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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Fiji: Economic Prospects After Independence

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
September 1970

INTELLIGENCE MEMORANDUM

Fiji: Economic Prospects
After Independence

Introduction

After nearly 100 years of British rule, the Fiji Islands will become independent on 10 October 1970. The country has its share of racial and political problems, and its economy is narrowly based. US interests are based on the presence on Viti Levu Island of a US Air Force station [redacted]

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[redacted] In addition, Fiji has become increasingly important as a stop-over point for international air traffic between the United States and Australia. This memorandum examines the country's major problems and assesses its prospects for stability after independence.

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A Strategic Location

1. The Fiji Islands, located about 2,000 miles east of Australia, consist of more than 500 islands totaling some 7,000 square miles -- somewhat less than New Jersey. About 80% of Fiji's approximately 540,000 people live on Viti Levu, the main island, and most of the remainder on Venua Levu. The other islands are largely unpopulated and of little economic significance. Even on the main island, most

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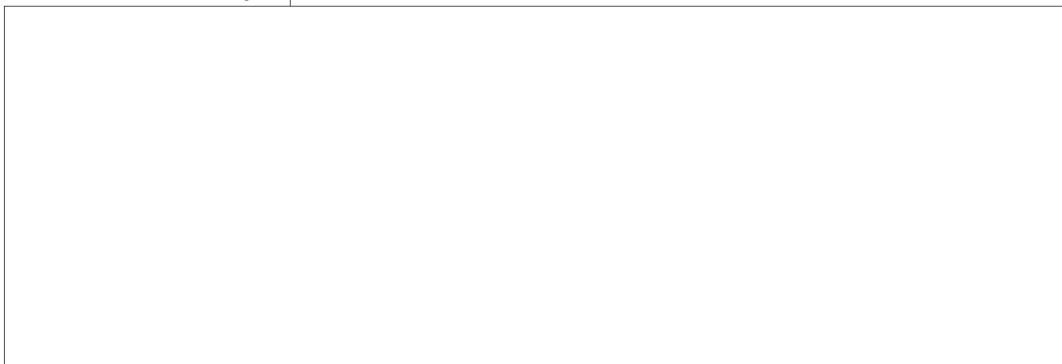
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of the population and economic activity are concentrated along the fertile coastal areas. The interior is largely mountainous and only sparsely populated (see Figure 1).

