

Structural Adjustment in Fiji under the Interim Government, 1987–1992

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In 1992, seventy-eight countries were following World Bank “structural adjustment” programs. Within these programs, loans are extended to governments by the World Bank on condition that they agree to undertake extensive changes in economic policy. Further, “many others had introduced the same policy frameworks without formal agreement with the Bank” (Mosley and Weeks 1993, 1583). Although countries following formal programs are now the subject of a voluminous literature, the others are less frequently investigated. In this article I focus on a specific example and critically assess the success of the “market-led” structural adjustment adopted by Fiji’s Interim Government between 1987 and 1992 (Cameron 1993). From the perspective of structuralist macroeconomic theory, I outline the logic behind structural adjustment programs, examine Fiji’s economic policy between 1987 and 1992, and assess whether that policy has been compatible with structural adjustment. I then outline the impact of reform on economic performance and analyze the key constraints facing the Fiji economy since 1992.

STRUCTURAL ADJUSTMENT

Over the last fifteen years a transformation in the assessment of the economic circumstances facing developing countries has occurred as a consequence of two factors. The first was the resurgence of neoliberal economic analysis in the developed market economies, a resurgence that was mirrored in the developing economies and has prompted widespread debate about the role of the market versus that of the state in economic activity. The general conclusion has been that there is a need for less,

more efficient, state intervention. The second factor has been the rapid economic development of east Asia, development that appeared to generate “as firm a stylized fact as any in the economics of developing countries: a sustained movement to an outward-oriented trade regime leads to a faster growth of both exports and income” (Lal and Rajapatirana 1987, 208).

As a result of these two factors, it became widely accepted in development economics that internal and external imbalances in developing countries were linked to the detrimental rigidities created by excessive government intervention in product and factor markets. With such intervention, the supply side of many economies had become inefficient in terms of global competitiveness. The most important distortion was the creation of a bias against external trade. Such a bias hampered the Smithian economic principles of widening the division of labor and following comparative advantage, resulting in an inefficient allocation of resources. Consequently, levels of gross national product were below those possible given factor endowments and open borders. Government intervention came to be held responsible for developmental failure because of the impact of such intervention on trade and output.

The policy agenda advanced by structural adjustment programs addresses this developmental failure by both seeking to reduce government intervention and removing any antitrade bias. Structural adjustment programs instigate economic changes that withdraw the state from intervention in order to increase allocation through markets. The restoration of internal and external balance is therefore sought in market liberalization. Further, reforms centralize the role of the price mechanism so that resources can be allocated in line with comparative advantage, permitting the optimal use of factor endowments and generating improvements in productivity. The “proper” role of government is to provide a stable macroeconomic environment, minimize microeconomic interventions, and invest in human capital to compensate for imperfect futures markets. In short, structural adjustment programs reformulate economic strategies “in favour of a ‘market-friendly’ approach” that forms the basis of the new supply-side “consensus” (World Bank 1991a, 1) in the development economics profession.

Structural adjustment programs are most commonly carried out by countries in conjunction with the International Monetary Fund and the World Bank. Both institutions provide financial facilities in exchange for

a commitment to implement economic change. The fund seeks to alter fiscal, monetary, and exchange-rate policies in order to change the pattern of expenditure and stabilize an economy at a new, lower level of aggregate demand. The World Bank attempts to improve the use of existing resources while enhancing productive capacity and increasing the level of aggregate supply. Although independent, the bank and the fund increasingly coordinate their activities, particularly through the use of “cross-conditionality”: the need of a borrower to reach agreement with both institutions before either one will advance funds.

It has been widely argued that the structural adjustment programs of both institutions reflect a standard package of neoclassical economic policies that differ little between countries (George and Sabelli 1994). Mosley, Toye, and Harrigan (1991) have demonstrated that this is not the case for programs agreed with the World Bank. Policy-based lending by the bank varies in the types of reforms agreed, the sequence in which reform is carried out, and the extent to which agreed reforms are implemented. Nonetheless, structural adjustment programs do share two inter-related commitments (World Bank 1989; 1994; World Bank and UNDP 1989). The first commitment is to a far-reaching economic liberalization rooted in neoclassical economic theories. The second is to attempting to ensure that such liberalization is secured through a similar set of economic policies: macroeconomic stabilization, trade liberalization, agricultural reform, and public sector restructuring, including financial sector reform.

[Structural adjustment] reforms attempted to reduce the state’s role in production and in regulating private economic activity. They assigned more importance to exports, especially those from the much-neglected agricultural sector. And they placed more emphasis on maintaining macroeconomic stability and avoiding overvalued exchange rates. (World Bank 1994, 34)

The thrust of the reform process is toward advancing a qualitative neoclassical economic agenda.

Although many countries have agreed to formal structural adjustment programs, several countries have sought to adjust on their own by pursuing “neo-liberal policies without the financial support of the World Bank” (Mosley and Weeks 1993, 1586). This has been done either because of an inability to come to terms with the bank or because of a desire to maintain some independence in economic policy. For comparative pur-

poses it is useful to examine the impact that structural adjustment has in developing countries that do not use the formal facilities of the World Bank and the International Monetary Fund. In the remainder of this article I present a case study of Fiji.

ECONOMIC POLICY IN FIJI, 1987–1992

Policy to 1987

For most of the period since its independence in 1970, Fiji has pursued a development strategy based on seeking to secure full employment through the continued use of the country's natural resources. In particular, the government continued the country's historical reliance on sugar production while encouraging tourism as a basis for economic diversification. Although both activities can be subject to forces beyond the control of government, such as weather and foreign economic conditions, the impact of international economic conditions on sugar production was reduced because of quota arrangements with both the United States and the European Community. The quotas allowed Fiji to sell significant amounts of sugar at prices that were both higher and more stable than the world price.

In addition to the two dominant economic activities of sugar and tourism, other resource-based activities included fisheries, timber, ginger, and gold. In contrast, the manufacturing sector has been small in size and subordinate in terms of its economic importance. The limited industrial development that occurred between 1970 and 1987 was largely based on import-substitution, and the economy was subject to a regulatory regime deploying quota, license, and tariff protection. The postcolonial government also established a number of state-owned enterprises. However, by 1991 manufacturing accounted for only 12.3 percent of gross domestic product. The lower priority attached to industrialization partly reflected the widely shared view that very small economies had only limited industrialization potential. It also reflected an emphasis on employment-generating labor-intensive activities as a means of maintaining communal relations between a population almost equally divided between indigenous Fijians and Indo-Fijians.

