Savenaca Narube: Productivity and national development in Fiji

Presentation by Mr Savenaca Narube, Governor of the Reserve Bank of Fiji, on "Productivity and National Development", Productivity Awareness Campaign, Productivity Week, Suva, 20 April 2005.

*   *   *

Introduction

Why should we be concerned about productivity? We are dedicating a whole week to this issue. Why are we sacrificing our evening to discuss this topic? Is it worth our valuable time and effort? I certainly believe so otherwise I would not be here myself and I am sure that you would also agree. I accepted the invitation to this function because I firmly believe that our economic fortunes and that of our generations to come will be worse off if we do not embrace this vision on productivity. And that is certainly not the legacy that we would like to leave them.

This evening I have been asked to speak on the topic of ***"Productivity and National Development*"**. While this is an interesting topic it is also a very wide one. At the end of the day, we must, as a nation, move forward. And one of the keys that will open the door to progress is productivity.

I should say this upfront - productivity is not an end in itself. It is simply a means to an end. And what is that end? That end must be prosperity at the individual and household levels. And one of the good things about productivity is that it would not cost too much to raise it. Initially, it may only require a different mindset. But we know that evolving the mind is not the easiest of things to do. So, while it may not cost too much, it however can be the most difficult thing to change.

What do we imagine when we hear the word **"productivity"**? Some of us may conjure up images of hard labour, low wages and slave drivers. These are certainly the images that we do not like associated with productivity.

We must therefore promote the right national vision. To help shift this mindset, we must get our people motivated to increase productivity in every thing that we do. The only way that we can motivate these days is through the pockets. And this is exactly what productivity can bring. My underlying message this evening is that - **"productivity means more money in the pocket"**. More money for whom? It will raise our take home pay for the lucky ones who already have work and create income to those that will find jobs. Profits will rise. Consumers will save. So it's more money for everyone. Of course, a lot of things will have to happen before these are realised and I will talk about this later. But we need to get people excited by saying that productivity equals more incomes and this translates to issues that everyone understands like more food on the table, a shelter over our families head and education for our children.

Do we have a national vision on productivity? If we do, it is well hidden. Let us proclaim this vision from the rooftops so everyone can hear. This week, dedicated to productivity, will help in the understanding of the national vision.

Let me begin this presentation on a global level. We live in an increasingly globalised world. Globalisation and all its side effects is unstoppable. The barriers to trade, capital flows and labour migration are coming down. Preferential treatments are being dismantled.

In this turbulent world, the nice tradition of love thy neighbour if there was ever one, is now out of the window. You either swim or you sink. And when you sink, the rescue operation will be extremely painful. But do we have a say in these world trends? The answer is no. Well, no for small island nations like Fiji. Not only that we cannot change the direction of these global developments, the platform is not level and the goal post can shift. The rules of the game are influenced by those that possess power and they can change these rules. That unfortunately is the reality of the world.

But we must take our place in the sun. We must compete. We must be quick to market and be a reliable source of supply of quality products. In summary, we must do more with what we have. Productivity is essential for our future survival in this difficult world.

Before we can measure productivity we need to know what it is. A basic issue to many but an important one nevertheless. There are technical definitions of productivity which I do not want to bore you with today. Very broadly, productivity captures our ability to transform our physical and human resources to generate the desired outputs. In layman's terms, productivity refers to working "smarter" and not necessarily "harder".

How can we measure productivity? Productivity can be measured at various levels - individual, firm and national. TPAF identifies several ways to measure productivity.

The traditional way is through profitability and liquidity. The other is value added.

Measuring productivity at the individual and firm level may be easy. But it is not so easy on a national level. There is an obvious need to collect more data on productivity in Fiji.

Let me turn to development. How does one measure development? Development can be defined as an improvement in the standard of living. How does one measure living standards? Remember that only human beings enjoy a living standard and not corporations and government. Every person's living standards is of course different and that is capitalism for you. One crude way of gauging an average standard of living is to look at the country's per capita income.

How do we fare on this measurement? This chart shows Fiji's GDP per head and as you can see it has been growing very slowly and in some years it has been stagnant or even declined. The average growth rate since 1996 is only 1.6 percent.