2. US strategic interests are based largely on the presence of a US Air Force station on Viti Levu Island.



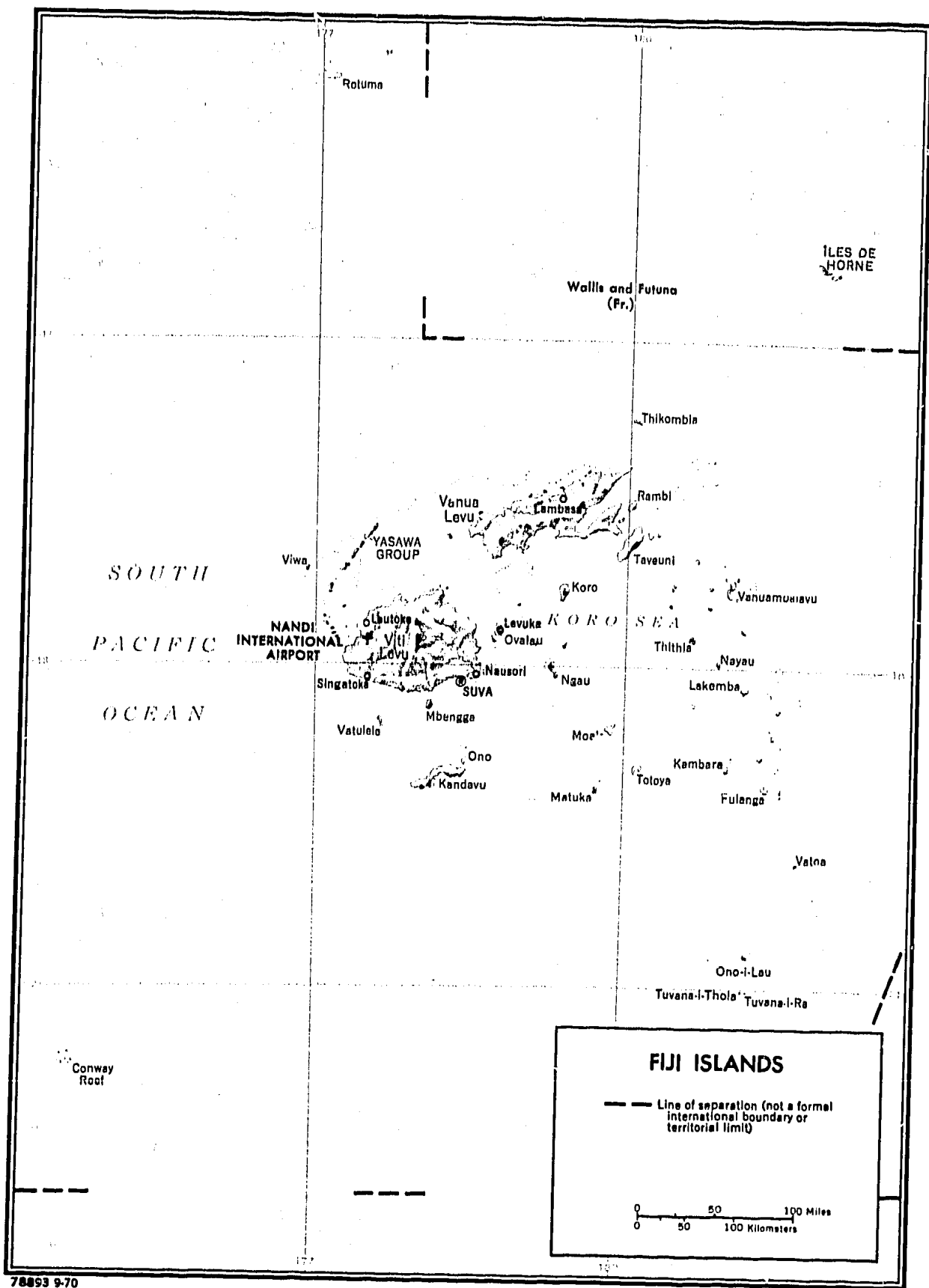
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3. Fiji also is the major stop-over point for international air traffic transiting the South Pacific (see Figure 2). Most of this traffic runs between Australia and New Zealand and the US West Coast via Hawaii and has grown rapidly in recent years as a result of expanding business links between Australia and the United States. Because of its excellent location, Fiji has become the most important refueling and stop-over point for this traffic. More than 40 trans-Pacific flights per week now stop at Fiji's Nandi International Airport, which is capable of handling Boeing 747 jets, soon to be placed in operation across the South Pacific.

The Racial Problem

4. Fiji has been a British colony since 1874. When the Islands were first discovered by the British in 1643, they were populated by tribal peoples of essentially Melanesian descent who now constitute the Fijian racial group. European colonization was never appreciable, but after the British took control, large numbers of Indian laborers were imported from South Asia to work the Islands' sugar fields. Their descendants, most of whom are Hindus, presently outnumber the indigenous population. A few Chinese merchants and traders have also migrated to the Islands since the late 1800s.

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5. Tension between the two major ethnic groups -- Fijians and Indians -- is the most serious threat underlying Fiji's stability. As the indigenous population, the Fijians have enjoyed a protected status under colonial rule, and the electoral system to be inherited from the British assures the Alliance Party, headed by Ratu Sir Kamisese Mara and supported mainly by the 225,000 Fijians, control over the government. Many of the 270,000 Indians, who mainly support the Federation Party, resent being ruled by the less numerous Fijians and have insisted on electoral reforms after independence. Although the Fijian leadership has agreed, it is certain that any reforms which significantly reduce their political power will be rejected.

6. Distrust between the two major ethnic groups is deeply rooted in cultural differences, and the uneven distribution of wealth and power aggravates the situation (see Figure 3). Fijians have moved into the modern economy only very slowly, and many feel their progress blocked by the better educated and generally more prosperous Indians, who control much of the country's trade and finance. Indians and Europeans fill most of the high-level management positions in industry and government. While the small European population is even wealthier, they have generally allied themselves with the Fijian group and would almost certainly oppose any electoral reforms that give political power to the Indian majority.

Figure 3

Selected Data on Fiji Ethnic Groups

Distribution of Land Ownership, 1958 (Total Area 4,515,000 Acres)		Personal Income Tax Payments, 1968		Population, 1968 (Total: 512,000)	
Fijian	83.6%	Europeans	55%	Indian	50%
European	7.2%	Indians	36%	Fijian	42%
Government	6.4%	Chinese	5.5%	European	4.4%
Indian	1.7%	Fijians and Others	3.5%	Chinese	1.1%
Other	1.1%			Other	2.5%

Area Under Cultivation, 1958			
Sugar (137,700 acres)	Other Crops (241,300 acres)	Total (379,000 acres)	
Indian	92%	Indian	47%
Fijian	6%	Fijian	35%
Other	2%	Other	18%

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7. The question of land ownership also threatens to disrupt racial harmony. Under British rule, more than four-fifths of Fiji's land area was reserved for tribal ownership, with the balance mainly owned by Europeans and the government. Indians, although constituting about 50% of the population, own less than 2% of the land area. While Indians produce most of the country's cash crops, most of their output comes from land leased mainly from Fijians. The problem is that while Indians want access to additional land, many Fijians feel the Indians already farm the best areas and want to maintain present restrictions on land ownership. Indeed, some Fijians are refusing to renew leases, and a 1967 law designed to protect tenants has recently been under review with an eye toward limiting tenant's rights.

