National Budget (1991-2000), Ministry of Fiji, Government of Fiji, 1999.

## Specific Policy Issues in 2000 Budget

*Privatisation*

The budget address also revealed Government's intention to roll back privatisation of strategic public enterprises (CHAUDHRY, 1999). Privatisation of public sector enterprises can take several forms or complete privatisation could follow a series of steps. Figure 1 provides these steps which may not necessarily be followed in sequence. Contracting out work was increased while majority of the enterprises, which was solely owned by government, was coporatized.

Government Owned

⇓

Contracting out Work to Private Sector

⇓

Coporatized
(Sale of Share: Majority Share Owned by Government)

⇓

Sale of Share: Partially Owned by Government

⇓

Privatized
(Total Sale to Private Sector)

Fig. 1. Public enterprise reform steps.

Generally, all public enterprises are natural monopolies and a natural monopoly exists when the minimum size to guarantee maximum economic efficiency is equal to the actual size of the market. And this has been the case of most of the public enterprises in Fiji as the domestic market is quite small. Furthermore, the state run natural monopolies have also been established because they require very large investment outlays which is quite difficult for an individual in the private sector to finance. Now a number of issues arise when these public enterprises are sold to capitalists in the private sector. One, the capital owners will charge monopoly prices thus depriving a large proportion of the community from having access to it. Second, privatisation can also lead to merger of big enterprises and thus loss of jobs. Thirdly, privatisation will lead to the transfer of decades of work of the tax payers into the hands of few large capitalists. In fact if one notes the returns from these enterprises, it is low, but not negative (Table 2). However, one must note that governments motive is not to make profit but to provide service to those who otherwise may not have access to these facilities.

Table 3. Return on Assets (%) from Public Enterprise, 1992-98.

| Year | Enterprise type | | Total |
|---|---|---|---|
| | Government commercial companies | Statutory authorities | |
| 1992 | 4.4 | 1.7 | 2.6 |
| 1993 | 5.2 | 1.6 | 2.7 |
| 1994 | 4.6 | 0.7 | 1.9 |
| 1995 | 7.5 | 1.1 | 3.1 |
| 1996 | 6.7 | 1.5 | 3.1 |
| 1997 | 6.5 | 2.1 | 3.6 |
| 1998 | 5.5 | 2.7 | 3.7 |

Data source: Fiji Government 2000 Budget Supplement, Ministry of Finance.

*Investment*

The previous government established an investment incentive package to attract private sector investment in the country. This package included both tax and non-tax incentives. Among the tax incentive included Tax Free Factory (TFF) and Tax Free Zone (TFZ). Non tax incentives included depreciation allowances; hotel investment incentives and loss carry forward. While the previous government had plans to abolish these incentive schemes, the current government has not made its intentions clear. What this may imply is that, the government may be adopting a wait-and-see attitude before a final decision is made on it. The government cannot make any move which will affect economic growth negatively. Unless the economy grows, its expenditure policies will be difficult to meet. However, what needs to be done is a through review of how far has these incentives attracted investment in the country. Data from Fiji shows that private sector investment as a percent of GDP has been falling since 1972 (Fig. 2). Governments own report (Ministry of Finance, 1998) suggests that concessions have been unable to attract additional private investment.

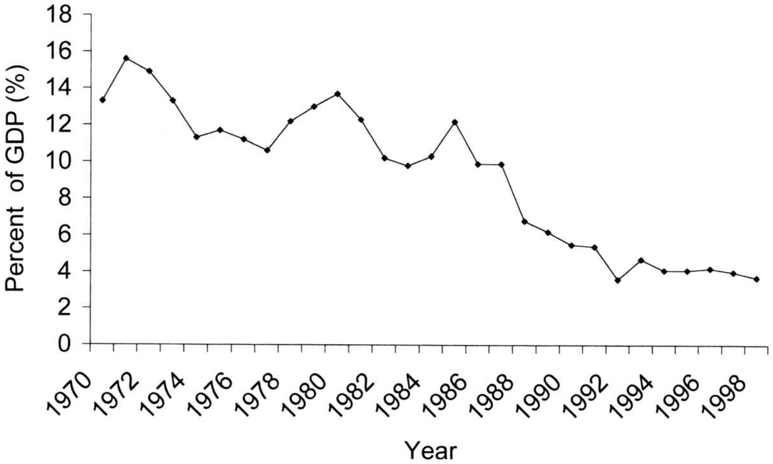


Fig. 2. Private sector investment as a % of GDP, 1970-1998.

*Financial Sector Regulation*

Government has decided to establish a Banking Commission to monitor the levels of fees, charges and interest rates may have not gone well with the financial sector. Furthermore, a Banking Ombudsman will also be appointed to resolve disputes between banks, insurance companies, credit unions and other finance sectors, and their consumers. This is an attempt to regulate the financial market after the committee of inquiry into the financial services found that the consumers were at a great deal of messy of financials institutions in Fiji. The committee of inquiry into financial services in Fiji found that two major foreign banks, combined, hold a market share of 74.2%[2] in the deposit market and 77.0% in the loans market (MinistryINISTRY of FINANCE, 1999). This has led to these banks maintaining high lending rates, low deposit rates and thus a interest spread rate much higher then what they make at global level.

*Removal of Value Added Tax (VAT)*

The budget has also proposed to remove VAT from a number of staple food items and educational and medical supplies[3]. These will have numerous benefits on poor and the economy at large. The poor will have a direct benefit through the reduction of prices of these goods as their consumption basket consists of mostly basic food items. On an economy wide level, the reduction of prices will bring down inflation, raise demand and increases turnover of goods. Therefore there will be a positive multiplier effect. Furthermore, the move, cetirus peribus, should also contain demand for wage increase, which in turn may spiral up inflation.