With only limited industrialization, it is incorrect to state that postcolonial governments sought to pursue "a comprehensive . . . program of import substitution" (Elek, Hill, and Tabor 1993, 752). It is debatable

whether the government's five-year development plans influenced the execution of detailed policy. Similarly, the economy has always had a comparatively high degree of openness to the international economy. Fiji has relied on a vast range of imported wage, intermediate, and capital goods to meet the demands of consumers and firms, imports that have been largely paid for by exports. Government intervention was not witnessed in stringent development planning and attempts at autarky. Rather, the most important intervention by the government has been regulation: product and factor markets have been guided by the Prices and Incomes Board, by ministries such as the Departments of Transport, Communication, Trade and Commerce, and Employment and Industrial Relations, and by the Native Land Trust Board. A more appropriate characterization of postcolonial Fiji might be to describe it as a hybrid: an economy with elements of *dirigisme* that has nonetheless been deeply insinuated into the world economy (Narayan 1984).

It has been argued that compared to other lower middle income countries "Fiji's long-term economic performance has been disappointing" (Elek, Hill, and Tabor 1993, 750). Granted, real per capita gross domestic product was no higher in 1985 than in 1979 following four years when the economy contracted by 0.6 percent per year. However, over the period from 1972 to 1981, Fiji did witness real growth in gross domestic product of 5.1 percent per year. Further, in the early 1980s "Fiji was undergoing a multi-dimensional crisis" (Cameron 1994, 420) consisting of drought, cyclones, the 1979 oil-price rise, and extreme turbulence in international sugar prices. Perhaps a more nuanced assessment would be that the good macroeconomic performance that accompanied the first decade of independence and "removed some of the worst elements of the colonial inheritance" (Cameron 1994, 420) was not sustained through the first half of the 1980s.

The government was aware that the economy faced significant challenges. In late 1986 the finance minister began to chart a transformation in Fiji's economic policy by announcing the creation of in-bond manufacturing sites, commonly known as export processing zones or tax-free factories. This policy initiative was meant to be the first decisive step in a shift in industrial policy away from import substitution and toward export promotion, a shift that had had an extremely long gestation period, having been first mooted in Development Plan 6 published in 1970 (Chandra 1985). However, the 1986 shift in industrial policy became a much

deeper transformation in economic strategy in the wake of two coups led by Colonel Sitiveni Rabuka in May and September 1987.

Politics and Economics in the Wake of the Coups

The coups had major political and economic ramifications. In terms of politics, following the second coup the now Brigadier-General Rabuka declared Fiji a republic and assumed the position of head of state. Subsequently, two months of negotiations resulted in the appointment of the military-backed civilian-based Interim Government on 5 December 1987. Former Governor-General Ratu Sir Penaia Ganilau was appointed president of the republic by Brigadier-General Rabuka. Formally, power in the Interim Government resided in the office of the president, in that the government operated under a system of presidential decrees. However, decrees were presented to the president by a Council of Ministers; the effective source of power in the Interim Government was the Cabinet, led by former prime minister Ratu Sir Kamisese Mara, who returned as prime minister despite his electoral defeat in April 1987. The Interim Government remained in power for just under five years; for much of the period between December 1987 and May 1992 Fiji was governed by this unelected civilian government ruling by decree.

Concurrent with political change, the 1987 coups caused a severe economic shock. Tourism dropped by some 36 percent, while farmers disrupted the sugarcane harvest in protest. Given that some 40 percent of budget revenues came from customs and excise duties and reflected the performance of tradables, the impact of the coups was quickly experienced by the government: in 1986–87 the budget deficit increased by over 12.5 percent to stand at almost 8 percent of gross domestic product. In response, the newly appointed Interim Government “pinpointed industrialization as being of prime importance to Fiji’s future development” (Chandra 1989, 170) in that it could both stabilize and expand the economy and act as a possible counter to political unrest. While the role of industrialization in Fiji’s development was magnified after 1987, consistent with more tentative precoup initiatives by successive Alliance Party governments, the model of industrialization that was advanced was geared toward export promotion.

In transforming the orientation of economic policy, the Interim Government was not only claiming to respond to the higher costs, excess capacity, and resource misallocations associated with Fiji’s attempt at im-

port substitution, problems initially identified in the government's review of Development Plan 7 (Fiji Ministry of Finance Central Planning Office 1979). It was also "responding both to the international trend towards economic liberalization and export-oriented industrialization and to specific advice from its consultants and international agencies" (Chandra 1989, 170). This advice, which predated the coups, had argued that Fiji needed to radically improve its export potential by reducing unit labor costs if it were to continue to grow (World Bank 1986; Fiji Employment and Development Mission 1984). That this advice was fully taken on board by the Interim Government was repeatedly made clear by senior ministers. For example, in a major speech in 1991 the prime minister stated,

[O]ur economic policies indicate that we have woken up to the challenges of competing in the international environment. We are no longer content to hide behind high tariff barriers . . . Growth will be hampered unless steps are taken to encourage efficiency and . . . encouraging competition from abroad is one way of doing just that. . . Government has . . . a strong and practical commitment to making our economy efficient and outward oriented, and also to strengthening the role of the private sector. (Mara 1991, 6, 10)

Given that much of the advice underpinning this analysis had been received prior to the coups, the transformation in Fiji's economic policy that occurred after 1987 should be seen not so much as a dramatic break with the past as a stark confirmation of policy processes that were already in train prior to the coups.

As presented by ministers, policy transformation had as its central themes the slackening or cessation of government controls in the economy and the promotion of exports in order to boost competitiveness and growth. Macroeconomic stabilization, external trade liberalization, and internal deregulation were implemented to facilitate economic restructuring and transform Fiji from an "inward looking, high tax, and slow growth economy to a dynamic outward looking, low tax and high growth economy" (Fiji Ministry of Finance 1991). Macroeconomic stabilization, external trade liberalization, and internal deregulation are areas similar to those noted earlier as forming the core policy commitments in structural adjustment programs sponsored by the World Bank and the International Monetary Fund. Efforts to centralize the role of the price mechanism without the formal agreement of either the bank or the fund led one ob-

server to characterize the experience of Fiji under the Interim Government as market-led structural adjustment (Cameron 1993). I turn now to the policy components of Fiji's market-led structural adjustment.

Macroeconomic Stabilization

The increase in the budget deficit brought about by the collapse in tourism and the disruption of the sugarcane harvest necessitated the stabilization of the economy, which the government achieved by implementing deflationary fiscal and monetary policies. On the fiscal side, the government imposed a 15 percent wage cut on all civil servants. It also slashed public investment in real terms by a third. Demand was brought under a tight rein. On the monetary side, the cessation of concessional credit, a sharp fall in inflows of direct foreign investment, and the flight of an estimated F\$120 million out of the country in 1987 and 1988 all served to collapse the availability of foreign financial resources. The government responded by financing 90 percent of the budget deficit from domestic borrowing. Further, the central bank, the Reserve Bank of Fiji, severely restricted the availability of private sector credit and imposed additional restrictions on outflows of foreign exchange. The combined impact was to limit the growth of the money supply in the immediate postcoup period to only 4 percent on an annual basis at the end of 1987.

