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FROM : AmEmbassy Suva DATE: August 8, 1980

SUBJECT : CERP 0004: Economic Trends in Fiji and Their Implications for the United States

REF :

Enclosed is the annual Economic Trends Report for Fiji dated June 01, 1980.

Action requested: The department is requested to forward 50 copies of the printed version of this report to the Embassy for distribution.

WB
BODDE

Enclosure: Economic Trends Report

UNCLASSIFIED

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Drafted by:

ECON: DAhSam: das

Drafting Date:

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CHARGE: LStillman

Clearances:

(FIJI) KEY ECONOMIC INDICATORS

All values in U.S. \$ million
and represent period averages
unless otherwise indicated.
Percentage comparisons based
on Fiji \$ figures.

Conversion rate:
F\$1=US\$1.2189 (08/01/80)

Note:	Exchange rates (12/76) US\$1.11; (12/77) US\$1.25; (12/78) US\$1.18; (12/79) US\$1.25.	A <u>1</u> / (year) 1977	B <u>1</u> / (year) 1978	C <u>1</u> / %change B-A/A	D <u>1</u> / Estimate* (year) 1979
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INCOME, PRODUCTION, EMPLOYMENT

GDP at Current Prices	791.67	889.67	+12.4%	NA
GDP at Constant (1968) prices	257.30	263.76	+ 2.5%	NA
Per Capita GDP Current Prices	1328.60	1465.12	+10.3%	NA
Plant & Equipment Investment	NA	NA	-	NA
Personal Income	NA	NA	-	NA
Indices: (1972 = 100)				
Industrial Production	123.6	115.3	-00.3%	NA
Avg. Labor Productivity	NA	NA	-	NA
Avg. Industrial Wage (dol/wk)	43.33	48.09	+10.9%	+7%
Paid Employment (000)	88.22	89.98	+ 1.98%	97.35
Avg. Unemployment Rate (%)	6.7%	10.3%	+53.73%	NA

MONEY AND PRICES

Money supply	103.24	116.28	+12.63%	142.12
Interest Rates (Commercial)			Lending rate - maximum 10%	
Indices: (1974 = 100)				
Wholesale Price	NA	NA	-	NA
Retail Sales	146.4	155.3	+ 6.1	167.3

BALANCE OF PAYMENTS & TRADE

Gold & Foreign Exch. Reserves	161.21	139.63	-13.38%	+5.3%
External Public Debt	99.9	155.4	+55.56%	199.1
Annual Debt Service (Public)	7.3	16.4	+124.66%	12.5
Bal. of Payments (Current acc)	-30.4	-46.2	-51.97%	NA
Balance of Trade	-98.3	-126.4	-28.59%	NA
Exports, FOB	164.5	185.2	+12.58%	NA
U.S. Share	11.2	20.3	+81.88%	39.5
Imports, CIF	342.5	365.7	+6.77%	392.8
U.S. Share	14.4	17.0	+17.78%	22.4

Main Imports from U.S. (1979): Food (1.711), Beverages and Tobacco (.901), Machinery (8.194), Miscellaneous Articles (3.398), Manufactured Goods (2.222), Total (22.366)

Asterisk (*) Provisional figures only
(**) Revised estimates

Sources: Bureau of Statistics, Suva
Central Monetary Authority, Suva

Note: It is difficult to elicit information from percentage comparisons due to exchange rate movements. For this reason, all figures and percentage comparisons are based on Fijian dollars in the report following.

SUMMARY

The Fiji economy performed remarkably well in 1979 despite an economic slowdown abroad and uncertainties in the international foreign exchange and capital markets. The main impetus came from a record 34 per cent growth in sugar production and to a lesser extent from moderate upturn in tourism and the manufacturing sector. The impressive gains in production and investment were reflected in a substantial growth in international trade as exports and imports increased by a record 29 per cent and 30 per cent respectively in 1979.

Fiji's present major financial commitment in the investment field is the high priority hydro-electricity project at Monasavu. Private investment, notably hotel and home building was maintained at a high level in 1979 as in 1978. Public investment was also at a higher level.

