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MANAGEMENT

Master's Programme in Economic Growth, Population, and Development (Development Track)

Trouble in Paradise: An Analytic Narrative of Political Turmoil and Growth in Fiji

Has political instability led to Fiji's poor economic performance, and if so, how?

by

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Abstract: Fiji has been plagued with issues hindering its economic development. Having experienced 4 coup d'états in the last 40 years owing to tension between the countries' two majority ethnic groups, Fiji has developed a reputation for political instability. Lacklustre growth, weak structural transformation, and limited economic diversification have led to increased poverty levels. With the Covid-19 pandemic likely to cause severe economic damage, it is more important than ever for Fiji to identify and address the causes of its poor economic performance. This paper adopts an analytic narrative approach to investigate whether political instability has led to Fiji's poor economic performance, and if so, how.

This paper hopes to contribute to existing literature by first providing a detailed narrative of the principal agents and key decision points. Second, by analysing the sequenced account of events against the evolution of key economic performance indicators. And third, by evaluating the parsimonious explanatory mechanisms offered by previous literature and suggested by the paper's narrative within the context of Fiji's unique case. The paper finds that Fiji's political instability has indeed led, at least in part, to Fiji's poor economic performance. Furthermore, it finds that in order to truly resolve the underlying causes of political instability the current government will have to steps beyond those already implemented.

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Map 1. Map of the Pacific Island Countries. Source: WorldAtlas

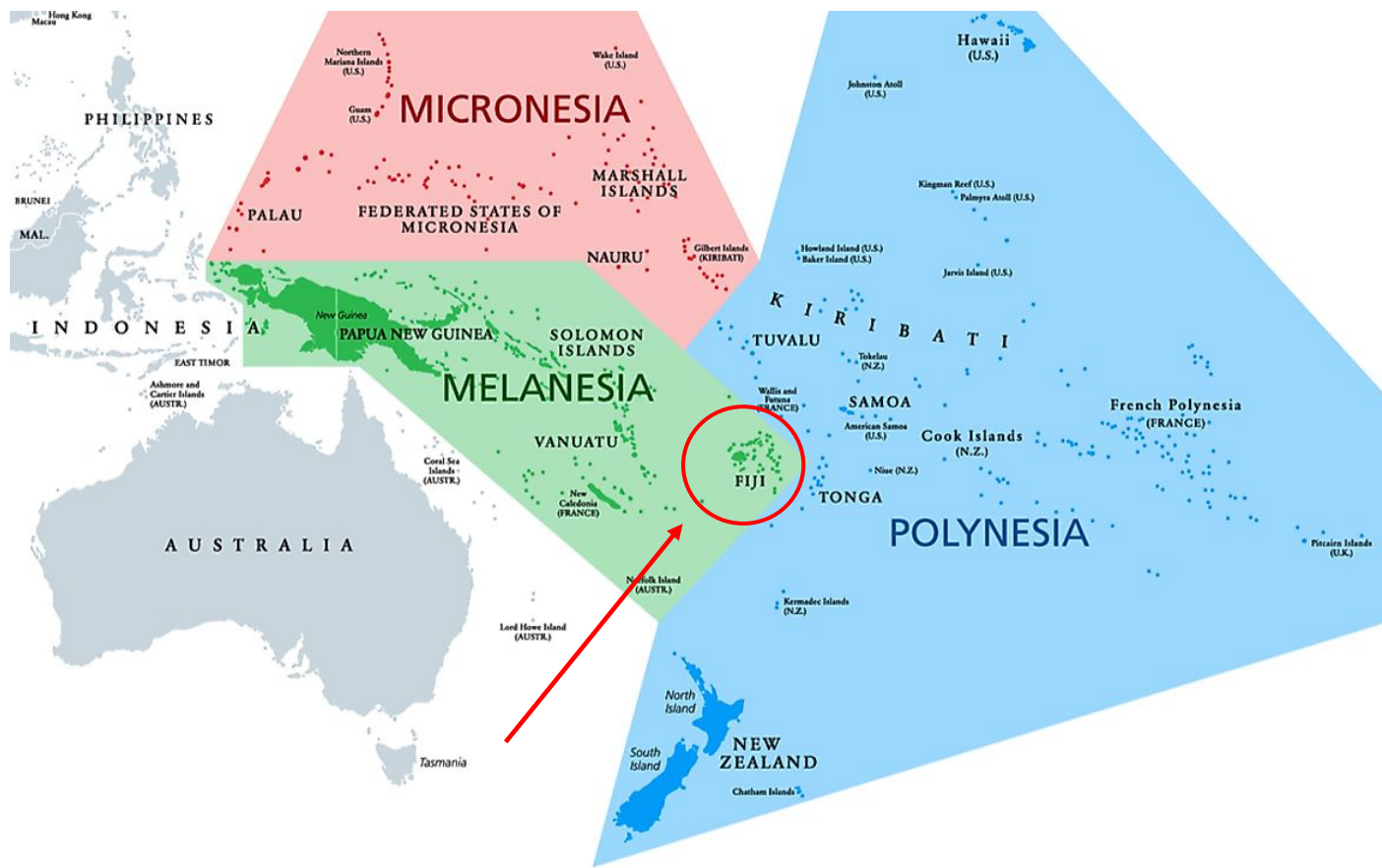


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Abbreviations

FDI – Foreign Direct Investment

GDP – Gross Domestic Product

HDI – Human Development Index

HIES – Household Income and Expenditure Survey

ILO – International Labour Organisation

IMF – International Monetary Fund

NLTB - Native Land Trust Board

PIC – Pacific Island Country

RBF – Reserve Bank of Fiji

SIDS – Small Island Developing State

UNSD – United Nations Statistics Division

1. Introduction

Fiji sits in the middle of the Pacific Island Countries. Arguably the most developed of the PICs, Fiji functions as an important regional hub linking the many small and widely dispersed nations. However, despite the country's welcoming people and idyllic shores, Fiji has been plagued with issues hindering its economic development. Having experienced 4 coup d'états in the last 40 years owing to tension between the countries' two majority ethnic groups, Fiji has developed a reputation for political instability. Lacklustre growth, weak structural transformation, and limited economic diversification mean poverty levels have increased from 7% in 1970 to 24% today (Gounder, 2012; United Nations, 2020). Relying heavily on tourism, Fiji's economic woes are likely to be further exacerbated by the effects of the Covid-19 pandemic. It is therefore more important than ever for Fiji to identify and tackle impediments to growth. Identifying political instability as a possible cause, this paper poses the question of whether political instability has impacted Fiji's economic performance, and if so, how?

Fiji's population is predominantly comprised of two ethnic groups: Indigenous Fijians and Indo-Fijians. The former are descendants of the pre-colonial Melanesian population, while the latter are descendants of Indians brought over by the British as indentured workers for Fiji's sugarcane plantations. Despite the long history of the two groups cohabitating, mutual integration has remained elusive. Though not geographically segregated, numerous studies have shown high polarisation between the two ethnic groups. The ethnic tensions have not only affected the social fabric of the nation but have also had severe impacts on its political stability. All 4 coups were heavily ethnically motivated, with indigenous Fijians fearing the loss of control over native lands and resources. Conversely, Indo-Fijians have been vying for a more equal legal footing (Leuprecht, 2011). Four constitutions since 1980 have attempted to strike a balance in which indigenous rights are protected whilst providing Indo-Fijians with equal opportunity to participate both politically and economically.

Since the coup in 2006, Fiji has enjoyed its longest period of stability since political turmoil began back in 1987. The current government has tried to ensure continued stability by adopting an "ethnically blind" constitution to soothe ethnic tensions. However, critics warn that this latest attempt at solving Fiji's ethnic troubles is akin to sticking their heads in the sand, and fear that instability may return (Kant, 2019). Looking at how Fiji's political instability has affected its economic performance, this paper investigates the underlying socio-economic

causes of the instability in the hopes of generating a better understanding of both the impact they have had and whether they have successfully been addressed.

Though numerous studies have linked Fiji's political turmoil to its economic performance (Prasad & Tisdell, 1996; Chand, 1997; Gounder, 2004; Narayan & Smyth, 2005), they have focused their attention on individual components of the economy. Furthermore, the period after the most recent coup is largely underexplored. Contextualising this most recent period within the complex narrative of Fiji's past is one of the main aims of this paper.

To do so the paper employs the analytic narrative approach developed by Bates et al. (1998). This approach is particularly useful as the case of Fiji presents a very unique case study. As a Small Island Developing State Fiji faces many geographic constraints while having to balance the cultural heritage of its Indigenous population with the rights of its Indo-Fijian ethnic group, making it difficult to make any direct comparisons with other countries.

1.1 Problematization

One of the key challenges facing Fiji today is low levels of confidence in its political system. The high levels of ethnic tension between the two major ethnic groups are of continued concern and continue to hinder Fiji's economic performance (Gounder, 2020). The turmoil caused by repeated coups and constitutional rewrites resulted in an unstable environment with sudden withdrawals of aid and the imposition of sanctions (Gani, 2005). Though the situation has stabilised since 2006 and sanctions have been lifted, Fiji has yet to restore credibility and trust in its institutional framework.

Despite Fiji being one of the most developed PICs it has a long history of fluctuating economic growth. Though it has successfully sustained moderate levels of growth for short periods of time it has been plagued by frequent contractions. This issue is further compounded by the severe effects of the Covid-19 pandemic, with gross domestic product growth in 2020 estimated at a frightening -19% (Reserve Bank of Fiji, 2020). Improving Fiji's economic performance is important if the country hopes to continue reducing its levels of poverty (World Bank, 2017). Poverty is a particular issue amongst Fiji's many remote island communities, which will require significant investment in infrastructure to better connect them to the main islands as well as create local opportunities (Gounder, 2012).

Furthermore, Fiji faces numerous geographic constraints. Similar to other SIDS, its small size and relative geographic isolation result in a limited domestic market and expose it to external threats. This can make it challenging to attract foreign investment and develop thriving industries, with climate change posing a particular threat to longer-term endeavours, for instance through an increased risk of cyclones (Hassan & Cliff, 2019). “Brain drain” in the form of predominantly Indo-Fijian emigration also remains a challenge (Reddy, Mohanty & Naidu, 2004). Though the situation has improved since the enactment of the most recent “ethnically blind” constitution in 2013, many skilled Fijians choose to emigrate in search of better opportunities (ILO, 2019). This decreases the country’s human capital, which has in turn been shown to impact the levels of economic growth and development (Baljeet, Jayaraman & Singh, 2007).

1.2 Aim of the Study

The aim of the study is to investigate how political instability has impacted Fiji’s economic performance. This is done, firstly, through constructing a sequenced account of Fiji’s unique geographic and socio-political background. Second, the key resulting drivers and constraints are used to analyse the country’s economic performance across selected economic components, in order to identify patterns and elucidate any existing relationships. Finally, the findings of the analysis are evaluated against the drivers and constraints stemming from the sequenced account, in order to answer the following research question:

Has political instability led to Fiji’s poor economic performance, and if so, how?

1.3 Delimitation

This paper focuses its analysis on the period between 1980 and 2020. Some data from 1966 onwards is provided, though this is primarily for historical context. Given the limited scope of this paper it is not feasible to evaluate every aspect of economic performance. Therefore, a select number of indicators have been chosen on the basis of their impact on Fiji’s overall economic performance, including GDP, consumption, domestic investment, foreign direct investment, business confidence, and emigration, among others. However, the factors considered in this paper are by no means exhaustive. Furthermore, this paper focuses only on the potential economic impacts of political stability. The numerous other factors which can

impact a given economy are not directly considered. It is also important to note that political stability is difficult to measure or quantify in an objective manner and this paper therefore must rely on a variety of sources to derive as accurate an understanding as possible. The same applies to evaluating ethnic tension and its economic and political impact. There are likely many factors which influence both political stability and ethnic tension, and this paper does not aim to provide definitive accounts of the determinants of either.

1.4 Relevance

As one of the largest and most developed PICs, Fiji functions as a regional hub for many of its neighbours. Fiji's fortunes therefore play a crucial role in the economic prosperity and development of the region at large. In particular, its role as a transport hub helps connect the otherwise isolated island states to global markets (Chand et al., 2020). Fiji also provides aid and development resources to many of its smaller neighbours. This support not only helps them develop, but also decreases their dependence on international aid donors. It may also help protect other PICs from geopolitical power struggles between traditional Western donors and emerging ones, such as China (Salem, 2020). Safeguarding the region's independence is vital if they hope to assert their voices on the global stage to protect themselves from looming threats such as climate change.

Since introducing the 'ethnically blind' constitution in 2013 the government has, at least officially, sought to assuage ethnic divides (Kant, 2019). Better understanding of the interplay between these efforts and the country's economic performance will not only provide insight into how economically effective they have been, but also elucidate what more needs to be done for Fiji to sustain sufficient levels of growth to alleviate poverty and improve Fijians' standard of living. This is particularly important in light of the Covid-19 pandemic. In 2019 tourism made up roughly 35% of Fiji's GDP. The pandemic has taken a veritable sledgehammer to the industry, with visitor arrivals declining 83.6% in 2020 compared with 2019 (Reserve Bank of Fiji, 2020). Along with a number of other sectors struggling to cope with the effects of Covid-19, ensuring stable economic growth will be vital for the country to recover.

Finally, questions surrounding the impact of political stability and institutions on the economic performance of a nation remain at the forefront of development economics. Equally, the potential impacts and consequences of ethnic diversity are relevant to ethnically diverse

countries around the world. Fiji provides an underexplored and unique case study of these dynamics at play, offering up potential insights that can further our understanding of the processes involved in the economic development of a nation.

1.5 Outline of the Thesis

This thesis first provides a narrative account of Fiji's history and background. An overview is provided of the key dynamics which have shaped the socio-political fabric of the nation, and how they have evolved over time. Particular attention is paid to Fiji's previous elections, coups and constitutions, in order to better understand the relationship between Fiji's political history and its economic and ethnic difficulties. Some of the challenges faced by Fiji as a SIDS, and as a PIC in particular, are also explored along with an overview of the country's economic structure.

Subsequently, existing academic literature is reviewed. Previous studies on the impacts of Fiji's political instability are presented. Furthermore, theoretical implications of ethnic diversity are explored, followed by academic work focusing on the role of ethnicity in Fiji specifically. Following the literature review the theoretical framework is laid out, and its limitations discussed. Before conducting the analysis, the chosen methodology is presented along with an overview of the data used and the sources from which it was obtained. The limitations of both the methodology and the data are discussed.

The analysis is organised by economic components. Each section presents the theoretical expectations as well as the impact and implications for the paper. The section is then concluded, with the main findings of each section summarised. Finally, the paper concludes by presenting all of the findings and their implications for the research question and aim, before suggesting potential avenues for future research.

2. Background

2.1 National History

The Fiji Islands have been settled by humans since around 2000 BC, first by Austronesian peoples and later by Melanesians, who comprise the indigenous population today. Made up of around 300 islands that span over 1000km, Fiji has hosted numerous tribes with many different languages. Today, Fiji has three officially recognised languages: Fijian (iTaukei), Fiji Hindi and English. However, due to the dispersed nature of the country there remain many regional dialects and even languages, many of which would be unintelligible to other Fijians (Britannica, 2021).

First sighted by Europeans in 1643, their involvement with the Fijian islands gradually increased. Initially used as an occasional stop-over for fresh water and food supplies, European traders and whalers eventually established small permanent settlements. As these settlements grew, so did the settlers' desire to influence and gain control over the area. This culminated in the annexation of the short-lived Kingdom of Fiji by Great Britain in 1874 (Britannica, 2021).

By 1878 the British started importing indentured workers from India to work on sugarcane plantations. It is estimated that between 1878 and 1916 around 61,000 workers were brought over from India. Though the workers were allowed to return to India, they were required to work in Fiji for at least ten years before the government would cover the costs. As a result, a majority of them settled in Fiji permanently. Their descendants make up today's Indo-Fijian ethnic group. (Crosetto, 2005).

In 1970, Fiji's negotiations for independence arguably prefaced the ethno-political struggles which have since come to define Fiji's public realm (Akram-Lodhi, 2000). During their negotiations with Great Britain Fiji had two separate delegations, one indigenous Fijian, the other Indo-Fijian. At the time, Indo-Fijians constituted a majority of the population, which led to fears amongst indigenous Fijians that they could lose control over native land and resources if there were a fully elected legislature. As a result, a compromise was reached in which the senate would have a near majority comprised of Fijian chiefs, able to veto any bills aiming to weaken indigenous ownership of land, whilst the parliament had 22 of 52 seats reserved for indigenous and Indo-Fijians respectively. The remaining 8 seats were reserved for other

minority groups. A resulting feature of this compromise was that it codified ethnic affiliations into the nation's constitutional structure (Sherlock, 1997).

