

Savenaca Narube: Strengthening business partnership – a way out of this economic crisis

Opening address by Mr Savenaca Narube, Governor of the Reserve Bank of Fiji, at the Fiji Indigenous Business Council Annual Symposium, Nadi, 5 November 2008.

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Introduction

Mr. Ulai Taoi, President of the Fiji Indigenous Business Council

Distinguished Guests

Ladies and Gentlemen

Introductory remarks

Over the past fifteen years I have made many presentations to business councils. I recall giving two or three to your Council. More recently, I have been addressing mainly the Fiji Australia Business Council and I am scheduled to do so again in three weeks time.

I have said virtually the same messages over these years. I may say it differently each time, but the key messages about the economy remain basically unchanged. We need to raise economic growth and we need to raise it sustainably. To achieve this, our growth should be export led. Investment is the engine of growth. Reforms are essential.

Why do I choose to say the same things over and over again? It is not because I like listening to the echo of my voice. I am more modest than that. But it is basically because, in my view, we do not seem to get things done. I have always said that we already know what we need to do. But sadly we do not seem to be successful in getting them done.

I apologise for starting on a rather negative tone this morning. But it is something that needs to be said again and again. Perhaps, I will balance it and end with a positive one.

Today, I am not going to tell you any earth-shattering wisdom. You possess more experience and knowledge on businesses than I do.

Let me thank Mr. Taoi for the invitation to attend your conference. It is a pleasure to be here this morning.

Theme of the annual symposium

“Strengthening business partnership: a way out of this economic crisis” – your theme is an interesting one. Strengthening business partnership is excellent and should be pursued at all times whether in a crisis or not. But what I found more interesting is your choice of the word ***“crisis”***. Many define what happened in late 2006 as a political crisis. You have chosen to qualify your crisis as an ***“economic”*** one. But we all know that political and economic developments are intertwined. One directly affects the other. Today however, I will stay strictly within the economic boundaries of your theme.

Some of the questions that we need to answer are: How does one define an economic crisis? Are we in one? If so, what is the way out?

Global financial crisis

Whatever is the definition of crisis, everyone knows that the world is in the middle of the deepest financial crisis since the Great Depression. The magnitude is amazing. The rescue

packages are unbelievable. They are in trillion of dollars and still counting. Interestingly, those that study these closely say that these financial crises come in cycles of around 10 or so years. We had the Asian crisis in 1998. Before that we had the Mexican crisis and so forth. This implies that we should be expecting another financial crisis in 2018. But I will leave that to those lucky ones that would be around then to worry about.

The cause of this global turmoil is well known and I would not repeat them here. More interestingly, I will try to define how I see it affecting Fiji. They affect us in three ways – financial, economic and the exchange rate.

I do not expect any significant effect of the crisis on our financial system for the following reasons:

- Firstly, our commercial banks are some of the highly rated banks in the world.
- Secondly, commercial banks do not borrow money from overseas. Their sources of funds are domestic deposits.
- Thirdly, they do not lend money overseas. All their lending is local.
- Fourthly, we have exchange controls which insulate our financial system from the rest of the world.
- Fifthly, our liquidity is more than adequate.
- Finally, the effects of the crisis on Australia, New Zealand, Papua New Guinea and India are small. Four of our commercial banks are branches of foreign banks in these countries. The fifth is a subsidiary of an Australian bank.

I would therefore like to again reassure you that our financial system remain sound.

However, one financial impact would be that those planning to borrow money from abroad may find that the money will not only be hard to find but they would be dearer as well.

While we are insulated from the financial effects of the crisis, we will not be so lucky from its economic fallout. The major economic fallouts for us are:

- Lower demand on our exports as recession begins in many of our major trading partners like the US, Europe and Japan. We export about 19 percent of our total exports to the US and Japan. Our exports to the US are mainly water and garments and to Japan it is mainly fish. The demand for these commodities may be affected by the recession in these two countries.

Our export to Europe is mainly sugar but that is covered under the EU trade agreement and will not be affected.

Our exports to Australia and New Zealand will also be dearer as the Fiji dollar appreciates against their currencies. This will dampen our competitiveness in these markets.

In summary, our exports which are already underperforming will face even more challenges.

- Imports will be cheaper from Australia and New Zealand as their currencies weakens. As a result, imports from these two countries will rise. We import about 40 percent of our total imports from these two countries. On the other hand, imports will be dearer from the US and Japan. That means that cars and white goods will become dearer. A strong US dollar will partially offset the drop in oil prices.

Overall, our import bill which is already rising will rise even more.