The rate of inflation was relatively modest - an average annual rate of 7.7 per cent in 1979 compared to 6.1 per cent in 1978. However, the inflation rate accelerated during the last quarter of 1979 and in December 1979, the consumer price index was 11.6 per cent on a year-on-year basis compared to 5.5 per cent in December 1978. This has been due to increases in fuel prices and inflation among Fiji's major trading partners which crept into domestic prices.

The economic outlook for 1980 is promising as sugar production is expected to expand and the world price of sugar to rise. If favourable weather prevails, Fiji's sugar production may exceed 500,000 tonnes in 1980.

Government is committed to economic diversification. Resources devoted to agriculture, forestry and fisheries in the past are beginning to bear fruit. However, to create urgently needed jobs for the growing unemployed, greater efforts are needed by the authorities, as well as private investors, especially to promote export and agro-based industries. Among others, a combination of organization, research, skill and export incentives is required. The experience gained by the public and private organisation in promoting commodities such as sugar (FSC), pine (FPC) and fish (PAFCO) may be extended to new organisations to develop other primary resources that still remain untapped. Mobilization of resources to finance such new undertakings need not be a major constraint as Fiji has already developed a sound financial infrastructure and creditworthiness, and has demonstrated a willingness and ability to save given the appropriate incentives and favourable investment climate.

Trade between the United States and Fiji continued to rise with Fiji exports to the U.S. increasing by 94 per cent over 1978 figures. By comparison, total U.S. exports to Fiji rose by 60 per cent.

CURRENT ECONOMIC SITUATION AND TRENDS

The economic situation in Fiji showed a marked growth in 1979 even though the world economy outlook was rather bleak and showing signs of uncertain stability. Fiji's gross domestic product in real terms is estimated to have increased by more than 6 per cent in 1979 compared 2.5 per cent in 1978.

SUGAR

The all time record of some 473,000 tonnes of sugar was achieved in 1979 considering the setbacks the industry had experienced in production in the early part of the decade. Compared to 1978, the 1979 output of sugar, molasses and cane increased by 36 per cent, 49 per cent and 42 per cent respectively. However, the sucrose content of cane was lower resulting in a cane/sugar ratio of 8.6 to 1.

The recovery in world sugar prices from a deep and long-lasting trough the allocation of additional export quotas to Fiji by the International Sugar Organisation (ISO) and a successful marketing effort provided a further boost to the industry.

Export earnings for the 1979 season from sugar and molasses are likely to achieve the all time high of \$118 million and \$9.8 million respectively. These values represent a 15.7 per cent increase in sugar export receipts and a 104 per cent increase in earnings from molasses exports.

Given a record output on the one hand and the imposition of export quotas by the International Sugar Organisation (ISO) on the other, the danger of the accumulation of an unmanageably large stock of sugar looked inevitable in early 1979. Some relief came from an additional export entitlement, under the provisions of the Articles of the ISA, of 130,000 metric tons raw value (mtrv) from the "Hardship Reserve" in two separate allotments of 55,000 tonnes and 75,000 tonnes each. These generous quota increases not only eased the stock position but they also expanded the volume of exports and earnings.

The ISO also redistributed supply shortfalls of some exporting countries. Fiji under this reallocation received an additional export quota of 5,660 (mtrv).

Fiji's export entitlement in 1979, excluding the sale of 177,826 (mtrv) to the EEC, was 101,875 (mtrv) which was 81.5 per cent of Fiji's Basic Export Tonnage of 125,000 (mtrv). The allocation from the Hardship Reserve, the redistribution of export shortfalls and sales to the EEC effectively raised Fiji's permissible export volume to 415,000 (mtrv). Then in January 1980 all quota restrictions were lifted. Local sales during the year including those to the neighbouring islands are estimated at nearly 30,000 tonnes.

Another development from the sugar industry is the establishment of Fiji's first rum distillery costing \$3 million. This will mean a saving of \$1.5 million per year on the import of this product.

COPRA

The ailing copra industry suffered another setback in 1979 with production declining to 21,949 tonnes from 26,092 tonnes in 1978. This 18.9 per cent reflects not only the adversities of hurricanes that ravaged a lot of coconut trees and fruits, but it also manifests a more fundamental and deep-seated malaise of poor yields from aging palm trees. Production in 1979 was the lowest for two decades.

