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Statement by the Hon. **JAMES AH KOY**,
Governor of the Bank for **FIJI**,
at the Joint Annual Discussion

Statement by Hon. James Ah Koy
Minister for Finance, The Republic of Fiji
At The 1997 World Bank/IMF Annual Meetings
Hong Kong, China September 23-25, 1997

It is an honor to attend the fifty-second joint Annual Meetings of the International Monetary Fund and the World Bank. On behalf of the Government of the Republic of Fiji and its delegation, we extend warm greetings to the Government and the people of China. We are privileged to be meeting here in Hong Kong, China, soon after the historic handover in July. My delegation and I are impressed by the excellent facilities and the warm hospitality of the Hong Kong community.

Mr. Chairman, the robust growth in the industrial countries such as the United States and recoveries in Japan and continental Europe combined with low inflation, has provided a solid foundation for sustained expansion in developing countries. The continuing good performance of the global economy rests largely on the prudent management of industrial countries. I am encouraged by the commitment to suppress the threat of inflation with a proper balance between tight monetary policy and fiscal consolidation. However, if the economic dividends of this prudent management are to be shared by all, industrial countries must continue to resist the temptation to reverse trade liberalization. The rules of GATT must be rules for everybody.

The developing countries, however, should not be under any illusion that the benefits of global expansion will accrue to countries automatically -- they must be earned by hard work and disciplined policies. Without the right policies, some countries face the risk of being marginalised and will not share in the global expansion. To harness this growth opportunity, developing countries must play their part. Ongoing structural reforms to improve the allocation of resources and increase efficiency must continue. Macroeconomic stability can only be achieved through sound monetary policy and the political will to reduce the fiscal imbalance.

Mr. Chairman, the World Bank and the International Monetary Fund must continue to recognise the extreme diversity amongst developing countries in sizes, economic endowments and the problems they face. The dynamic growth in South East Asia has been threatened by the turmoil in foreign exchange market at a time when we thought that the contagion effects of the Mexican crisis were well behind us. This brings into question the role of the Fund in its surveillance and the remedy it can offer. In my view, the Fund must urgently and seriously review its role of the custodian of exchange rate stability. The Fund, in its zeal for transparency and global integration, must take into account recent evidence that economic discipline, while essential, is not a sufficient condition for exchange rate stability. I, therefore, welcome the strengthening of the General Agreement to Borrow which can offer vital support in such crisis. Whatever solution is preferred, a clear message from these crisis is that the Fund must move decisively and immediately at the first sign of trouble.

At these annual meetings, we, the small members of the Bretton Woods institutions have one of the few opportunities to express our views on specific problems and challenges that we face. While these may seem very minute to the international community, these problems are extremely real and imposing to us. We, therefore, urge the Bank and the Fund to continue to safeguard the evenhanded treatment of all member countries. The economic fate of the small South Pacific member countries, to a large extent, rest on our ability to expand our markets beyond the traditional bounds of Australia and New Zealand. Stability in South East Asia and the international exchange rate market is therefore very important to us.

We would also like to appeal to the Bank and the Fund to adopt country-specific approach to the needs of the developing member countries. As a small nation, Fiji fully embraces the policy of trade liberalisation. However, Mr. Chairman, in embarking on this process, it is essential that we give our local industries the tools and the infrastructure to allow them to compete on a level playing field with our bigger and established competitors. This cannot be successfully done overnight. The pace and sequence of trade liberalization must be consistent to other micro reforms in the country. Otherwise, the only beneficiaries of our accelerated trade reforms are our major trading partners, at a cost of high unemployment to us.

Mr. Chairman, the recent exchange crisis in South East Asia has placed considerable attention on fixed exchange rate arrangement and capital account convertibility -- issues which are very important to small countries like Fiji with narrow domestic markets and export base. The currency stability and the inflation anchor that a fixed arrangement offers has worked well for us. We, however, realise that we need to regularly review this arrangement and the current discussion of exit policy in the Fund will provide some guidance to our future direction. At the same time, we urge the Fund to carefully consider the susceptibility of small developing member countries in their discussion on capital account convertibility and grant transitional conditions to them.

I am happy to report that Fiji's monetary policy has kept inflation contained at around 3 percent and is likely to stay low over the coming years. External financial stability has also been maintained. My Government is committed to restoring fiscal balance by the year 2000. We fully realise that, to lift our growth path, Fiji needs to better harness its economic potential, raise the level of investment and provide sufficient resources to the private sector to spearhead economic expansion. We will continue to look to the Fund and the Bank to assist us in facing these daunting challenges and, in this regard, we particularly support the initiative to involve the private sector in infrastructural development.

The major single challenge that small Pacific Islands face is the potential loss of preferential trade arrangements to Europe under the Lome agreement and to Australia and New Zealand under SPARTECA. We, therefore, appeal to the international community to permit us sufficient time and resources to make the necessary transition and to the multilateral institutions for assistance in this endeavor. Needless to say, the Fund and the Bank need to be furnished with adequate resources to meet the growing demand of member countries. We therefore fully applaud the decision to increase the Fund's quota and the replenishment of IDA resources.

Mr. Chairman, Pacific Islands are isolated from the major markets geographically and high transport costs reduce the competitiveness of our exports. We are also isolated informationally with technology transfer slow and uneven. We import a large part of our needs and rely heavily on the export of a few major commodities. We are particularly vulnerable to fluctuations in the terms of trade and supply shocks caused by cyclones and other natural disasters. Being small, with relatively underdeveloped financial markets, we are also exposed to large and irregular capital flows in response to shifts in foreign policies and investor sentiment.

The message that comes out loud and clear is that we need to be competitive if we are to survive in this new world order of globalisation. To be competitive we will need to develop an enabling social and physical infrastructure; a healthy, well educated population; a transparent set of property rights; a well-functioning legal system; an efficient system of transportation and communication; and small, but efficient administrative systems. These, Mr. Chairman, need resources and skills which we do not posses. Our future needs of Bank and Fund assistance will continue to be on infrastructure and human resource development, institutional strengthening and economic policy advice.

In this regard, Fiji is indebted to past and ongoing assistance of the Bank and the Fund to the region and to the country. In particular, we have found the Pacific Technical Assistance Center very useful, and we are thankful to the UNDP, the Fund and other donor countries for their indication of support to the Center for another three-year term.

I conclude by wishing the Bank and the Fund well in their next year of operation.