2.2 SIDS

The United Nations considers Fiji to be a 'Small Island Developing State' (United Nations, 2020). SIDS are characterised by their relatively small domestic markets, limited population sizes, geographic remoteness, and economic and environmental vulnerability. This can present numerous challenges to developing their economies. Due to the small market size, economic diversification is often limited, and reliance on external powers and expertise is high. Given the numerous vulnerabilities, economic growth is often volatile (Bolesta, 2020). To mitigate some of these challenges, SIDS are often more economically open, and sometimes employ creative policy regimes in order to attract foreign businesses. This can, however, also make SIDS further dependant on global economic fortunes over which they exercise little control (Bolesta, 2020). Finally, it should be noted that the SIDS classification comprises a very heterogenous grouping of nations, and as such there exist significant variations between them.

The PICs fall within this categorisation; however, they have in many cases even more extreme context-specific challenges. First comes the issue of sovereignty. Though many PICs, such as Fiji, are fully independent sovereign states, many others are either overseas territories, such as French Polynesia and New Caledonia, or associated to various degrees with other nations, such as Niue or American Samoa. Though many derive some benefits from their connections to larger nations, this structure inhibits their ability to fully exercise their sovereign rights (Levine, 2012).

Secondly, there exist immense disparities in terms of size and population. For instance, the largest of the PICs, Papua New Guinea, has a total land mass of a little over 450 thousand square kilometres, while Tokelau only has 12 square kilometres. The population sizes are similarly varied, ranging from 8.6 million in Papua New Guinea to just 1.6 thousand in Niue. These vast differences present very different challenges to the individual countries and are reflected in variations in their economic structures and performance. For example, at \$17,000 Palau has a GDP per capita which is more than ten times that of Kiribati, with just \$1,600.

Due to the enormous size of the region, many PICs are particularly remote, and many of them are made up of groupings of islands which are themselves hundreds of kilometres apart. This can significantly increase transport costs. The provision of government goods and services can also become more expensive. Facilities such as schools and hospitals can only function efficiently over limited distances, and small and dispersed populations present challenges in achieving economies of scale. The provision of infrastructure is a common problem across many PICs and can be significantly more expensive on a per capita basis than would be the case for non-SIDS (ESCAP, 2019).

Table 1
Pacific Island Countries Overview - 2018

States	Population (thousands)	Landmass (km ²)	GDP (current US\$, millions)	GDP per capita (current US\$)
Fiji	833.5	18,274	5,479.5	6,202
Kiribati	115.9	811	188.3	1,625
Marshall Islands	58.4	181	211.5	3,621
Federated States of Micronesia	112.6	702	344.5	3,058
Nauru	12.7	21	114.7	9,030
Palau	17.9	459	310.1	17,318
Papua New Guinea	8,606.3	452,869	23,431.6	2,723
Samoa	196.1	2,821	861.5	4,393
Solomon Islands	652.9	27,986	1,411.9	2,163
Timor-Leste	1,268	14,919	2,581	2,036
Tonga	103.2	717	450.4	4,364
Tuvalu	11.5	26	42.6	3,701
Vanuatu	292.7	12,189	887.8	3,033

Table 1: Pacific Island Countries Overview. Source: Bolesta, 2020

2.2.1 Climate Risks

One of the most significant long-term challenges facing SIDS, and PICs in particular, is climate change, with rising sea levels as only one of many concerns. According to the Asian Development Bank (2019), most of the Pacific islands are only metres above sea level. Some may conceivably disappear entirely according to current predictions. Even if current predictions are reversed, climate change is already causing significant damage. In countries with little tree cover, such as Tuvalu or the Marshall Islands, rising sea levels are already washing salt water onto agricultural lands (Goulding, 2015). Furthermore, Hassan & Cliff (2019) describe how saltwater intrusion and increased storm surges have resulted in falling crop yields, water shortages and contaminated drinking water.

One of the few coping mechanisms currently available involves relocating populations to lower-risk areas. However, this poses significant economic challenges, not to mention the cultural and social costs of people being forced to abandon their homeland. Fiji has already identified 40 specific communities which will need to be relocated in the near future (McNamara & Des Combes, 2015). However, the list is likely to grow rapidly as it is estimated that over 200 communities will require relocation, with cost estimates equivalent to the entirety of Fiji's annual GDP (Rosencranz & Salem, 2021). Worse still, for other PICs there is simply nowhere to relocate to, for example forcing Kiribati to purchase land in Fiji for the future relocation of their own nationals (McNamara & Des Combes, 2015).

Tropical cyclones, a long-established climate risk in the region, are also being exacerbated by changes to the climate. Not only are they becoming less regular, and therefore harder to predict and prepare for, but they are also increasing both in frequency and intensity. Though most PICs are usually able to prevent significant loss of life, the economic costs can be devastating. For instance, in 2015 Vanuatu was hit by cyclone Pam, which erased a shocking 65% of its GDP (Mohan & Strobl, 2017). According to the Fiji meteorological service (2021), between 4 and 6 tropical cyclones are expected to affect the region in 2021.

2.2.2 Structural Transformation

One of the cornerstones of successful economic development is the structural transformation of a nation's economy, wherein the value added of national economic output gradually increases (Bolesta, 2020). Structural transformation can take place both *within* individual sectors, and *between* sectors. Though in some cases intra-sectoral transformation can produce the fastest increases in productivity and poverty reductions in the short-term (ESCAP, 2019), in the long run transformation between sectors is necessary. Traditionally, economies transform from agriculture to industry, before transforming into services. However, for many SIDS, and PICs in particular, the traditional model of structural transformation can be difficult to follow.

The most significant issue is the region's immense size. Almost 9,000km apart, it would take a freight ship 17 days of non-stop sailing to reach French Polynesia from Palau. The distances involved increase transportation costs, which, coupled with relatively few natural resources and limited economic diversity, makes it difficult to integrate the region into global supply chains. The scope for thorough industrialisation, therefore, is limited (Bolesta, 2020).

Consequently, it is common for PICs, including Fiji, to “skip” the industrialisation phase and instead move straight into services. This is problematic for two reasons: first, shifting straight to services often brings limited productivity gains (Rodrik, 2018), and second, it is the shift from agriculture to industry which provides the most significant reductions in poverty (ESCAP, 2016). Transforming the economy from agriculture to services risks merely relocating rural poverty to urban poverty, instead of increasing productivity and reducing poverty overall.

Though research focused on PICs remains scarce, some alternatives have been proposed. Bolesta (2020) suggests modernising agriculture to boost productivity, and in countries such as Fiji where commercial crop production is viable, to invest in further improvements. He further highlights the potential fishing and even offshore mining value of the PICs’ exclusive economic zone, which is 31 times larger than their combined land mass. The Pacific Islands Forum Fishery Agency estimates that \$2.5 billion worth of tuna was caught in 2016, while only \$331 million in access fees was collected (Gillett, 2016). This presents a clear opportunity to more fully utilise their natural endowments, for example by developing stronger domestic fishing industries. Finally, tourism could be further developed, though Bolesta (2020) cautions that this should be done following Bhutan’s model of a strictly regulated but high-value tourism sector to protect their natural environments.

In order to further develop, PICs need to structurally transition from agriculture to “productive” services and “modernised” agriculture (Bolesta, 2020). Achieving this, however, will require significant investment, macroeconomic and political stability, steps to better protect against external shocks, and sustained economic growth (World Bank, 2017).

2.3 Elections & Ethnic Tensions

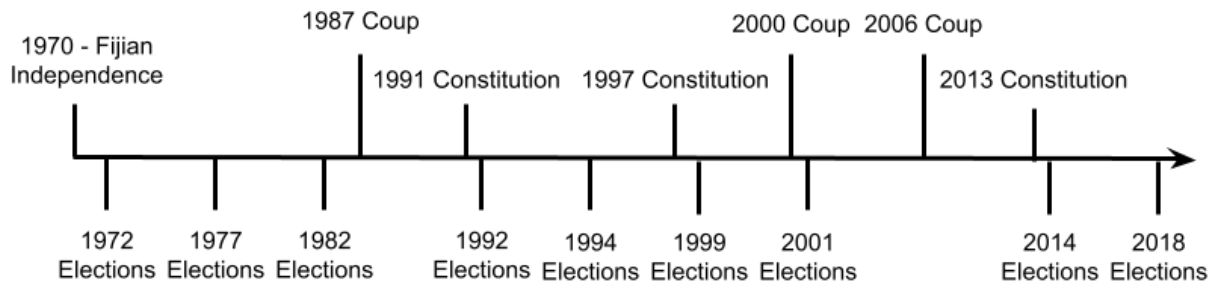


Figure 1: Timeline of Key Political Events in Fiji, 1970-2018. Source: Own Illustration

Since independence in 1970, Fiji has held 12 elections. Of those, the first 4 elections were won by Fiji's first Prime Minister, Ratu Sir Kamisese Mara, an indigenous Fijian. After 17 years of indigenous rule, the first Indo-Fijian led coalition won the 1987 election. This immediately escalated ethnic tensions between the two majority groups, with particular concern and resentment among indigenous Fijians. Within a month, Lieutenant-colonel Sitiveni Rabuka instigated the first of two coups which resulted in the overthrowing of the Indo-Fijian led government. It was shortly followed by a second coup and the declaration of a new republic, severing ties with the British monarchy (Prasad & Tisdell, 1996).

In a bid to secure greater constitutional power for indigenous Fijians, Rabuka's government introduced a new constitution in 1990. It was heavily ethnically biased, and effectively excluded Indo-Fijians politically (Sherlock, 1997). However, the controversial constitution also served to increase tension within the indigenous Fijian community itself. Already struggling to cope with the rapid transition from a traditional society to a modern one, the further economic fallout from the constitutional change exacerbated the situation (Akram-Lodhi, 2000). The political and economic environment led to the mass emigration of skilled Indo-Fijian workers, a significant decrease in foreign investment, and isolation on the international stage (Sherlock, 1997). However, despite these issues Rabuka won re-election in 1992.

By 1994, simmering frustration among Indo-Fijians over the discriminatory provisions of the 1990 constitution brought about an early election. Indo-Fijians demanded a constitutional review in order to address the existing electoral imbalances. Though Rabuka remained in power, a constitutional review initiated in 1996 resulted in the unanimous passing of the 1997

constitutional amendments. It was focused on a more balanced distribution of political power (Kant, 2019).

Following the amendments, new elections were held in 1999. Similarly to the events of 1987, an Indo-Fijian party secured an outright majority in parliament but was overthrown in another coup, this time within a year of their election. Despite efforts by the president and “father of the nation” Ratu Sir Kamisese Mara to persuade the indigenous Fijian parties to accept the new government, and new prime minister Mahendra Chaudhry assigning 11 out of 18 cabinet posts to indigenous Fijians, ethnic tensions continued to build until the May 2000 coup led by George Speight (Akram-Lodhi, 2000). The underlying reasons for the coup, however, remain debated. The official pretext was once again the protection of indigenous rights, but there are allegations that the coup was an excuse for personal gain. Speight had himself been declared bankrupt and accused of corruption by the Chaudhry government (Kant, 2019). Regardless of the true personal motivations of the conspirators their exploitation of the existing ethnic divides further heightened ethnic tensions in Fiji.

The heightened ethnic tensions were felt throughout the 2001 elections, considered one of the most bitterly contested in the country’s history (Gounder, 2004). Organised to restore democracy after the coup failed, the previously ousted Indo-Fijian government narrowly lost to the indigenous Fijian party of Laisenia Qarase. However, the ethnic tensions did not disappear after the election. The Qarase government put forward bills that could potentially pardon the instigators of the 2000 coup. This led to strong public rebuttals by the Fijian military, eventually culminating in early elections in 2006 and yet another post-election coup, this time led by Commodore Frank Bainimarama (Kant, 2019).

After an interim period, Bainimarama effectively gained control over the government after being appointed prime minister. The takeover by the military government was perceived to undermine democracy and good governance in Fiji (Tarte, 2021). As a result, the international community suspended aid flows and imposed economic sanctions. The regional powers of Australia and New Zealand tried to coordinate global action to pressure Bainimarama into returning control to the previously elected government. However, countries such as China did not share these reservations, and so the post-2006 period marks the re-entry of China as a major donor to the country (Salem, 2020).

Once in power, Bainimarama argued that holding new elections required a complete revision of Fiji's constitution to do away with the ethnically profiled provisions. In 2008 the government appointed a national council to draft the new constitution. One of the cornerstones of the new proposal, and one of its most controversial aspects, was that all Fijian citizens were to be considered "Fijian", a term previously reserved only for indigenous Fijians (Kant, 2019). Billed as "ethnically blind", the constitution was officially adopted in 2013. Since its adoption there have been two more elections in Fiji, one in 2014 and another in 2018, both of which were won by Bainimarama, and corroborated by international observers. While Fiji has enjoyed relative political peace and stability since the 2006 coup, Kant (2019) argues that though well-intentioned, the current strategy is akin to "wishing away" Fiji's problems (Kant, 2019, p.110), potentially leading to more conflict unless the deep roots of ethnic strife are confronted.

2.4 Property Rights & Land Tenure

Fiji has very particular legal and even constitutional provisions governing the ownership and tenure of much of the country's land. Traditional structures of communal ownership are deeply engrained in Indigenous culture, and safeguarding access to land and their historic practices has been perhaps the single most important issue concerning indigenous Fijians (Crosetto, 2005). The cultural significance is perhaps best summarised by this quote:

“For the Fijian community, their land is an extension of themselves. It is part of the Fijian soul, and the concept of the "vanua" - the land and the people - lies at the heart of Fijian identity. Land represents life and sustenance, race and culture, and Fijians cling fiercely to their ownership of it.”

- Ratu Mosese Volavola (Crosetto, 2005, p. 71)

To accommodate this relationship, the British set up the Native Land Trust Board, which being continued after Fiji's independence today administers 87% of Fiji's total land area (Lightfoot, 2005). This land is communally owned and, vitally, cannot be purchased or owned by Indo-Fijians, who also cannot partake in its communal stewardship (Mahadevan, 2009). As these provisions have been incorporated into the country's constitutions, including its most recent one, it has created institutional inequity between the two ethnic groups. Indigenous fears of potential attempts at redressing these provisions were the primary rallying call of nationalists

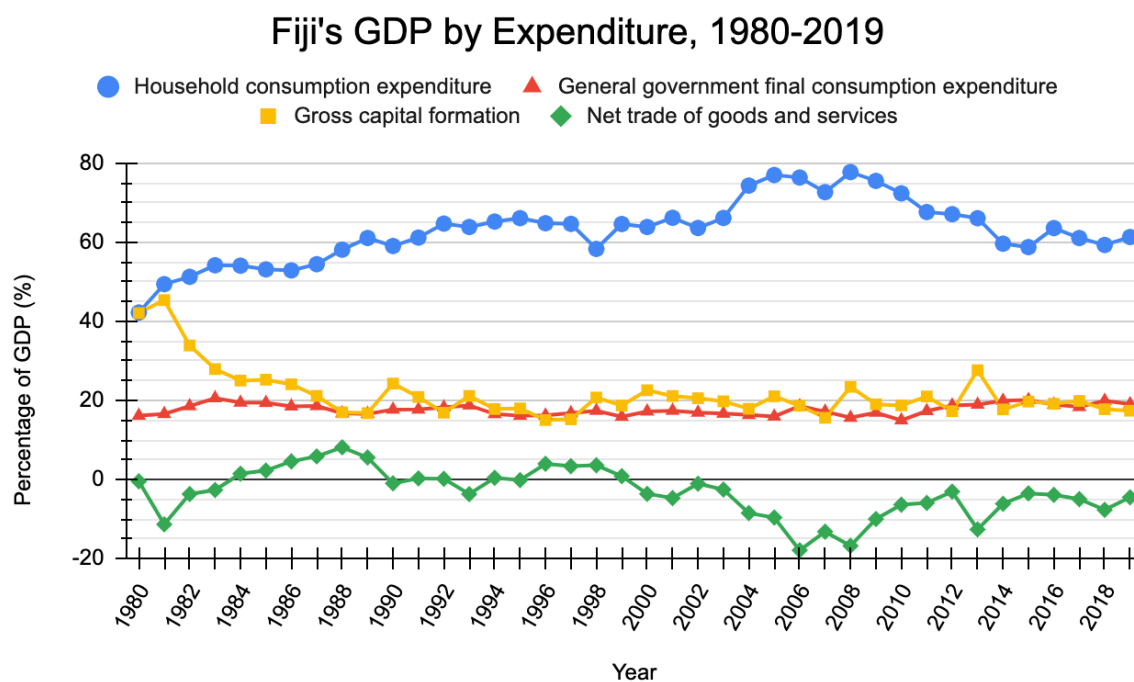
every time an Indo-Fijian government came to power, and were used to justify both the 1987 and 2000 coups (Crosetto, 2005).

As the country transitioned from a subsistence economy to a modern market economy, the issues surrounding the land tenure system have been exacerbated (Crosetto, 2005). Having come to Fiji to work on sugarcane plantations, many of the Indo-Fijians who remained in Fiji permanently settled in rural areas and continued farming. Many of these Indo-Fijian farms have been located on communally owned land, which they have had to lease from its indigenous Fijian stewards. However, as ethnic tensions increased following the 87' coups and the 1991 constitution which enshrined the "paramountcy" of indigenous Fijians, an increasing number of leases were not renewed (Scheyvens & Russell, 2012). This trend was further accelerated by improvements in agricultural productivity which, ironically, generated exaggerated expectations of profitability among indigenous tenants and incentivised land disputes (Gavin & Fafchamps, 1996).