15,000 tonnes of coconut oil were exported in 1979 compared to 18,000 tonnes in the previous year. The export value amounted to \$11.7 million in 1979, 31 per cent above last year's level. Copra cake exports totalled 2,000 tonnes valued at \$0.2 million in 1979 compared to the export of 7,000 in 1978 valued at \$0.5 million.

The officially assessed copra prices fluctuated considerably in the year. The price of grade one copra for instance rose to \$490.25 a tonne in May from \$371 a tonne at the beginning of the year; by the end of 1979 the price had fallen to \$397.50 per tonne for grade I, \$387.50 for grade II and \$193.75 for CAS.

The setting up of new grading stations in rural areas not only ensured high standards of copra, but it has greatly relieved the transportation difficulty experienced by farmers who had to travel long distances to sell their produce to the copra traders. In this context the decision by the National Marketing Authority to buy copra from outer islands has also assisted the producers. Shipping subsidies given by the Government for transporting copra from outlying islands to the main processing centres in Viti Levu have made shipping from these islands possible.

GOLD

1979 proved to be a better year for the gold industry than the two previous years due mainly to the notable absence of industrial disputes - which in 1978 had culminated in the laying off of almost 800 men - and not least to the recent record gold prices. At Vatukoula, Emperor Mines Limited reported a small operating profit of \$6,883 for its financial year ending June 1979, following losses of over \$1 million in 1978 and 1979. The mining company was planning to increase gold ore output and intensifying its prospecting for new gold areas in the Tavua basin. Gold production in 1979 was 25,656 fine ounces with an estimated value of \$7.6 million compared with 1978 figures of 28,065 fine ounces and \$4.6 million respectively.

The recent high gold prices have stimulated much interest in the industry in Fiji and a number of companies have taken out prospecting licences covering such areas as Kadavu, Ono, Savusavu, Rewa, Naitasiri, Tailevu, Nawaka and Navosa.

The international gold price (London) surged from an opening fixing of US\$227.15 (F\$186.04) per fine ounce on the 2nd January to close at almost US\$524.00 (F\$440.63) on 31st December. This represented a record 131 per cent increase over the year compared with 34 per cent rise in 1978.

MEAT PRODUCTION

The output of beef rose by 31 per cent to 3,609 tonnes in 1979 from 2,754 tonnes in the previous year. The registered abattoirs recorded a big increase in the slaughter of working bullocks and cows, 49 per cent and 33 per cent respectively in 1979. The production from steers declined while the demand for local beef increased due to the price rise of imported beef.

Two major projects has been undertaken by the Government in an effort to increase local beef output. The establishment of the Yalavou and Uluisaivou cattle schemes have been assisted by Australian and New Zealand Governments. The Yalavou project costing more than \$7 million aims to establish 113 individual farms with emphasis on livestock grazing. Similarly, the Uluisaivou project envisages to build up a herd of 904 cattle in addition to the production of 1,000 tonnes of cane by 1982.

In 1979, 13,961 pigs were slaughtered in registered abattoirs compared to 10,234 in 1978. Pork production rose by 37.5 per cent from 469 tonnes in 1978 to 645 tonnes a year later. Pigs farmers, if not consumers continued to benefit from protection from overseas competition as a result of import licensing.

Domestic production of chicken meat rose by 10.5 per cent in 1979 to 3208 tonnes compared with 2904 tonnes in 1978. Fiji appears to be reaching self-sufficiency under the umbrella of protection. Imports of meat birds in 1979 declined sharply from 341 tonnes to 88 tonnes, but in addition to the 50 per cent tariff, import licensing provided further protection to the poultry industry.

Total egg production in 1979 increased by 1 per cent to 2,581,000 dozens while egg imports fell sharply from 48,000 dozens in 1978 to 13,000 dozens in 1979.

There is considerable scope in the poultry industry to increase the local value added by substituting locally produced ingredients of chicken feed for imported inputs. Out of the 18,000 tonnes of meat meal, grain and other ingredients used to feed chicken in 1978, 70 per cent were imported.

