



Research School of Pacific and Asian Studies

# *State* Society and Governance *in* Melanesia

## ETHNIC CONFLICT, INCOME INEQUITY AND GROWTH IN INDEPENDENT FIJI

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Ethnic conflict in Fiji has been on the rise. The riots in Suva in September 1987 were racially motivated as were a number of criminal activities since then. The 1990 Fiji Constitution and the debate following the two coups of 1987 have brought the race issue to the forefront in a number of policy discussions in the country.<sup>1</sup>

The current debates over land tenure and the constitution are heavily flavoured with racial connotations. Despite the significance of race as an issue in Fiji, the local academia has paid little, if any, attention to race issues. One reason for this has been the political sensitivity of such discussions. Another is the fear of being labelled a 'racist.' Political correctness demands that one keep clear of discussions on race issues.

This paper is sensitive to the above concerns but attempts to fill the vacuum of objective discussion on the race issue in Fiji. Politicians, the media, special interest groups, as well as the general public, have often discussed race issues—at times with immense heat and gross exaggeration. For example, race relations in Fiji have been compared to apartheid in South Africa. Although in relative terms Fiji is still a peaceful country, complacency is warned against, particularly in the current climate of deteriorating race relations. The view taken here is that the race issue

has to be addressed objectively if social stability and economic prosperity are to be achieved in the near future.

### ETHNICITY AND RACIAL DISCRIMINATION

Race is defined on the basis of attributes inherited genetically, for example, the colour of one's skin. Ethnicity, which is often used synonymously with race in Fiji, is differentiated by culture.<sup>2</sup> Racial discrimination, therefore, is discrimination by those in authority on the basis of inherited characteristics. In the case of Fiji, the segregation of indigenous Fijians from the descendants of Indian immigrants (henceforth referred to as Indians) either on the basis of race or ethnicity is equivalent since there is little overlap between race and ethnicity between these groups. The indigenous population constitutes approximately 50 per cent of the total; Indians make up 46 per cent, while the remainder of the population is made up of Pacific islanders, Chinese, and people of European descent.<sup>3</sup>

Racial discrimination in Fiji is in the form of privileges extended to Fijians, often at the expense of Indians. Some of these 'affirmative actions' include preference in recruitment into

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the senior public service, the issue of subsidised government credit in the form of development finance, and preferred access to government scholarships for tertiary study. The 1990 Fiji Constitution reserved the posts of the Prime Minister and of the President for Fijians and allocates 37 of a total of 70 seats in the parliament to Fijians as against 27 to Indians. The Government has over the past 20 years allocated F\$3 million annually for Fijian education which has been used to equip Fijian schools and fund secondary and tertiary study for Fijians. Though the planners have had no malice against Indians, the share of Indians in the total population implies that any privileges extended to Fijians are at the expense of Indians. For example, the bias in the issuing of scholarships to Fijians translates into an equivalent loss of places by Indians. This is particularly damaging to bright rural Indian students who miss out on opportunities for tertiary study due to lack of support facilities and funds.

The rationale for affirmative action in favour of Fijians is the notion that economic equality between the races is necessary for social harmony. Government policy directed at achieving economic equality between the two races has been in place since 1970 when Fiji became independent from the United Kingdom. The achievement record on this goal has been poor. Ahlburg (1995), using the Household Income and Expenditure Survey (HIES) data to analyse income distribution and poverty in Fiji, reports that households whose head is other than Fijian or Indian have the highest average weekly income and that the difference between average Indian and Fijian incomes since 1977 had increased, albeit slightly (by 4 percentage points). An important finding of Ahlburg and one highly relevant to this paper is that the variance of income distribution within each of the racial groups was considerably higher than that across the two races. Ahlburg also notes that approximately equal proportions of Fijian and Indian households were in poverty.<sup>4</sup> An important implication of this finding is that redistribution of

income on racial lines alone is unlikely to be effective in achieving income equality. Furthermore, if social instability in the country is the result of a highly skewed income distribution, then economic equality between the races is not sufficient for social stability. As is, the current affirmative actions could exacerbate the income inequities within each group.

