





# CHAPTER 3: GROWTH, EXTERNAL LIABILITIES AND DEBT SUSTAINABILITY

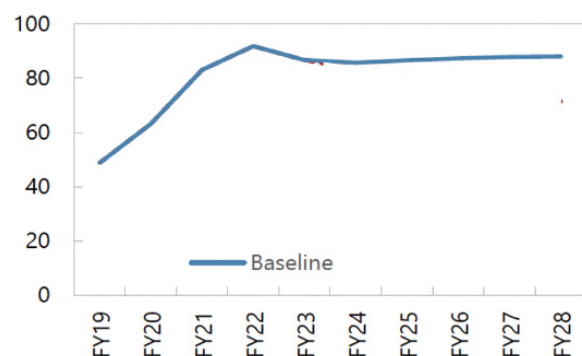
The debt-to-GDP ratio, often regarded as a key indicator of government finance<sup>1</sup> measures a country's public debt to its gross domestic product. Expressed as a percentage, the ratio is often used to gauge the government's ability to service and repay its debt. A high debt-to-GDP ratio is undesirable as it indicates a higher risk of default and the likely adoption of contractionary economic measures. This, in turn, may dampen growth prospects and reduce business confidence. On the other hand, a declining debt-to-GDP ratio over time is a well-accepted indication that a country's debt is on a more sustainable trajectory.

While it is important to pay attention to the direction debt-to-GDP is headed in, several studies<sup>2</sup> have also tried to show that debt-to-GDP ratio beyond a certain threshold has a negative impact on growth. In a study conducted by the World Bank<sup>3</sup>, a ratio that exceeds 77% for an extended period of time may result in an adverse impact on economic growth, "with each additional percentage point of debt [to] cost 0.017 percentage points of annual real growth." The effect is even more pronounced in emerging markets where the threshold is "64% debt-to-GDP ratio. In these countries, the loss in annual real growth with each additional percentage point in public

debt amounts to 0.02 percentage points."<sup>4</sup> Therefore, when the ratio is high, a country is likely to exhibit a slowdown in economic growth.

In this regard, the IMF's latest base scenario for Fiji's debt-to-GDP ratio does not bode well (see Figure 3-1). The IMF forecasts Fiji's debt-to-GDP ratio to hover around 80% over the next several years and well into the next decade. As discussed in Chapter 2, the Fiji government has a different point of view, premised on the fiscal consolidation measures they have adopted in the latest budget, and their GDP forecasts.

**Figure 3-1: IMF's Forecast on Fiji's Debt-to-GDP Ratio**

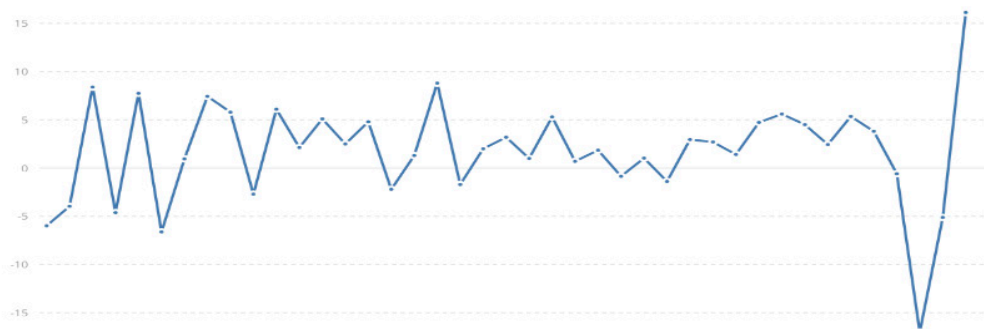


Source: IMF, Republic of Fiji: Article IV Consultation 2023

Hence it is important to see and understand where economic growth in Fiji is headed in order to anticipate and consequently steer its debt levels towards sustainability. No doubt the economy has bounced back with a vengeance since the pandemic-induced lockdown, with the tourism sector leading the charge. The economy skyrocketed back from the trough of negative -17% growth in 2020 to 20% in 2022, and is forecasted to grow by another 8% in 2023.<sup>5</sup>

As a matter of fact, over the last four decades, data shows (Figure 3-2) that Fiji's economic growth has been erratic and volatile, jumping from highs of 7-8% growth and then dipping dramatically the following year after, especially in the period just before the turn of the century.

**Figure 3-2: Fiji's GDP Growth Rates**



Source: World Bank, <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=FJ>

While the ups and downs in growth rates have been less pronounced since the 2000s, it undulated at lower levels of growth. Between 2000-09, Fiji averaged 1.11% growth, and between 2010-19, before the start of the pandemic, it grew by an annual average of 3.3%. And with the dire economic impact of Covid-19, economic growth averaged 0.5% over the last four years.<sup>6</sup>

**A Potted History of Fiji's Economy**

The highest level of GDP growth was achieved between 1970 and 1975—the period immediately after Fiji gained independence. This was followed by a period of very low growth in the 1980s. The economic woes faced by the country was seriously aggravated

by coups in 1987. Tourism declined, sugar cane production was disrupted, and some US\$83mn fled the country.<sup>7</sup>

It was around this time when the country made the economic policy switch from import substitution to niche market exports.<sup>8</sup> Confronted by the challenge of a weakening economy, the government was also swayed by “the international trend towards economic liberalisation and export-oriented

**Figure 3-3: Fiji Average Real GDP Growth vs Real Per Capita GDP Growth (at constant 1990 prices)**

	Average GDP growth rate	Average per capita GDP growth rate
1970-75	9.7	7.5
1976-80	2.3	0.3
1981-85	-1.3	-3.1
1986-90	1.2	0.2
1991-95	2.4	0.8
1996-2000	2.1	1.5

Source: Sunil Kumar and Biman C. Prasad, “Fiji’s economic woes: a nation in search of development progress,” p. 3

industrialisation and to specific advice from its consultants and international agencies”. The argument was that Fiji needed to radically improve its export potential by reducing unit labour costs if it was to continue to grow and transform the country from, in the words of the Finance Ministry then, an “inward looking, high tax, and slow growth economy to a dynamic outward looking, low tax and high growth economy.”<sup>9</sup>

While modest economic recovery and normalisation followed in the 90s after the preceding tumultuous period, it was clear that this policy shift did not deliver the higher average growth rate as promised, with the decade registering an average rate of 2.25%.<sup>10</sup>

In the 2000-2009 period, especially after 2006, political upheavals and the ensuing uncertainty led to a period of low and negative growth as Fiji became increasingly isolated internationally. After registering -1.4% growth rate in 2009, the economy rebounded and managed to stay positive for the rest of the decade right up to the eve of the pandemic.