Having in many cases lived on and farmed the land for generations, the sudden rise in evictions took many Indo-Fijians by surprise (Mahadevan, 2009). With only 16% of land in Fiji suitable for agriculture, and few rural alternatives to farming, many Indo-Fijians were compelled to move. Lower levels of experience among the new indigenous Fijian farmers have since led to declining crop yields, particularly in sugarcane production. Averaging 21 tons per acre between 1996-2000, yields dropped to 19 tons per acre between 2001-2005 (Mahadevan, 2009). Though a majority of Indo-Fijians chose to stay in Fiji, mostly moving to urban environments, many chose to emigrate from Fiji permanently. Since the 1987 coups, Indo-Fijians have comprised between 90% and 95% of annual emigrants (Mohanty, 2006). Among those who stayed, the land disputed aggravated already strong feelings of injustice and unequal rights (Gounder, 2004).

Some scholars have, however, identified some potential economic benefits of Fiji's land tenure system. For instance, Lightfoot (2005) argues that such provisions can more evenly distribute the economic gains of new developments. Focusing particularly on tourism, Fiji's largest sector, he finds that communal land ownership can facilitate the overall development of the industry while "landowning communities experience real benefits in deals negotiated with tourism developers" (Lightfoot, 2005, p.1).

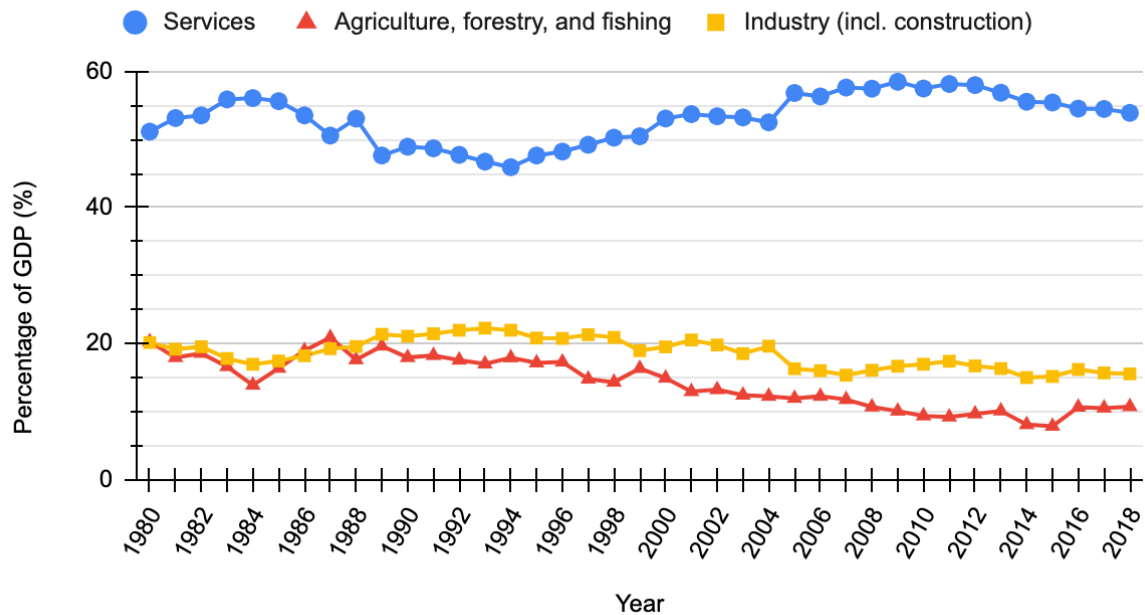
2.5 Structure of the Economy



Graph 1: Fiji's GDP by Expenditure, 1980-2019. Source: United Nations Statistics Division

This section provides some background on the structure of Fiji's economy. A more detailed exploration of the evolution of its economy is provided in the analysis and discussion section. Breaking down Fiji's GDP into its basic components, household consumption accounted for the most significant share, at roughly 61% of total GDP in 2019. Government consumption and gross capital formation (subsequently referred to as total investment) accounted for roughly equal shares, at 19% and 17% of total GDP respectively. Lastly, net trade stood at -5% of total GDP 2019.

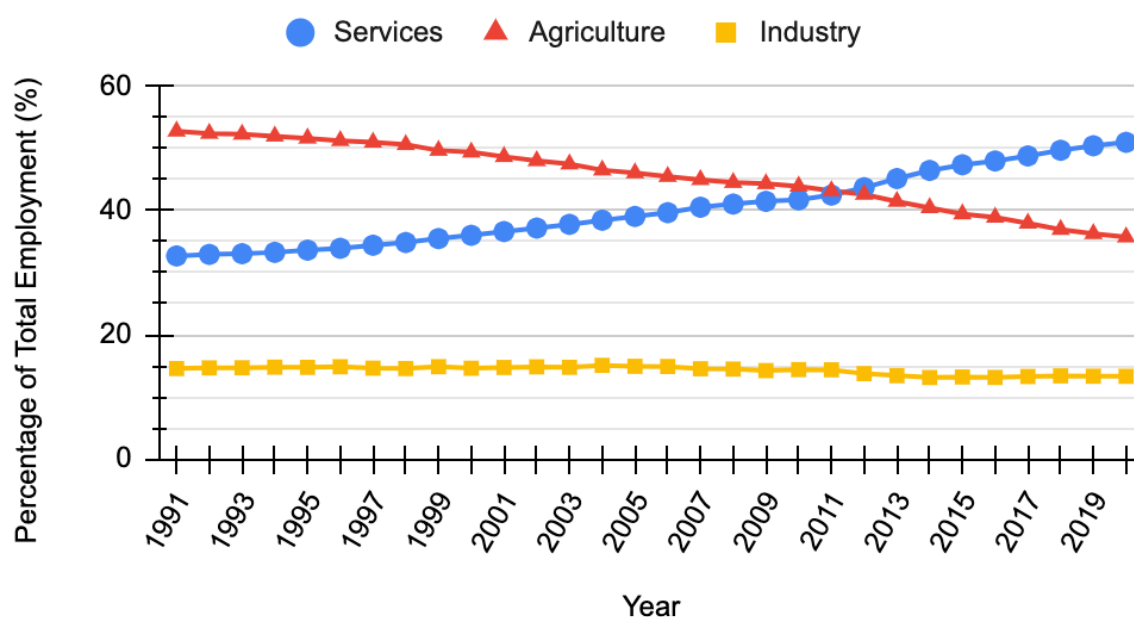
Fiji's GDP by Sector, 1980-2018



Graph 2: Fiji's GDP by Sector, 1980-2018. Source: World Bank

Breaking down Fiji's GDP by sectors, services accounted for a significant majority, representing roughly 69.1% of its GDP. Meanwhile, industry made up only 18.2% and agriculture accounted for 12.7% of GDP. These levels have remained relatively constant since 1980, with agriculture and industry registering a slight decline with a correspondingly small increase of services' share of GDP.

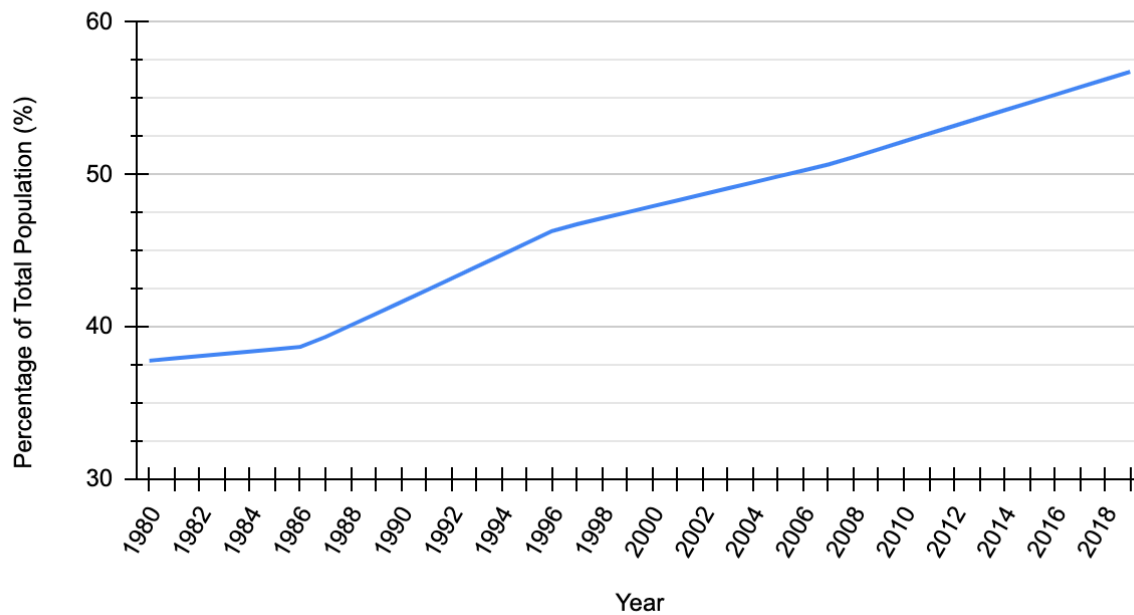
Fiji's Labour Employment by Sector, 1991-2020



Graph 3: Fiji's Labour Employment by Sector, 1991-2020. Source: ILO

However, the composition of employment by sector reflects some of the issues Fiji has faced in structurally transforming. While agriculture accounts for a relatively small percentage of GDP, it employs almost 40% of Fiji's population. Though the percentage of the population employed in agriculture has steadily declined from 53% in 1991, current levels are still high and suggest low agricultural productivity. By contrast, industry employs only around 13% of the labour force, but accounts for 18.2% of GDP. This suggests it is significantly more productive than the agricultural sector. Despite this, industry as a share of GDP has remained near constant since 1980, highlighting the significant challenges faced by SIDS in developing their economies. Employment in the service sector has grown to over 50% in 2020, up from around 33% in 1991. Worryingly however, the sector has not seen a corresponding growth in its share of GDP. This suggests that Fijians moving from agriculture to services are not finding productive employment. Unemployment has however been fairly low, at least until recently, hovering around 4% since 1999 (World Bank, 2020). However, this is likely to have changed significantly as a result of the Covid-19 pandemic, with current estimates placing unemployment at 13.4% (Reserve Bank of Fiji, 2020).

Fiji's Urbanisation Rate, 1980-2019



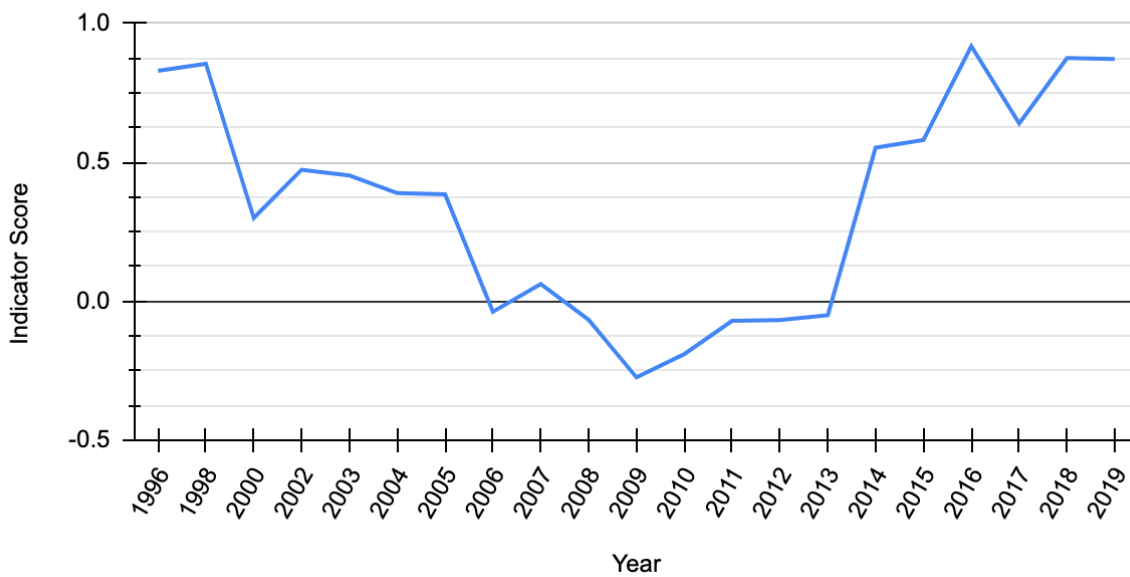
Graph 4: Fiji's Urbanisation Rate, 1980-2019. Source: [World Bank](#)

Urbanisation has been increasing steadily from 38% in 1980 to around 57% in 2019. Unfortunately, much of it has been driven by necessity; Gounder notes that “Rural urban migration has occurred at unprecedented levels augmented by the land tenure systems and lethargic rural economies” (Gounder, 2005, p.). Furthermore, as Fiji’s weak industrial sector has been unable to absorb the inflows of rural labour, most of it has found employment in the service sector. However, with the aforementioned poor levels of productivity, incomes have been low and unstable. Consequently, poverty levels in Fiji have seen an upward trend from just 7% in 1970 to 34% in 2002 (Gounder, 2012; World Bank, 2020). Thereafter poverty levels have decreased to an estimated 24.2% in 2020 (United Nations, 2020). However, the most recent estimate was concluded prior to the Covid-19 pandemic, and according to Biman Prasad poverty levels may have skyrocketed to as much as 50% since (Chaudhary, 2021). However, despite issues surrounding productive employment in cities, urban poverty in 2009 was less than half as prevalent, estimated at 19% compared with 43% rural areas (Fiji Bureau of Statistics, 2007).

2.6 Governance Indicators

The World Bank compiles annual estimates on a range of governance indicators, including Political stability and absence of violence/terrorism, Government effectiveness, and Rule of law. For Fiji, data is available between 1996 and 2016, covering the coups in 2000 and 2006, as well as the 2014 elections. Though such factors are very difficult to quantify, the governance indicators at least provide a quantitative indication of how they have developed.

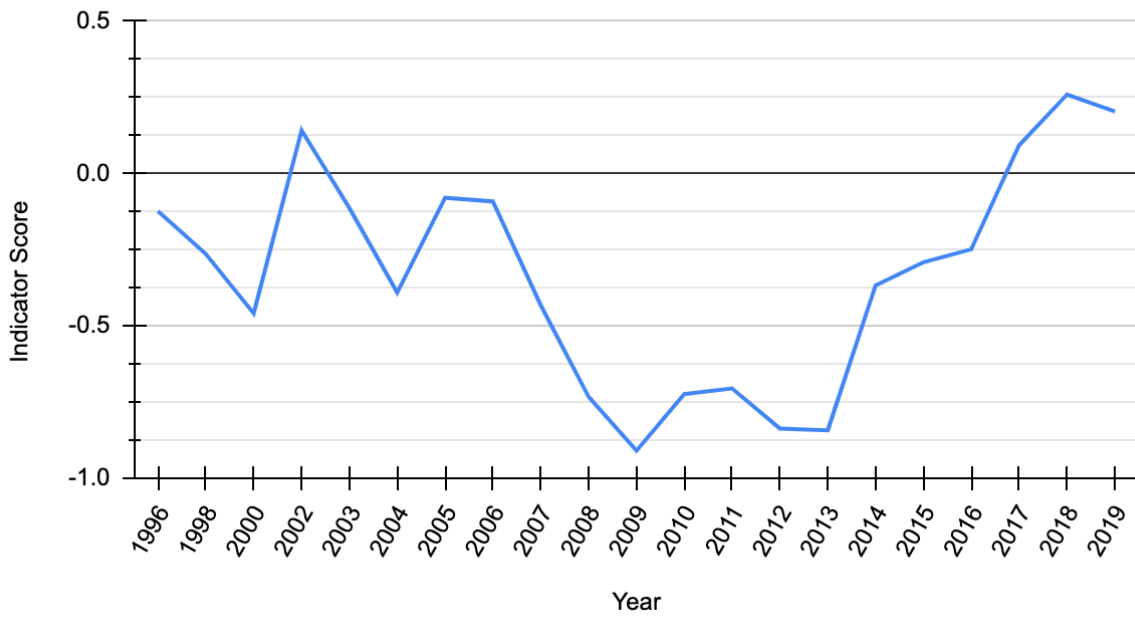
Fiji's Estimated Political Stability and Absence of Terrorism, 1996-2019



Graph 5: Fiji's Estimated Political Stability and Absence of Terrorism, 1996-2019. Indicator Scale -2.5 to 2.5. Source: [World Bank](#)

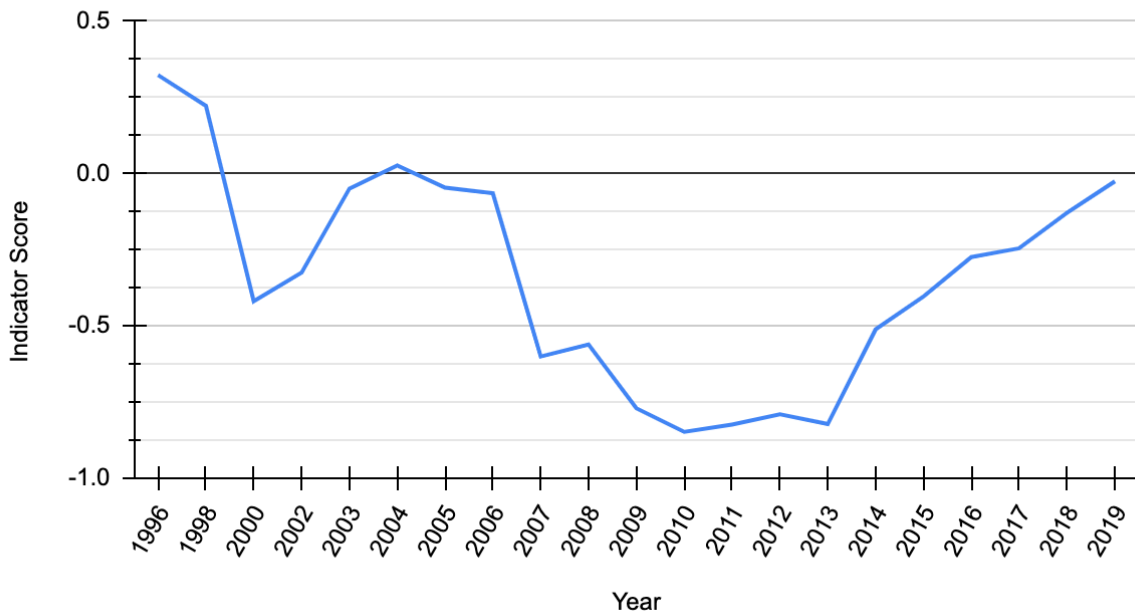
The political stability indicator shows a fairly sharp decline already in 1999, during the elections. It then drops further following the 2000 coup. Though showing marginal improvement following the 2001 election, it remains depressed and continues a slow decline before dropping significantly in 2006, during the most recent coup. Reaching its lowest point of -0.26 in 2009, the political stability indicator starts to slowly improve, before jumping significantly during the 2014 election. Since then it has returned to the high of around 0.75 recorded in 1998.