How do we fare against other developing countries? This international comparison shows that in 1978 Fiji's GDP per capita was higher than Mauritius but lower than Trinidad and Tobago. However, inside eight years, Mauritius had smartly zipped passed Fiji and continues and it is now nearly four times higher than us. The growth in GDP per capita for Trinidad is also impressive. In the Pacific, Fiji had a GDP per capita higher than Western Samoa's and most other countries in the region.

At a national level, the country's economic growth rate can be used as another indicator of development. Looking at our economic performance, in this chart, Fiji's GDP growth since 1996 has generally been positive with the exception of 1997 and 2000. However, our average growth rate since 1996 is only 2.4 percent.

This next slide compares Fiji's growth rates with some selected countries. As you can see, Fiji's growth trend has generally been stable, although it fell below the growth rates of Mauritius, Samoa and Trinidad & Tobago in 2001.

Let me show you another indicator of development - The UN's Human Development Index. The higher you are on this ladder the better. You will note that Fiji was ranked at the 81st position of all the countries on the world in 2002. This is about half way against all countries in the world. We are doing better than the average of all the developing countries and some neighbours like PNG, Vanuatu and the Solomon Islands. Samoa is however higher than us. But we also have lost grounds under this ranking over the years. For instance, in 1996 we were ranked 66th so we have slid down 15 positions.

Very clearly from these pictures we can conclude the following:

1. Our standard of living measured by per capita income is growing very slowly. It may even be stagnant.
2. Our standard of living is not that high compared to some developing countries. Some have passed us by.
3. The rate of national development is very low whatever measurement one uses.
4. In summary, our development performance is poor.
5. The rate of development is much less that the target of 8 percent set by the Hon. Prime Minister for the next five years.
6. Clearly we must raise this rate of development.

We are a small country. Not only that, we do not have too many natural resources. We rely on a few commodities for exports. We compete with bigger countries with very low cost structures and higher productivity. We suffer from natural disaster that can easily wipe out a big chunk of our economy overnight. We face the yearly migration of many of our skill workers to Australia, New Zealand and Canada. How can we be expected to survive in this tough world?

In economic theory, a country's long term growth depends only on its level of education, technology, innovation and productivity. In Fiji, our long term growth is around two percent. We can push this growth rate upwards in the short term but over time, the economic constraints of debt and the balance of payments will pull us back to our long term average. And this is what is happening in Fiji now. Our growth rate has been rising since 2001 as we kicked started the economy with expansionary policies. But is now falling back to its long term growth level of around 1.5 percent this year and even lower growth is forecast for next year. Our expansionary policy package, while it has brought the country out of our 2000 crisis very quickly, will not be sustainable in the long term unless we introduce structural changes. And productivity is one of these changes.

We must of course also work on other issues that will raise long term growth such as education and technology. But as I said, we can achieve results with productivity very quickly compared to the others. Productivity means that the firm is producing more from the same resources. Unit prices fall. In a competitive market, the firm passes these gains to the consumers. Sales rise. Profits are better. Higher profits means that the firm can afford to raise wages or hire more workers. In this manner productivity contributes directly to more pay and more jobs. National prosperity improves and the standard of life rises. GDP per capita improves and everyone is happy.

There are a few generalizations in that transmission mechanism. There are assumptions about competition, the capital to labour mix and that taxes remain the same. But in general, the relationship will hold in principle and perhaps vary in degree.

Let me introduce poverty to the discussion. Poverty reduction is a daunting global challenge. While poverty reduction seems to be the overarching policy objective of many world bodies, the fight against poverty is losing ground. An increasing proportion of the world population continues to live in abject poverty. There is universal recognition that poverty will only be eliminated by economic growth. Without growth, we will never have a chance to reduce poverty. I do not have any recent statistics on poverty in Fiji but we saw how the Fiji economy has historically underperformed. The pie is too small to go around. With more economic growth from higher productivity, accompanied by good policies for development and distribution of wealth, poverty will be reduced. Productivity helps reduce poverty.

Let me move on to employment. Employment must be our number one development objective. We cannot find enough jobs for our school leavers every year. There are many graduates from our university and medical school walking our streets. Statistical evidence suggests a strong link between national productivity and the level of employment.

Based on empirical research, in the long run, a 1 percent increase in real GDP leads to a 1.12 percent increase in employment.

