Savenaca Narube: The economic challenges and lessons to raise Fiji's competitiveness

Presentation by Mr Savenaca Narube, Governor of the Reserve Bank of Fiji, to the TPAF's Productivity Symposium, Suva, 5 June 2008.

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The Director General of TPAF, Mr. Jone Usamate;

Fellow Speakers;

Ladies and Gentlemen

Introduction

It is that time of the year again where we elevate productivity to the national level for one week. We have held this annual event for some years now. I have been speaking at almost each one of them. But it seems to be the only time of the year that I hear people talking about productivity. And that to me is simply not often enough.

This symposium is a wonderful idea. We should continue to engage each other at this level to talk about productivity, share views and reignite our passion for progress. It is essential but unfortunately not sufficient. I have said this many times in the past and I will say it again today that we must make productivity a national vision. The national leaders must get excited about productivity. Everyone at whatever level can make a difference on how we do business irrespective of whether you are in the public or the private sector or in between.

I have also noted that in past conferences such as this, there is a lot of waiting for Government to do something – introduce more incentives, set up committees, appoint think tanks, make laws – you name it – before we can do our own thing. But if I may boldly tell you this morning – this waiting around is a waste of time and money! Productivity is one of the few things that we can do something about without any help from anyone. The ball is clearly in our court.

Economic growth

I have been asked to talk on ***"The Economic Challenges and Lessons to Raise Fiji's Competitiveness"***.

Let me start with the economic challenges. There are many. But in my view, our major economic challenge is that the growth rate of our economy is extremely low.

I spoke recently at the National Micro, Small and Medium Enterprise Forum. My message today is no different – we need to raise economic growth. Our average growth rate from 2001 to 2007 was 1.7 percent. The next three years will be no different with a projected average growth rate of below 2 percent.

I have said this in the past that with a growth rate this low, we will double the size of our economy in about 50 years! However, if we could lift our growth rate to, say, 5 percent per year, we would double our economy in less than 20 years. If growth was even higher, say 8 percent per year, we would double in about 10 years. What a difference this would make to the fortunes of our children and grandchildren!

Why has our growth rate been so miserably low? There are several answers that easily come to mind:

- Natural disasters like hurricanes and droughts. This we do not have any control over.
- World developments like what we are facing right now in the rise in food and oil prices. Again, we do not have control on these developments.
- The erosion of our preferential market access. We also have very little influence over this.
- The political crisis.
- The policies that we put in place and more importantly the commitment to their execution. This is one of the key areas that we have control over which can have a huge impact on our economic lives. This is where productivity plays a critical role.

Several of the challenges that we face underline the fact that we live in a globalised world whether we like it or not. Globalisation is unstoppable. The barriers to trade, capital flows and labour migration are crumbling. Preferential treatments are being dismantled.

In this rather turbulent world, the nice tradition of love thy neighbour, if there was ever one, is now out of the window. We either swim or sink. Not only that we cannot influence the direction of these global developments, the platform is not level and the goal posts can shift. The rules of the game are influenced by those that possess economic power and they can and do change these rules. That, unfortunately, is the reality of the world.

But Fiji must take its place in the sun. We must compete. No one owes us a living. We must be quick to market and be a reliable source of supply of quality products. In summary, we must do more with what little we have. Productivity is absolutely essential for our future survival in this difficult world.

I am therefore somewhat disappointed that we have not made productivity an issue of national priority. A national productivity campaign such as this should be mounted not only once a year but throughout the year. In this campaign our leaders should be at the front, the Ministry should be the driving wedge and TPAF its dedicated foot soldiers.

International comparison

How do we compare economically with the rest of the world?

One of the benchmarks we can use is the *United Nation's Human Development Index (HDI).* The HDI is a comparative measure of life expectancy, literacy, education and standards of living for 177 countries. The latest results are based on 2005 data and were published in November last year.

Countries fall into three broad categories – high, medium and low human development. The highest ranking country at number 1 is Iceland. The lowest is Sierra Leone at 177. Our trading partners are highly ranked like Australia (number 3), Japan (8), United States (12), United Kingdom (16) and New Zealand (19). Our nearest neighbour, Tonga, at 55 has made it to the high HDI Group.

Fiji is ranked as a medium HDI country. Fiji, at 92, is about half way on the ladder. However, more seriously, we have slipped 11 places in the space of only 4 years. Samoa is also ranked better than Fiji at 77. Vanuatu and Solomon Islands are ranked 120 and 129 respectively.

Another international measure is per capita GDP. International comparison shows that in 1978 Fiji's per capita GDP was higher than Mauritius. However, the 2005 data show that Mauritius has smartly zipped past Fiji and is now nearly four times higher than us. In the Pacific, Samoa and Papua New Guinea are doing extremely well and may also skip past Fiji if we do not get our act together.

Yet another indicator is the "***ease of doing business"***. The latest is for the period April 2006 to June 2007. Fiji ranks 36th out of 178 countries – not too bad. But we have dropped two places from the previous survey.