Fiji's Estimated Government Effectiveness, 1996-2019



Graph 6: Fiji's Estimated Government Effectiveness, 1996-2019. Indicator Scale -2.5 to 2.5. Source: [World Bank](#)

Fiji's Estimated Rule of Law, 1996-2019



Graph 7: Fiji's Estimated Rule of Law, 1996-2019. Indicator Scale -2.5 to 2.5. Source: [World Bank](#)

The indicators for government effectiveness and rule of law follow a similar trend. Government effectiveness drops significantly following the 1999 election, and while it increases briefly in 2002 it again drops significantly by 2004. In 2006, following the coup, the indicator drops severely, only beginning to improve after 2014 following the restoration of democracy during the 2014 elections. The rule of law indicator takes longer to rebound following the 2000 coup, however does so more steadily. Similar to government effectiveness, the rule of law indicator drops significantly following the 2006 coup, and only starts to show sustained improvements around 2014, in line with the 2014 election.

2.7 Recent Economic Performance

Fiji's major industries include tourism, mining, fishing, forestry, and sugarcane production. The country also receives a significant percentage of GDP in remittances from abroad. Prior to Covid-19 the tourism industry in Fiji had seen impressive growth over the past decade, contributing around 35% of Fiji's total GDP. It is also considered to be one of the major recipient sectors of FDI and development assistance (Lowy Institute, 2021). However, the sector has seen an estimated 83.6% decrease in visitor numbers in 2020. Fiji's other major sectors were lagging behind, mostly stagnant with the exception of the sugarcane industry, which saw a significant decline owing to decreasing crop qualities (Reserve Bank of Fiji, 2020).

From 2006 to 2012 Fiji experienced poor and fluctuating economic growth. However, during the following years and until 2017 Fiji's growth seemed to stabilise around a respectable 5%, raising hopes of a "new normal" (Gounder, 2020, p. 146). However, in 2018 growth slowed to 3.5%, falling further to a mere 0.5% in 2019. This was partially attributed to lower consumption activity and falling investors' confidence, and a resultant drop in investment (Reserve Bank of Fiji, 2019). The latest drop in confidence also coincided with the most recent elections in 2018. This economic slowdown has been further exacerbated by the ongoing Covid-19 pandemic, with the RBF estimating a contraction in GDP of 19% for fiscal year 2020 (Reserve Bank of Fiji, 2020).

Overall, the current economic climate looks bleak. Prior to the pandemic, Gounder (2020) concluded that Fiji had limited room for fiscal expansion due to relatively high levels of debt and poor government revenue. Since then, job vacancies have decreased by 66.7%, inflation

has turned into deflation of -2.8% and tourism revenue has dropped by 79.8%. Among the few positives, gold export receipts increased by 17.8% and remittances saw an 11.1% increase to \$652.7 million (Reserve Bank of Fiji, 2020).

3. Literature Review

3.1 Impacts of Ethnic Diversity

A seminal study by Easterly and Levine (1997) investigated the relationship between levels of ethnic diversity and economic growth in African countries. Their paper found a negative correlation between the degree of diversity and GDP growth, suggesting that the more diverse a country the worse its economic performance is likely to be. However, after adjusting their initial focus on the direct effects to control for indirect effects, they found the correlation grew weaker. The controls for political instability and human capital may have been acting as transmission channels, suggesting an indirect link between them, ethnic diversity and economic growth.

La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1999) investigated the influence of ethnic diversity on the quality of governance. Arguing that higher quality institutions are conducive to growth, the paper found that higher levels of ethnic diversity negatively impacted government performance. The effects, they argued, could be transmitted through less efficient bureaucracies, the greater influence of political elites, and less secure property rights. Their findings are in line with the later findings of Collier (2001), who also found that ethnically diverse countries are likely to exhibit inferior government performance. However, Collier finds the effects to be strongest in societies dominated by one ethnic group. In countries which are heavily fractionallised, Collier finds that weaker public sector performance is offset by stronger private sector performance. In the case of Fiji, though both the indigenous Fijian and Indo-Fijian ethnic groups are of a similar size, historically the indigenous Fijian group has dominated.

However, Devleeschauwer, Easterly, Kurlat, and Wacziarg (2003) point out that previous studies have, incorrectly, assumed that ethnicity can be accurately assessed along linguistic lines. Though it is often the case that distinct ethnic groups speak separate languages, there are many cases where that is not necessarily the case, such as in Fiji. The researchers therefore

update Easterly and Levine's (1997) investigation using a more accurate measure of ethnic diversity and find no significant direct effects of ethnic diversity on the GDP growth of a nation. As Gören (2014) points out, this may also suggest that any observed effects are transmitted indirectly.

Indeed, Gören (2014) sets out to study a broad set of channels through which ethnic diversity and economic performance may be interacting, providing an extensive analysis. He finds that ethnic diversity on its own has primarily direct effects on the economy. However, ethnic diversity coupled with significant polarisation between ethnic groups (as is the case in Fiji), Gören finds that indirect channels are more likely to transmit the relationship. He particularly emphasises the impacts on the political sphere and the indirect effects this can have. Interestingly, Gören also finds some potential positive effects, such as greater international trade, however he highlights that the benefits are most likely to be felt in more highly developed nations. Lastly, comparing OECD countries to Sub-Saharan ones he finds that observed effects are substantially lower in the former, suggesting that the quality of institutions may be essential in determining the nature and degree to which ethnic diversity affects a nation.

3.2 Ethnic Tension in Fiji

Fiji remains largely underexplored in extant academic literature. Nonetheless, there exist several studies exploring the ethnic tensions in Fiji and linking them to a variety of negative socio-political effects. Investigating inequality between the two majority ethnic groups in Fiji, Chand (1997) finds that tension between the two groups has been prevalent. One reason for this is a widespread belief among indigenous Fijians that Indo-Fijians are better off. However, upon examining the veracity of this belief, Chand finds it to be misguided. While the paper finds that inequality and poverty had increased between 1977 and 1991, the increases had taken place as a result of increasing gaps between the well-off and the rest of the population. Inequality between the two groups remained negligible, and in some instances, it was in fact Indo-Fijians who were worse off. Identifying emigration and capital flight as particular issues, he argues Fijian policy makers had so far failed to achieve equitable growth.

Examining the 2013 constitution, Kant (2019) explores whether this most recent approach adequately addresses the problems and needs of Fiji's tumultuous past. Billed as an "ethnically blind" approach, the constitution treats all citizens as equal regardless of ethnic background. In

concert with the constitution the government has actively been pursuing a policy of not collecting or officially recording any data along ethnic lines. While praising the general effort and apparent intentions behind these steps, Kant warns against simply trying to ‘wish away’ Fiji’s ethnic diversity. He argues that any approach which fails to recognise the reality of significant existing cultural and historic disparities may inadvertently lead to more conflict in the future. Instead, the paper argues that ethnic differences should be recognised, and explicit attempts made at building mutual understanding and respect.

3.3 Fiji’s Economy

A study by Seruvatu & Jayaraman (2001) sought to empirically investigate the determinants of private investment in Fiji. Though the study found empirical evidence for a relationship between the terms of trade and investment, as well as a dummy variable for coups, the model only explained around 35% of the variation in private investment. Seruvatu & Jayaraman therefore undertook a qualitative assessment as well, which found that private investment may in fact best be determined by future expectations, and that the low levels observed at the time likely followed from a low risk-adjusted rate of return, stemming from perceived political instability.

Also investigating investment in Fiji, Jayaraman & Ward (2004) attempt to estimate its efficiency. The study finds that though Fiji made significant progress since the 1980’s in de-regulating parts of the market and promoting competition, poor governance and political instability had both negatively affected overall levels of efficiency. This is in line with a study conducted by Gounder (2001) investigating the respective performance of public and private investment. Gounder found that while private investment had played a much more significant role in economic growth than public investment, political instability had pronounced negative effects on its overall performance.

A point raised in both of the papers related to the emigration of skilled workers from Fiji. Reddy, Mohanty & Naidu (2004) undertook a more thorough investigation of the economic costs of Fiji’s ‘brain drain’ and find that it is significant. Finding that emigration became a particular problem among Indo-Fijian skilled workers following the 87’ coups, they estimate that the resultant loss in capital alone is worth 4.7% of annual revenue. Furthermore, they find that much of the human capital loss occurred in professions such as teachers, which may have

an outsized impact on the long-term development of the country. They conclude that the loss of capital, both physical and human, may drain investors' confidence in the country's future prospects further exacerbating the problems.

In one of the few recent studies on Fiji by Chand, et al. (2020) investigated the performance of exports, governance and economic growth in Fiji. The authors find that exports and governance go hand in hand in fuelling economic growth, in particular, whilst private investment, foreign aid and human capital also contribute to economic growth. They highlight that the interplay between good governance and exports is particularly important for small and vulnerable economies such as Fiji if they wish to pursue export-based growth strategies, particularly considering their small domestic economies.

3.4 Gap in the Literature

This paper has identified several gaps in the literature. Though some literature exists investigating the effects of the 1987 and 2000 coups, the most recent 2006 coup and its aftermath remain underexplored. Furthermore, while existing research has focused primarily on specific aspects of Fiji's economy, as far as can be ascertained, there exists no holistic analytic narrative of how political instability has impacted Fiji's economic performance as a whole. Focusing only on 'crisis' moments in which political conflict has explicitly boiled over, existing literature further overlooks the potential impacts of an increase in tension and apprehension during 'regular' elections. Though less individually impactful, the cumulative effects may be pronounced. This paper therefore seeks to contribute to existing literature in three ways: First, by providing a detailed narrative of the principal agents and key decision points. Second, by analysing the sequenced account of events against the evolution of key performance indicators. And third, by evaluating the parsimonious explanatory mechanisms offered by previous literature and suggested by the paper's narrative within the context of Fiji's unique case.

4. Theoretical framework

4.1 Institutional Theory

Institutional theory argues that the quality of institutions is a fundamental factor in determining countries' economic performance. Acemoglu, Johnson & Robinson (2004) are the key proponents of the theory, arguing that countries with 'inclusive' institutions are more likely to prosper economically in the future than countries with 'extractive' institutions. The key premise that the theory relies on is that inclusive institutions provide more widely dispersed opportunities for people, secure property rights, and allow power to be more equally distributed across the population. By contrast, in countries with extractive institutions power rests with the elite, property rights are weaker and economic opportunities limited. By investigating how political instability affects Fiji's economic performance, this paper builds on this existing strand of literature.

4.2 Limitations of Institutional Theory

Institutional theory does, however, have its detractors. While other schools of thought agree that institutions play an important role in a country's development, they put greater emphasis on other factors as the primary determinants of a country's economic performance. For instance, Sachs (2003) and Diamond (2012) argue forcefully for the role played by geography in determining a country's economic performance, while McCloskey (2015) believes that the evolution of ideas is at the centre. While this research acknowledges that there are many important factors at play, the primary focus is how Fiji's institutions, and their stability, act as a transmission channel of ethnic tensions to affect Fiji's economic performance. The theory of different transmission channels and its potential limitations are discussed below.

4.3 Ethnic Diversity & Polarisation Theory

Previous academic literature has identified a multitude of channels through which ethnic diversity and polarisation can impact the development of a country. Work by authors such as Easterly and Levine (1997) has identified direct channels and suggests indirect ones. Ethnic diversity and polarisation can affect a country's performance through, for instance, political stability, inequitable growth, distortion in the provision of public goods, and greater civil unrest, to name a few (Gören, 2014). Given the scope of this paper and the breadth of the mechanisms which may be involved it is not feasible to conduct a comprehensive analysis of

all of the effects of Fiji's ethnic diversity. Instead, this paper focuses on the observed relationship between ethnic diversity and political stability.

Fiji is a prime example of a country with two dominant ethnic groups which are highly polarised (Chand, 1997) and should therefore be prone to experiencing some of the theorised effects. Fiji's tumultuous political and constitutional history provides a unique set of data to be analysed through this lens, providing more opportunities to isolate both the economic effects of the political upheavals themselves, and some of the factors influencing the magnitude of such upheavals. Furthermore, existing academic literature has linked Fiji's political turmoil to its ethnic divide (Akram-Lodhi 2000; Kant, 2019), lending support to the notion that Fiji's political stability may be affected by some of the policies driving ethnic tensions. Existing literature on the importance of political institutions and their stability for the economic prosperity of a nation (Acemoglu et al., 2004; Acemoglu & Robinson, 2012) in turn lends credence to the theorised relationship between political stability and Fiji's economy.

The theoretical framework outlined above therefore provides an appropriate lens for answering how political instability may have impacted Fiji's economic performance.

4.4 Limitations of Ethnic Diversity Theory

The theory on ethnic diversity adopted by this paper has several limitations. Firstly, only focusing on one of the several possible ways in which ethnic diversity can impact a country's development is unlikely to capture the true nature and scope of the overall dynamics. Second, ethnic diversity, political instability and the relationship therein are all difficult to quantify or measure consistently and objectively. This therefore poses a challenge for the reliability and external validity of the analysis. The research aims to partially offset this by relying on qualitative data pertaining to specific focal points such as individual elections, during which both levels of political instability and the link to ethnic diversity may be easier to gauge. Finally, there are many factors which influence and determine both political stability and economic performance. With the data and methodology available it is not possible to definitively isolate the effects of any one determinant of either factor. Generating a precise understanding of the relationship is therefore unlikely.

5. Methods & Data

5.1 Research Design

This paper is designed as a single case study of Fiji. This design was chosen as it is believed to best enable the requisite in-depth analysis of a case as specific and unique as Fiji's. With few direct comparisons available, it is important to generate an accurate and holistic understanding of the given context. This can enable the generation of reliable and empirically supported conclusions. Furthermore, by focusing only on a single case, the limited resources of this paper can be best employed and provide greater coverage of the delineated subject area (De Vaus, 2001, pg. 220-229).

Such a design does include certain limitations which should be noted. Firstly, focusing only on one case can limit the external validity of any conclusions or findings, which can be enhanced using designs such as comparative case studies (Lijphart 1971). A narrow focus may also prevent or obfuscate the identification of larger regional trends or conditions, as the single case focus may not elucidate patterns which might otherwise be observed (De Vaus, 2001, pg. 220-229).

Focusing on the period 1980-2000 the study is retrospective in nature. Looking at the relationship between political stability and economic performance, the paper relies on a number of data sources collected at various points across various time periods, making it longitudinal in nature. One benefit of this is the prevention of 'reactivity effects', wherein the results of the study are unintentionally affected by the researcher's presence during the collection of data (De Vaus, 2001, pg. 236-237).

5.2 Methodology

This paper employs the analytic narrative approach, as laid out in Bates et al. (1998). This approach was chosen due to the complexity of presenting a case study as unique as Fiji, while maintaining confidence in the narrative interpretation. The method first involves laying out, in narrative form, all of the key stakeholders, the case specific context and the choices and motivations of the individual actors in a detailed and sequenced account. Second, building on the constructed narrative sequence, predictions can be made about expected outcomes. Finally, observed outcomes can be compared with predicted ones to evaluate the accuracy of the derived implications and the reliability of the case's interpretation (Levi & Weingast, 2016).