However, undoubtedly the most important component of the Interim Government's stabilization package was a devaluation of the Fiji dollar. The value of the Fiji dollar is fixed by the Reserve Bank relative to a weighted basket of the currencies of Fiji's principal trading partners. A two-stage devaluation in June and October 1987 reduced the value of the dollar in nominal terms by some 33 percent. Combined with the decline in real wages, the impact was to bring about a fall in the effective ex-change rate of almost 28 percent in the period from 1986 to 1988. The effect was to further reduce the attractiveness of capital flight and to improve the competitive position of capacity underused as a consequence of the coups.

The stabilization of the economy was undoubtedly impressive. Although constant per capita gross domestic product shrank by over 7 percent in 1987, and inflation peaked at 12 percent in November 1988, by mid-1988 the economy was recovering. Economic growth for 1989 was an impressive 12.5 percent. Recovery was fueled by a gradual expansion of private sector credit: as a consequence of good receipts from sugar sales, the Reserve Bank allowed the rate of growth of the money supply to pick

up in 1988. The recovery of the sugar sector was accompanied by a return of tourists, and government revenues increased, not only reducing the government borrowing requirement to a manageable 3 percent of gross domestic product by 1990, but also permitting 1987 public sector wage cuts to be restored in real terms in 1988 and 1989. Finally, the recovery in official reserves needed to sustain stabilization was brought about in two ways. First was an increase in inward foreign direct investment from US\$6.3 million in 1987 to US\$48.6 million in 1988 and US\$59.4 million in 1990 (International Monetary Fund 1994, 353). This recovery was a consequence of the tax-free factory scheme. Second, foreign assistance returned, if from different sources such as France and Malaysia.

However, the government did not stop at stabilization. It turned economic crisis into an opportunity to cement macroeconomic reform through a restructuring of Fiji's fiscal stance. In the 1990 budget the finance minister felt confident enough to cut income tax rates by 20 percent, leaving the highest rate at 40 percent. At the same time exemptions and allowances were increased. To compensate for the loss of revenue and to ease the transition to a new value-added tax, existing indirect taxes were raised, and the tax base was broadened by imposing income tax on some forty thousand peasants for the first time. Plans to "corporatize" several state-owned enterprises also moved forward. While this effort to force state-owned enterprises to follow commercial practices was envisaged as a prelude to privatization, the more immediate positive impact, from the government's point of view, was on its own accounts.

In the Interim Government's final 1992 budget, further cuts in income tax and corporation tax were announced: the number of income tax bands was to be reduced from ten to three, corporation tax was to be simplified, income tax thresholds were to be increased, and the requirement that those below the threshold pay tax was to be ended. Finally, despite the resignation of the Interim Government prior to the May 1992 election, a key policy initiative, the much-debated value-added tax, was introduced on schedule in July by the newly elected government.

Trade Liberalization

The most visible aspect of the Interim Government's adjustment program was its liberalization of external trade, which has transformed Fiji's economy in terms of policies toward both exports and imports. Looking first at policies toward exports, the introduction of in-bond manufactur-

Table 1. Commodities requiring import licenses in Fiji, prior to 1989 and in 1991

Pre-1989	1991
Baked beans (canned)	Butter
Brown rice	Canned fish
Butt hinges	Coffee
Barrel bolts	Corned Meat
Butter	Lubricants
Canned fish	Hydraulic fluids
Cement and clinker	Milk and cream
Cheese and other dairy products	Rice
Chili sauce and paste	Seed potatoes
Coffee	
Corned meat of bovine animals	
Crown cork	
Dried leguminous vegetables	
Eggs	
Electric cables and wiring clips	
Flour and sharps	
Incense sticks and blends	
Knitted fabrics	
Lamb and mutton	
Live poultry	
Louvre window frames	
Margarine	
Matches	
Meat and edible offals	
Mild steel bars and rods	
Multiwall paper bags	
Noodles	
Onions	
Orange products	
Pineapple products	
Polypropylene bags and fabrics	
Poultry products	
Powdered milk	
Prawns	
PVC pipes and sheeting	
Ropes of manmade fibre	
Shirts	
Spirits and liquors	

Table 1. *Continued*

Pre-1989	1991
Steel shelving and rackings	
Sweetened forage	
Tea	
Tomato products	
Tubes and pipes of iron or steel	
Vegetable ghee	
Wet cell batteries	
Wick-type kerosene stoves	
Wood screws	

Source: Adapted from Elek, Hill, and Tabor 1993, 760.

ing sites led to their quickly becoming an important feature of Fiji's industrial and export policy (Akram-Lodhi 1992). Tax-free factories received substantial tax concessions in exchange for a commitment to export 95 percent of output. Such concessions were available to both local and international firms, which were thus placed in a similar regulatory regime. Of the 119 firms engaged in in-bond manufacturing by the end of 1992, 70 percent were in garment production. Although garment exports had started to increase prior to the introduction of in-bond manufacturing, the performance of the garment factories was impressive: by 1990 garment export production constituted over 55 percent of manufacturing production, over 22 percent of total domestic exports, and over 37 percent of all manufacturing employment (Akram-Lodhi 1992; Elek, Hill, and Tabor 1993). Such exports were, of course, supported by the devaluation of the Fiji dollar. Almost half of those firms operating tax-free factories in 1992 were international corporations, if from a narrow group of countries. Economic changes in Australia and New Zealand in particular forced garment producers from those countries to seek to locate production off-shore in countries such as Fiji. In order to attract such businesses, the Interim Government eased and simplified approval procedures for direct foreign investment and at the same time expanded the resources available to the Fiji Trade and Investment Board so that it could enhance its capacity to attract such investment.

External trade liberalization has meant an effective end to import licensing. The licensing regime used to sustain import-substitution was largely eradicated as Fiji switched to an open general license scheme covering most wage, intermediate, and capital goods. The scale of deregulation is demonstrated in Table 1, which contrasts the extent of import licensing prior to 1989, when more than 47 commodities required licences, with that of 1991, when only 9 commodities did.

The government replaced import licensing with a simplified structure of tariffs. Maximum tariff levels were progressively cut, so that by 1992 most imports had a fiscal duty of 30 percent attached to them. Moreover, the last budget of the Interim Government offered the prospect of a maximum tariff of only 20 percent in 1993, in part because of the introduction of a value-added tax designed to assist in reducing the dependence on customs levies for revenue. For specific items the cuts went further faster.

