Fiji Sun
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Saturday November 3, 2012

Rise in foreign investment

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Foreign direct investment (FDI) in Fiji is increasing.

The term FDI normally refers to equity stakes and effective control of enterprises. However, in recent times, a broader definition also covers non-equity participation by foreigners by way of licensing, franchising, and joint ventures.

Different types of FDI

In the past, FDI inflows to Pacific islands were of the natural resource exploiting type such as primary processing. In the early years of the last century, notable FDI in Fiji was sugar industry. Later, FDI inflows were for mining and tourist resort and hotel industry development. Another type of investment was market seeking, which was manufacturing for domestic markets behind tariff walls. Since markets in Pacific islands are small, FDI was mainly limited to retail trade. FDI in manufacturing for export markets was negligible.

In the 1990s, Japanese investors showed interest in setting up export oriented type of investments in light industries. The Yazaki automobile wiring harness plant in Samoa, where wages were relatively lower, is a leading example. It exported its products to Japanese car assembling plants overseas.

Amongst Pacific island countries, Fiji is the recipient of least amount of foreign aid. It is less than 2% of GDP as compared to double digit figures in Vanuatu and Samoa. External borrowing on concessional terms from Asian Development Bank and Word Bank is not available, as Fiji's per capita income is higher than the required threshold income level.

Benefits of FDI

FDI as non-debt creating capital inflows are therefore more attractive. Benefits of FDI are considerable. Besides supplementing domestic savings for increasing the rate of investment for economic growth, they are additions to the nation's real resources. Further, they contribute to fostering domestic managerial skills and facilitate transfer of technology.

Furthermore, foreign investors create jobs and increase demand for non-tradeable domestic goods and services such as water, electricity, housing and other services. By inducing greater domestic investment in these areas, FDI has a favourable impact on the economy. Specifically for Fiji, FDI inflows serve as cushion against adverse effects of current account deficits. Above all, FDI helps Fiji to step up foreign exchange earning activities by focusing on resource development.

New areas of growth

With incentives after the two military coups of 1987, which led to a temporary period of economic isolation, Fiji was able to explore and develop new areas of growth such as the export oriented garment industry with FDI from East Asia. Sustained efforts in the following years made Fiji's garment exports a major foreign exchange earner and number two on the list of most successful exports after sugar.

FDI inflows are, however, highly sensitive. A sharp decline is always the case after a political crisis.

Following the coup in 2000, FDI was less than 1% of GDP; but recovered in later years to reach 13% of GDP in 2006 and then decreased again in subsequent years. There has been a rapid recovery since 2010 and it is now around 6% of GDP.

A Press Release from Investment Fiji says during January-September, as against the target of $525 million of FDI inflows during 2012, Fiji has received $633.50 million worth of investment projects during January-September exceeding the target by $108.5 million. This has been on the basis of the actual FDI inflows after close monitoring by rigorous checking by on-site visits.

Coordinated action between officials of Investment Fiji and 22 government enforcement agencies involved in FDI projects in streamlining of the approval processes appears to have yielded these impressive results. Compared to last year, the value of foreign investment registration certificate received this year increased by 59%.

The value of total projects implemented when compared to 2011 also increased by 115% and was 21% above target.

Assurance of regional market

The rise in FDI inflows could well be attributed to the ongoing sub-regional economic integration efforts under Melanesian Spearhead Group Trade Agreement. Foreign investors are assured of a large regional market of nearly 7 million people, as tariffs are now being eliminated on products traded between MSG countries. Fiji, with a large pool of educated, trained and skilled manpower and physical infrastructure is an attractive destination for FDI. Naturally overseas investors manufacturing for a regional market are looking to Fiji for locating their plants to manufacture for MSG market.

Studies have shown FDI inflows are influenced by an assured, large market and external economies rather than tax incentives. Special treatments such as tax free zones do not matter. Perhaps, time has come for Fiji to have another look at the concessions offered to attract FDI.

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