The ability to analytically evaluate the implications of the narrative allows for greater confidence in the specific interpretation and can help facilitate comparisons with other cases despite their individual uniqueness (Levi & Weingast, 2016). It should be noted that in assessing expected outcomes the analytic narrative approach relies on rational choice theory (Levi, 2002).

5.3 Data Sources & Collection

The study relies on secondary data sources with no primary data collection. Data on Fiji's GDP and its components was primarily collected from the Reserve Bank of Fiji. However, in cases where more detailed breakdowns of individual components were unavailable, data from the RBF was augmented with data retrieved from the United Nations Statistics Division and the World Bank. Reports from a number of international agencies such as the International Monetary Fund have also been used as sources of economic data, while reports from the International Labour Organisation have been used for data on migration and employment statistics. Finally, data from a number of academic articles has been used to supplement the aforementioned sources.

As Fiji's central bank, and the primary institution charged with the monitoring of Fiji's economy, the RBF is widely considered to be a credible and reliable source of data. The UNSD and World Bank are also considered credible and unbiased sources of data. However, it must be noted that the data obtained from the World Bank did contain several errors, though these were remedied through cross referencing with, for instance, the UNSD. Both the International Monetary Fund and the International Labour Organization are highly regarded and considered reliable sources of information. Finally, only published articles from reputable journals have been employed in obtaining quantitative data. However, even when utilising reliable sources, differences in collection methodology or other inconsistencies may arise. Where such instances arise, both sources are presented, and discrepancies discussed.

Qualitative data relating to Fiji is relatively rare, with many aspects underexplored. The paper therefore had to rely on a number of secondary sources, including academic articles, reports by international agencies, textbooks, and newspaper articles. Academic works were primarily searched for using Google Scholar and Lund University's LUB search. In several instances,

reference lists in academic works were also used to locate relevant and reliable information. Particular attention was paid to newspaper articles, however only reputable publications that cited academics were used.

Finally, multiple data sources were chosen in order to enable triangulation. Particularly, in respects to potentially subjective evaluations of conditions which are difficult to quantify, triangulating a wider array of sources enables greater confidence in the reliability of the observations.

5.4 Limitations of Data

Research on Fiji is scarce, therefore finding reliable and credible information was difficult. Relying on secondary qualitative sources presents challenges, as the information presented by those sources was not collected for the purposes of this paper. Therefore, the study had no control over the methods of data collection, the potential biases and any errors. Lastly, qualitative assessment can be subject to research bias in which a researcher fails to deliver an objective inquiry. The study aims to triangulate several different data sources in order to partially offset this limitation. With regards to quantitative data, the study was faced with several inconsistencies especially in terms of FDI, which is difficult to estimate accurately and may vary significantly between sources (Asian Development Bank, 2004).

5.5 Ethical Considerations

Given that the paper relies exclusively on secondary data, with no primary data collection, there are fewer ethical considerations to consider. Nonetheless, there are a few which should be kept in mind to ensure the responsible conduct of the investigation. Firstly, it is important that any resources utilised by the paper are only done so with the owner(s)' consent and does not infringe on any intellectual property rights or copyright laws. Second, it is important to convey any arguments or findings reported by other authors as accurately as possible, without skewing or misrepresenting them (McLennan, Prinsen, 2014, pg.80-98).

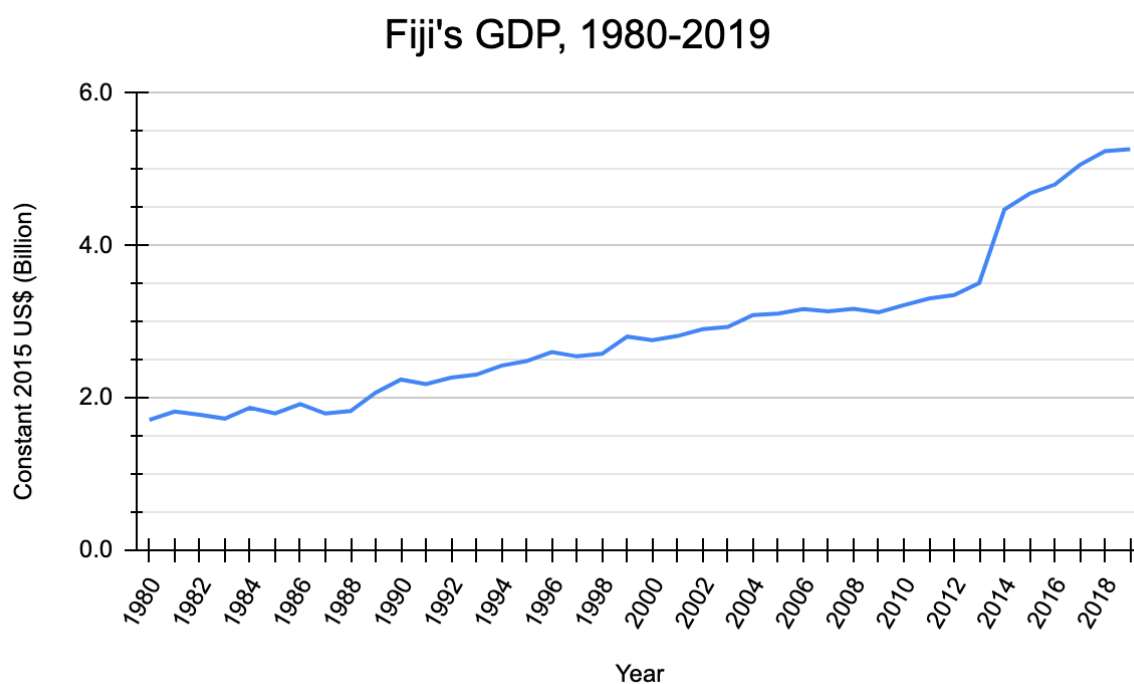
6. Interpretation of Results & Discussion

The following analysis aims to answer the research question:

Has political instability led to Fiji's poor economic performance, and if so, how?

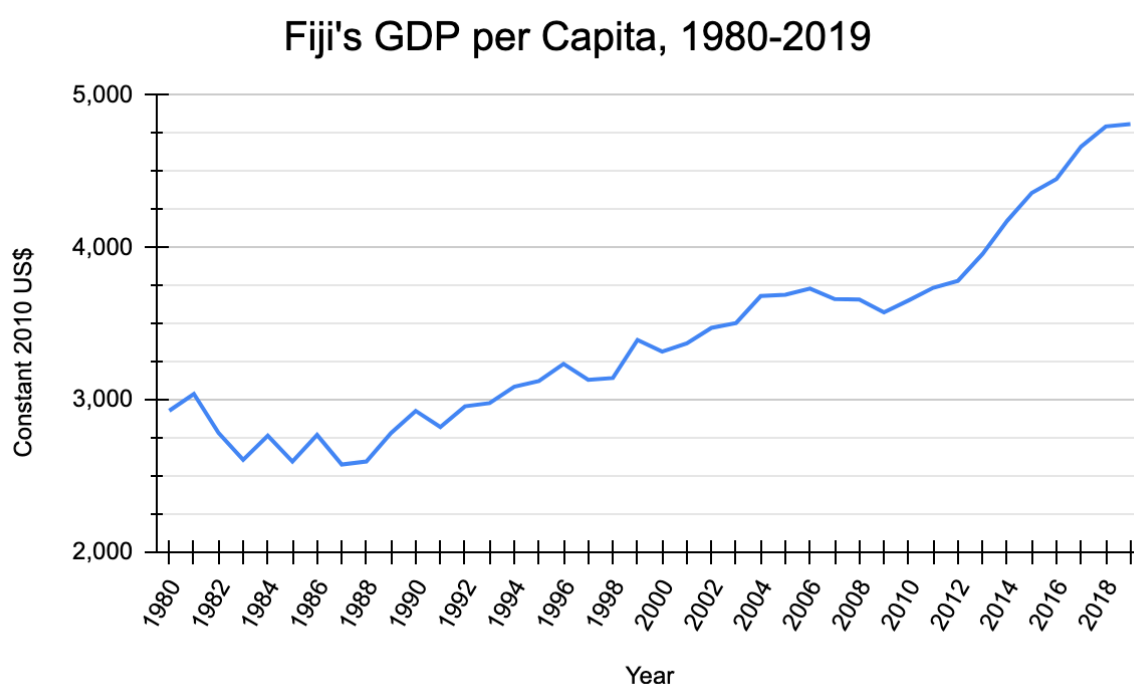
In answering this question, it is important to first consider how the chosen indicators of economic performance would theoretically be expected to react to political instability. While certain indicators, such as investment levels, are naturally volatile and may be expected to react rapidly to perceived changes in the investment climate (Aghion et al., 2010), other indicators such as household consumption may only reflect potential impacts in the long run. The analysis commences by analysing GDP growth since the 1980's, as well as the evolution of HDI, poverty and inequality. Particular attention is paid to changes in the medium- and long-term trends between the coups. Immigration, and its impact on the economy, are analysed through a similar lens. Subsequently, the components of GDP are analysed individually. Consumption, due to its low volatility, is analysed looking for medium and long-term trends. Trade, FDI, and investment are expected to show greater short-term fluctuations, and are therefore also analysed looking at specific election cycles.

6.1 Gross Domestic Product



Graph 8: Fiji's Gross Domestic Product, 1980-2019. Source: [United Nations Statistics Division](#)

Over the past 40 years Fiji's GDP has roughly tripled. Though encouraging at first glance, it represents an average annual growth rate of just 3%, far below optimum growth levels for a country at Fiji's level of development (Gounder, 2020). The 1980's saw frequent contractions resulting in largely stagnant growth. Averaging just 2% per year, economic growth could not keep up with Fiji's population growth, resulting in GDP per capita actually decreasing by \$147, from \$2,928 in 1980 to \$2,781 in 1989. 1987, the year of Fiji's first coup d'état, had a particularly negative impact. GDP contracted by -6%, the single largest drop during the observed period with the exception of current RBF estimates for 2020. Unfortunately, this also led to poverty levels increasing sharply. In 1990, the Household Income and Expenditure Survey found that poverty levels had risen to 25%, up 10% from their levels during the previous survey conducted in 1977 (Chand, 2007). In a more detailed analysis, Bryant (1992) finds that it was not only absolute poverty levels which had increased, but relative poverty as well.



Graph 9: Fiji's Gross Domestic Product Per Capita, 1980-2019. Source: [United Nations Statistics Division](#)

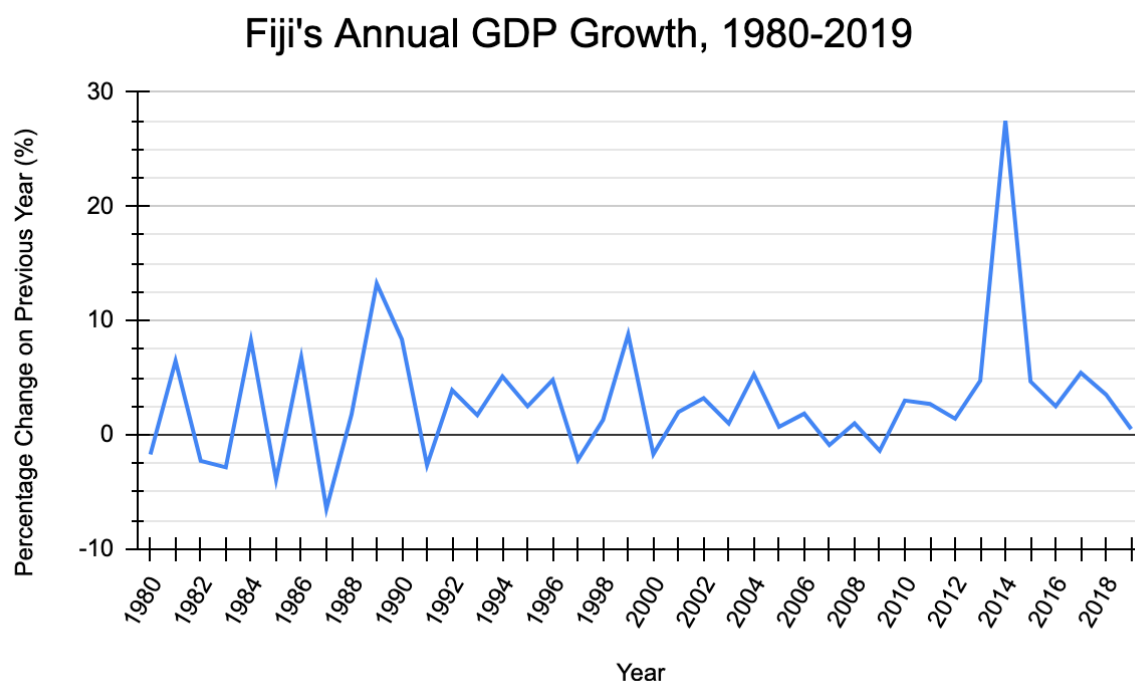
The 1990's fared little better. The 1987 coups brought ethnic tensions to the fore, and the introduction of the ethnically biased constitution in 1991 incentivised many skilled workers, particularly those of Indo-Fijian descent, to leave the country. Political turmoil featured heavily throughout the 1990's, particularly due to the political debates over constitutional amendments and the resulting 1997 constitution (Kant, 2019). Between the 1987 coups and the year 2000, GDP growth averaged 3% per annum. Though it was sufficient to raise GDP per capita by

16%, from \$2,927 in 1990 to \$3,393 in 1999, it was likely augmented by significant net outflows of immigrants, as discussed in more detail below. Growth in per capita GDP levels also did little to slow the rise in poverty; in 2002, the HIES registered a 9% increase in head count poverty levels, up to 34% of the population (Barr, 2007).

Compared to 1987, the year of the 2000 coup registered a much smaller -2% decline in GDP. Though the coup was unsuccessful, it further added to the existing tensions and political instability (Bryant-Tokalau, 2014). In particular, the conflict between the army and the government over policies which could potentially pardon some of the 2000 coup instigators led to increasing (and ultimately correct) fears of further instability. Indeed, growth between 2000 and 2006 again slowed to an average of just 2% per year. Though growth was slow, GDP per capita did register an increase of \$374. However, the poverty trend continued, with Barr (2007) noting a particular increase in squatter settlements, which he estimated to house 12.5% of Fiji's population. The trend of poor economic performance continued with the onset of the 2006 coup, further followed by the global financial crisis in 2008. Considering that the 2006 coup happened in December 2006, any potential impact would only be registered in the year 2007. Indeed, GDP contracted by -1%. Interestingly, Gounder (2012) notes that poverty levels in Fiji had continued to increase despite an increase in HDI from 0.663 in 1975 to 0.758 in 2004. He laments that repeated efforts in the form of various government programmes failed to achieve a meaningful reduction in poverty. Instead, he concludes that "growth in real GDP in the last 30 years has unquestionably been insufficient to lift living standards." (Gounder, 2012, p.20)

Once the turmoil of the 2006 coup and the global financial crisis had subsided, growth started to pick up again from 2010 onwards. Though at first sceptical of the new military government, the explicit pursuit of soothing ethnic divides and the introduction of the new ethnically blind constitution won it tentative levels of trust from both domestic Fijians and international actors (Gounder, 2020). When the Bainimarama government held free and fair democratic elections in 2014 and, for the first time since Fiji's independence, secured a strong multi-ethnic majority mandate, trust in the government solidified (World bank, 2017). Indeed, following the elections, Fiji re-established diplomatic relations with many of its traditional donors. Despite a slowdown in 2018 and 2019 growth for the period 2010-2019 averaged 6% per year. Correspondingly, GDP per capita rose by \$1,158, representing a 32% increase. During this

period, Fiji also finally managed to reverse its trend of increasing poverty, with levels dropping to 24.2% in 2020 (United Nations, 2020).