Between 2013-17, the longest period of stable and relatively high growth, Fiji's real growth rate entered a "golden period" averaging about 5% (excluding 2016 when it grew by 2.6% as a result of Cyclone Winston), a feat not seen since the 1970s. As a result, debt-to-GDP ratio came down to just below 50% over this period. (See Figure 1-3 in Chapter 1). Unfortunately, this new normal did not last. By 2018, Fiji reverted to its mean growth rate and GDP fell back to 3.8%, sliding further to 0.5% in 2019, just before Covid-19 struck.

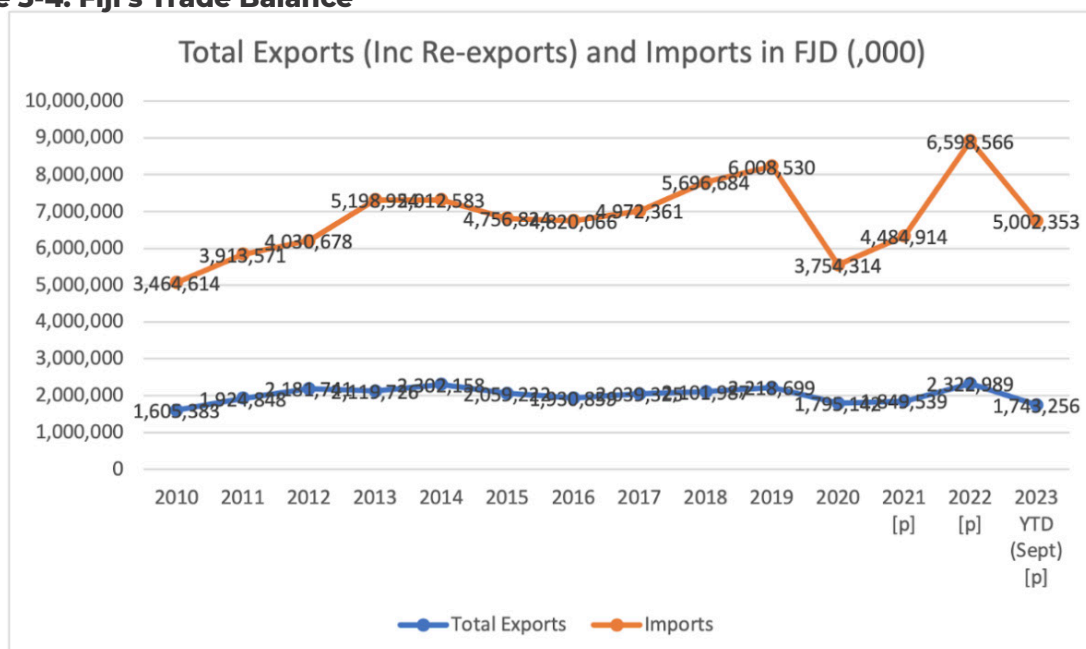
Observers and pundits of the Fiji economy have all concluded that the country's growth rate has been paltry for whichever time period they had looked at.<sup>11</sup> It seems unable to break away from its track record and remains "trapped on a low growth path."<sup>12</sup>

The underlying reasons according to various authors are due to a mix of policies and politics which have undermined business and investment sentiments, leading to under-investment and other infrastructural deficits.<sup>13</sup> Together with its immanent susceptibility to climate risks and other shocks, they form major obstacles to sustained and robust growth.<sup>14</sup>

While it is not the purpose of this chapter to go into great depth to pinpoint the causes of structural low growth, the goal is to identify the more evident gaps and vulnerabilities in the Fijian economy that might derail even the relatively low growth rates that has been officially forecasted in the medium term, and suggest areas of attention and action.

More importantly for current purposes, GDP growth is a key variable in the government's own projections and forecast towards debt sustainability, as discussed in previous chapters. In the standard debt assessment model, failure to achieve the anticipated growth rate will send debt levels even higher, necessitating further fiscal austerity.

**Figure 3-4: Fiji's Trade Balance<sup>15</sup>**



As previously noted, the lacklustre performance of the Fijian economy over the decades has also found expression in its external accounts. Given the challenges in terms of its limited productive capacity, inadequate structural transformation and declining access to export markets, it is perhaps unsurprising that its trade performance has steadily worsened.

Except for bottled water, most merchandise exports have either declined or stagnated. On the other hand, merchandise imports have grown by three times the value of total merchandise exports, leading to a persistently large and growing trade deficit in goods.

Take for instance the sugar industry which until the 1990s was the single most important industry in the economy, contributing to more than 10% of the GDP compared to 1.7% today. Despite the precipitous decline, it remains the main cash crop dominating Fiji's agriculture total production at almost 90%. (See Figure 3-5.)

**Figure 3-5: Composition of Fiji's Agricultural Production**

Product	Tons	% of total
Sugar cane	1,631,000	88.8
Cassava	68,135	3.7
Taro	42,985	2.3
Fisheries, meat and poultry	42,163	2.3
Yaqona	9,113	0.5
Paddy rice	9,081	0.5
Kumala	8,411	0.5
Ginger	7,585	0.4
Copra	1,916	0.1
Others	16,992	0.9
Total	1,837,381	100

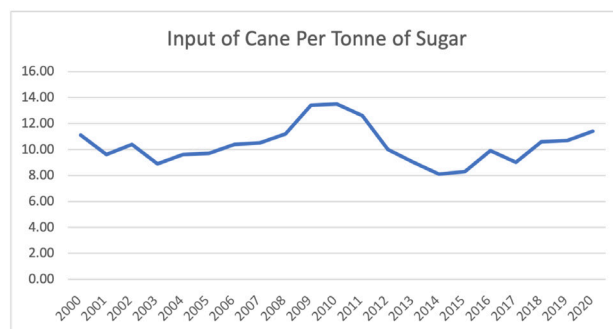
Source: Fiji Bureau of Statistics, Composition of Agriculture Sector Production, March 2018.  
 Note: The statistics are for 2017 (preliminary).

Production Source: *Fiji Productivity Master Plan*, p.30

Farm productivity of sugar cane production (sugar cane produced/area of sugar cane harvested) has fallen persistently for more than four decades, from 55 tonnes/ha from 1981-90, to 51.4 tonnes/ha from 1991-2000, 45.7 tonnes/ha from 2001-10, and 42.2 tonnes/ha from 2001-17. Production of sugar in 2018 was only 60% of the 2014 level and there was a further 10% fall in 2019. Fiji now ranks as one of the lowest among the world's big sugar producers.<sup>16</sup>

Milling productivity, measured as tonnes of sugar cane required per tonne of sugar, has also decreased continuously for the last 30 years and has basically gone nowhere in the last two decades.<sup>17</sup> (See Figure 3-5.)