- Tourists from US and Japan may now decide to stay at home. The Australians and Kiwis will find Fiji more expansive. **The growth in tourism numbers which we are relying on to take us out of this economic decline will soften.**

- **Remittances which have been falling in the last two years will fall further.**
- **Foreign and local investors may defer investment decisions.**
- **Inflation will come down as oil prices fall.**

Economic conditions

Ladies and gentleman, the economic impact of the financial crisis will further weaken our economy. We came out of 2007 with a deep decline of over six and half percent. Our projections are that the economy will not grow any higher than 2 percent in the next two years. Moreover, these projections may be revised downwards due to the global financial crisis. At this rate it will take at least four years to get back to where we were in 2006. Investment has fallen to 15 percent of GDP when we need to be exceeding 20 percent. Our balance of payments has been under stress for some time and this stress will now mount. Inflation has jumped to over 9 percent, the worse in twenty years. Unemployment is rising. Poverty is worsening.

Hence, taking that scenario into account, one would be forgiven in labeling this situation as a crisis. But I would not go as far as call it an economic crisis for the simple reason that we do not need international assistance to bail us out. That is my crude definition of a crisis. When a country is in a crisis it means that the International Monetary Fund is at their doorstep. Fortunately, we are not in that position now. And I hope we will never be in that position ever.

But there is no doubt whatsoever that we are in very difficult economic times. It is a tough time for any business. Many things have converged on us at once – oil prices rose, then food prices followed and now the financial crisis.

Unfortunately, it is the small businesses that suffer the earliest and the most. They do not have the cushion or the liquidity to ride out troubled times. How do you manage your business today so you can still have one tomorrow when things turn upwards?

If we look back at our economic history, it is not a pretty picture. Our growth has been very low and volatile. Countries that were at the same economic level as Fiji some years ago have zipped past. These include Mauritius, and Malaysia. Many Pacific Island countries are currently doing much better than us like Papua New Guinea, Samoa and Vanuatu. We are being left behind. What makes it worse is that we have the potential to be a leading emerging economy in the region and indeed in the world. Sadly, we are not realizing this God given potential.

Economic program

What do we need to do to get out of this low economic growth cycle? To answer that, we need to do two things. First, separate the things that are beyond our control that we cannot do anything about. The global financial crisis is one of them. The weather is another. Second, identify what we can do immediately and those that will take a bit more time.

An immediate macroeconomic prescription could look something like this:

1. Support the industries that can immediately help us get out of this situation. Tourism is an obvious one.
2. Government to help support the economy in 2009 by increasing its spending on infrastructure which is in a very poor state.
3. Improve the approval processes for investment and setting up new businesses. All it takes is simply a change in attitude.
4. Fast track the approval of major investment projects now under consideration.

5. Be consistent in policies that support private sector development.
6. Be consistent in the interpretation of regulations and laws covering businesses particularly tax laws.
7. Improve productivity. All it takes is leadership.
8. Avoid excessive increase in wages which are not linked to productivity. Otherwise, this will lead to an inflation spiral and exacerbate our balance of payments position. We will not solve our problems by paying ourselves more. This is an extremely dangerous thing to do.

In the medium term, we could look at the following menu:

- Raise exports.
- Reform the civil service.
- Privatize relevant public enterprises. Some have been on the list for many, many years.
- Reforms the sugar and agricultural sectors.
- Develop alternative energy sources.
- Lower taxes.
- Substitute imports for local products particularly in agriculture.

In a few weeks time, the Government will deliver the National Budget for 2009. We all look forward to what the government will bring to the nation to get us through these difficult times.

Business survival

The key question is: How do your businesses survive in this situation and in the long run? I will make ten suggestions.

Let me say this first. **Businesses are individually based.** You aim to succeed not because it will help the economy but it will benefit you and your family foremost. The national objective of lifting economic growth is a side effect of your success. This individual focus is important because it drives what you should and can do. Do not rely on anyone else particularly government handouts. I truly believe that no one owes us a living except us.

Second, cut down cost. This is one factor that is always under your control.

Third, watch that cash flow like a hawk. This is the most vulnerable spot of any business big and small. Don't mix personal and business cash.

Fourth, if at all possible, avoid putting all your eggs in one basket. Our market is small. Therefore think of diversifying. When one business line weakens, hopefully the other can subsidize.

Fifth, there is no substitute for hard work. All the assistance in the world will come to naught if you are not prepared to work. Affirmative actions will not be sustainable without sweat and tears. Traditionally, we tend to take the easy way out. We want to reap what we did not sow. In villages, some drink grog all night and survive by stealing from the plantations of their fellow villagers. When someone works hard and prosper, instead of trying to emulate them, we tend to be envious of them. And worse still, we sometime sabotage their efforts. I repeat – there is no substitute for hard work. In difficult times, we need to work even harder. When the going gets tough, the tough gets going.

Sixth, we must have self confidence and respect. Fijians are known to be modest about ourselves. Worse still we even talk down our achievements. We belittle ourselves. In business, we should not rely on others to lift us up. We must do it ourselves. There is nothing

wrong about self praise and self respect. We should teach our children these values by being role models. We can be anything we want to be.

Seventh, aim high. Again with lack of confidence we tend to think small. We are scared of over committing and going big. We take the safe route all the time. The sky should be the limit. We are what we think.