FISH

The fishing industry in 1979 was continuing to make good progress with yet another increase of 30.3 per cent over the previous year. The total export of fish amounted to \$11.9 million outstripping the copra export which was the second export earner. A total of 5,394.6 tonnes of fish were exported in 1979 compared with 3,921 tonnes in 1978, an increase of 37.6 per cent.

TIMBER

The timber industry exported a total of \$1.6 million overseas in 1979 compared to 1.4 million in 1978. The export consisted of mainly hardwood which has been slowly increasing over the years. Fiji's pine wood has only been recently marketed overseas and is gradually finding new markets abroad, especially from Japan. The pine exports are mainly in raw log form.

Veneer sheets export increased from \$680,000 in 1978 to \$868,000 in 1979.

Future development planning in the timber industry is the establishment of a paper pulp industry in which the Government intends to invest around \$85 million. This will enable Fiji eventually to manufacture writing paper and tissues which will reduce the import spending on these products.

Other timber by-products will be utilized as fuel in the sugar industry. It is intended to cut down on timber wastage by the establishment of the paper pulp industry.

BUILDING & CONSTRUCTION

The upswing in the building and construction industry in 1978 was maintained during 1979. The value of new building permits issued in 1979 however, indicated a falling off in 1980. During 1979, the Suva City Council issued a total of 847 building permits valued at \$16.9 million, compared with 794 permits valued at \$19.3 million, issued in 1978. The Lautoka City Council issued a total of 442 building permits valued at \$6.9 million, compared with 414 building permits valued at \$11.1 million issued in 1978.

Major projects were started during the year. Work on the high voltage transmission towers to carry electricity from the Monasavu hydro-scheme began in June 1979.

The Housing Authority has a capital program of \$5.8 million for 1980 compared with \$7.8 million in 1979. The Fiji Sugar Corporation embarked on a \$16 million expansion program for its Labasa Mill to process the increased cane production from that area.

Fifteen irrigation schemes covering 2,300 hectares were completed by the Department of Agriculture and the Drainage Board in the Western Division, which benefited the drainage of potential cane land. The Fiji Sugar Corporation has begun construction of a distillery at Lautoka, which will cost about \$3 million, and will produce potable and industrial alcohol.

TOURISM

A total of 188,740 visitors came to Fiji in 1979, an increase of 2.5 per cent over that experienced in 1978. This exceeds the record of 186,323 set in 1973. Although Australia continued to be the largest source of tourists, the 73,609 Australians that visited Fiji represented a 1.8 per cent decline over 1978. Visitors from the United States showed the greatest fall of 10.3 per cent to 26,424, a result of the new low airfares to Australia. Visitors from Canada fell by 3.7 per cent to 9,437. Those from New Zealand increased by 11.0 per cent to 45,297, while those from all other countries increased by 16.9 per cent to 33,973. The average length of stay was 9.1 days in 1979 compared with 8.8 days in 1978. The number of visitor days in 1979 increased by 6 per cent to 1,692,336 visitor days. Tourist earnings for 1979 are estimated at \$103 million a rise of over 20 per cent in 1978.

Fiji's tourist industry was dampened by the adverse effects of developments in the international economic and aviation scenes in 1979. The slow-down in the flow of visitors to Fiji was caused principally by two factors; world-wide increases in oil prices which pushed up the airfares, and the implementation of the new aviation policies of Australia and the United States which allowed considerable airfare cuts for flights between the two countries but which bypassed Fiji.

EXTERNAL TRADE

In 1979, gross imports rose by 30.9 per cent to \$392.8 million while exports including re-exports of \$47.4 million increased by 29.2 per cent to \$215.0 million. The result is a record trade deficit of \$177.8 million. The rise in imports was mainly attributed to the cost of equipment for large projects such as the Monasavu hydro-scheme and to the fuel bill which increased by 53.2 per cent to \$72.00 million. With the re-export of petroleum totalling \$25 million, retained fuel imports in 1979 were \$47 million.