The direct beneficiaries from affirmative action policies such as subsidised loans, import licences, and tertiary study scholarships are those who can take advantage of these offerings. Often as not, these beneficiaries happen to be the educated urban élite Fijians; those who on equity considerations least deserve these privileges. For their part, the rich and educated Indians are able to finance either their own needs or work out ways to circumvent the discriminatory policies. Hence, well-intentioned affirmative actions may produce the opposite results to what is intended. Furthermore, the withdrawal of existing privileges is difficult since vested interests form around these provisions (rents); hence extreme caution is required before new privileges are extended.

Social and economic equality between the two races would mean that there would be the same distribution of members of each race across the entire social scale. This would necessitate, for example, that the same proportions of businessmen, doctors, dentists, lawyers, and the like would be present in each occupational subcategory. Income equality would require the same income distribution across the entire income band for the two races. In fact, in terms of the proportion of people in poverty, the two races are now equal; but achieving true racial equality as described above is impractical. If quality of life comparisons are made, then there are no discernible differences. For example, in terms of life expectancy—an all-encompassing indicator of quality of life—the marginally higher life expectancy of Fijians suggests that as a group they are at least as well off as Indians.

Heterogeneity with respect to such indicators as the distribution of income and occupation amongst any sub-group of society is inevitable. If



we accept this fact, then any significantly sized sub-group of society is a microcosm of the bigger society itself. In this context, it is instructive to look at a smaller grouping of society to get a clearer understanding of the operation of these social processes. For this I will discuss the Indians as a group, though any other sufficiently large sub-group should reveal similar results.

### **THE INDIANS AS A MICROCOSM OF FIJI SOCIETY**

The variability of income within the Indian community is the highest of any racial grouping in Fiji (Ahlburg 1995). Of a number of possible categorisations, Indians may be sub-divided into two groups; those who are descendants of indentured labourers and those who are mainly descendants of traders. The latter originated from the Indian state of Gujarat, and hence are called Gujaratis; for convenience, the former will be called non-Gujaratis. The extent of social and economic integration between these two groups is comparable to that between Fijians and Indians, that is, there is complete integration in commerce but minimal integration in terms of inter-marriages. However, there is no observable (sub-)racial conflict of the nature observed between Indians and Fijians. The Gujaratis still have a strong hold on the retail trade in urban Fiji; the non-Gujaratis retain a strong foothold in the agricultural sector. Only a minute fraction of the non-Gujaratis have moved successfully into urban business. The backgrounds to these success stories are similar. An individual starts as a salesperson in an urban business, acquires the (tacit) knowledge necessary as an apprentice in the trade, and then breaks away to start a (similar) business. However, only a very small fraction of those who begin as salespersons ever establish a successful retail business. The many failures in the retail trade suggest that learning on the job is crucial for success in this trade. Amongst those who are categorised as business people, there is large income variability, much like in any other group in society. It is wrong therefore to assume that business-people, as

with any other sub-grouping in Fiji, are homogeneous with respect to income.<sup>5</sup> While retail trade is as important as any other activity in the economy, it is difficult to argue that affirmative action is warranted to assist the non-Gujaratis into business—particularly if this is done at the expense of Gujaratis.

A number of Indians, particularly non-Gujaratis, have succeeded in the professions and the public service. The insecurity of access to, and ownership of, land, together with the relatively low wages in agriculture, has been responsible for pushing non-Gujaratis into occupations where performance is the sole criteria for success. Competition within these arenas has been stiff; those who have survived are the best the country has. In relative terms, Fijians (and to some extent, Gujaratis) have not been subjected to the same level of insecurity. It is therefore not surprising that Indians have done better in the professions relative to their Fijian counterparts. It would be difficult to argue against the value of these highly skilled people to the economy. Most of the professional qualifications in Fiji are fully accredited in the industrialised countries, which is witness to the fact that the skill levels of these people are comparable to the best in the world.