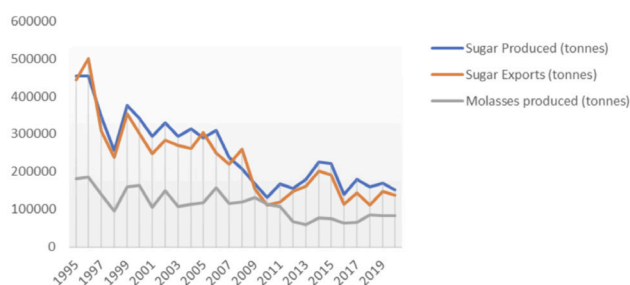
**Figure 3-5: Fiji Sugar Milling Productivity<sup>18</sup>**



Inefficiencies in the milling process were caused by obsolete and poorly-maintained equipment that frequently broke down, poor management and problems in labour relations, as well as poorer cane quality.<sup>19</sup>

This long-term decline further compounds the challenge of low productivity in the sugar industry and, hence, lack of price competitiveness in this commodity export. Coupled with the phasing out of preferential trade access to major export markets,<sup>20</sup> the result is a steady decline in the export volume of sugar over time. By 2020 it had fallen to FJ\$90mn, a far cry from FJ\$237mn in 2000.<sup>21</sup>

**Figure 3-6: Fiji's Sugar and Molasses Production and Exports (in tonnes)**



Source: Fiji Sugar Corporation's website, accessed Oct 2023

Like sugar, growth of Fiji's garment industry had also been driven by preferential trade agreements with Australia and New Zealand (the South Pacific Regional Trade and Economic Co-operation Agreement) and with the US (the Multifiber Arrangement). Since 2000, the garment industry has rapidly declined with the phasing out of trade preferences and tax concessions were phased out. The lack of productivity improvement and the consequent loss of competitiveness against cheaper and more productive manufacturing operations in Asia also hurt the industry.

Fiji's garment industry reached US\$142mn in 2001<sup>22</sup>, contributing to 30.8%<sup>23</sup> of the country's total exports and 12-13% of its GDP.<sup>24</sup> However, its total domestic export value has since plummeted to US\$51.8mn in 2016 and dropped further to US\$38.1mn in 2021.<sup>25</sup>

Fiji's poor export performance reflects more fundamentally the limited structural and industrial transformation. The manufacturing sectors associated with the declining sugar and garment industries translate into a shrinking share of the GDP, and it is now well surpassed by the agriculture sector. (See Figure 3-7.)

As the experiences of high-income and other upper middle-income countries have shown, the industry sector and in particular manufacturing, can play a critical role in

helping a country move up the productivity ladder, and insert itself more beneficially into the global value chain. Globally, heavy manufacturing, which produces intermediate products for use by other industries, has been a catalyst in raising productivity levels and structurally transforming the rest of the economy.<sup>26</sup>

However, this is hampered by Fiji's fragmented and dispersed productive capacity. Like most countries<sup>27</sup>, SMEs dominate Fiji's productive landscape in numbers, accounting for 95% of business establishments and about two thirds of total employment, but contribute only to 12% of the country's GDP.

Micro establishments, defined as having fewer than five employees, form the majority of SMEs in the country. As a matter of fact, the number of firms tapers dramatically as firm sizes increase. In the services and industry sectors, there are 606 medium-sized firms compared to 2,286 small firms and 5,146 micro firms.<sup>28</sup>

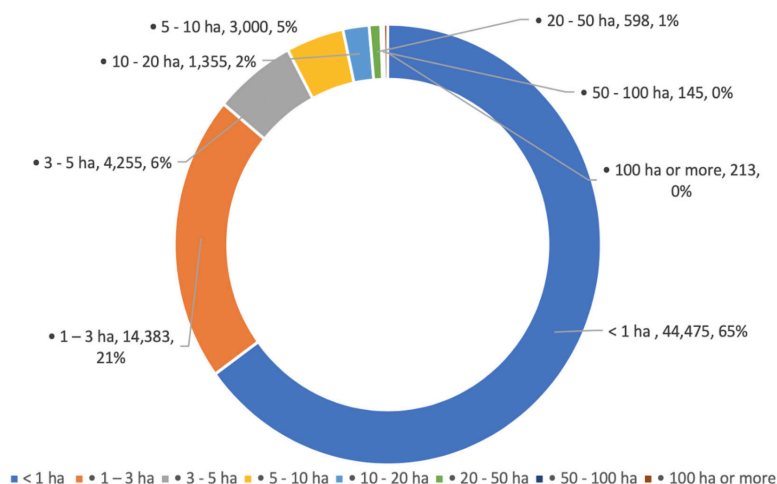
Similarly in agriculture, small farms, defined as those that are less than 5ha, dominate overwhelmingly making up 92% of the current total,<sup>29</sup> compared to 82.6% at the last count in 2009. The number of medium-sized farms that are 5-49 ha more than halved from 16.8% to 7.3% from 2009 to 2020, leaving an even smaller proportion (0.5%) of large farms that are 50ha or more in area. (See Figure 3-8.)

**Figure 3-7: Selected Economic Indicators (2016-21)**

	2016	2017	2018	2019	2020	2021
<b>National accounts</b>						
Current GDP at market price (FJD million)	10,327.3	11,065.0	11,650.6	11,842.6	9,709.8	8,895.9
Current GDP at market price (USD million)	4,930.2	5,353.5	5,581.4	5,481.7	4,477.0	4,296.2
GDP per capita at current market price (USD)	5,651.3	6,101.1	6,317.5	6,159.5	4,994.2	4,758.3
Real GDP (% change)	2.4	5.4	3.8	-0.6	-17.0	-5.1
<b>GDP by economic activities at current basic prices (%):</b>						
Agriculture, forestry and fishing	13.1	13.0	13.6	14.6	17.1	17.0
Mining and quarrying	1.0	0.8	0.7	0.8	1.3	1.3
Manufacturing	13.4	12.9	12.9	12.7	12.9	13.6
Electricity, gas, water supply, sewerage	2.4	2.5	2.4	2.2	2.2	2.4
Construction	3.1	3.2	3.4	3.6	3.5	2.5
Services	67.0	67.6	67.0	66.1	63.0	63.2

Source: WTO, "Fiji's Trade Policy Review, Report by the Secretariat," p.9

**Figure 3-8: Breakdown of Agricultural Farms by Size (in ha)<sup>30</sup>**



In theory, the productivity of SMEs and micro enterprises in particular is typically low compared with large enterprises, due to various reasons including lack of know-how, limited access to finance and market and scale efficiencies. The diminutive size of SMEs also impedes them from going global, and smaller firms end up being more focused on the domestic market.

Furthermore, a large number of the micro enterprises are engaged in what development economists have called the unsophisticated part of the product space, caught in a “low-product” trap producing raw materials such as agricultural produce, and offering low-value services such as small retailers and street vendors.

### Services Exports

Fiji’s large trade deficit is mitigated to some extent by its service exports. Nonetheless, it cannot cover the deep shortfall in merchandise trade, leaving the country with an ever-growing overall trade deficit. In 2022, the deficit in traded goods widened further due to reinvigorated demand for imports accompanied by elevated commodity prices.