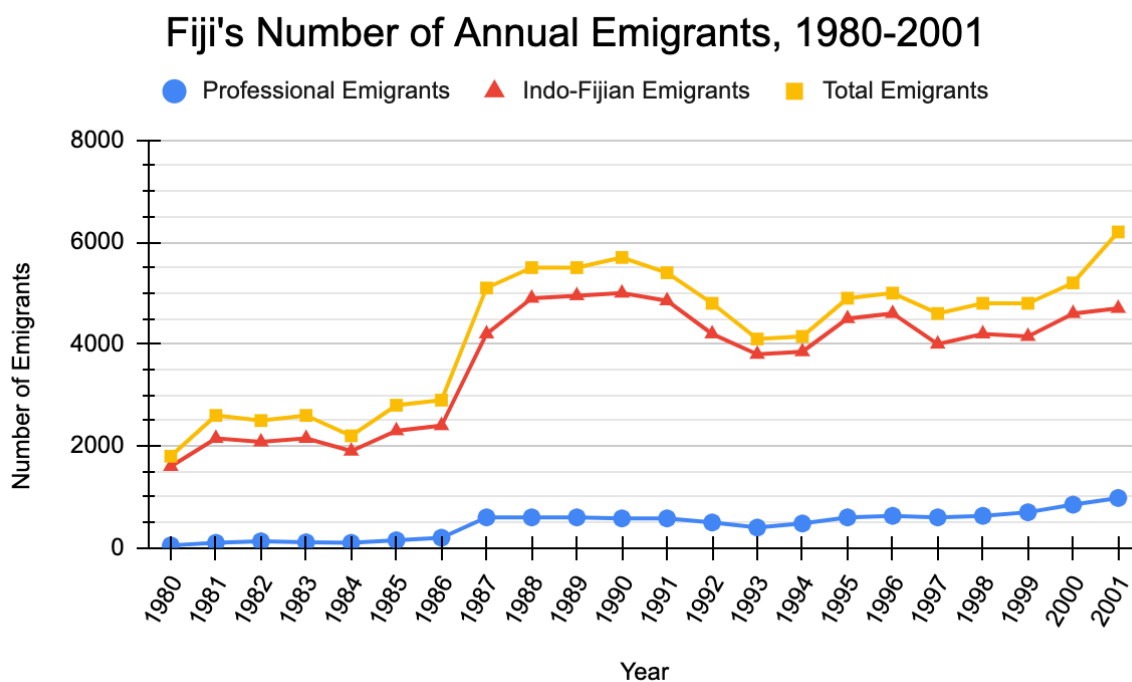
Graph 10: Fiji's Annual Change in Gross Domestic Product, 1980-2019. Source: [World Bank](#)

Plotting Fiji's annual GDP growth rates (graph 10) reveals some of the volatility it has experienced. A paper by Broadberry & Wallis (2017) argues that the long-term performance of a country is more significantly impacted by the frequency of contractions rather than by the growth rates achieved during growth years. They therefore argue that it may be more important for countries to prioritise stability over their ability to achieve high growth. Looking at the annual GDP growth rates between 1980 and 2019, the frequency of shrinking stands out, as Fiji's GDP has shrunk in over a quarter of the years observed herein. If one calculates only the years in which Fiji's GDP grew, its growth stands at an average of 5% per year. Though by no means record breaking, it is 67% higher than the average growth it actually achieved. As outlined above, the average since 2010 was even higher, at 6% per year. However, the relative frequency of contractions resulted in the 3% previously noted, and if the anomalous year of 2014 is excluded, the average annual growth rate for 1980-2019 actually falls to just 2%. Fiji's main issue, therefore, is not achieving strong levels of growth. Its biggest issue from a GDP growth perspective, is consistency.

A simple calculation reveals just how powerful limiting contractions could be. Had Fiji's GDP only grown by 4% on average during growth years (20% slower), but the number of

contractions been halved, its GDP would have grown by an additional \$1.5 billion, almost 30%. Experience from other developing nations suggests that sustaining such a scenario should absolutely be feasible at Fiji’s level of development (Gounder, 2020). Unfortunately, no such calibration is possible in the real world, but it does illustrate how focusing on stability rather than outright growth could bring significant benefits.

6.2 Emigration



Graph 11: Fiji's Number of Annual Emigrants, 1980-2001. Source: [Fiji Bureau of Statistics](#)

Emigration has long been one of the major challenges faced by Fiji (ILO, 2019). In 2019, the ILO estimated that over 20% of Fiji’s population lives outside Fiji. Though low-skilled, seasonal emigration to countries such as Australia and New Zealand is growing, it is the high volume of permanent emigrees which presents the most significant long-term challenges. In particular, the emigration of high-skilled professionals such as teachers and nurses who commonly resettle permanently. Such ‘brain drain’ not only impacts Fiji’s stock of human capital, but also results in a loss of financial capital as emigrants take their savings with them. As human capital can increase productive capacity, which may in turn boost development, human capital and economic growth form a reinforcing cycle (Reddy et al., 2004). Conversely, by reducing stocks of human capital, brain drain has been shown to permanently reduce domestic per capita growth rates (Beine et al., 1999). Unfortunately, there remains a lack of publicly available data on Fiji’s emigration statistics. While there are a number of papers

providing data on the 1987-2001 period, data on subsequent years is limited. Nonetheless, some insights can be gleaned.

Table 2
Emigration Flows from Fiji, 1987-2001

Year	Indigenous Fijians	Indo-Fijians	Others	Total	Annual Average	Total Professionals
1987-99	3,926	57,159	3,124	64,209	4,939	6,869
2000	468	4,568	239	5,275	5,275	831
2001	511	5,550	255	6,316	6,316	977
Total	4,905	67,277	3,618	75,800	5,510	8,677

Table 2: Emigration Flows From Fiji, 1987-2001. Source: Mohanty, 2002

Table 3
Emigration by Profession, 1987-1999

Category	Total 1987-99	% Loss	Annual Average 1987-99
Architects	1,439	20.9	110.7
Accountants	1,065	15.5	81.9
Teachers	2,125	30.9	163.5
Medical Workers	893	13.0	68.7
Others	1,347	19.6	103.6
Total	6,869	100.0	528.0

Table 3: Emigration by Profession, 1987-1999. Source: Mohanty, 2002

Prior to the 1987 coups, emigration levels were relatively constant, hovering between 2000 and 3000 emigrants per year. Professional emigration was low, at just 100 to 200 per year. Notably, and in line with the long-term challenges facing Indo-Fijians, even before the 1987 coups the majority of emigrants were of Indo-Fijian descent. Chand (1997) attributes this, at least in part, to the uneven access to land dictated by the land tenure system. The pro-indigenous Fijian coups in 1987 turbocharged this trend, almost doubling the number of annual emigrants. Between 1987-1999 the total number of emigrants equalled 64,209, almost 8% of the country. Of those, 87% were Indo-Fijian. Most worryingly, the number of skilled workers emigrating also increased significantly. From 1987-1999 almost 7,000 skilled workers emigrated, of which 30% were teachers and 13% medical workers. The years 2000 and 2001 saw further spikes following the failed coup and constitutional crises (Reddy et al., 2004).

Following 2001 the paper was only able to obtain data for every 5 years beginning in 2005. During that year, net migration stood at -14.3 per 1000 people. Though still relatively high, it was considerably lower than its peak in 2001. By 2010 net migration had dropped to significantly lower levels, recorded at just -5.6 per 1000. Though this may suggest positive effects of the post-2006 regime on net migration, it is difficult to draw any conclusions. While the new ‘ethnically blind’ approach may have decreased incentives to emigrate, particularly

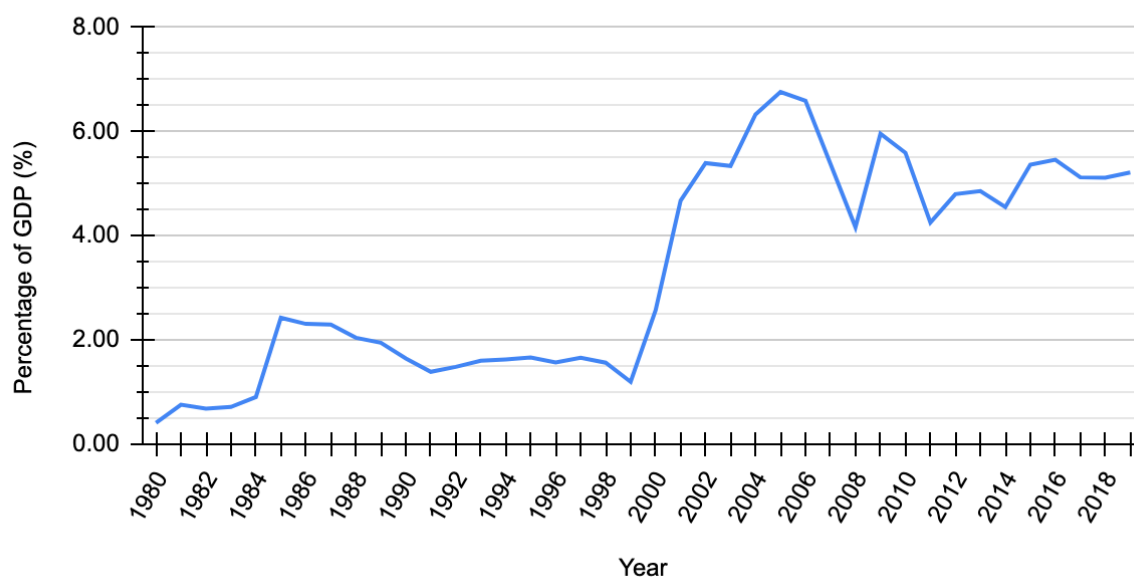
among Indo-Fijians, it may also be a reflection of poorer economic performance following the coup as well as the global financial crisis limiting opportunities abroad. (World Bank, 2017). Indeed, negative net migration again increased to -12 per 1000 people in 2015, before falling to -7 during the most recently available year in 2020. According to the ILO, emigration from Fiji is likely to continue. In their 2019 reports, it states that:

There has also been increased intra-Pacific labour migration. Since Fiji has the most advanced education and skills training systems in the Pacific Islands region, Fijians have found employment in several PICs and in various occupations including as teachers, nurses, skilled trades people, various managerial positions, as well as in the tourism and hospitality industry. (ILO, 2019, p.37)

Though migration levels have fluctuated considerably over the years, the long-term evolution seems to indicate a downward trend, particularly compared to the post 1987 era. This is likely positive for Fiji's future levels of economic growth and overall development. However, current levels still remain above optimum levels (ILO, 2019).

6.3 Remittances

Fiji's Personal Remittances Received as a Percentage of GDP, 1980-2019



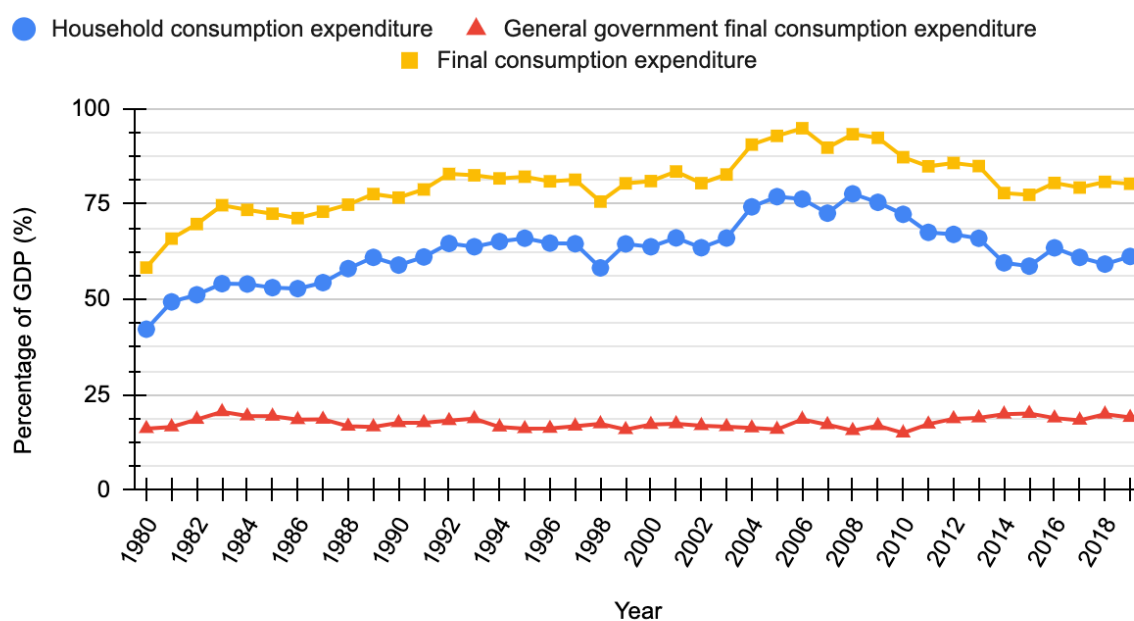
Graph 12: Fiji's Personal Remittances Received as a Percentage of GDP, 1980-2019. Source: [World Bank](#)

One often overlooked benefit of emigration is remittances. As seen in graph 12, remittances as a percentage of GDP have increased significantly since 1980. Accounting for over 5% of GDP in 2019, remittances have helped Fiji offset some of the potential effects of its balance of payments deficit (Mohanty, 2006). Mohanty (2002) estimates that a further 2% of remittances go unreported.

The increase has been driven primarily by an increase in overseas peacekeeping forces, private security personnel, and workers who emigrate temporarily for seasonal jobs in countries such as Australia or New Zealand (ILO, 2019). The sudden increase seen around 1998 has largely been sustained, averaging around 5% since the year 2000. Mohanty (2006) cautions this may be leading Fiji to becoming a remittance state, such as Samoa. Furthermore, he notes that an increasing proportion of emigration seems to be taking place due to exogenous factors, rather than endogenous ones, with indigenous Fijians roughly doubling their share of net annual emigration from around 5% to 10%. This is a worrying trend, as remittances, though beneficial, generally end up being used for personal consumption, with only a small percentage flowing to more potentially economically stimulating uses such as investment (ILO, 2019). Though more research is needed to fully understand the costs and benefits of migration in Fiji, it remains unlikely that remittances are able to fully compensate for the losses in human capital. In 2004 Reddy et al. estimated that despite increased remittances, the net costs of Fiji's emigration stood at F\$45 million annually.

6.4 Consumption

Fiji's Components of Final Consumption Expenditure, 1980-2019



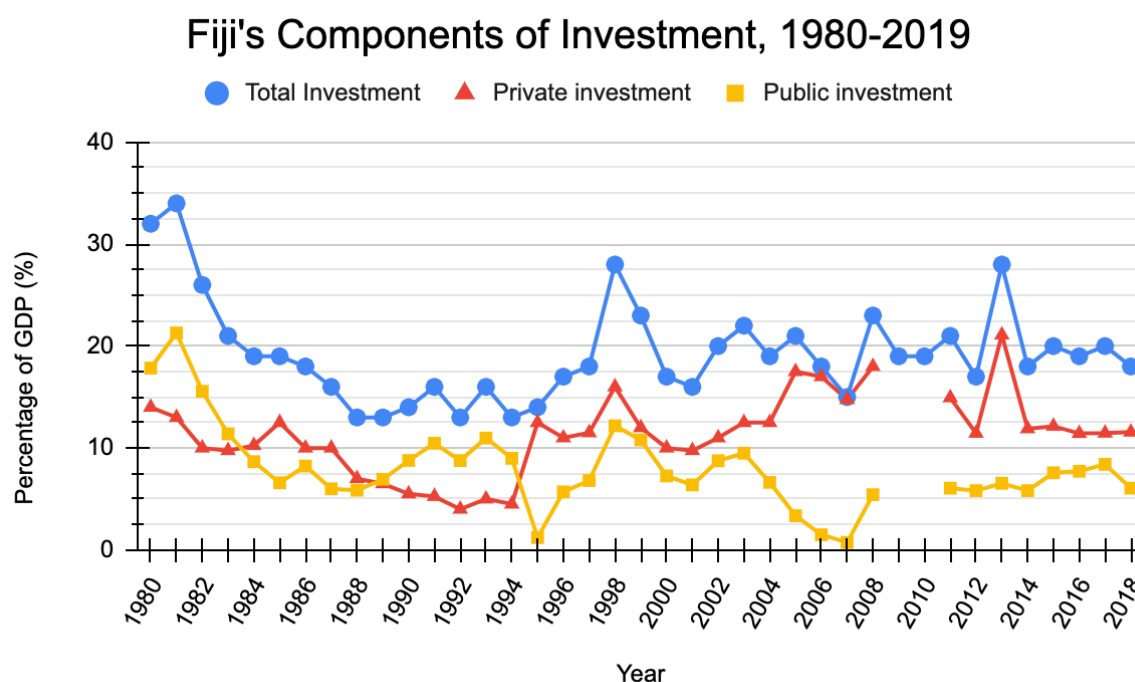
Graph 13: Fiji's Components of Final Consumption Expenditure, 1980-2019. Source: [United Nations Statistics Division](#)

Consumption levels, both private and governmental, tend to be relatively stable over time. As such, it is unlikely that any potential impacts of political instability would have a pronounced effect on consumption levels, at least in the short run. In developing countries, consumption elasticity tends to be highly inelastic as a majority of household income is spent on necessities. Unfortunately, there are very few studies on consumption in Fiji. However, one conducted by Saten (2009) on private consumption in Fiji confirms inelastic consumption due to low and volatile incomes. Furthermore, and for similar reasons, he finds that consumption in Fiji is unlikely to be affected by changes in interest rates, instead responding more to changes in the availability of consumer credit. Investigating the determinants of consumption in Fiji, Gounder's (2012) paper suggests education, demographics and geographic location as the key determinants.

Data from the UNSD confirms that since 1980, government consumption has remained relatively stable, averaging 18% of GDP, though it has seen a slight uptick since 2010, averaging 19% of GDP. By contrast, private consumption has seen a steady evolution with some fluctuation. However, no significant changes are observed during or immediately after the three coups. Instead, there was a fairly steady trend of private consumption increasing to a

high of 78% of GDP in 2008. However, during that time period levels of disposable income actually fell, from 2.4% between 1975-1990 to just 1.5% from 1991-2005 (Saten, 2009, p.). Since 2008, private consumption has steadily declined, to around 61% of GDP in 2019. Unfortunately, the paper has not found any updated data on disposable incomes.