### **THE COST OF RACIAL SEGREGATION AND POLICY OPTIONS**

It appears that Fiji has been moving from a position of significant racial harmony to one of racial disharmony. A number of major crimes committed over the past decade appear to have been racially motivated. The objective of achieving social peace via policies geared to achieving economic equality between the races over the last two-and-a-half decades has not been attained. Through affirmative action favouring the Fijians, an identifiable minority has gained in monetary terms at the expense of its supporters with whom the minority has only racial ties. Several of the recent financial scandals in the country give strong support to this proposition. Parallel claims can be made of a number of

scandals amongst other sub-groupings in the country.<sup>6</sup>

If social stability is the goal, then the question on how best to achieve it needs to be addressed. Previous efforts directed towards achieving racial equality have not only failed but have also been counter-productive in that income inequality has increased, as has social instability. Aspiring to racial equality may not be in the economic interest of Fiji if affirmative action leads to economic inefficiency by allocating labour into sectors in which they do not have comparative advantage (Box 1). Pragmatism dictates that Fiji cannot be a homogeneous state despite calls for such from some political quarters.<sup>7</sup> The only option for Fiji is that of a pluralist society. In such a society, each racial group may have its own institutions and customs which are recognised and accepted by the populace. Thus, there may be separateness, but with it, equality in terms of economic opportunity to pursue individual self-interest. There is no reason why such plurality cannot be a basis for economic prosperity and for a rich and diverse culture. Fiji has some of the positive aspects of a pluralist society and can build on these.

The use of race as a basis for the development of economic policy is a blunt means of achieving the goal of social stability. As with any blunt policy instrument, the use of race will incur unnecessary damage. If the goal is to alleviate social unrest then the causes for such unrest should be explored. If one cause for such unrest is income inequality, this should be attacked directly on the basis of income rather than race. One of the most effective ways of minimising social conflict is via rapid economic growth. Such growth creates employment and puts upward pressure on wages, particularly in the presence of high international capital mobility. Labour endowments are evenly distributed in the population, hence the improved availability of employment is bound to improve income equity. The lessons from the Malaysian experience, described below, have significant relevance for Fiji in this respect.

## **PROSPERITY AS A SOURCE OF ETHNIC HARMONY IN MALAYSIA**

On independence from the United Kingdom in 1957, Malaysia inherited a pluralist society comprising 52 per cent Malays (who dominated politics and low-productivity agriculture), 37 per cent Chinese (who dominated commerce but lacked political power and ethnic solidarity), and the rest comprised Indian and other nationalities. Like many other developing countries, Malaysia initially pursued an import-substituting strategy favouring industrialisation. Even the ensuing economic expansion of the 1960s was insufficient to bring about any narrowing in the economic divide between the two major ethnic groups. The bloody communal riots of May 1969 forced policymakers to rethink their development strategy. As a result, the New Economic Policy (NEP) was instituted to reduce the identification of ethnicity with economic function.

The NEP development strategy was focused on export-oriented industrialisation together with an ambitious infrastructure investment program and a wide-ranging affirmative action program in favour of the Malays. A *Free Trade Zone Act* was passed in 1971 to promote export-oriented foreign direct investment (FDI) under an attractive incentive package (Warr 1987). The affirmative action policy included the expansion of the public sector wherein Malays held and were also actively promoted to senior positions. Malay participation in business was encouraged through the granting of privileged access to share ownership, subsidised credit, and business opportunities in the private sector (Athukorala and Menon 1996). It is important to note that the policy configuration chosen under the NEP left ample room for the entrepreneurial Chinese to expand their role in the economy, in particular in the export-sector. As the less-competitive domestic market was taken over by the Malays, the Chinese moved on to production for the more competitive international market with the help of their entrepreneurial skills. The liberal trade regime with the absence of quotas and



licences, together with relaxed ownership requirements in export industries, contributed to the shift of the Chinese entrepreneurs into this sector. The resulting rise in exports and the integration of production with the global market enhanced technology flow and FDI, both of which brought about a rise in labour productivity and employment.