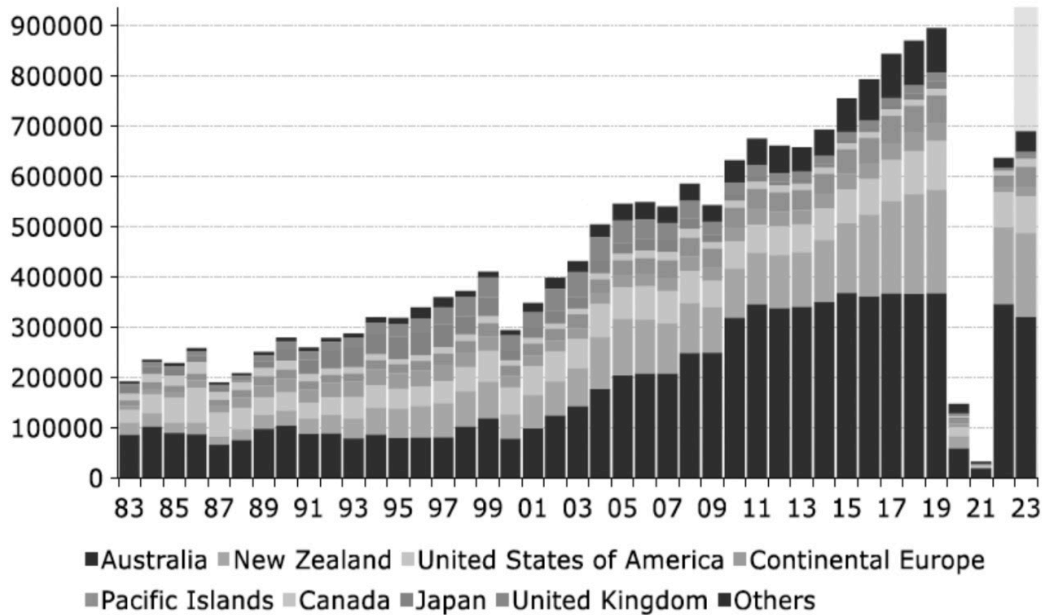
To be clear, tourism (and its related sectors) is the largest contributor to GDP and foreign exchange earnings is the primary driver for the positive services trade balance. After collapsing from 2020-22 because of the pandemic and lockdown, the sector bounced back strongly in 2022 and 2023.

**Figure 3-9: Fiji’s Trade Balance—Goods and Services<sup>31</sup>**





**Figure 3-10: Visitor Arrivals by Country**



Source: Fiji Bureau of Statistics, Macrobond, ANZ Research

Source: ANZ Research, "Fiji: Balancing the Economy," October 2023.

However, ANZ Research expects<sup>32</sup> Fiji to hit peak visitorship with a record total of 940,000 visitors in 2023.

Tourism is running at full tilt and with limited investment in hotel room inventory over the last decade, Fiji does not have much capacity to accommodate more visitors in the next few peak seasons. This will cap the upside to tourism's contribution to the economy until new capacity becomes available.

More importantly, the majority of visitors from key markets will cut back on discretionary spending, including overseas holidays, as interest rates and inflation remain sustained in their home economies. Savings and pent-up demand over Covid-19 lockdowns has been spent. In any event, the massive bump in the number of tourists arriving in 2022 and 2023 is unlikely to be repeated in 2024.

Structurally, tourism is also highly vulnerable to external and internal developments which limits the generation and sustainable growth

of value add. The number of visitors dropped in 2000 due to the coup. It also fell between 2008-09 due to the global financial crisis. And 2020 and 2021 delivered the most dramatic boom-and-bust episode we have ever witnessed.

The vulnerability of tourism is exacerbated by concentration in origin markets (Australia, New Zealand), purpose of visit (75% for holiday, 3.9% for business in 2017) and tourist areas (concentrated in Viti Levu).<sup>33</sup>

Besides the direct vulnerability of tourism, various industries associated with it have suffered as well. All other sectors participating in tourism have lower than national average productivity, especially the wholesale and retail industry which has many micro enterprises and employs many people, but low productivity levels— only 49% of that of the services sector average. The low productivity level is due to the fact that there are many low value-added micro enterprises employing<sup>34</sup>

many people (eg retail shops selling clothes, arts and crafts items, and souvenirs) catering to tourists.

Another reason for the various industries' low productivity is the absence of strong linkages among the industries that are involved in tourism. For example, only 48% of fresh produce needed in hotels is supplied locally. Several studies have estimated that the extent of foreign exchange leakage (a measure of the amount spent to import goods and services to meet the needs of foreign visitors) is as much as 60%,<sup>35</sup> which curbs the multiplier effects that could be realised with higher value-added retention. From the view of the UN Conference on Trade and Development's (UNCTAD) (see Chapter 2), this limits the ability to raise the "rate of GDP growth consistent with external financial sustainability and in the process create additional space to adopt policies and programmes that support sustainable development."<sup>36</sup> The dominance of foreign investments and the inability of local providers to compete have resulted in low value-added capture.<sup>37</sup>

These trends call for bold industrial policies to ensure that domestic integration is just if not more important than international economic integration. In the case of Fiji, reliance on imports derived from booming exports of services, dilutes not only the potential boost in domestic demand, it also weakens what could be an even more favourable trade outcome if local goods and services took a larger portion of the tourism dollar. It also dampens the overall benefit of integrating into a global value chain in terms of balance of payments. From a policy perspective, this means that policymakers need to work with private sector actors along the value/supply chain and devise effective ways to harness backward and forward linkages, supporting local embeddedness, and enhancing value addition.<sup>38</sup>

According to the Asian Productivity Organisation's Fiji National Productivity Master Plan 2021-2036, it is only when such a

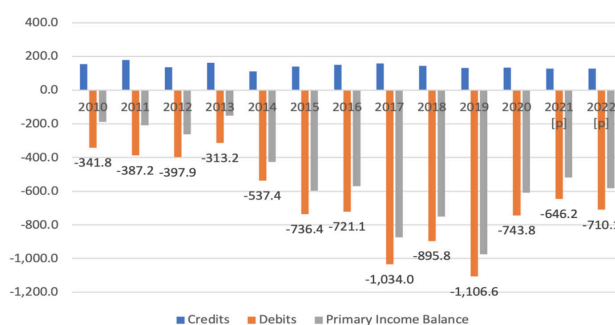
cluster approach is taken that the economics of agglomeration be realised: raising the productivity of constituent industries, increasing the quantity and quality of locally sourced products and services, and reducing foreign exchange leakages.

It is beyond the scope of this paper to have the necessary discussion on how to raise the productive capacity of its key economic actors and sectors.<sup>39</sup> The purpose here is to reiterate the urgency of raising the productive capacity of the country and by doing so improve its trade performance, which in turn will lift the external constraints on growth that is aligned with debt and external sustainability. (See Chapter 2 on UNCTAD's Debt Sustainability Framework.)