## Summary and Conclusion

This paper examines the new governments' policy direction as launched during the tabling of the 2000 Fiji government budget. Before examining the budget, an overview of the economy since 1985 is presented. Key economic indicators are calculated and examined to see how economic growth took place in Fiji during the era of open market policies. Results of the analysis reveal that the economic growth was sluggish despite several key measures put in place by the government. Private sector investment continued to decline relative to government investment and trade balance continued to worsen despite concerted efforts to re-align the domestic currency. Issues that may have resulted in stagnant investment were the uncertainties associated ever since the military coups and the expiring agricultural land leases. A speedy resolution to the land lease problem will provide potential investors clear signals as to where the country is heading.

The 2000 Fiji government budget reveals governments' effort to re-define the path to

2 Deposit market: ANZ, 47.3% and Westpac, 26.9%.
Loans market: ANZ, 50.9% and Westpac, 26.1%.

3 VAT removed from: flour, edible oil, tea, canned fish, rice, powdered milk, water rates, basic educational materials, basic medication.

development. In the short term, the approach may indicate a move towards Keynesian economics, and economic gradualism in the longer run. First, the government, through its expenditure policies is re-asserting its role in the growth and development of the economy. This is evident from the increase in overall government expenditure in particular the increased allocation to health, education, agriculture, micro financing, social welfare and poverty alleviation, on a per capita basis, which are targeted to reach the poor and rural dwellers. How far it reaches the rural poor and how far is it a "bottom-up" approach to development is yet to be seen. Second, the financial sector, the most important sector in any developing country, will now be regulated. In a small country like Fiji, the financial sector plays a very crucial role in promoting investment, growth and development. Therefore, if the market doesn't allow it to function the way it should, taking into account the key factors surrounding a developing country, then the government, as it is planning to do, should redirect it. Lastly, the government has rolled back privatisation of key enterprises as stated in the budget address. A competitive environment needs to be created first before privatisation. Privatisation will only lead to efficient resource allocation if market size is adequate and institutional structures are in place to support it. Once these are achieved, a competitive environment will arise. These steps, once achieved, are termed "economic gradualism". Therefore, the Neo-classical theory has not failed, but rather the approach of rapid transition towards market economy has failed to produce results.

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Appendix 1. Key economic indicators of the economy, 1985-1998.

| Year | Exports (F$m) | Imports (F$m) | Nominal GDP/ Capita (F$) | Public External Debt (F$m) | Total Govt. Debt (F$m) | Public Debt Charges (F$m) | Paid Empl. | PI(F$m) | Visitor Arrivals |
|---|---|---|---|---|---|---|---|---|---|
| 1985 | 271.4 | 507.9 | 1,690.0 | 318.1 | NA | 64.8 | 81,082 | 160.4 | 228,175 |
| 1986 | 312.4 | 493.5 | 1,857.0 | 332.6 | NA | 74.7 | 79,854 | 145.4 | 257,824 |
| 1987 | 408.6 | 465.1 | 1,844.0 | 437.8 | NA | 89.9 | 78,159 | 144.6 | 189,866 |
| 1988 | 531.1 | 658.8 | 1,993.0 | 442.6 | NA | 159.9 | 77,529 | 108.2 | 208,155 |
| 1989 | 658.6 | 860.4 | 2,122.0 | 416.8 | NA | 127.2 | 89,876 | 114.8 | 250,565 |
| 1990 | 731.8 | 1,112.9 | 2,363.0 | 392.8 | NA | 121.9 | 92,107 | 110.6 | 278,996 |
| 1991 | 540.8 | 810.6 | 2,435.8 | 354.5 | 805.6 | 136.3 | 91,538 | 109.5 | 259,350 |
| 1992 | 533.7 | 809.8 | 2,660.3 | 324.4 | 843.5 | 123.5 | 92,480 | 83.9 | 278,534 |
| 1993 | 581.0 | 1,006.5 | 2,888.3 | 279.5 | 923.8 | 153.0 | 94,295 | 119.3 | 287,462 |
| 1994 | 727.0 | 1,053.7 | 3,023.0 | 235.1 | 981.8 | 144.1 | 95,345 | 110.1 | 318,874 |
| 1995 | 740.8 | 1,070.8 | 3,130.3 | 229.4 | 1,001.8 | 169.5 | 97,276 | 115.0 | 318,495 |
| 1996 | 911.3 | 1,178.7 | 3,299.1 | 217.8 | 1,133.4 | 151.3 | 110,081 | 125.0 | 339,560 |
| 1997 | 760.8 | 1,182.2 | 3,326.5 | 225.6 | 1,356.2 | 180.2 | 114,749 | 122.0 | 359,441 |
| 1998 | NA | NA | 3,442.6 | 277.3 | 1,306.1 | NA | 113,258 | 115.0 | 371,342 |

Date source: Reserve Bank Quarterly, Reserve Bank of Fiji, 1980-98.

Appendix 2. Total revenue foregone due to concessions, 1993-1997.

| Year | Total IRD Concessions ($m) | Total Fiscal Duty Foregone ($m) | Total Revenue Foregone (F$m) |
|---|---|---|---|
| 1993 | 4.6 | 20.4 | 25.0 |
| 1994 | 6.4 | 22.4 | 28.8 |
| 1995 | 5.3 | 51.5 | 56.8 |
| 1996 | 7.1 | 77.0 | 84.1 |
| 1997 | 7.0 | 49.8 | 56.8 |
| Total | 30.4 | 221.1 | 251.5 |

Data source: Fiji Government 1999 Budget Supplement, Ministry of Finance.