The transition of Malaysia from a poor agrarian economy pursuing an import-substituting strategy to a prosperous export-oriented industrial economy within the past four decades has neither been monotonic nor smooth. The extensive involvement of the public sector in heavy industries via the Heavy Industries Corporation of Malaysia (HICOM) had its costs. The lack of comparative advantage in these industries led to unsustainable budget and current account deficits in the early to mid-eighties. The world recession of the mid-eighties and the consequential economic contraction exacerbated these problems forcing policymakers to rethink their development strategy.

This brought about a number of important policy changes. Some of these changes included the suspension and/or relaxation of many of the ethnic requirements of the NEP, a gradual withdrawal of public sector involvement in private enterprise with increased focus by government on provision of public infrastructure and an economic environment conducive to private entrepreneurial activity, and further relaxation of foreign-equity requirements in industry. Within the last, complete foreign ownership of export-oriented industries was allowed. As growth and prosperity returned, the National Development Policy (NDP) was introduced in 1990 in order to attack racial imbalances via a 'market-friendly' approach that encouraged entrepreneurship and achievement of managerial expertise by the Malays.

The sixth Five-Year plan (1991–95) saw a reduction in public outlays on HICOM and increased expenditure on infrastructure development. The economy is being deregulated;

tariffs that are low by developing country standards are being lowered even further. Increased emphasis is being placed on attaining and maintaining macroeconomic and policy stability. The private sector is responding to these policy initiatives by registering continued growth with increasing FDI; exports of manufacturing output as a share of GDP have nearly doubled from 50 per cent in 1980 to 96 per cent in 1995 (Athukorala and Menon 1996). However, this new policy stance has not been without controversy.

Labour market developments have included compulsory arbitration of disputes with a ban on the right to strike in 'essential services'. A complete ban on unions in the export-oriented industries was in effect until 1988; the subsequent relaxation now allows in-house unions at the plant level only. The fear that such drastic actions in the labour markets would result in the exploitation of workers has not materialised. Unemployment has dropped from a peak of 8.3 per cent in 1986 to 2.8 per cent in 1995 and real wages are rising with productivity as a result of supply constraints in the labour market. In addition to achieving full employment, Malaysia now provides employment to around two million 'guest' workers from Indonesia and neighbouring countries. FDI continues to flow in and remains the centerpiece for the growth of the export-oriented manufacturing sector.

Real GDP has grown in excess of 8 per cent annually since 1987, and this trend is not showing any signs of waning. The aspiration of the country to reach developed country status by 2020 is well on target with the required growth rate for the remainder of this period of 7.5 per cent. According to the Human Development Index (HDI) of the United Nations, Malaysia now ranks fourth (behind Saudi Arabia, South Korea and Mauritius) in terms of its achievements in living standards between 1970 and 1990 (Snodgrass 1995). Most importantly, **all** ethnic groups have shared in this remarkable success; one reason why ethnic conflict is quickly becoming an issue of historical significance in the

country. This was amply demonstrated by the results of the last general elections (held in 1995) where the ruling Barisan Nasional (National Front) of Prime Minister Mahathir recorded substantial increases in support from the Chinese and Indian minorities in addition to consolidating further its support amongst the dominant Malays.

### **IMPROVING RACE RELATIONS IN FIJI**

The lack of economic prosperity being experienced in Fiji will lead to further racial conflict and increased social instability. This will result in further capital (human and physical) flight and a downward income spiral. Such a process will ultimately gravitate toward a crisis, which will force action. However, the pains of corrective action at that stage will be far more severe than from any preventive action taken now.

The process of economic decline, as reflected in deterioration in the quality of health care and education, is being exacerbated by the emigration of skilled labour. Poor business confidence will drain capital out of the country. If the rate of regeneration of this capital, both human and physical, is less than the rate of outflow, the cumulative effect of net outflows will result in an acceleration of the process of decline. In such a situation, the advent of an economic crisis is only a matter of time. Hence, corrective action cannot be stalled indefinitely. Migration of labour and the international flow of capital are forces that shorten the adjustment/crisis period. The direction of these flows also signal the direction the economy is heading. Furthermore, emigration has significant inertia; slowing this process will remain a challenge even after political and economic stability is reached. While an outflow of nationals as a result of better conditions abroad is healthy, the push of nationals and capital out of the country is counter-productive. That is, if nationals emigrate but maintain (business) links with the home country, this could be helpful; but if the loss is not compensated for it can be debilitating. The

expanding export opportunities for local business and the large traffic for the national airline are examples of two immediate benefits of out-migration and the existence of a significant Fijian population abroad.