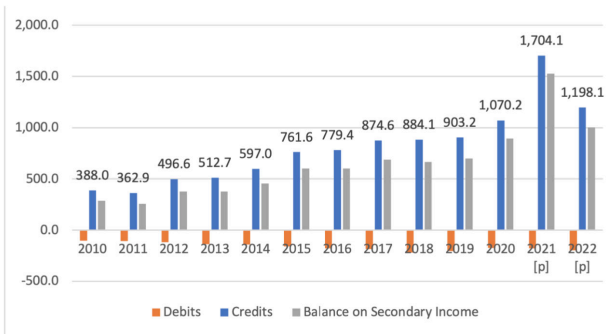
### Primary Income Account

Fiji's primary income account is also stubbornly negative reflecting the far greater claims by foreigners on their Fijian investments and assets than Fiji's claims against the rest of the world. Reinvested earnings paid abroad<sup>40</sup> have been getting larger year-on-year from 2014 to 2019, reflecting the increasing share of the economy by foreigners. While this trend was temporarily interrupted by the pandemic, it will likely resume given the sizeable non-resident ownership of Fijian assets and investments.

Figure 3-11: Primary Income Balance<sup>41</sup>



**Figure 3-12: Secondary Income Balance<sup>42</sup>**



**Not Secondary At All**

Personal remittances dominate Fiji’s secondary income account reaching more than a billion (FJ\$1.03bn) by 2022 about 9.3% of its economy.<sup>43</sup> In the period 2014-2019, before COVID, it constituted only about 5.25% on average.

Looking at figures below, remittances has been growing resolutely over the decades and accelerated over the COVID years playing a critical contribution in maintaining consumption and domestic demand.<sup>44</sup>

Remittances are a key source of national income and act as non-government social safety nets, helping to pay for schooling, food, housing and healthcare, and supporting families during emergencies. During the Covid-19 pandemic, remittances outperformed foreign direct investment and official development assistance (ODA) as a source of income.

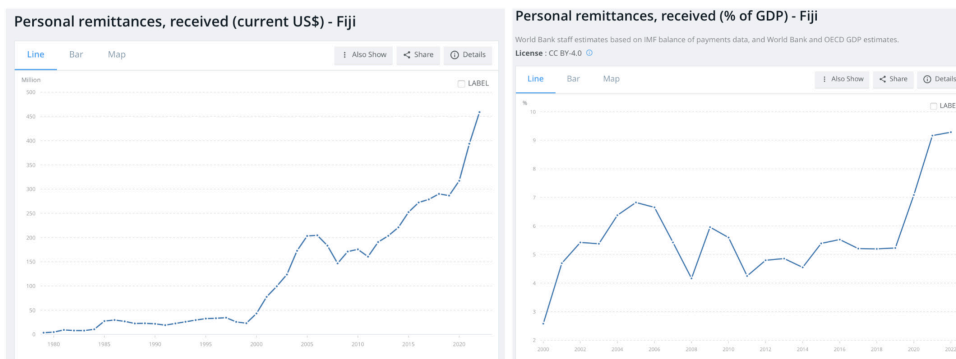
The inflows from remittances also maintained foreign exchange reserves and were a lifeline to communities when regular income was disrupted.

They remain, however, private financial flows, typically used more for consumption than for investment. This results in challenges harnessing their full potential for investments related to sustainable development and structural transformation.<sup>45</sup> Furthermore, substantial labour outmigration, especially of skilled workers, can also be a drag on economic growth and dent long-term development prospects.<sup>46</sup>

Remitting in the Pacific is also expensive, and while the cost of doing so has come down slowly for Fiji over the decade, it is still above the 5% per transaction target in the “G20 Plan to Facilitate Remittance Flows”, and well above that of the UN’s target of less than 3% by 2030. From 2009-22, the average remittance transaction cost for Fiji was 10.2%.<sup>47</sup>

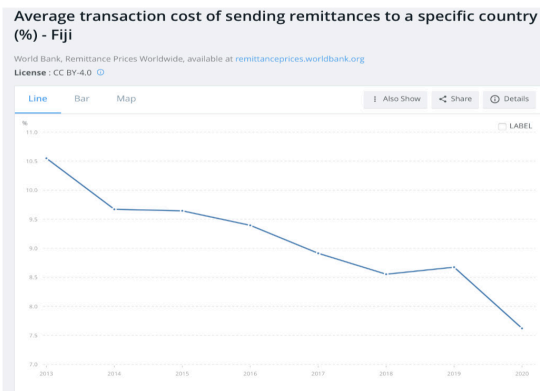
A lot more could be done, as outlined by Collins to reduce the costs of remitting especially by the countries from which they are coming from. Australia, New Zealand and the US account for 60% of these transfers.<sup>48</sup>

**Figure 3-13: Personal Remittances in US\$ and as a percentage of GDP**

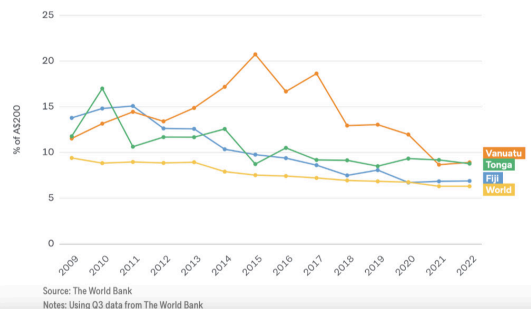


Source: World Bank, <https://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS?locations=FJ>

**Figure 3-14: Comparative Costs of Remittances to Fiji**



**Graph 5: Average Cost of Remitting from Australia to Three Pacific Islands vs Global Average Cost 2009-2022**

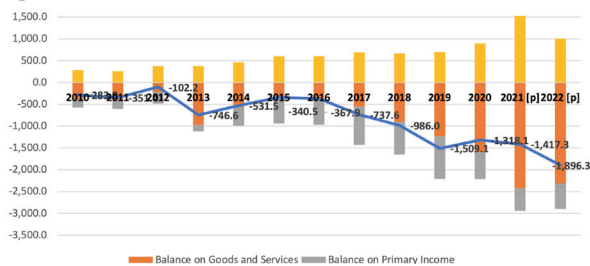


Sources: World Bank and J. Collins, "Reducing Remittances Costs in the Pacific Islands."

**Adding Up To A Deficit**

As can be observed in Figure 3-15, Fiji has started running significant current account deficits since 2013, amounting to FJ\$746.6mn. While this narrowed from 2014-17, by 2018 it had picked up rapidly, and shot up to reach FJ\$1.9bn. Needless to say Covid-19, played a big role in this, as the main service export of tourism came to a sudden stop.