Recent Economic Trends

8. Because social and political problems have thus far been contained, the economy has not been adversely affected by them. Fiji's two-pronged economy is based essentially on sugar and tourism, while manufacturing and mining are relatively unimportant. The economy performed erratically during the early and mid-1960s because of fluctuations in sugar production, but since then has grown rapidly largely because of the booming tourist industry. Gross national product (GNP) increased 5% to 6% annually in real terms during 1967-69, and per capita income now exceeds \$300 -- a relatively high level for a less developed country. Moreover, Fiji does not have the high population density that plagues other countries. Unemployment is probably Fiji's major economic problem today. Although the situation is not particularly severe, it is a sensitive political question because many of the unemployed are Fijians.

The Role of Sugar

9. Although its significance has declined in recent years, the sugar industry is still important to Fiji's economy, accounting for about two-thirds of merchandise exports (see Table 1) and perhaps one-fourth of GNP. About one-fourth of the cultivated land is planted to sugar cane, which is grown almost entirely on some 16,000 small farms operated mainly by Indians. Less than 10% of the

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Table 1

Fiji: Commodity Distribution
of Exports a/
1968

	Million US \$	Per- cent
Sugar	28.6	63
Coconut products	5.5	12
Gold	4.0	9
Other	7.0	16
<i>Total</i>	<i>45.1</i>	<i>100</i>

a. *Excluding reexports.*

crop is raised by Fijians. Because of the small size of farms, average yields are very low in comparison with those of other sugar exporting countries. Moreover, weather causes wide fluctuations in output and resulted in a 25% drop in production last year. Even so, sugar production trends have generally been upward during the past decade (see Table 2).

Table 2

Fiji: Sugar Production

<u>Year</u>	<u>Thousand Metric Tons</u>
1959	287.5
1961	146.3
1965	316.0
1967	295.7
1968	400.3
1969	303.8

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10. The sugar industry relies heavily on the Commonwealth Sugar Agreement for preferential prices and guaranteed markets. In 1968 the United Kingdom purchased almost one-half of the 347,000 metric tons exported at an average price of 4.7 cents per ton, or more than double the price Fiji received for sugar sold on the open market. In addition, the United States purchased about 39,000 metric tons at roughly three times the world market price (see Table 3). Because of these subsidies, sugar exports in 1968, worth only about \$16 million on the world market, actually brought almost \$29 million. In 1969 the difference was less marked because of higher world market prices, but it was nevertheless substantial.

Table 3

Fiji: Volume, Price, and Value
of Sugar Exports
1968

	<u>Metric Tons</u>	<u>US Cents per Pound</u>	<u>Value (Million US \$)</u>
United Kingdom	154,320	4.7	16.0
United States	38,840	6.4	5.5
World market	153,627	2.1	7.1
<i>Total</i>	<i>346,787</i>		<i>28.6</i>

11. Despite subsidies the industry faces numerous problems. An arbitrated agreement reached in March 1970 requires the country's only refining company to increase payments to farmers by about 10%. The largely Australian-owned South Pacific Sugar Milling Ltd. subsequently stated its plan to withdraw from Fiji, claiming the new arrangement makes operations there uneconomic. Even allowing for some exaggeration, however, the company is likely to at least avoid new investments, further dampening the sugar industry's prospects. But

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under the best of circumstances, sugar exports are not likely to grow much, because Fiji already fills its US and UK quotas and because sales on the open market can increase only slowly.

The Jet Age Impact on the Economy

12. The growth in air traffic transiting Fiji has stimulated a booming tourist industry which has accounted for much of the country's economic growth in recent years. Last year the number of tourists, mainly vacationing Australians and New Zealanders, reached 85,000, making Fiji one of the world's fastest growing tourist spots. Exchange earnings from tourism nearly tripled between 1966 and 1969, when they amounted to about \$26 million and now account for an estimated one-fourth of total foreign exchange earnings. About \$2 million to \$3 million is earned for goods and services provided to airlines making stops at Nandi International Airport. Foreign exchange receipts from these sources are likely to continue rising because most airlines servicing the South Pacific and Australia expect air traffic to and from the area to expand rapidly. Moreover, Fiji has derived income as a free port through sales of imported consumer goods to tourists.