Internal Deregulation

External trade liberalization was accompanied by extensive internal deregulation. The overall thrust of the changes involved a reduction in barriers to entry in domestic markets, thereby potentially enhancing competitive discipline. Obviously, the shift to an open general license scheme was an important component of a reduction in barriers to entry, as were the reduction and simplification of customs duties and corporation taxes. However, internal deregulation went further than these obvious changes. With the effective end of five-year plans, most detailed sectoral economic targeting was eliminated, reducing the nonmarket, linkage-enhancing planning requirements that had been placed on some firms. Enhancement of the role of markets was furthered by the elimination of price controls on a range of items, and the need for price controls was to some extent eliminated by the introduction of enforceable trading standards by the Ministry of Trade and Commerce in the last year of the Interim Government.

Barriers to market entry were further diminished by attempts at reforming state-owned enterprises. Under the auspices of the Public Enterprise Unit in the Ministry of Finance and Economic Planning, the government corporatized several large public enterprises. The effect was to place some state-owned enterprises on the same legal and commercial basis as private sector firms, with the government theoretically committed to simply acting as the majority shareholder. Corporatization led some firms

to conduct efficiency-enhancing internal reforms. At the same time, in theory, the process opened up protected markets to competition. However, only one seriously unprofitable firm was closed, while industrial action in several corporatized companies resulted in the kind of government intervention that corporatization was supposed to prevent.

The final major internal deregulation initiative of the Interim Government was to enhance the flexibility of the labor market. In 1991 statutory wage guidelines were abolished in order to strengthen the position of employers in establishing the relationship between pay and productivity. Changes to labor legislation followed, substantially increasing government intervention in the internal affairs of unions. An organizational framework within which unions could operate was imposed, the procedures under which industrial action could be taken came under government regulation, and large financial penalties for lack of compliance with the new legislation were introduced. The effect of these changes was to make it less likely that the 80 percent of the formally employed labor force that belonged to trade unions, professional associations, or other similar organizations would assert their right to withdraw their labor.

The Extent of Policy Change

The policy changes introduced by the Interim Government were clearly wide ranging. It is possible to quantitatively assess the extent of macroeconomic policy change using a methodology recently developed by the World Bank (World Bank 1994). In its report on structural adjustment in Africa, the bank developed an index of change in macroeconomic policies that examines specific changes in fiscal, monetary, and exchange-rate policies. On the basis of the size of the change in each indicator a numerical score is assigned to given quantitative criteria. A higher score indicates a change in policy toward enhancing the role of markets.

The bank used this methodology on a sample of 29 sub-Saharan African countries of differing income levels and differing periods of adjustment. It concluded that “the evidence indicates that the group of countries with the largest improvement in macroeconomic policies consistently had the largest increase in macroeconomic performance” (World Bank 1994, 264). Given the strong correlation claimed by the bank and the wide extent to which it has applied the methodology, I used the methodology to assess whether there had been a significant change in Fiji’s macroeconomic policies between the pre-adjustment period of 1982–1986

Table 2. Macroeconomic policy change in Fiji, between the periods 1982–1986 and 1989–1992

		Percentage change	Score	Assessment
1	Fiscal balance excluding grants	1.72	1	Improvement
2	Total revenue	0.02	0	No change
3	<i>Overall change in fiscal policy</i>	n/a	1	Improvement
4	Seigniorage	-2.00	1	Improvement
5	Inflation	1.42	0	No change
6	<i>Overall change in monetary policy</i>	n/a	0.5	Improvement
7	Real effective exchange rate	45.93	3	Large improvement
8	<i>Overall change in macroeconomic policy</i>	n/a	1.5	Large improvement

Notes: Changes in budget deficits, tax revenues, and seigniorage are expressed as percentages of gross domestic product. Changes in inflation and the real effective exchange rate are expressed as simple percentages. Scores are assigned on the basis of the size of the percentage change. A simple average generates a composite score of overall change in macroeconomic policy.

Sources: International Monetary Fund 1994, 350–353 for data; World Bank 1994, 260–261 for methodology.

and the adjustment period of 1989–1992 (Table 2).

Looking first at fiscal policy, between the two periods the fiscal deficit, excluding grants, declined by 1.72 percent of gross domestic product. Within the terms of the bank's methodology this is considered an improvement in policy. In terms of tax revenue, the adjustment period witnessed an increase in tax revenue equal to 0.02 percent of gross domestic product. Despite the shift in the structure of taxation from direct and tariff-based taxes to value-added tax, the bank would consider this mild improvement in revenue collection insufficient to demonstrate a significant increase in the quality of the fiscal effort. The overall change in fiscal policy is obtained by adding the scores, with a score of 1 indicating an improvement.

Turning next to monetary policy, the change in seigniorage is obtained by using a version of the Fischer equation (Fischer 1982). Seigniorage assesses the extent to which the central bank monetizes government deficits, and is calculated from the increase in the growth of the money stock

above what is required to satisfy the transactions demand for money. In Fiji seigniorage decreased by 2 percent of gross domestic product between the reference periods. Such a performance indicates increasing rigor in monetary policy and would be assigned a score of 1. Between 1982–1986 and 1989–1992 the average rate of inflation rose by 1.42 percent. Such a deterioration in inflation would not be considered serious, and a score of 0 would be assigned. The overall change in monetary policy is obtained by averaging the score; the score of 0.5 indicates an improvement in monetary policy.

In terms of exchange-rate policy, as a consequence of devaluation between 1982–1986 and 1989–1992 the real effective exchange rate improved by 45.93 percent. This large improvement in policy is assigned a score of 3.

Averaging the scores for the changes in fiscal, monetary, and exchange-rate policy gives an overall score of 1.5, which represents a “large improvement in macroeconomic policies” (World Bank 1994, 262). The basis of this improvement is primarily devaluation, with fiscal policy playing a supporting role. The weak link in Fiji’s adjustment has apparently been monetary policy, but even there policy has improved.

It could be argued that because macroeconomic policies have been but one part of a much larger policy package, market-led structural adjustment has been much more extensive than Table 2 indicates. However, despite the scale of change, it is unclear how adjustment has affected the process of growth and development in Fiji. Such an assessment is carried out in the following section.