**Figure 3-15: Current Account Balance<sup>49</sup>**



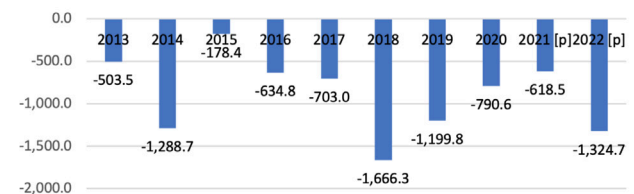
Between 2014-17, while the current account deficits were being trimmed, Fiji saw its high growth rate and best performing period in recent history. Exports were strong and the trade deficit was getting smaller, however investment income sent abroad to foreigners in the form of reinvested earnings also grew, leaving the current account in an overall deficit position.

All in all, given the yawning deficits in the trade and primary accounts, which cannot be wholly plugged by the sizeable inflows of remittances, Fiji inevitably runs a large and persistent current account deficit, which makes the country a net debtor and borrower vis-à-vis the rest of the world.

**Neither a Lender Nor Net Borrower Be**

This is reflected in the financial account of Fiji's balance of payment, which shows the extent the country has relied on external financing to sustain its current account deficits<sup>50</sup> (see Figure 3-16). The financial account balance showed an estimated net borrowing of FJ\$1.32bn in 2022, of which FJ\$256.4mn of foreign direct investment flowed in to purchase local "equity and investment fund shares" and FJ\$989mn of external loans.<sup>51</sup>

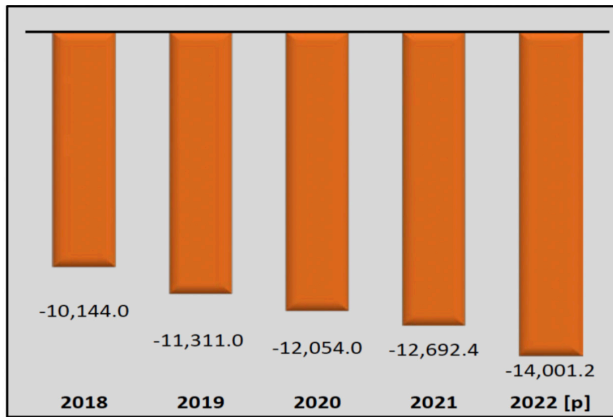
**Figure 3-16: Financial Account—Net Lending (+) vs Borrowing (-) (F\$, in mn)**



Source: FBoS

This in turn is captured in Fiji’s net international investment position, which has been in negative territory, hitting a whopping FJ\$14bn in 2022—representing far greater foreign claims on Fiji than its claims on the rest of the world. (See Figure 3-17.)

**Figure 3-17: Net International Investments Position (FJ\$)**



Source: FBoS, Release No: 20, 2023, International Investment Position Annual 2022. 31st March 2023, p. 1

This is due to the ever-increasing external financing, primarily in the form of foreign direct investment and loans relied upon by Fiji to pay for its chronic current account deficits. As a result, Fiji’s international liabilities has been growing steadily over the decade and by the end of 2022 it was valued at FJ\$19bn. The recent 9% increase from 2021 was driven by, as in previous years, direct investment and loans under other investments.<sup>52</sup> As it stands, it is now more than one and a half times larger than the size of the economy in 2022. (See Figure 3-18.)

**External Debt: A Drag on Growth**

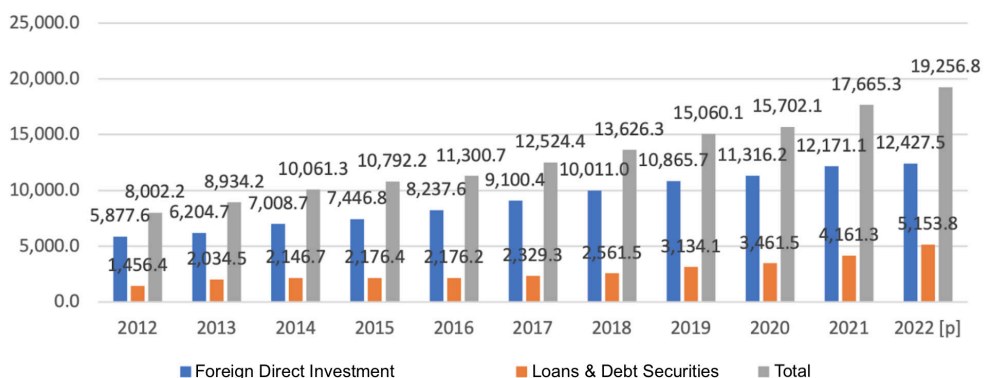
The recent spike in international/external liabilities, jumping from 127% of GDP in 2019 to 178% in 2022, was driven more specifically by a significant rise in external official debt. As such, Fiji’s total external debt, which includes both the public and private sectors, appears to have reached an all-time high of FJ\$6.03bn in 2022, which is about 55.6% of its GDP.<sup>53</sup> The IMF projects that this will remain elevated at around 54% in the medium term.<sup>54</sup>

This has undermined the country’s capacity to meet its external debt obligations according to measures used in such assessments. Fiji’s external debt is now larger than its exports and will continue to be so in the foreseeable future, as shown in the external debt-to-exports ratio numbers in Figure 3-19. Similarly, debt servicing will also increase commensurately.

From this perspective, worsening export performance stemming from external or domestic reasons, higher interest rates, and a strengthening dollar would exacerbate its external debt sustainability.

Furthermore, Clements et al.<sup>55</sup> found in low-income countries, a threshold of 105% in their external debt stock-to-export ratio, beyond which lies a proven association with low growth.

**Figure 3-18: Fiji’s International Liabilities (F\$, in mn)<sup>56</sup>**



**Figure 3-19: Selected Fiji's External Debt Sustainability Ratios , 2018-28 (in percentage of GDP unless otherwise indicated)**

	Actual				Est.	Projections						
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	
<b>Baseline: External debt*</b>	27.0	31.4	43.3	52.5	55.6	54.2	54.3	54.6	54.5	54.1	53.9	
<b>External debt-to-exports ratio (in percent)</b>	56.6	65.3	157.1	192.1	114.4	108.0	108.8	108.8	107.9	107.3	107.1	
<b>External debt service-to-exports ratio (in percent)</b>	20.7	20.0	64.7	45.4	27.2	30.9	28.6	28.6	28.5	28.7	28.8	

Source: IMF, "Fiji's Article IV Consultation," June 2023, p. 45

While the recent increase in official public external debt may be more concessionary according to the IMF<sup>57</sup>, the bulk of it, is not. According to Fiji's latest budget supplement, "29.2% of external [public] debt is concessional while the remaining 70.8% are non-concessional loans"<sup>58</sup> (see Chapter 2 for more information). Furthermore, they are also subject to variable interest rates, which will increase the level of debt interest payments in this current higher and longer interest rate environment. Public external debt is also overwhelmingly denominated in US dollars at 78%. As such, debt servicing will also increase as the US dollar strengthens and interest rates remain higher for longer.