For Fiji to reach its economic potential, each and every national has to be given the same opportunity to reach his/her potential. One means of achieving such an outcome is through provision of education of comparable quality to all. The current education system that allocates resources in favour of urban and government schools is inequitable. This system of education discriminates against children who attend small rural schools relative to those in government and urban schools. The current system favours those social groups that are already advantaged.<sup>9</sup> Such a system is bound to augment and reinforce the imbalances between the rich and poor, and urban and rural. An alternative strategy conducive to inter-generational mobility (that is the movement of families between the socio-economic strata) will foster political tolerance and reduce income inequity over time. Discrimination constrains this mobility and could be costly in an environment of rapid structural change.

### **CONCLUSION**

The signs of increased ethnic conflict in Fiji are unfortunate. Policies over the last 27 years geared towards achieving economic equality between the two major racial groups have failed. Income distribution, both within as well as across the two major races, was worse in 1991 than in 1977. Anecdotal evidence suggests that a few individuals have gained at the expense of the many who have race as the only common bond with the beneficiaries. This gives little hope of achieving social stability. Emigration and capital flight are economic forces that speed this process of decline; the recovery always takes longer.

Policymakers in Fiji have failed to achieve equity and efficiency with the one instrument, with serious consequences: efficiency has been sacrificed, while equity in income distribution has deteriorated. An alternative policy regime



wherein a first stage addresses economic growth and job creation followed by policies which address equity is superior to the current policy stance. Furthermore, addressing equity directly rather than through race will minimise the undesired effects of policy. Finally, attacking the causes rather than addressing the symptoms may give a larger pay-off to public intervention. For example, addressing the reason(s) for the poorer performance of Fijians in education and business and providing a justification for why this is a public 'evil' will help in the design of better remedies as well as give public support for such intervention(s).

One certain means of minimising conflict is by raising economic prosperity. Equity attained via growth, principally through employment creation, is a superior strategy and one more conducive to growth than the direct use of policy to achieve income distribution at the expense of economic efficiency. The experience of a number of multi-ethnic countries, Malaysia in particular, on this front is illuminating.

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## NOTES

- <sup>1</sup> On a positive front, the recommendations for the new constitution that have yet to reach parliament are designed to push Fijian politics away from ethnicity. Whether these recommendations will be accepted is as yet an open question.
- <sup>2</sup> For this reason, the terms ethnicity and race are used interchangeably in the paper.
- <sup>3</sup> Prior to the military coups of 1987, Indians made up 52 percent of the population; large-scale emigration since then has brought this figure down.
- <sup>4</sup> One has to be sensitive to income measurement problems, particularly in highly subsistence economies such as Fiji. The cultural dimension with respect to the extent of use of money is also important. Fijians are generally less inclined to use cash than Indians, particularly in rural Fiji; this difference may be due to cultural reasons and could bias the Fijian poverty figure upwards.
- <sup>5</sup> Retail trade in Fiji is highly competitive. Most firms are family-run enterprises with low margins for error. The perception that Indians are richer than Fijians is incorrect. If land is factored in as an item of wealth then Fijian income would at **least** equal that of Indians. The interest groups which perpetuate such misconceptions are direct beneficiaries from discriminatory policies.
- <sup>6</sup> There are persistent claims that there has been a significant erosion of moral values in the country.
- <sup>7</sup> There have been repeated calls by the Fijian Nationalist Party for repatriation of Indians to India despite these 'Indians' being third to fourth generation Fiji nationals with few, if any, ties with the homeland of their forefathers.
- <sup>8</sup> See Birdsall and Sabot (1991) for a detailed treatment of these effects.

- <sup>9</sup> There have been allegations, some supported by anecdotal evidence, of nepotism in the issue of tertiary scholarships, particularly for overseas study. Obtaining data to support such allegations is difficult, however.

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