THE IMPACT OF ADJUSTMENT ON GROWTH

Table 3 provides a range of economic indicators to allow the record of the period of structural adjustment in Fiji under the Interim Government to be compared with that of the immediate precoup period. To attempt to even out the impact of cyclical phenomena, the data have been pooled so that period averages for the calendar years 1982 through 1986 and 1989 through 1992 can be estimated. Neither the year of the coups, 1987, nor the immediate catch-up year of 1988 has been used in calculating the period averages in an effort to garner a better understanding of the relative economic performance of the economy under adjustment. Making some alterations to the years included in the period averages does not

Table 3. Fiji economic indicators, 1982–1986 and 1989–1992

		1982–1986	1989–1992	1992
<i>Annual rates of growth</i>				
1	Real GDP	1.26	5.08	2.80
2	Real per capita GDP	-0.76	3.88	1.30
3	Industrial production	3.81	7.40	-4.63
4	Agricultural production	5.05	2.84	3.24
5	All exports	6.05	12.53	3.50
6	Prices	5.03	6.45	4.89
<i>Annual shares of gross domestic product</i>				
7	Private capital formation	10.48	5.72	5.91
8	Merchandise exports	19.40	29.92	29.17
9	Current account	-3.52	-0.57	n/a
10	Foreign direct investment	3.57	4.56	n/a
11	External debt	36.16	28.60	21.00

Notes: Rates of growth are simple arithmetic averages of annual growth; rows 1, 2, 4 and 11 include government estimates; rows 5 and 7 include author's estimates; row 8 includes IMF estimates; rows 9 and 10 compare 1982–1986 with 1989–1991.

Sources: Fiji Bureau of Statistics various issues for rows 1, 2, 4, 7, and 10; Fiji Ministry of Finance and Economic Planning 1993, 34 for row 11; International Monetary Fund 1994, 350–353 for rows 3, 5, 6, 8, and 9; World Bank 1993, 142–145 for row 11.

shift the direction of change but affects only the magnitude of change, and then only to a small degree. Table 3 also presents data for 1992, permitting comparison of the entire adjustment period with the terminal phase of the Interim Government. This in turn provides some initial indication of the extent to which the adjustment process has fostered the emergence of a pattern of growth that is markedly different from the one in place prior to the coups.

Examining first row 1 of Table 3, the period of adjustment witnessed a rate of growth in real gross domestic product some four times greater than in the pre-adjustment period. The improvement is even more marked when trends in real per capita gross domestic product are examined. The decline of -0.76 percent per year between 1982 and 1986 was an important

factor behind the initial decision to transform the Fiji model of industrialization. The rapid achievement of real per capita growth in gross domestic product of 3.88 per year between 1989 and 1992 could be taken as an important indicator of the speed by which the adjustment process translated into improved economic performance.

Row 4 of Table 3 indicates that the basis of improved performance was not rooted in Fiji's traditional leading economic sector. The rate of growth of agricultural production was cut by almost 45 percent during the adjustment period. Improved performance came from elsewhere. Row 3 indicates that part of the improvement came from an increase in the rate of growth of aggregate industrial production of more than 3.5 percent per year during the pre-adjustment and adjustment periods. Of greater importance, however, was the pickup in the export of goods and services. Row 5 shows that the rate of growth of exports doubled from 6.05 percent per year in the pre-adjustment period to 12.53 percent per year during the years 1989 to 1992. Of particular importance here was growth in merchandise exports. Row 8 indicates that the merchandise export share of gross domestic product rose from over 19 percent in the years 1982–1986 to almost 30 percent during the adjustment period. This increase was the fruit of a policy-driven attempt to promote structural change through export-oriented industrialization, including the introduction of tax-free factories, which led to extremely rapid increases in the production of garments for export. By 1990 alone garments comprised 57 percent of manufacturing production. There is consistency between rows 3, 5, and 8, insofar as the most important subset in each is garment production (Akram-Lodhi 1992).

The impact of the tax-free factory scheme is further highlighted by the rise in inward direct foreign investment, whose share of gross domestic product was 27 percent higher under adjustment than in the pre-adjustment period. The increase in international investment flows directed into Fiji might be taken as a sign of confidence in the irreversible nature of the change in Fiji toward a liberal, export-oriented economic regime. It also indicates the extent to which trade and investment are complementary phenomena.

Confidence has been further fostered by reliable macroeconomic management. Row 11 indicates the decline in the debt-service ratio between 1982–1986 and 1989–1992, which was not fueled by growth alone. By the end of 1992, government borrowing constituted a manageable 5.3 percent

of gross domestic product, freeing some resources to be used for loan amortization. Sustainable fiscal policies were accompanied by similar monetary policies. Although the average rate of growth of prices during the period of adjustment exceeded that of the pre-adjustment period, the low figure for 1992 might indicate that the inflationary impact of currency devaluation was eroding over time. Certainly, while the annual rate of growth of the money supply had stabilized at around 14 percent by 1992, such a rate might well have been compatible with the rapid growth in real gross domestic product that Fiji experienced between 1989 and 1992. Further, rapid economic growth, the reduction in external debt, and stable monetary growth all pointed to a government that was not printing money simply to finance its deficit. Rather, fiscal and monetary policy point to internal balance being a prime policy objective.

The impact of these policies on the constraints facing Fiji's economy is vividly illustrated in row 9, which demonstrates that the small current account deficit of the pre-adjustment period was further reduced during 1989–1992. Provided direct foreign investment flows continue, Fiji may be close to achieving external balance. The reduction in the current account deficit would be taken by many orthodox economists as evidence that external balance is possible if fueled by a strong export sector, by an appropriate exchange rate, and by reliable macroeconomic management.

On first impression it would appear from Table 3 that market-led structural adjustment in Fiji has not only stabilized the economy, but has also fostered the emergence of an economic structure that promotes internal and external balance because of a strong orientation toward manufacturing tradables. However, despite the evidence presented in Table 3 these results should be treated with caution, for reasons made clear in the following section.

ADJUSTMENT AND THE LIMITS TO GROWTH IN FIJI

Despite the evidence presented so far, it can be argued that the performance of Fiji's economy between 1989 and 1992 demonstrated some fundamental strategic weaknesses that adjustment did nothing to address. Some would argue that adjustment may have exacerbated major structural problems in Fiji's economy. In order to demonstrate the validity of these statements, it is necessary to delve behind the data from the perspectives of first, the methodology used to assess adjustment; second, the im-

pact of adjustment on supply constraints; and third, the impact of adjustment on demand constraints.

Methodology

The assessment of the impact of adjustment on economic performance presented in the preceding sections is crucial to the claim that adjustment improves growth. However, although it is a deliberately orthodox analysis of adjustment, the evidence presented in those sections has three methodological problems, only one of which is specific to Fiji.

The first methodological problem centers on the need to devise a base for comparison in order to assess adjustment. In the earlier sections, the base for comparison is the pre-adjustment period. However, such an approach, no matter how commonly used in orthodox analyses of adjustment, is methodologically inadequate because the wider economic environment within which adjustment occurs may differ from that of the pre-adjustment period. While comparison with previous performance may be a useful indicator, it is not a sufficient one on which to base judgment.