According to Makun,<sup>59</sup> higher external debt has a more deleterious impact on growth than domestic debt in Fiji, "perhaps due to the fact the external debt is not only in foreign currency, which is usually in US dollar but also due to the exchange rate volatility." As a matter of fact, the author showed in his model that an upsurge in external debt has a more detrimental effect on growth than a similar size decrease in external debt. "Specifically, a 1 percent increase in debt levels has over eight times more adverse impact on growth than a similar magnitude effect of reducing debt," he noted. Additionally, he also found that when overall public debt levels in Fiji exceed 62% of GDP, it starts to become a drag on growth.

This is not to say that there is no role and room for public debt. In theory, when external borrowings are efficiently used to finance income-generating domestic investments and infrastructure developments to stimulate private sector participation, economic

growth will be enhanced in the long run. The revenue base will also increase, which would improve the country's ability to service its debt obligations both domestic and external without crowding out private investment. On the other hand, when proceeds from borrowing are not productively invested, it would have an adverse effect on countries' economic growth.<sup>60</sup> Furthermore, the literature on debt and growth suggests that while borrowing can provide the funds for development, there seems to be a tipping point, beyond which it can backfire, leading to slower growth. The challenge for policymakers is to find that sweet spot where the benefits of borrowing outweigh the risks.

## Conclusion

High external and public debt, persistent current account deficits and deepening international liabilities do not bode well for business confidence and point to an increasingly fragile economy that casts doubts about Fiji's credit worthiness and growth potential.

This exposes the country's already vulnerable economy to the real threat of numerous shocks, which will make recovery harder and undermine the low growth rate even further, leading to a loss of confidence in the country. The effect would be greater downward pressure on its currency, further labour out-migration, lower level of investment in the private sector, and more challenging access to credit.

The situation is at a critical juncture, where fostering robust economic growth is not just

an aspiration but an imperative. The data underscores a clear trajectory: enhancing exports and bolstering productivity stand out as viable levers to invigorate the economy and help contain the mounting debt challenge. However, realising these goals hinges on the ability to catalyse further productive investment. Fiji's policymakers are therefore tasked with a delicate balancing act—cultivating an environment conducive to economic expansion while navigating a sustainable path out of debt.

### **Some Policy Considerations**

To enhance and improve its external financial sustainability, which can be achieved by ensuring that the growth in exports exceeds the average cost of net liabilities (including external debt), here are some broad policy options:

- A comprehensive industrial policy, including adequate incentives and investments to support the growth and productivity of various industries and particularly those that are able to enhance Fiji's export performance.
- Light manufacturing should be diversified niche high-value, non-commoditised products, e.g. premium sports and fashion apparel, and skincare products catering to the high-end segment of the market, which makes premium pricing possible.
- Conduct further research and study into diversification of manufacturing sub-sectors, to identify where the new growth opportunities are.
- Agricultural productivity must be stepped up to drive growth. Higher productivity will have to come from modernisation, diversification, and commercialisation of the sector.
- The entire sugar value chain, from farm to factory to market, needs to be scrutinised to pinpoint the areas where costs can be reduced; farming and milling methods modernised; large-scale commercialisation effected; and more value-add created.
- Seize the potential to expand production of other primary sector outputs for high-margin, niche markets, especially where Fiji has a competitive or comparative advantage.
- Maximise and prolong the benefits of tourism, which will involve expansion through diversifying the source of visitors and types of visits, and growing domestic and international linkages.
- Continuous skilling and re-skilling of the workforce is critical, especially to meet the needs of new industries that emerge in the course of restructuring.
- Remittances remain a critical input into the Fijian economy, however there are a number of key issues. Remittances need to be better utilised for productive purposes, and a balance needs to be struck with the impact of lost labour productivity and supply from out-migration. Reducing remittance cost remains a priority issue.
- Reduce the cost of net external liabilities, especially with regards to public external debt. See recommendations in Chapters 1 and 2.

# ENDNOTES

- 1 OECD definition
- 2 For a comprehensive survey of various papers and studies on the relationship between debt and growth, see Jack Salmon, “The Impact of Public Debt on Economic Growth,” *Cato Journal*, (Fall 2021).
- 3 Mehmet Caner, Thomas Grennes and Fritzi Koehler-Geib, “Finding the Tipping Point—When Sovereign Debt Turns Bad,” Policy Research Working Paper 5391, World Bank Group, July 2010.
- 4 *Ibid.*
- 5 Various authors have taken different historic time periods to demonstrate the nature of Fiji’s economic growth. This author has taken a narrower focus looking at growth trends over the last 13 years or so bearing in mind that 2020-23 are exceptional given the impact of Covid, while still having adequate data to observe patterns and trends. To provide context and explanation, earlier time periods and their interpretations by academics and economists have been included
- 6 Reserve Bank of Fiji, GDP data accessed in Nov2023. <https://www.rbf.gov.fj/statistics/economic-and-financial-statistics/>.
- 7 Reserve Bank of Fiji, GDP data accessed in Nov2023. <https://www.rbf.gov.fj/statistics/economic-and-financial-statistics/>
- 8 *Ibid.* See also Sunil Kumar and Biman C. Prasad, “Fiji’s economic woes: a nation in search of development progress,” *Pacific Economic Bulletin* 17, no 1. May 2002.
- 9 A. Haroon Akram-Lodhi and Ardeshir Sepehri, “Fiji’s economy: the challenge of the future,” *supra*, p. 78.
- 10 Sunil Kumar and Biman C. Prasad, “Fiji’s economic woes: a nation in search of development progress,” *supra*, p. 4.
- 11 According to Kumar and Prasad, “Fiji’s GDP growth rate over the past 31 years (1970-2001) has been very low.... equivalent to a 2.6% average annual growth rate for this period.” When combined with more updated data, the average annual growth rate from 1970-2023, inched up to a still-low 2.9%. Looking at a more recent time period (2014-19), Gounder points out, “earlier hopes that a ‘new normal’ of GDP growth of around 5% per annum had been established have faded.” “Fiji economic survey: Low growth the new normal?” by Neelesh Gounder, in *Asia and the Pacific Policy Studies* 7, August 8, 2020.
- 12 “It would appear, as observed by the Asian Development Bank when analysing its growth prospects in the early 2000s, that Fiji remains ‘trapped on a low growth path’”.
- 13 Kumar and Prasad, “Fiji’s economic woes,” *supra*. Gounder, “Fiji: Low Growth” *supra*.
- 14 Asian Development Bank (ADB), “Country Classification: Fiji,” November 2021.
- 15 Created by author using FBoS data.
- 16 According to data from the UN Food and Agriculture Organization, Fiji’s sugar yield, i.e., sugar produced per area of sugar cane harvested, was 413,299 hg/ha (4.13 tons/ha) in 2017. This was much lower compared with the world’s top three sugar producers, Brazil at 744,818 hg/ha (74.4 tons/ha); India at 697,355 hg/ha (69.7 tons/ha); and PR China at 761,517 hg/ha (76.1 tons/ha).
- 17 FBoS, “Economic Survey Agriculture, Forestry and Fishing Industries 2020”, November 2022, p. 18.
- 18 Created by author with data from FBoS
- 19 Asian Productivity Organisation, “Fiji National Productivity Master Plan 2021-2036”, 2019, p. 31
- 20 With the EU—Fiji’s key export market—implementing reforms to the sugar regime, preferential treatments have gradually been phased out. “In September 2017, the EU terminated the application of country-specific quotas for sugar exports from ACP (Africa, Caribbean and Pacific) countries. Fiji’s declining share of the EU’s sugar imports fell further to 1.6% in 2021.” WTO, “Report by the Secretariat: Trade Policy Review, Fiji.” WT/TPR/S/444, May 24, 2023, p. 55.
- 21 FBoS, “Economic Survey 2020”, *supra*, p. 18.
- 22 P. Narayan and Biman C. Prasad, “Fiji’s sugar, tourism and garment industries: a survey of performance, problems and potentials,” *Fijian Studies: A Journal of Contemporary Fiji*, 2003.–
- 23 “Country: Fiji”, *Apparel Resources*, accessed on 25 November 2023, <http://apparelresources.com/country/fiji/>
- 24 Narayan and Prasad, “Fiji’s sugar, tourism and garment industries,” *supra*.
- 25 WTO, “Report by the Secretariat: Trade Policy Review, Fiji.” WT/TPR/S/444, May 24, 2023.
- 26 “The Atlas of Economic Complexity,” Harvard Growth Lab.
- 27 APEC Policy Support Unit, “Overview of the SME Sector in the APEC Region: Key Issues on Market Access and Internationalization,” APEC Secretariat, April 2020. See also Michael T. Schaper, “The Missing (Small) Businesses of Southeast Asia,” *ISEAS Perspective* 2020, no. 79 (July 22, 2020).
- 28 Asian Productivity Organisation, “Fiji National Productivity Master Plan 2021-2036,” 2019.
- 29 Ministry of Agriculture and UN Food and Agriculture Organization, “2020 Fiji Agriculture Census Descriptive Analysis Report,” 2020.
- 30 Created by author with data from “2020 Fiji Agriculture Census Descriptive Analysis Report”.
- 31 Author’s calculations with data from FBoS.
- 32 ANZ Research, “Fiji: Balancing the Economy,” October 2023.