Eighth, we should do our home work. We should plan and strategize. Don't just live for today. Look towards the horizon. Set targets of where you want to be in five, ten, twenty years. We cannot just bump along and expect that everything will miraculously come together. For instance, you should not complain that a commercial bank turned your loan down just because you did not take time to prepare a good submission. Many good ideas have bitten the dust because of lack of preparation. It should not happen that way. We must plan. Identify the risks to your business and develop ways to mitigate them. What are your contingency plans? In this difficult time, plan for the worse and hope for the best.

Ninth, measure where you are. You cannot achieve what you cannot measure. We must keep proper accounts and records.

Tenth, we must innovate. I am often told the story about village canteens. When someone in the village sets up a canteen many others copy irrespective of the size of the market. Similarly, when one sets up a grog place, a few more spring up. Taxi business is the same. It's a herd mentality. Why don't we diversify and synergize? Take time to innovate. There are many possibilities out there.

Changing behaviours

Talking of changing behaviours is easy but most importantly, how do you go about changing them? The key realisation is that it starts with you. You should change now. The second is that it will happen through education and training. So train yourselves now. Its never too late to learn. And more importantly, educate our children. Financial and business literacy is the key to our successes. We should start as early as primary school.

Let me say that these behavioral changes are already happening. They are driven by the necessity to survive. I see small businesses sprouting up on the road sides and in towns and villages more now than when I was growing up. The change is already happening. We should change when we are in control rather than it being forced down our throats.

Networking is another medium that will help change behaviours. Your Council can play a very important role in sharing best practices, what works and more importantly what does not work. But I still think that you can do more than that. We have some successful business people in this Council. I note that some will be sharing their experiences today. I challenge them to take a greater leadership role in supporting and guiding our business people. A mentoring system can work wonders. A system of hands-on-assistance that actually help individual cases could also be developed. How effective is the Council on lobbying?

Cultivate alliances and collaboration with institutions and organisations. How strong is your collaboration with the other business councils in Fiji – the Fiji Australia Business Council, Fiji New Zealand Business Council and others that are in existence? Don't stop locally. Reach out globally.

Information is important. Having a website is an integral part of the business. I note that the Council does not have a website. Perhaps you should and use it as a medium to assist members that seek your help.

Culture and tradition

As a race, we have our culture and traditions. We often hear that making money is not a natural part of the Fijian way of life. We all know the drawbacks of the modern “kerekere” system. We all complain about the burden of “soli” and “oga”. The “vakavanua” system now demands liquidity.

We are well known for our friendliness. Relationship commands a premium value. Maintaining traditional ties are paramount. Working together is an integral part of our culture.

Do these values conflict with the commercial and business culture? On face value some seem to be. But on closer examination, perhaps they are not. Perhaps the extremes are where the conflict is greatest. For instance, friendliness is a big plus in business as long as you do not give away the business jewels. Working as a team is encouraged in organisations and businesses as long as it does not shut out individual initiatives. The “oga” is our obligation but we should keep them under control so we don't spend what we don't have. I firmly believe that we can turn these cultures around to our business advantage through leadership, communication and more importantly education.

Conclusion

Our economic situation is grim. Many of our problems are from offshore and we do not have any control over. But some are domestically generated and we should address them urgently. I have suggested some solutions to them

I am sure many of you would have read this small book called “**Who Moved My Cheese**” by Spencer Johnson. Before I conclude, I would like to relate what we are going through economically and culturally to the lessons from this book. In brief, the story is about two mice and two small people who found plenty of cheese. The two small people came to assume that the cheese would always be there and they relaxed and enjoyed the cheese. Suddenly one morning, the cheese was gone. The mice simply scurried off in search of new cheese and found them. However, the small people sat there moaning and complaining how unfair and unkind for someone to move their cheese. They refused to change and were afraid to move out to new grounds in search of new cheese.

In many ways, someone has moved our cheese. Like the two little people, would we complain and moan why things have changed and refuse to venture out in search of new ones? I hope that we can be like the mice, accept what has changed and set out in a new direction in pursuit of new opportunities. These opportunities are there for those that have courage to seek them out.

I said I would end on a positive note. I always believe that dark clouds invariably have a silver lining. What goes down must come up. There is always light at the end of the tunnel. We are managing the economy reasonably well under severe pressure. Our foreign reserves have stabilised. Our inflation will come back down. Our currency is stable. Tourist arrivals are growing at over 10 percent. Our national debt is within tolerable levels. With a coordinated policy effort I firmly believe that we can raise the growth rate beyond 2 percent in 2009. And if we undertake the necessary work now, we can raise growth to the 5 percent mark in future years.

But as I said, we know what we should do. The problem is that we are not doing them. Let's therefore not delay. Let's act now. We owe it to our children and grandchildren. We can make a difference.

I wish you well in your deliberations.

I have much pleasure in declaring this Symposium open.

Vinaka Vakalevu and may God bless us all.