A second methodological problem concerns the evidence that quantifies the extent of change in macroeconomic policy. The bank's allocation of scores to percentage changes requires the division of percentage changes into discrete groups. Yet, in making such a division the bank's methodology offers no rationale that is independent of the sample (World Bank 1994, 260–261). The division is arbitrary, as is the entire scoring procedure. Therefore, despite the assertions of the bank, on the basis of this methodology a relationship between policy change and growth is not established. Consequently, it has yet to be proved that changes in Fiji's economic policy facilitated growth.

A third methodological problem is specific to Fiji. In Table 3 the most impressive statistic is the pickup in the rate of growth of real per capita gross domestic product from –0.76 percent in 1982–1986 to 3.88 percent in 1989–1992. Although the rate of growth for 1992 was, at 1.3 percent, not nearly as impressive as the average for the adjustment period as a whole, it still appears to represent a significant improvement. However, that appearance is misleading. The increase in the rate of growth of real per capita gross domestic product masks a rapid slowdown in the rate of growth of the population. At the end of 1992 the estimated total population of Fiji was 753,754. The rate of growth of the population between 1976 and 1986 was estimated to be 2 percent per year. For the period

between 1986 and 1990 this was cut by the extraordinary figure of 40 percent, to stand at 1.2 percent per year. For the period 1990–1991 there was a further cut of more than 30 percent, reducing the rate of growth of the population to only 0.8 percent per year. This decline is the result of the out-migration that occurred in the wake of the coups. Between May 1987 and December 1989, 22,000 Fiji citizens left the country. Emigration peaked in 1990; however, in 1992 Fiji citizens were still leaving the country at the rate of 390 each month. In this context, while growth in gross domestic product was undoubtedly impressive, it was not altogether surprising. Such an increase could be expected not just for reasons of improved performance but also for reasons of simple arithmetic. Thus, certain statistics may exaggerate the extent to which economic performance has improved, especially compared to the pre-crisis years of the 1970s. In summary, there are methodological reasons for questioning the extent to which the improvement in Fiji's economic performance can be attributed to adjustment.

Supply Constraints

Fiji faces three major, interrelated, structural problems on the supply side of the economy. Adjustment did not adequately address these problems, and it is plausible to argue that the policies of the Interim Government exacerbated them.

The first supply-side problem concerns the labor force. The substantial emigration following the coups was primarily of skilled labor (Bedford 1989) and might have been expected to reduce economic efficiency. For firms to respond to the profit incentives to produce tradables generated by adjustment, they require access to labor of sufficient skill, whether in production, distribution, or management. Skilled labor is also necessary to administer adjustment. By hampering the ability of firms to respond to incentives and of the state to understand the constraints facing the economy, loss of skilled labor impedes the development of trade and industry.

Obviously, the Interim Government cannot be held directly responsible for the out-migration that occurred following the coups. Nevertheless, such a loss requires a supply-side public policy response. However, the policy response of the Interim Government to supply-side issues is open to question. For a start, in the wake of the coups sustained government intervention was necessary to foster human capital formation. Further, it can be argued that government intervention was necessary to ensure the

provision of economic services that assist in fostering the development of forward and backward linkages. In enhancing the creation of linkages, government intervention could have facilitated a supply response appropriate to the changed pattern of incentives inherent under adjustment. Finally, it could be argued that government intervention was required to ensure provision of the physical infrastructure needed by an economy shifting toward export promotion.

Given these requirements, it is of interest to note a certain aspect of government expenditure. Government development expenditure can be defined as capital and current spending with an explicitly developmental purpose. In Fiji, this would consist of capital expenditure on education, health, housing, social services, and economic services less administration, as well as current expenditure on education, health, and sanitation. In the period 1982–1986 government developmental capital formation accounted, on average, for only 9.87 percent of government development expenditure. However, in the period from 1989 to 1991 this decreased to 8.21 percent of government development expenditure, a relative decline in the share of developmental expenditure accounted for by capital formation. This decline is all the more striking when placed in the context of a period when industrial production, exports, and foreign direct investment all increased dramatically. Further, “public investments . . . had already been squeezed during the first half of the 1980s” (Elek, Hill, and Tabor 1993, 763). It would seem reasonable to argue that by not devoting adequate resources to developmental capital formation the Interim Government was assisting in the creation of conditions under which supply bottlenecks could emerge to seriously compromise attempts to reform the economic structure.

The Interim Government did not recognize that its policies might be fostering the emergence of supply-side problems because of the inadequacy of its underlying economic theory. According to the theory implicitly accepted by the Interim Government, the decline in government developmental capital formation should have “crowded in” private investment. Instead, Table 3 row 7 shows a catastrophic drop in nonforeign private investment of some 54 percent between 1982–1986 and 1989–1992, a decline that was maintained in 1992. Three aspects of this decline in private investment are noteworthy. First, it occurred from an already very low base. Second, it occurred during a period when the rate of growth of the money supply had stabilized, by its end, at around 14 per-

cent per year. It is hard to blame the lack of investment on monetary constraints. Third, the decline was not offset by a corresponding increase in direct foreign investment. The near collapse in private sector investment is a major supply-side constraint facing the economy of Fiji. The lower volume of investment will have had an impact on the aggregate accelerator and multiplier effects of the investment that did occur. In the process, the impact of adjustment may have been to reduce national income to less than what might have been expected given the potential output of the economy.

Two further points concerning investment are worth noting. First, the decline in investment in Fiji during a period of adjustment replicates findings from many sub-Saharan African countries (Mosley, Toye, and Harrigan 1991). A new axiom may be emerging in development economics: structural adjustment cuts investment. In Africa, the reason for such a cut in investment appears to be that public investment is needed to attract private investment. Such an explanation might serve as a working hypothesis for future work on Fiji's economy. Second, the decline in investment may be traced directly back to certain peculiar investment disincentives in the tax-free factory scheme that are discussed later.

In addition to the quantity of investment, the policies of adjustment may have reduced the quality of investment. For a start, doubts have been raised about the extent to which those foreign investors in Fiji's rapidly expanding garment industry originating in quota-restricted countries exporting to developed market economies represented real, as opposed to formal, investment. Customs investigators from both New Zealand and the United States visited Fiji in 1991 following rumors that investors in Singapore and Taiwan were simply using Fiji as a transshipment point in order to evade quota restrictions. While the charges were not proved, the possibility of rerouting raises questions about the efficiency of some investment that resulted from the tax-free factory scheme.