6.5 Investment

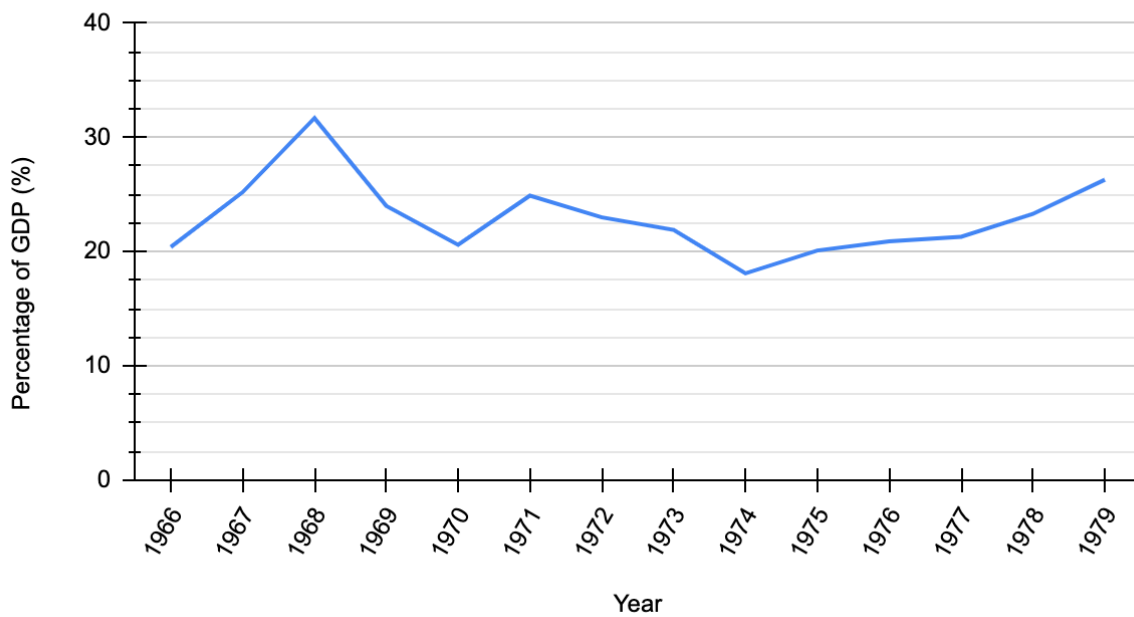


Graph 14: Fiji's Components of Investment, 1980-2019. Sources: [World bank](#)

This section analyses the evolution of investment levels in Fiji. Presenting the historical evolution, it contextualises the levels seen since 2006, before drawing attention to changes in investment levels before, during and after election years. To facilitate comparisons over time, investment levels are given as a percentage of GDP for any given year. Total investment is then broken down into public and private investment, in order to better understand the observed changes and potential election impacts. Second, non-political determinants of investment are analysed to better understand the overall macro-economic environment and how it may have affected investment levels.

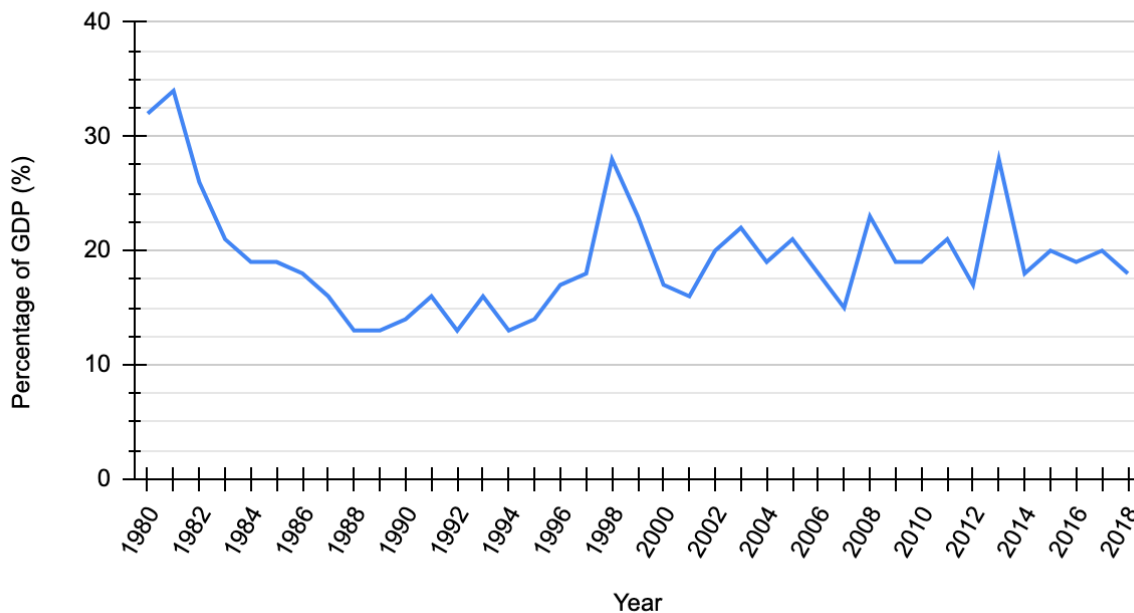
6.5.1 Total Investment

Fiji's Total Investment, 1966-1979



Graph 15: Fiji's Total Investment, 1966-1979. Source: Jayaraman, 2001

Fiji's Total Investment, 1980-2019



Graph 16: Fiji's Total Investment, 1980-2019. Source: [World Bank](#)

Graphs 15 & 16 show how total investment in Fiji has evolved over time. Graph 15 focuses on the historical evolution from 1966 to 1979. Investment peaked at 31.7% of GDP in 1968, just prior to Fijian independence. Investment then dropped off somewhat to just above 20% in 1970 as Fiji became independent. Total investment then averaged well over 20% until 1985, marking

almost two decades of sustained high levels of investment. In 1986 and 1987 investment levels slumped below 18% for the first time, before decreasing significantly following the 1987 coups. Over the following decade investment saw a steady decline, down to just 10% of GDP.

Viewed through the lens of election years, changes in investment levels during or prior to elections remained relatively small before the 1987 coups. Though there was a fairly significant drop of -3.4% before Fiji's independence, the following elections in 1972, 1977, 1982 and 1987 saw an average drop of only -1% between the preceding year and the election year. However, the elections in 1992, 1994 and 1999 following the coups saw an average drop of -3.5%. In particular, the bitter election of 1999 recorded a -5% drop in investment.

Though investment had started to recover in 1997, and after more than a decade finally returned back above the government's target of 25% in 1998, investment fell by 12% following the failed 2000 coup and the subsequent constitutional crises and elections in 2001. Investment levels rebounded slightly between 2002 and 2005, averaging 20%. However, once again with the election and subsequent military coup in 2006, investment fell by -3% and -6% in 2006 and 2007 respectively compared to 2005. Investment rebounded impressively in 2008, increasing by 8%, just 2% shy of the government target, before falling in 2009, in line with the Great Recession spreading globally. Since then, investment has only met the government's target once, in 2013. The election in 2014, the first since the 2006 coup, coincided with the single largest year on year drop in investment in Fiji's history, falling by -10%. Though the observed drop during the 2018 election was a far milder -2%, investment has yet to climb back above 20%.

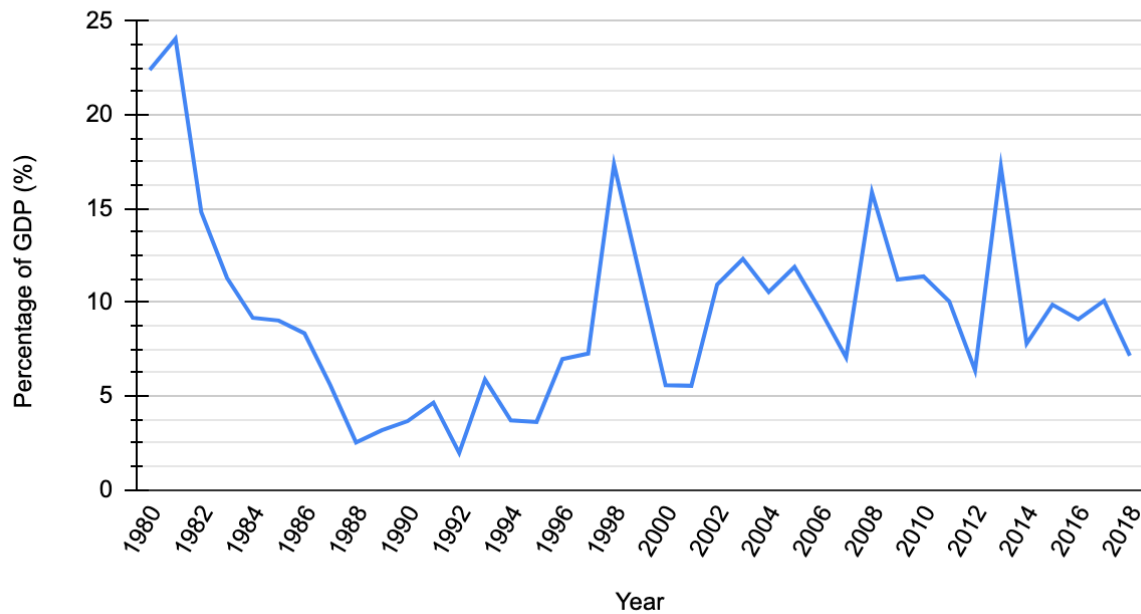
The longer-term picture does however show slow improvements. Following the 1987 coups, investment averaged a meagre 15% between 1987 and 1999. From 2000 to 2005 average investment increased to 19%, and since 2006 has increased slightly still to just over 20% of GDP.

6.5.2 Net Investment

Graph 17 below shows the evolution of net investment since 1980. Net investment equals gross investment adjusted for depreciation. By subtracting depreciation net investment can provide a clearer picture of how much *new* capital is being formed as opposed to merely *replacing* depreciated capital. Compared to gross investment, net investment shows a bigger decline since

the post-independence peak in 1981. Following the elections and coup in 2006, net investment posted a 1% smaller decline of -2% and -5% when compared to gross investment in 2006 and 2007 respectively.

Fiji's Net Investment, 1980-2019

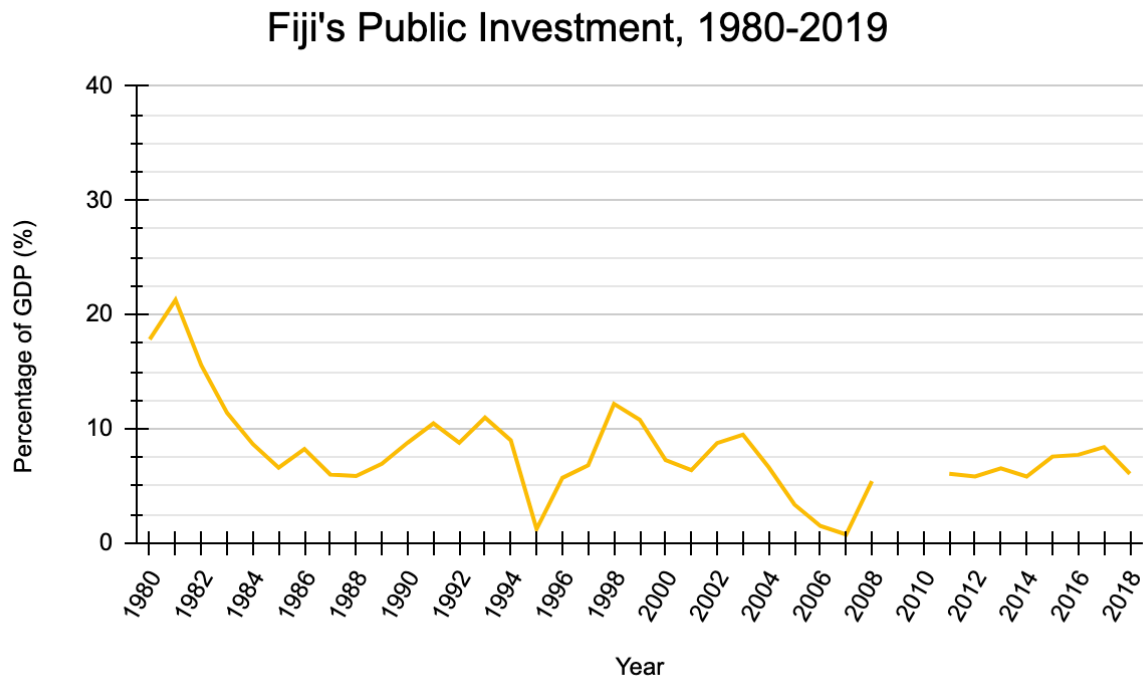


Graph 17: Fiji's Net Investment, 1980-2019. Source: [World Bank](#)

Similar to gross investment, net investment rebounded in 2008 to a high of 16%. However, the following years until 2013 show a steady decline, down to just 6% in 2012. The election year 2014 also registered a significant drop in net investment, declining by 9% from 2013. Though net investment also declined during the election year 2018, it was slightly less pronounced at -3%. Since 2006, net investment has averaged just 10% of GDP. This is, however, a slight improvement over the 6% average seen during 1987-1999 and 2000-2005.

The analysis of gross investment and net investment suggests that since the start of explicit political turmoil in the form of coups and constitutional changes in 1987, investment levels have struggled to consistently remain above 20% of GDP. Apart from only two instances, in 1998 and 2013, investment has remained below the government's target of 25%. Notably, the analysis finds that every election year since 2006 has recorded a drop in levels of investment.

6.5.3 Public Investment



Graph 18: Fiji's Public Investment, 1980-2019. Source: [World Bank](#)

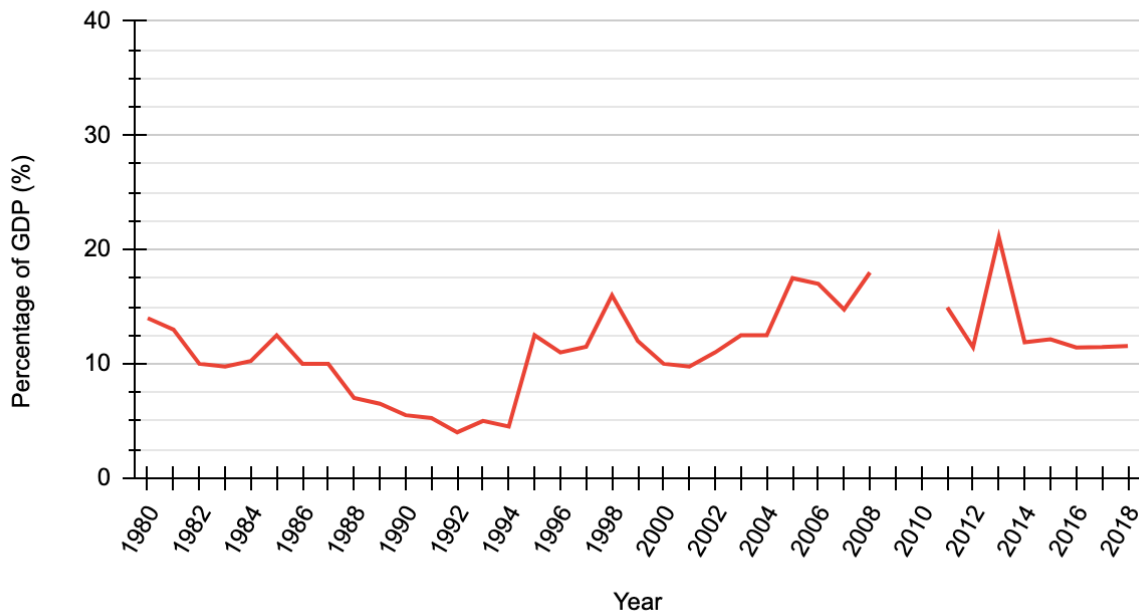
Breaking down gross investment into public investment and private investment, can generate further insights. Graph 18 shows public investment as a percentage of GDP. After significant levels of public investment of around 20% in 1981, Fiji has experienced a notable decline. Following the 1987 coups, public investment levels gradually increased from around 6% to 10.5% of GDP in 1991. During the failed 2000 coup and subsequent 2001 elections, public investment levels decreased from 12.2% of GDP in 1998 to 6.4% of GDP in 2001. The year of the most recent coup in 2006 also registered a decline in public investment levels by -1.9% compared to the preceding year. However, the 2006 decline does seem to fall in line with a steadier decline in public investment from 9.5% of GDP in 2003. Unfortunately, data for the years 2009 and 2010 were not available. However, 2008 seems to indicate a strong rebound of public investment. Notably, the 2014 election year did not register a significant change in public investment. The 2018 election year however, experienced a decline of -2.4% compared with 2017.

The analysis of public investment finds two notable features. Firstly, public investment seems to decrease during every election year in the dataset. Secondly, the most significant drops in public investment levels do not seem to directly coincide with election years. The first major drop begins in 1981 and continues until 1985, decreasing by -14.7%. The second drop between

1993 and 1995 saw a decrease of -9.8%. The third, between 2003 and 2007, by -8.75%. In each case, the drops span more than the immediate pre- and post-election years and are significantly greater than those observed during any one election cycle.