In economics, there is a cost for everything. Someone somewhere will pay up. There is nothing free in the economy. If there is, entrepreneurship quickly plugs the gap. Hence, when workers demand more wages, something will have to give. Either the capitalist will be out of pocket or most likely, the consumers will pay. The only exception is when wage increases are based on productivity. The higher wages are offset by the lower unit cost. There is a win-win situation. The workers are happy, the owners of firms do not have to reduce profit and very importantly, the consumers do not face higher prices.

Next is inflation. Inflation is a killer of entrepreneurship as it erodes wealth and asset values. It discourages effort. Statistical evidence shows that a more productive national economy means higher personal incomes for workers and a lower rate of inflation in the long term. Rising income and low inflation is music to everyone’s ears. The purchasing power of our take-home envelope rises. This leads to more savings and investment.

Fiji’s low inflation experience is a positive factor for productivity, economic growth and stability. The latest 10-year average for the inflation rate stands at 2.9 percent. At this particular time the world is reeling from the high oil prices. No one was able to predict current levels and we do not know where the prices will stabilize. Assuming that oil prices to average around 47 US Dollars per barrel, Fiji’s inflation is expected to rise to 4.5 percent with the possible hikes in bus & taxi fares.

Let us now look at the how we have fared on productivity in Fiji.

We have tried to take a macroeconomic measure of productivity by taking the total output produced by each worker. This is a very high level measure and has many shortcomings. But for our purpose, the broad message is what we want. This graph shows productivity growth in Fiji since 1989. It has grown by an average of around one percent in the last 10 years. Is this good enough? Let us compare this with other countries.

When compared with trends of our neighbours Australia as well as a similar developing country Mauritius, Fiji’s productivity growth is more volatile. It is also somewhere towards the bottom of the pile. Fiji's one percent average over the past decade is less than half of that of Australia. Mauritius' productivity growth is four times higher than ours. I am sure that if we can compare with South East Asian countries like Singapore the gap will be even wider. Does it therefore surprise us that our longterm growth level is only 2 percent?

From these comparisons the conclusions are that:

1. Productivity growth in Fiji is very poor;
2. We are far below the level in some countries like Mauritius and Asia; and.
3. We can and must do better.

Our task is therefore clear. We must raise our productivity. How can we do that? For the answers, we have to look at the factors that make our productivity low.

There are many factors, which account for our low productivity growth. These factors are well known to us.

The work culture prevalent in the Pacific is an important factor, which contributes to our low productivity. In the Pacific, we are relatively laid back in our approach to many things, including work. I don't know if this "malua fever" is the result of the South Pacific climate that we enjoy, but we must recognise that this cannot be translated to the work environment. It is absolutely crucial that we revolutionalise our work culture to align it with the high standards demanded by the international community.

The lack of proper tools is another reason for our low productivity. Given the oversupply of labour in our economy, we tend to be labour intensive in our industries. Our ratio of capital to labour is quite low. Unfortunately, this equates to low productivity. It does not necessarily be so. We can still have labour intensive industries but higher productivity. This means that productivity must be internally driven by organisations or firms themselves. The introduction of performance contracts in the civil service is a classical example.

Another problem faced by us is the lack of up-to-date and appropriate technology. We still find some industry with outdated or inappropriate technologies. Our sugar mills are an example. There are some industries that have taken advantage of the latest technologies and adopted international best practices, such as Fiji Water. Of course, adopting new technologies cost money and a business case needs to be made. But those that have been able to adopt new technology have reaped good results whereas the others have lagged behind.

In this regard the rationalization of telecommunications charges. They will help lower our cost of doing business and catalyze innovation to the industries.

Another factor is the skills in our workforce. Education and retention of skills are important. Because of our size, we have a limited pool of skill people. But to make it worse, we are losing them all the time. This is a graph of our emigration trend. They average around 5000 people a year. Developed countries like Australia, New Zealand and Canada reap the benefits of our training. Its aid in reverse. But it is a free world! These countries themselves loose labour to other countries. Global labour movement is intensifying and the global war on talents is fierce. The world is now the market place. Fiji therefore must look elsewhere to fulfill its short-term skills requirements. This will add to our costs. But we cannot afford to wait around until we have the right skills.