Of the gross import bill, food imports increased by around \$2 million but the volume of food import remained almost unchanged at the 1978 level. Imports of machinery and transport equipment formed 22.5 per cent of the gross imports at \$88.3 million, the largest proportion followed by manufactured goods valued at \$75.1 million. The main domestic exports were sugar, coconut oil, canned fish, molasses and gold valued at \$117.0 million, \$11.6 million, \$11.6 million, \$7.4 million and \$6.6 million respectively. Exports of timber, ginger, veneer sheets, biscuits, canned beef and dessicated coconut amounted to \$1.6 million, \$1.0 million, \$0.9 million, \$0.7 million, \$0.6 million and \$0.4 million respectively.

Total payments in foreign exchange amounted to \$415.0 million in 1979 and total receipts were \$392.8 million resulting in an overall deficit of \$22 million.

Payments for merchandise imports (gross) were valued at \$320.1 million of which the notable payments were for food, beverage and animals at \$57.9 million, mineral fuels at \$46.8 million and machinery and electrical equipment at \$46.5 million. Receipts in respect of merchandise exports were \$178.1 million of which re-exports were \$13.7 million. The notable items of exports were sugar (\$124.1 million), fish (\$11.9 million) and copra products (\$11.1 million).

The deficit in the merchandise trade account of \$142 million was reduced to \$38 million by a surplus in the invisibles of \$104 million. Among the invisible payments of \$76.6 million, investment income and travel remittances totalled \$14.4 million and \$11.2 million respectively. Invisible receipts totalled \$180.6 million of which travel and transportation receipts were \$84.1 million and \$20.8 million respectively.

Capital outflow amounted to \$18.2 million of which \$13.7 were private and \$4.5 million were official. Capital inflow was \$34.0 million of which \$23.4 million were official, \$8.6 million were private and \$2.0 million constituted an S.D.R. allocation from the

International Monetary Fund. The capital account thus showed a surplus of \$15.8 million.

EMPLOYMENT & INDUSTRIAL RELATIONS

According to a survey conducted by the Bureau of Statistics, a total of 77,095 people were in regular paid employment in September 1979. Of this, 47,968 were wage earners and 29,127 were salaried personnel. Over the 12 month period to September 1979, employment increased by 2.7 per cent.

Significant increases in employment were in the Mining and Quarrying (18.0%) and the construction (13.3%) sectors. Employment declined in Agriculture, Forestry and Fishing (-1.6%) and the Wholesale and Retail Trade (-1.8%).

According to statistics published by the Labour Department, industrial relations in Fiji have improved over the last three years in terms of number of man days lost from strikes. Statistics for the first three quarters show a decline in the number of strikes from 64 in 1977 to 37 in 1979, a decline in the number of workers involved from 10,045 in 1977 to 3,266 in 1979, and a decline in the number of man-days lost from 77,615 in 1977 to 23,103 in 1979. This improvement is possibly due to the Tripartite Forum's establishment of wage guideline which removed exorbitant wage demands from the industrial scene. Several other issues were also expeditiously solved by the Tripartite Forum.

STRIKES Quarter 1 - Quarter 3

	<u>1977</u>	<u>1978</u>	<u>1979</u>
No. of strikes	64	33	37
Workers Involved	10,045	4,408	3,266
Man-days lost	77,615	32,803	23,103

PRICES

The Consumer Price Index (CPI) advanced a significant 4.0 points (2.3%) in December taking the year-on-year rise to 11.6 per cent from one of 8.9 per cent for the year to November. The comparative figure for December 1978 was just 5.0 per cent.

The rate of inflation for 1979 (i.e. the average annual increase in CPI for the period January to December over the similar average for 1978, expressed as a percentage) was 7.7 per cent, thus ending a progressive decline in the rate which had dropped from a peak of 14.4 per cent in 1974 to 6.1 per cent in 1978. A breakdown of the CPI into its respective sectoral components shows that the Transport (which includes petrol prices and public transport fares) and miscellaneous indices provided the highest average annual price increases of 12.0 and 10.3 per cent respectively. The household operations (furniture, crockery, cutlery prices etc) and housing (which includes rent and electricity prices) sections registered 8.9 and 7.6 per cent increases respectively, followed by the food (6.0 per cent) and clothing and footwear (5.5 per cent) sections. However, despite the relatively small increase in the food sectional index, due to its dominant weight in the calculation of the CPI it contributed 2.4 per cent to the total 7.7 per cent inflation rate.

