

Fiji Faces Economic Depression After Fourth Coup Since 1987

By Emma O'Brien

Dec. 12 (Bloomberg) -- Fiji faces an economic depression after last week's military coup caused a slump in tourism and threatens a collapse of the sugar and garment industries, business leaders and economists said.

"The coup will have a severe impact on the economy," said Satish Chand, an economist at the Australian National University. Most international funding will be closed to the new regime and inflation could double from the current 3 percent.

Military chief Commodore Voreqe Bainimarama seized power on Dec. 5, ousting the government of Prime Minister Laisenia Qarase in the nation's fourth coup in 19 years. The U.S. cut aid to the country, the European Union said it may scrap subsidies to the sugar industry and Australia, New Zealand and the U.K. warned against travel to the 332-island archipelago.

The \$516 million tourism industry is the South Pacific nation's biggest earner of foreign exchange, according to the World Bank. The sugar industry creates about one-third of economic activity and the garment trade is worth \$153 million annually.

Bookings for flights to Fiji are down 40 percent for the first three months of 2007, said main carrier Air Pacific in an e-mailed statement today.

The military takeover will be disastrous for Fiji's \$2.81 billion economy, as declining visitor numbers drag other industries down, said Ken Roberts, president of the Employers' Association, in a telephone interview from the capital, Suva.

"Employers across the board are looking at reducing their workforces," he said.

Economic Growth

Fiji's gross domestic product fell 7.7 percent in one year after the last coup in 2000, said Ron Duncan of the University of the South Pacific in Suva, adding this one will probably cause a similar decline. GDP growth in Fiji for 2006 is forecast to be 1.7 percent, according to New Zealand government data.

The tourism industry is already at "ground zero" said Bill Gavoka, chief executive of the Fiji Islands Visitor's Bureau, by telephone from Suva.

The industry is expecting a 30 percent drop in trade next year, he said, based on the losses experienced after the 2000 coup from which it took four years to recover. Between 300,000 and 400,000 tourists each year visit the archipelago located 3,240 kilometers (1,950 miles) northeast of Australia.

The tourism industry will be further hit by the loss of the World Netball Championships, scheduled to be held in July next year. The International Netball Federation withdrew Fiji's hosting rights on Dec. 8 because of the coup and the decision will cost the Fijian economy \$3.6 million, said Alisi Tabete, chairman of the Fiji organizing board, in a statement.

Sugar Industry

Sugar is Fiji's main agricultural export and contributes about 10 percent of GDP, according to the EU.

There is a "good chance" Fiji will lose the EU's \$417 million aid package aimed at restructuring the sugar industry, said Robert De Raeve, acting head of the European Commission's diplomatic mission in Suva.

The sugar industry, which employs 45,000 people, would collapse if that happens, said Felix Anthony, general secretary of the Sugar and General Workers' Union. The industry is already under "huge pressure" after losing subsidies and preferential access to the EU market after a World Trade Organization ruling in 2004, Anthony said.

Sugar production in the season to June this year fell by 14 percent compared with the previous season, said the World Bank.

Garment Industry

Fiji's garment industry produces clothing for Australian brands such as Billabong International Ltd., Hard Yakka and King Gee. During the 2000 coup, Australian labor unions advised against purchasing Fiji-made products, Roberts said, adding the trade would be in danger if a similar call is made again.

The industry is "making noises about a serious downturn," Roberts said, and that would hit in the New Year once all pre-coup orders have been met. Buyers in Australia and New Zealand, Fiji's main markets, could go elsewhere because of a perceived instability of supply following the coup, Roberts said.

The garment industry could lose as many as half of its 10,000 jobs, Chand said.

Fiji's economy has undergone setbacks unrelated to the coup in recent months. The country's largest garment manufacturer, the Malaysian-owned Ghim Li Holdings Co., closed eight factories in May 2005, resulting in the loss of 4,000 jobs, Roberts said.

Gold Mine

Sydney-based Emperor Mines Ltd. closed the Vatakoula gold mine the same day Bainimarama took power, saying higher oil prices and wage costs made it unprofitable.

One third of Fijians already live below the poverty line, Chand said. The country has an estimated population of 905,000 people, according to U.S. government data.

Credit rating company Moody's Investors Service Inc. altered its rating for Fiji local and foreign currency government bonds from "stable" to "negative" after the coup because of "uncertainty of the macroeconomic and fiscal effects" of the military takeover, the company said.

The rating could return to "stable" if there is a return to political stability and either "successful reform of the sugar industry or export diversification," Moody's said in a Dec. 7 statement.