On the flip side, we are just beginning see the positive side of labour transfers with our soldiers in Kuwait, care givers in the United States and rugby players in Japan. One of the direct results of this export is the phenomenal rise in the remittances that we now receive from our workers and families abroad. Last year it rose to about $315 million and counting. This blessing has come at the right time with our exports performing well below potential.

How can we raise productivity? Who should do what? Let me highlight a few suggestions.

I suggest that our national leaders adopt productivity as a national goal. They could also take a lead role to promote productivity.

Needless to say government's contribution towards raising national productivity is vital. Excessive regulation and rigid rules must be eliminated to allow for the transformation of innovations into the market. Removing barriers to competition and innovation will encourage a more efficient economy.

Government should create an enabling environment by putting in place proper policies and support services as necessary.

The government needs to strongly support education and training. To bridge the skills gap in the country, we need a strong and widely accessible system of higher education which will help build up skills of our workforce. In this regard, the strengthening of existing learning institutions is vital.

Building up institutions dedicated to the promotion of productivity in the country, as well as to undertake training and work in partnership with both the private and public sectors is a prerequisite. Our Training and Productivity Authority of Fiji (TPAF), whose vision is to become the Centre of Excellence in Training and Productivity, should be commended for much progress in the area of education and training.

It is good to be told that TPAF and government are revising the Productivity Charter for Fiji. The Charter is important in setting out Action Programmes to be followed in order to promote and facilitate productivity.

The government can also promote public awareness on productivity, setting up national awards and recognition programmes and building up the needed institutional infrastructure.

The adoption of a Service Excellence Framework by the government to address productivity and customer quality problems in its ministries and departments is a very positive development.

Finally on the government's list, speeding up reforms will support higher productivity and raise our long-term growth potential. I am very encouraged by the statement delivered in January this year by the Honorable Minister of Finance and National Planning, Ratu Jone Kubuabola where he announced the Government's intention to streamline certain economic structural reforms. Alluding to the difficulties faced, the Minister said that sensitive issues such as the way people do things in the organization, need to be dealt with in a practical sense. On the significance of reforms, he said that:

- While reforms are difficult, they are absolutely critical to the future of our nation.
- Reforms are the key that will open the door to higher growth.
- Reforms will allow us to raise productivity and maximize the benefits from the use of our limited resources.
- They will also free up resources to be channeled to productive investments.
- These reforms will provide incomes to our rural communities.
- Reforms will provide our grandchildren with more employment opportunities when they leave school.
- And improve the standards of living of all our people.
- On the whole, these reforms will provide the basis for "Growing a sustainable economy for our future".

I fully share these views of the Minister for Finance.

For the private sector, reforms is not only a word for the public sector. Undertaking organizational reforms at the micro or firm level is necessary. Learning new and more efficient ways of using existing technology can result in lower unit costs. Better working conditions and training are essential.

Considering the significant influence of industrial relations in the productivity of the work force, I am hopeful that all tripartite parties including the trade unions will realise the win-win potential of promoting productivity in the work place. While I agree that industrial action is the right of workers, the cost of such actions to everyone including the workers themselves must be clearly identified and factored into people's choices. It is therefore important that the partnership between government, employers and workers is strengthened further in Fiji bearing in mind that at the end of the day our goals are mutual.

What if we do not raise productivity? On a macro level, we will fail to realize our GDP growth potential let alone reach our growth target. This means there will be fewer jobs available for many of our children and grandchildren. This means more unemployment, and less income. Poverty will rise leading to social problems.

Eventually, everyone pays for the low productivity as we are already doing. But unfortunately, the burden of that cost will be borne more by low-income earners and the poor in our communities. They are the most vulnerable. They are the first to go in a job redundancy situation and the little asset they have are not usually protected from inflation. In addition, as consumers they will again face higher prices.

Concluding comments

Is higher productivity going to solve all our problems? Definitely not. But it will go a long way in removing efficiencies in all levels of the economy. This efficiency will have significant favourable ramifications throughout the economy. And in Fijis case of low long-term growth potential, higher productivity will launch us to a high growth orbit.

My guess is that if we raise productivity growth by one percent, our growth potential will rise by two percent. That will make a lot of difference to everyone.

Raising productivity is not the responsibility of TPAF or government only. It is the responsibility of everyone. If we are to improve our quality of life, then each one of us, every worker, business, industry, and government must be committed to the same common goal.

Thank You.