These are long term comparisons not short term. Of course, we should avoid reading too much from these international comparisons. Some countries with worse ratings are still growing much faster than Fiji like China and India for instance. But these indicators all point to three broad conclusions. First, we are slipping in our world rankings. Second, the world is passing us by. Lastly, they reconfirm that we have a lot of catching up to do. I believe that we have already passed the point where action is critical, as we have talked enough.

I am always surprised that we have not set ourselves a clear national economic target – one that everyone can understand and embrace. What about a target of 5 percent growth per year? Or doubling our economy in fifteen years? Let the cynics be cynics. But setting a clear target helps galvanize the whole nation to achieve them. I am confident that we have the resources to realise this target if only we can raise the efficiency of using them and a firm commitment to implement what we agree to do.

I am one of many who firmly believe that Fiji's potential is huge. We have realised just a very small part of that. Where are these potential? My answer is that they can be everywhere – in tourism, in agriculture, in forestry, in fishing, in sports, in IT and so forth. There is no reason why Fiji cannot aspire to be like the Tigers of Asia such as Singapore, Malaysia and so forth. Again, productivity holds the key to growing these industries.

We therefore need to ask ourselves – "What must we do to raise economic growth"? How can we grow faster?" Obviously, we need to do many things, some of which are quite challenging to do, but we need to get started. I will highlight the two that I think are the most important and how productivity can contribute to solving our problems.

Firstly, we must raise investment – we need to raise investment to over 25 percent of GDP. Foremost, let us not forget that we need to support and promote local investment. But this is not enough. We need to attract foreign investment. Here, we are competing for the same investment dollar with some bigger and richer countries.

Investors look at several things before they invest. They look at the environment – political, economic and social. They look at government policies and regulations and how these are applied. Investors look at the state of the infrastructure. Finally, investors also look at the quality of labour and their unit cost. The efficiency of capital is a key decision maker. Productivity therefore becomes an important issue for investors.

Secondly, exports must drive growth – exports must be the key driver of economic growth for a country like Fiji. There is, in my view, no other way to grow the economy in a sustainable manner. When we export either goods or services, we are competing with other countries supplying the same products. We cannot rely on preferential access anymore. As I said they are already coming down. We must stand on our own two feet. To enable us to do that, we must compete not only in prices but also in quality. We are competing with many countries which have low cost structures and high productivity. Our work is cut out for us. Therefore raising our productivity level must be a priority. If we cannot compete in this integrated world, we perish – simple as that.

How do we raise the productivity in our export sector? Clearly, business as usual is not the answer. We must change how we do things. Productivity in the cane fields and the sugar mills are critical to the sugar reform. We must change how we work our agricultural sector. The existing model is clearly not working. Our land is fertile. We have the best pawpaw in the world, the tastiest bananas and the sweetest pineapples. But alas we are not even supplying enough of these to our hotels and supermarkets. Our oceans are large yet the price of local fish keeps rising. Our mahogany forests are mature, yet we are not exporting high valued timber products. Obviously, something is seriously wrong and we need to correct that urgently.

We talk a lot about the potential of small businesses to raise growth and provide incomes and employment. Again, while we continue to talk, we see very little progress in this important area. Are we following the right model? Where is the bottle neck?

Lessons are there if you look in the right places and be prepared to accept them. Benchmarking is a powerful tool to use. There are lessons abound from our Asian neighbours. I am pleased that we have several international speakers with us today and we look forward to the lessons that they will leave with us.

Ladies and Gentlemen, the point that I want to make is this: **We should acknowledge and accept the significant role that productivity and competitiveness can play in overcoming many of our economic challenges that we face particularly that of lifting economic growth, attracting investment and supporting exports. More importantly, we need to do something about this now at all levels, micro as well as macro.**

Measurement

We know what we want to achieve and that is to raise productivity. We must now measure it. When I pose the question of productivity data, the usual answer I get is that we are working at it. I know that productivity is a complex indicator to measure but we should be taking some indicative measurement now. Keep it simple.

The crude measure that we use at the Bank is calculating the total output per worker. This is obviously a very high level indicator of productivity and has many shortcomings. But for this morning's purpose the broad message is what we want. Using this measure, we calculate productivity growth in Fiji to average 1 percent over the ten year period from 1996 to 2006. When compared to other countries, we are somewhere at the bottom of the pile. We are less than half of Australia. Mauritius' productivity growth rate is four times higher. I am sure that the figures for Asia will be higher still.

Does it therefore surprise us that our long term growth trend is below 2 percent?

How can we improve our productivity? Not only that, how can we measure our progress over time?

We refer to our culture, the low capital to labor ratio, technology, migration and skills as possible constraints to productivity. These are relevant. But how are we overcoming them? How are we sharing and learning from each other's experiences outside these forums?

I suggest that we should all go away from this symposium with a piece of paper with three assignments on it:

- One, measure the productivity in your organisation, company agency or wherever you are within the next month. Use whatever indicator you wish;
- Two, appoint productivity champions that can drive productivity growth in your company; and
- Three, measure the productivity again in six months and share your experiences with everyone before the next productivity symposium.

If we can all do that, then we will progress.

Finally, raising Fiji's competitiveness is not solely TPAF's responsibility, nor is it the Government's alone. Everyone one of us in this room must take it as personal goal to raise Fiji's competitiveness.

Thank you.