The contributions of the Transport and Miscellaneous sections were only 0.9 and 1.2 per cent respectively. Of the remaining sections, Housing contributed 1.8 per cent, Household Operations 1.1 per cent and Clothing and Footwear 0.3 per cent.

PUBLIC FINANCE

The operating budget outcome for 1979 is now likely to be more favourable than what was expected in the original 1979 budget. The original budget anticipated a deficit of \$4.04 million in the operating budget compared to a revised surplus of \$2.29 million. The reasons for this development are a \$1.6 million saving in expenditure and the buoyancy of revenue which brought in \$4.74 million more than expected. The expenditure saving is mainly due to lower debt servicing arising from the later and smaller drawdown of overseas loans and the phasing of local loan drawdown. The lower expenditure on debt servicing is expected to be partially offset by increased expenditure on salaries and other charges. The increase in revenue resulted mainly from the implementation of Customs duty and excise tax increases approved in the 1979 Budget coupled with inflation and an unexpectedly high level of imports of dutiable goods. The size of the capital budget, on the other hand, is likely to be \$2.31 million higher than the original budget due mainly to the Posts and Telecommunications Department in which Government expects to spend \$4.5 million more than earlier estimated. Consequently the overall budget deficit is likely to be \$4 million lower than the \$64 million estimated in the original budget.

The pattern of actual financing of the overall budget deficit is substantially different from what was envisaged in the original budget with much higher funding in the local capital market in the revised estimates. In the revised estimates in 1979, 42 per cent of the deficit is expected to be financed from local loans, 47 per cent from foreign borrowings and 10 per cent from grant aid as compared to the original budget estimates of 29 per cent from local loans, 64 per cent from overseas loans and 7 per cent from grant aid.

EXCHANGE RATES

In 1979 the Fiji dollar strengthened against the Japanese Yen, New Zealand dollar and the Australian dollar by 20.5 per cent, 5.6 per cent and 1.2 per cent respectively. At the same time the Fiji dollar depreciated against the pound sterling and the U.S. dollar by 11.1 per cent and 2.5 per cent respectively.

IMPLICATIONS FOR THE UNITED STATES

Fiji's improving trade links with the United States show an increase in both the export and import figures for 1979. The main export item is food generating \$30.1 million. While exports to the United States are increasing each year, imports also increase steadily. The main imports from the United States are machinery and consumer goods. The United States is now the second largest importer of Fiji's sugar.

Trade will continue to improve as more U.S. companies promote their products in the South Pacific as it was indicated by a first Trade Exhibition held during June 1980. Continued enquiries for new equipment and machinery are being received from various business sectors in the South Pacific. Clothing wear, processed food items, sports goods and various office stationery and equipment would have ready markets in Fiji.

Recent trade negotiations between New Zealand and Fiji have created some disapproval by the Fiji Government with New Zealand policies and may induce a turnaround for Fiji to look for new and better products from other countries. This problem is likely to have some adverse effects on the Fiji imports from New Zealand.

With the continuing drop in the exchange rate between the U.S. dollar and Fiji dollar, the prospects for increased Fiji imports looks quite favorable. The lowest rate that the U.S. dollar has fallen is about US\$1.25 to the F\$1.

In a major development planned for the rehabilitation of the main Fiji sea port of entry, U.S. contracting companies have been given the chance to tender for a project which would cost in the vicinity of about F\$20 million or more. The likely date for the close of tenders is approximately about July 1981. The Ports Authority of Fiji is the Government-controlled body which through an Asian Development Bank loan will finally decide on the contracting firm.

The 1979 visitors arrival in the United States from Fiji totalled 2,551. The majority of these arrivals were people on business/vacation trips. The interest to visit the United States by Fiji people is ever increasing each year due to the reduced airfares available directly to the West Coast of America.

The future of trade between Fiji and the United States looks most promising considering the few points mentioned in this report. It is hoped that more American businessmen will be willing to travel to Fiji to review first-hand the trading opportunities offered here.