A second point relating to the quality of investment is also a consequence of the tax-free factory scheme. As the data demonstrate, the scheme was not responsible for a boom in private investment, but it did capture a significant fraction of the investment that occurred (Akram-Lodhi 1992), raising doubts concerning the quality of some of that investment. One of Fiji's advantages in attracting garment exporters has been its privileged access to the Australian and New Zealand markets under the South Pacific Regional Trade and Economic Cooperation Agreement

(SPARTECA). However, as is widely recognized in the Pacific region, SPARTECA has rules of origin criteria that encourage inefficient work practices in lower value-added market segments in order to increase local labor costs to the minimum value-added requirements (Akram-Lodhi 1992). Efficiency, reliability, and quality are thus compromised. Inefficient production processes have been compounded by difficulties in obtaining skilled middle-level management as a result of the labor supply bottlenecks that were created following the coups. As a consequence, Elek, Hill, and Tabor's assertion that Fiji has "been able to establish a good reputation as a reliable and high-quality source of garments" (1993, 759) is very wide of the mark. Rather, Fiji has found it difficult to compete, especially with low-waged Asian producers of cheaper, lower quality output. The erosion of Fiji's special advantages under SPARTECA, the progressive elimination of the Multi-Fibre Arrangement under the General Agreement on Tariffs and Trade (GATT) Uruguay Round agreement, and the increased efficiency of local producers in two important markets, New Zealand and Australia, all point to long-term problems in the industry. Such problems reflect the fact that the Interim Government put in place a policy framework that discouraged efficiency-enhancing investment. To some extent, these problems began to emerge in 1992: the industry underwent a major contraction, and exports to New Zealand collapsed.

The preceding discussion gives plausible possible explanations of the origin of the decline in the quantity and quality of private sector investment. If such explanations are correct, the economic policies of the Interim Government may be held to be largely responsible for that decline. The Interim Government may have been instrumental in creating strategic supply-side constraints in Fiji's economy.

Demand Constraints

The policies of the Interim Government did more than just affect the supply side. They also had major ramifications for the demand side of Fiji's economy. Again, reference can be made to the garment industry.

In attempting to develop the garment industry the Interim Government sought to create an industry that would compete with low-waged Asian producers. However, according to one group of consultants in the early 1980s, Fiji was a "genuine high wage economy" (Fiji Employment and Development Mission 1984, 527). To compete with low-cost Asian producers it became necessary to reduce the real wage rates of labor. This

need was explicitly accepted by senior civil servants and the World Bank (Chandra 1989, 173; World Bank 1990). On the fragmentary evidence that is available, this strategy has been succeeding. In the garment sector itself, in 1991 workers received only 61 percent of average manufacturing wages. More generally still, data made available by the Bureau of Statistics demonstrate that in the period following the coups the trend toward declines in real wages that characterized Fiji through the early 1980s continued. Between 1987 and 1990 real wages in agriculture, manufacturing, and services all declined by at least 10 percent (Elek, Hill, and Tabor 1993, 755). Of course, to the Interim Government's orthodox economic advisers a distributionally regressive strategy seemed positive because it promoted a more globally competitive allocation of resources. However, structuralist macroeconomics provides an alternative perspective that emphasizes the impact of distributional retrogression on aggregate demand.

According to structuralist macroeconomic theory, the shift in income distribution implied by falling real wages would be expected to lead to a decline in the share of household purchases of wage goods in economic activity and a rise in the savings level of the economy as those in receipt of profits witnessed a rise in their share of the national income (Kaldor 1955). However, these savings would not be mobilized for investment because of the decline in aggregate demand brought about by falling purchases of wage goods (Kalecki 1971). The result would be an overall cut in aggregate demand and a contraction of the home market. Evidence from Kenya, Turkey, Brazil, Mexico, Argentina, and Chile all points to lower wage shares in national income leading to a fall in output and economic "stagnation" (Taylor 1991).

Further, the impact of regressive distributional policies can be exacerbated by attempts to increase the role of international firms in an economy. Efforts to promote market entry by international firms through the use of incentives such as tax-free factory schemes facilitate the entry of companies that typically operate in markets subject to higher concentration ratios and are capable of gaining higher margins and lower unit costs than domestic producers because of their technological and managerial advantages. Such firm-specific advantages allow the international firm to remain price competitive even while having higher margins. However, in practice higher margins and lower unit costs mean that international firms are able to depress the income share of labor within the firm. This further restricts the growth of the home market because lower labor

shares of total income can reduce aggregate demand (Toporowski 1991). Finally, in Fiji these policies have been accompanied by policies designed to increase the degree of spatial concentration in the economy, possibly limiting the extent of the linkages that are generated to narrow geographical areas even within a small archipelago (Chandra 1989).

It is thus possible to question the efficacy of the economic policies of the Interim Government on distributional grounds. In this light, two other key distributional issues can be mentioned, not because they have been affected by structural adjustment, for they have not, but because the Interim Government failed to deal with them even though projected changes over the remainder of the decade will affect income distribution and aggregate demand. These issues arise out of questions concerning the future of sugarcane farming and processing, which together continue to be a major area of economic activity as the largest single source of employment, providing 11.5 percent of gross domestic product in 1992. Sugarcane farming is done primarily by Indo-Fijians on some 22,500 farms. However, the land is not owned by the farmers who operate it, but rented on long-term leases, often of thirty years' duration. Out of a total cultivated area of 1.8 million hectares in Fiji, 1.5 million hectares is communally owned by indigenous Fijians on the basis that this land cannot be sold. Two distributional issues arise from sugarcane farming. The first is access to land. The rents paid by leasehold farmers are not determined on the market, but are regulated by the Agricultural Landlord and Tenant Act, which set rents equal to 6 percent of the unimproved capital value of the land. The unimproved capital value of the land is determined every five years. Comparatively speaking, rents are low as a proportion of crop value. However, the Act expires in 1997, and farmers with leases that expire after 1997 have been finding it very difficult to borrow against the remainder of their leases because it is likely that rents will rise substantially after that year. This has made it difficult for some farmers to maintain production and more particularly farm investment, further restricting the level of aggregate demand in the economy. In a confidential report that was leaked to the press in Fiji, the World Bank advised moving to market-determined land rents (World Bank 1991b). However, this too will substantially reduce the income of many farmers. While the current terms of access to land may have depressive effects on investment and thence on aggregate demand, it is likely that the resolution of the problems surrounding access to land will result in a distributional regression among a

large portion of the rural Indo-Fijian population. Granted, an increase in rents will go to both the Native Land Trust Board and the chiefs and commoners of the land-owning *mataqali*, and is thus a transfer. However, whether such money will be used to fund investment or consumption is an open question.