13. In addition to directly earning foreign exchange, the tourist industry is attracting increasing amounts of foreign private investment. American Airlines, which recently began operations in the area, is investing some \$2.3 million in a hotel, and Pan American Airlines, the major US carrier stopping at Fiji, is considering construction of another hotel. Similar investments are under consideration by Australians and New Zealanders who so far have been the major investors. The inflow of private foreign investment has probably been running at \$5 million annually in recent years.

14. Increasing earnings from tourism enabled Fiji to finance a growing trade deficit. During 1965-69, imports rose by about 7% annually and reached almost \$90 million last year. Exports, including reexports, have increased only about 3% annually since 1964, primarily because of generally low sugar prices. As a consequence the trade deficit, which averaged about \$3 million annually

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during the first half of the 1960s, averaged about \$18 million a year in the last half. In 1969, however, the deficit was more than offset by tourist receipts (see Table 4). Private capital inflows and foreign aid further boosted exchange receipts and enabled Fiji to run a substantial balance-of-payments surplus. (For geographic distribution of trade, see Table 5.)

Table 4

Fiji: Foreign Trade and Tourism

	Million US \$									
	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
Imports	37.7	39.6	40.0	46.5	63.5	66.9	58.1	64.7	78.7	89.6
Exports	29.4	24.0	28.7	44.6	53.2	41.0	37.1	40.2	45.1	59.2
Reexports	6.4	6.2	7.5	6.4	6.9	7.9	7.7	8.9	11.4	12.0 a/
Balance	-1.9	-9.4	-3.8	+4.5	-3.4	-18.0	-13.3	-15.6	-22.2	-18.4 a/
Tourism receipts	N.A.	N.A.	N.A.	4.1	6.0	8.5	9.8	12.9	20.4	26.1

a. Estimated.

Table 5

Fiji: Geographic Distribution of Trade
1968

	Exports a/		Imports	
	Million US \$	Percent	Million US \$	Percent
United Kingdom	21.3	38	16.7	21
Australia	6.3	11	20.6	26
New Zealand	2.9	5	7.4	9
Other Commonwealth	7.9	14	10.8	14
United States	7.7	14	4.0	5
Japan	2.3	4	10.1	13
Other	8.1	14	9.1	12
Total	56.5	100	78.7	100

a. Including reexports.

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15. Fiji receives considerable foreign aid for its size -- about \$12 per capita in 1968, compared with the world average of about \$4. Taxes, mostly derived from incomes, are sufficient to cover government operating expenditures, but they finance only a part of development outlays (see Table 6).

Table 6

Fiji: Government Receipts and Expenditures

	Million US \$						
	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>
Ordinary revenues	18.6	21.4	27.6	28.9	28.8	32.6	38.3
Ordinary expenditures	18.2	19.2	22.4	24.6	27.3	31.1	34.2
Balance	0.4	2.2	5.2	4.3	1.5	1.5	4.1
Development expenditures	5.8	6.1	5.2	7.9	8.9	6.5	10.2
UK grants	3.3	2.6	2.0	3.1	2.5	1.6	3.4
Other receipts	5.7	4.8	2.0	2.3	2.9	3.1	7.1

Roughly one-third of this spending has been paid for by the United Kingdom. In 1968, UK assistance totaled \$4.2 million, almost all of which was for the development program. Considerable technical assistance has been received from Australia, which provides some \$1.5 million in aid annually, and from the United States through the Peace Corps program. US aid amounted to about \$600,000 in 1968. Fiji hopes to obtain increased foreign aid to help finance planned expenditures of about \$96 million under the 1971-75 development program which calls for doubling investment spending. Increased domestic revenues are expected to cover only about 15% of total outlays, and thus Suva hopes to raise some \$80 million through foreign aid from the British and others.

SECRETConclusions

16. Fiji's economy is basically sound. Although the once-dominant sugar industry is facing problems, it is rapidly being surpassed in importance by tourism. Despite a sharp fall in sugar production last year, the overall rate of economic growth remained very high, principally because of the growing tourist trade. Fiji will also benefit from expected increases in tourism and air traffic transiting the South Pacific. Consequently, the economy should continue its recent good performance over the next few years, barring any serious racial disorders which would endanger the tourist industry. Undoubtedly, mutual distrust between the economically powerful Indians who make up the majority of the population and the land-owning Fijians who have political control will continue, and it is far from certain that racial peace can be maintained over the longer term.

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