- 33 Asian Productivity Organisation, "Productivity Master Plan," supra.
- 34 The dominant wholesale and retail industry, which has the highest contribution to GDP of 11.9% among the services industries but an even higher share of employment of 17.3%. See "Productivity Master Plan," supra, p.40 and WTO's "Trade Policy Review: Fiji" supra.
- 35 Asian Productivity Organisation, "Productivity Master Plan", supra, p. 40
- 36 See Chapter 2 of this report.
- 37 Asian Productivity Organisation, "Productivity Master Plan," supra
- 38 UNCTAD, "The Least Developed Countries Report 2019," November 19, 2019.
- 39 Several policy options and useful recommendations can be found in "Productivity Master Plan" (supra) by the Asian Productivity Organisation.
- 40 FBoS, "Release No.25, 2023. Balance of Payments Statistics Annual 2022," March 31, 2023, p. 7. According FBoS, "Compensation to Employees" abroad is a very small component of the primary income debits.
- 41 Author's calculations.
- 42 Author's calculations.
- 43 Author's calculation based on statistics from "Balance of Payments 2022" by FBoS, supra, p. 7.
- 44 "Remittances have been Fiji's largest foreign exchange earner: PM," Xinhua, June 5, 2023, <https://english.news.cn/20230605/44b832e1f04742c9804310b3696ca5b6/c.html>
- 45 (UNCTAD, 2012)
- 46 Nonetheless, according to UNCTAD, remittances together with export performance can improve the country's external financial sustainability. See UNCTAD, "Sustainable Development Finance Assessment (SDFA) Framework: Linking debt sustainability to the achievement of the 2030 Agenda." November 2022.
- 47 Jessica Collins, "Reducing Remittance Costs In The Pacific Islands," Lowy Institute, October 8, 2023.
- 48 Collins, "Reducing Remittance Costs," supra.
- 49 Author's calculations.
- 50 According to balance of payments accounting principles, current, capital and financial accounts should sum to zero. However there are gaps and omissions in the available data; as such, net borrowing figures under Fiji's financial account have been used for the calculations.
- 51 FBoS, "Release No.78, 2023. Balance of Payments Statistics June Quarter 2023," October 11, 2023, p. 8.
- 52 FBoS, "International Investments Position Annual 2022," March 31, 2023.
- 53 There are multiple datasets for GDP and other macroeconomic figures, issued by Fijian authorities including FBoS, the Ministries of Economy and Finance, and RBF, as well as global bodies like the IMF and World Bank. They are not always the same although proximate, and estimates are made at times. The authors are explicit about the sources so that they can be cross referenced and verified easily when required. In this case, estimates provided by the IMF in its Article IV Consultation in June 2023 have been used. The authors are also reliant on IMF and World Bank data for external debt figures as only public external debt figures from the Fijian sources could be found, and not disaggregated and up-to-date figures for private external debt.
- 54 There are multiple datasets for GDP and other macroeconomic figures, issued by Fijian authorities including FBoS, the Ministries of Economy and Finance, and RBF, as well as global bodies like the IMF and World Bank. They are not always the same although proximate, and estimates are made at times. The authors are explicit about the sources so that they can be cross referenced and verified easily when required. In this case, estimates provided by the IMF in its Article IV Consultation in June 2023 have been used. The authors are also reliant on IMF and World Bank data for external debt figures as only public external debt figures from the Fijian sources could be found, and not disaggregated and up-to-date figures for private external debt.
- 55 B. J. Clements, R. Bhattacharya, and T. Q. Nguyen, "External debt, public investment, and growth in low-income countries," IMF Working Paper 03/249, December 1, 2003.
- 56 Author calculations based on dataset from FBoS's "International Investment Position Annual 2022." Note that Foreign direct investment here is the same as equity and investment fund shares.
- 57 IMF, "Fiji Article IV Consultation," supra, p. 33.
- 58 Ministry of Finance, "Economic and Fiscal Update Supplement to the 2023-2024 Budget Address," June 30, 2023, p. 38.
- 59 Keshmeer Makun, "External debt and economic growth in Pacific Island countries: A linear and nonlinear analysis of Fiji Islands," *The Journal of Economic Asymmetries* 23, (June 2021), p. 11.
- 60 M. A. A. Mohamed, "The Impact of External Debts on Economic Growth: An Empirical Assessment of Sudan: 1978-2001", *Eastern Africa Social Science Research Review* 21, no. 2 (2005), pp. 53-66. See also S. Sen, K.M. Kasibhatla and D. B. Stewart, "Debt overhang and economic growth—the Asian and the Latin American experiences," *Economic Systems* 31, no. 1 (2007), pp. 3-11.