The second distributional issue surrounding sugarcane farming concerns the division of gross sugar proceeds between grower and miller. Currently, farmers receive 70 percent of the gross proceeds. The Fiji Sugar Corporation, a state-owned enterprise, would like the basis by which payments are made to be changed in order to facilitate improved productivity at all stages of production. The need to improve the productivity of the industry is pressing, because the benefits of Fiji's quota arrangement under the sugar protocol of the Lomé Convention, an arrangement which allows it to sell sugar at the European Union's internal sugar price, will start to erode as the union's internal sugar price falls in the wake of the December 1992 GATT agreement. The price paid to farmers exporting to the union will fall by as much as 15 percent by the year 2000, thus reducing a subsidy received by the industry and estimated to be worth F\$90 million in 1992. Over the period 1980–1990 the subsidy received by Fiji as a result of the sugar protocol has been estimated to be worth 3.72 percent of gross domestic product. It has been estimated that the impact of trade liberalization under the 1992 GATT agreement will result in a net welfare loss in Fiji equivalent to some 2.52 percent of gross domestic product (MacDonald 1994). It has been argued that productivity-enhancing changes could include a new system of sharing crop proceeds based on the quality of the crop. The World Bank has also suggested that farmers should receive only 60 percent of gross proceeds (World Bank 1991b). It has been further suggested that incentives to improve milling efficiency be introduced. However, it will be difficult to improve the efficiency of the 4700 farms that operate holdings of less than one hectare and produce on average less than 50 tons of cane a year. The implication is that some rationalization of farm production is to be expected over the remainder of the decade. However, given that smallholdings represent 19 percent of all farms, this too has wide-ranging distributional implications and could affect the level of aggregate demand in the economy. It is not surprising that attempts in November 1989 to change the basis by which sugar proceeds were divided resulted in widespread resistance by farmers in the cane fields.

In view of all of these factors, considerable doubt over the future of sugarcane farming in Fiji is apparent. The Interim Government did little to address this agrarian issue because it strikes at the heart of intercommunity relations in the country as a consequence of the terms under which land is owned and rented. By not addressing the issue the government buried problems that could have major implications for the level of aggregate demand in the economy over the remainder of the decade.

FIJI AND THE GLOBAL DISTRIBUTION OF WEALTH

The economic policies of the Interim Government have resulted in both a deterioration in income distribution and a lack of investment in Fiji. However, these problems have not just deepened inequitable processes in Fiji. They have also altered the position of Fiji in the world economy. Ideally, domestic policies should lead to an improvement in the aggregate resources available to an economy, in both an absolute and a relative sense. That such has not occurred in Fiji may be demonstrated with Arrighi's indicator of the extent to which the relative resources available to a country have changed in comparison to those resources available to the wealthiest countries (Arrighi 1991). Arrighi compared a country's per capita gross national product to that of the "organic core" of the world economy. He defined the organic core as those states "that have over the last half-century . . . occupied the top positions in the global hierarchy of wealth and . . . have set the standards of wealth which all governments . . . have sought to attain" (Arrighi 1991, 42). Arrighi did not claim that per capita gross national product is a valid or reliable indicator of welfare or productivity. However, he did state that the ratio of per capita gross national product provides a solid indication of "the command of the inhabitants of the region . . . over the human and natural resources of the organic core, relative to the command of the inhabitants of the organic core over the human and natural resources of that region" (Arrighi 1991, 46). Table 4 presents comparable data for Fiji. It demonstrates that between the pre-adjustment period of 1982–1986 and the adjustment period of 1989–1991 the ratio of Fiji's per capita gross national product to that of the organic core declined substantially, by more than 30 percent. The people of Fiji have less command over the resources of the organic core under structural adjustment, an indicator of the decreasing power of Fiji in the global economy.

Table 4. Comparative economic command: Per capita gross national product of Fiji and the "organic core," 1982-1986 and 1989-1991

	Fiji	"Organic Core"	Fiji/organic core (%)
1982-1986	1696	12,999	13.05
1989-1991	1860	20,744	8.97

Notes: Gross national product is in US dollars. The "organic core" consists of Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom, and the United States. Finnish data are gross domestic product.

Source: For data, International Monetary Fund 1994, 194-201, 218-221, 258-263, 318-321, 350-361, 370-375, 540-543, 548-551, 564-569, 680-689, 734-743; for methodology, Arrighi 1991, 39-66.

CONCLUSION

In this paper I have examined market-led structural adjustment in Fiji, first by looking at the rationale behind structural adjustment programs. I then reviewed the economic policies of Fiji's Interim Government between 1987 and 1992. Those policies appear to have been consistent with structural adjustment programs and represented an acceleration of changes that predated the coups. I assessed the success of adjustment in Fiji by detailing a range of economic indicators. Delving behind the data, it is possible to voice three criticisms of the adjustment record in Fiji.

First, there are major methodological problems involved in linking policy change to growth. In particular, the decline in the rate of growth of population renders questionable the orthodox interpretation of standard economic data. Second, two key supply constraints that have not been addressed—a lack of skilled labor, and a lack of private investment—inhibit the capacity of the Fiji economy to respond to the incentives provided by adjustment. These constraints suggest a need for enhanced public investment in order to expand economic opportunities. Third, there are major demand constraints: the continued decline in real wages restricts the development of the home market and by so doing limits domestic investment with its attendant multiplier and accelerator effects; and the increased role of international corporations in the economy can exacerbate distributional retrogression. In addition, such retrogression may be

worsened by a market-based solution to Fiji's agrarian question.

Taking all of these factors together, it would appear that the market-led structural adjustment undertaken by the Interim Government between 1987 and 1992 has not removed key constraints on growth in Fiji. Observers of adjustment will not be surprised by such a conclusion. As Tarp has noted, "There is little readily accessible written material on the theoretical underpinnings of the IMF model" designed to stabilize domestic demand (1993, 56). Further, "the [World] Bank's policy recommendations in the area of stimulation of aggregate supply . . . lack a theoretical basis" (Mosley, Harrigan, and Toye 1991, 93). In following the prevailing orthodoxies of international economics, the Interim Government failed to see that "the corpus of social theory that underpins the design of [structural adjustment] reforms contains many gaps" (Gulhati 1990, 97). However, as in so many other cases, the failure of the Interim Government was more than theoretical: the impact of market-led structural adjustment will continue to be felt by the people of Fiji—an outcome that may have been the point of the entire exercise. The nature of the demand and supply constraints indicates that the Interim Government, in seeking to adjust, sought to devalue Fiji's core productive asset: the literate, skilled, and resourceful population of Fiji.

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Abstract

This article critically assesses the success of market-led structural adjustment in Fiji. After reviewing the rationale behind structural adjustment programs it examines the economic policies of Fiji's Interim Government between 1987 and 1992, demonstrating that such policies were both consistent with structural adjustment and represented confirmation of a change in economic policy. The economic performance of Fiji under structural adjustment is examined. However, in delving behind the data the article uncovers both supply and demand constraints that together suggest an inability to resolve major structural issues facing the economy. As a consequence, the capacity of the economy to respond to the changed framework of incentives brought about by structural adjustment is inhibited. Market-led structural adjustment has not acted to remove key limitations to economic growth in Fiji.

KEYWORDS: Fiji, Pacific island countries, structural adjustment, small island economies, trade liberalization, international economics