6.5.4 Private Investment

Fiji's Private Investment, 1980-2019



Graph 19: Fiji's Private Investment, 1980-2019. Source: [World Bank](#)

Contrary to gross investment and public investment, private investment, though fluctuating, remains well above 10% of GDP on average prior to the 1987 coups. Immediately following them, however, private investment plummets down to just 4% of GDP in 1992. It only picks up again in 1995, following the 1994 election, increasing to a peak of 16% in 1998. The year of the 1999 election, however, sees a significant drop of -4%, dropping by a further -3.25% by 2001. The following years, with renewed political stability, saw a steady increase in private investment until 2005. The 2006 election year again sees a slight drop in private investment, followed by a more significant -2.25% drop in 2007. Unfortunately, data for 2009 and 2010 are missing, however 2011 shows a decline from 2008. The next election year, in 2014, saw a major decline of -9.2%, in line with the overall decrease in the previously observed gross investment. Since then, however, private investment levels have remained stable, with no significant change observed during the 2018 election year.

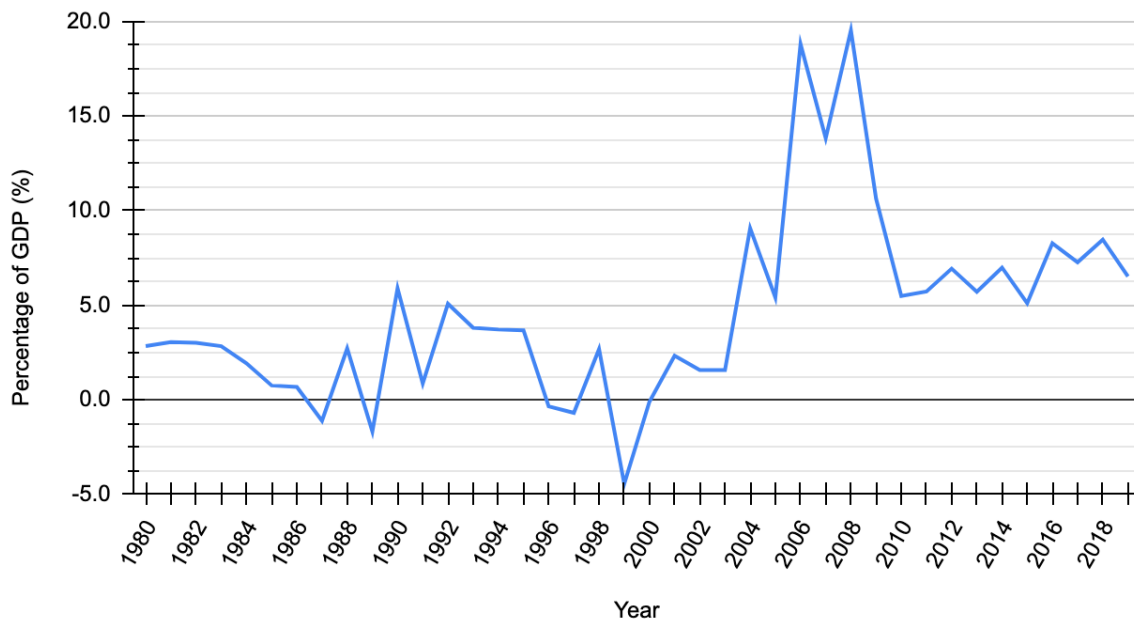
The analysis finds that since Fiji's independence, investment levels have seen significant fluctuations. Though many of the fluctuations occur in non-election years, the analysis observes a pattern in which gross, net, public and private investment all decrease during election cycles. Given the complex nature and many determinants of investment this study does not aim to establish a direct causal relationship. However, the magnitude of the observed changes does seem to broadly coincide with the level of ethnic and political tensions during respective election cycles. Furthermore, the 2006 elections and military coup seem to have had a relatively less significant impact on investment levels than the previous two political crises, and though the election year of 2014 observed some of the most significant drops compared to the preceding year, the 2018 election year recorded some of the smallest fluctuations.

6.5.5 Foreign Direct Investment

Foreign Direct Investment is likely to fluctuate from year to year and would be expected to fall following significant political crises, as foreign investors lose confidence in the stability and economic safety of the investment environment (Gani, 1999). However, though sensitive to major political upheavals, it is less sensitive to subtler changes in the political sphere, and likely to be less volatile than domestic investment (Jayaraman, 1998). When compiling data for this paper, a number of discrepancies were found. Accurate FDI data is rare, as it often contains significant time lags and recorded amounts usually reflect *approved* amounts rather than *realised* amounts. It is therefore common for there to exist significant discrepancies between outgoing FDI levels in foreign countries and incoming levels in the domestic economy (Asian Development Bank, 2004).

Looking at the impacts of FDI on Fiji's economy, Jayaraman & Singh (2007) found unidirectional causation running from FDI to GDP growth in the short-term. In the long-term, they also found unidirectional causation between FDI and employment creation. This supports previous studies which also found that FDI in Fiji contributes to GDP growth (Gani, 1999; Jayaraman & Choong, 2006). Furthermore, Jayaraman (1998) found that FDI had boosted domestic savings, cushioned against adverse effects of the current account deficit and reduced the resource gap.

Fiji's Net Inflows of FDI as a Share of GDP, 1980-2019



Graph 20: Fiji's Net Inflow of FDI as a Share of GDP, 1980-2019. Source: [World Bank](#)

Graph 20 shows World Bank data on net inflows of FDI into Fiji as a percentage of GDP between 1980 and 2019. The period prior to the first coups in 1987 averaged FDI inflows of just 1.8%. In line with expectations, the 1987 coups are followed by a decrease in FDI, coming in at -1.1% of GDP. However, the government was quick to introduce new incentives to combat the sudden isolation, focusing in particular on special economic zones for the development of an export-oriented garment industry (Eleck et al., 1993). Indeed, FDI increased again slightly in 1988. However, despite the significant incentives by the government, average net inflows remained at just 1.8% of GDP between 1987-1999.

In the year 2000, during the 2000 coup, net inflows of FDI stood at -0.1% of GDP, up from -4.4% in 1999. However, this contrasts with figures reported by Jayaraman & Singh (2007) who find that net flows were -1.9% of GNP before dropping to -3.3% of GNP in the year 2000, stating that “past negative net inflows in the immediate years after the two coups of 1987 and in 2000 were clearly due to poor investor confidence” (Jayaraman & Singh, 2007, p.15). Though the average net inflows of FDI improved during the 2000-2005 period when compared with both 1980-1986 and 1987-1999, at 3.3% they were still below optimal levels. The trend, however, was positive, and if 2006 is included (as the 2006 coup only took place in December) the average jumps to 5.5%.

In fact, 2007 did register a marked drop following the 2006 coup, falling from 18.8% in 2006 to 13.8%. However, levels quickly rebounded to 19.5% in 2008, before beginning a sharp decline until 2010, presumably as a result of the global financial crisis. Following 2010, net FDI inflows again stabilised, albeit at lower levels. On average, net FDI inflows equalled 8.5% of GDP per year since the 2006 coup. Since stabilising in 2010, net FDI inflows have still averaged 6.6% of GDP, significantly higher than the 1.8% between 1980-1999 and even the 5.5% between 2000-2006.

6.6. Business & Investor Confidence

As opposed to consumption, investment aims to build future productive capacity in the hopes of generating future returns or creating value. Therefore, future expectations can play a major role in determining the levels of investment in the present, particularly for private investment. Increased business and investor confidence, *ceteris paribus*, is likely to result in higher levels of investment, and vice versa (Aghion et al., 2010). Though the RBF does not make data on business and investor confidence publicly available, it publishes quarterly reports from which, along with a number of research papers, this paper was able to synthesise the patterns prevalent since 2006. Unfortunately, data prior to 2006 remains scarce.

Following the 2006 coup, confidence in Fiji's investment climate took a sharp hit. Jayaraman (2006) found that weak investment sentiments are strongly related to weak and unstable institutions in Fiji. The international outcry post 2006 and the loss of international confidence in Fiji's political governance led to a sharp drop in FDI, as well as significant reductions in the levels of foreign aid (Gounder and Sooreea, 2013). According to Gounder (2020), it took until 2008 for business and investor confidence levels to start rising again. However, an enterprise survey conducted in 2009 and reported by the World Bank (2017) still saw almost 50% of firms list political instability as the single most important constraint on doing business.

Mentions of business and investor confidence remain muted until an article by Gounder & Prasad in 2013. In it, the authors discuss the need to re-establish trust in Fiji's democratic institutions, stating that "it will take... increased [business] confidence through transparent progress toward the 2014 election to address the problem of poverty and achieve long-term economic growth" (Gounder & Prasad, 2013, p.4). However, despite fears leading up to the 2014 election, it proved to be a turning point according to the World Bank (2017) report.

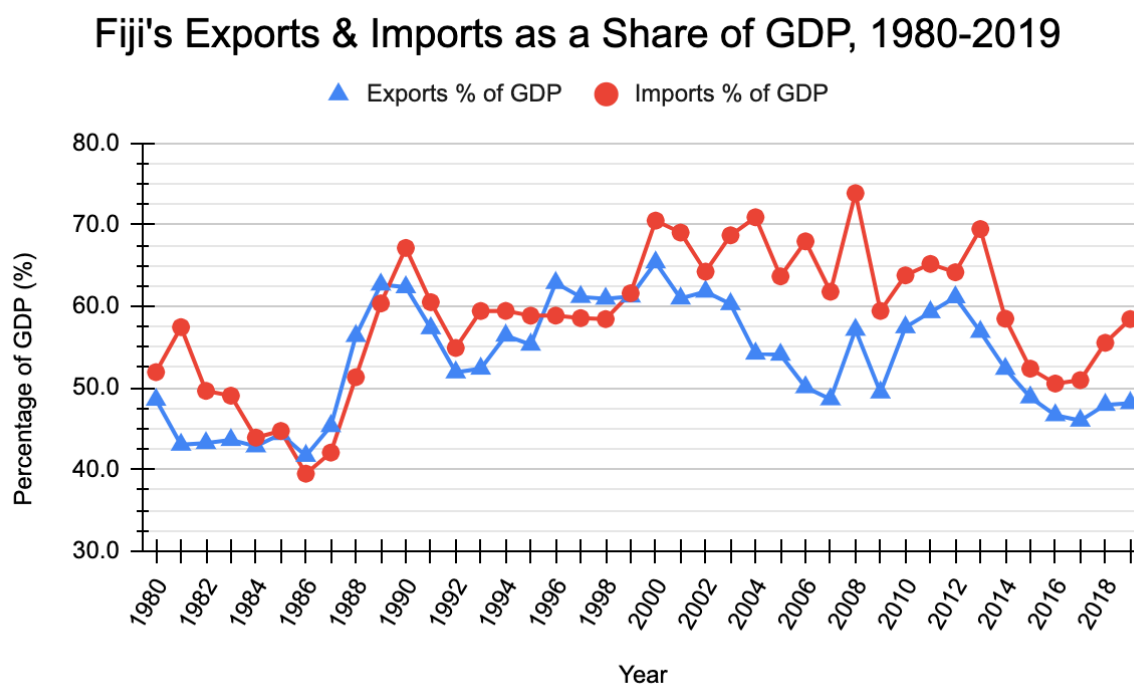
Following open political debate, the government won an outright majority corroborated by international observers. Furthermore, the government had won strong cross-ethnic support. This enabled Fiji to re-establish relationships with the international community and improved conditions for private investment considerably. Notably, the World Bank Board approved its first investment loan to Fiji in over 23 years, valued at \$50 million (World Bank, 2017).

Despite the improved investment climate following the 2014 election, 2018 again registered a drop in business and investor confidence. Gounder (2020) points out that the fall in confidence preceded the 2018 elections and suggests that businesses and investors have not yet regained confidence in the longer-term stability of Fiji's political process. According to a United Nations report on world investment (2020), investor confidence rebounded after the 2018 election. However, following poor GDP growth in 2019, the RBF wrote in its December quarterly report that growth "reflects subdued consumption activity and contraction in investment, stemming largely from weak business and investor sentiments" (Reserve Bank of Fiji, 2019, p. 34), suggesting that any rebound in confidence was short lived. Gounder echoes this, suggesting that the "fundamental cause for the [2019] slowdown, however, is that the Fijian economy has been impacted by weak business and investor sentiment" (Gounder, 2020, p. 146).

Furthermore, Fiji is still considered to be 'high risk' for enterprise investment, according to the insurance company Euler Hermes (2021). Fiji received a rating of D4, the highest risk category, for its economic, political, commercial, and financing categories. Only in the category 'business environment' does Fiji receive a milder 'medium risk' rating. Euler Hermes lists the relationship between indigenous and Indo-Fijians as one of the risk factors, along with a poor regulatory framework and vulnerability to natural disasters.

The analysis of business and investor confidence since 2006 finds that though confidence has likely improved since the 2006 coup and been further strengthened by two peaceful and internationally accredited elections, overall business and investor confidence remains relatively low. Fiji's history of political instability likely remains a significant factor. Though further peaceful, stable and democratic transitions will hopefully further boost both domestic and international confidence in Fiji as a destination for investment, the country may also need to demonstrate a greater effort to heal the deep divides that exist between its two dominant ethnic groups (Chand et al. 2020).

6.7 Trade in Goods & Services



Graph 21: Fiji's Exports & Imports as a Share of GDP, 1980-2019. Source: [World Bank](#)

Despite the relatively low levels of FDI following the 1987 coups, the government's incentives did see some success in developing an export-oriented garment industry (Parry, 1998; Eleck et al., 1993). This may at least partially account for the observed increase in exports between 1987 and 1990, increasing from 45.3% to 62.3%, and resulting in a brief trade surplus (graph 21). Though exports tapered off during much of the 1990's, they still averaged 57.4% of GDP between 1987 and 1999. Hitting a peak of 65.4% in 2000, exports fell quite sharply in 2001 following the coup, and though briefly stabilising around 61%, continued their decline to 48.6% of GDP in 2007. Though exports briefly climbed back up to 61% in 2012, they have performed relatively poorly since, averaging 48% from 2014 to 2019. The fall in exports also created a significant and sustained trade deficit, averaging 8.6% between 2000-2019. Gounder (2012) argues that the effects of the sustained deficit have only been offset thanks to increased remittances, and particularly strong growth in the tourism sector. As highlighted by Gounder (2020), the effects of the Covid-19 pandemic may both increase the trade deficit and significantly decrease earnings from tourism, potentially unsettling the macro-economic environment.

7. Conclusion

This paper has employed the analytic narrative approach to answer the question: *Has political instability led to Fiji's poor economic performance, and if so, how?* In so doing, the paper hopes to have contributed to existing literature by providing a detailed narrative of the principal agents and key decision points to construct a sequenced account of events against which the evolution of key economic performance indicators could be assessed. The paper has found that political instability has almost certainly contributed to Fiji's poor economic performance since 1980, primarily through increased ethnic tensions.

In line with previous research, the investigation shows clear negative medium- and long-term impacts of both the 1987 and 2000 coups on economic performance. Extending existing research to the period following the 2006 coup, the investigation finds that political instability likely contributed to drops in GDP, FDI, domestic investment levels, and remittances. Furthermore, an analysis of investment levels since 1980 observes a clear pattern of drops in domestic investment levels not only during the years in which the coups took place, but also in subsequent election years. This is in line with expectations that a lack of trust in Fiji's political institutions may have led to fears of political instability during elections, reflected in low levels of business confidence. Following the stabilisation of the political environment and the introduction of an "ethnically blind" constitution, economic performance has improved, with Fiji exhibiting a particular economic burst following the return to democracy in 2014. However, even prior to the Covid-19 pandemic, issues such as emigration, insufficient levels of investment and a continued lack of trust in political institutions has continued to hamper Fiji's development.

The paper confirms previous findings in identifying ethnic diversity as the prime driver of Fiji's political instability. Fiji's developmental challenges as a SIDS, particularly its efforts to develop its industrial sector and increase agricultural productivity, have likely been negatively impacted by ethnic tensions between its indigenous Fijian and Indo-Fijian ethnic groups. Further exacerbated by an inequitable land tenure system, Fiji has experienced increased levels of poverty and urban squalor. Already vulnerable to a shortage of human capital owing to its small population size, Fiji can ill afford to stimulate its high emigration rates by further institutionalising ethnic tensions.

To this end, the Bainimarama government has sought to bring an end to ethnically polarising politics and attempted to remedy some of the institutional ethnic biases. Both the new constitution and return to free and fair democratic elections are welcome steps on the path to rebuilding Fijian institutions and bridging ethnic divides. However, fears persist that rather than truly addressing the many deeply engrained issues, the current tactic simply seeks to avoid them (Kant, 2019). For instance, indigenous lands covering 87% of Fiji still remain under the purview of the colonial era Native Land Trust Board, with limited access or scope for participation by the Indo-Fijian community. Given the centrality of issues surrounding land tenure in Fiji's history, finding new ways to balance the protection of indigenous heritage with the realities of modern market economics is key if Fiji wants to definitively quell instability and rebuild trust in its institutions. This will be especially important as Fiji seeks to undo the almost certainly devastating effects of the Covid-19 pandemic and attempts to continue its development in the face of an increasingly fraught climate outlook.

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