Economic Impact of FDI, Tourism, and Remittances using CGE Analysis: The case of Fiji

Topic:
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Tourism, remittances and foreign direct investment are all external injections into an economy. However, the transition mechanism through which these external injections flow through the economy differ. Hence, they will have different impacts and affect different parts of the economy to varying degrees. While these three injections are not mutually exclusive, that is, there is no need to choose to specialize in tourism, remittances or foreign direct investment; it is of interest to policy makers to determine which avenue of external funds has the largest economic impact and who benefits the most from each mode of expenditure injection.
Small Island Developing States (SIDS) face many economic challenges due to their environmental and geographical characteristics (Feeny, Iamsiraroj, & McGillivray, 2014). These challenges result in economic vulnerability and threaten residentsâ€™ standard of living. These island states have by definition, small, meaning land and fresh water supplies are in limited supply (McGillivray, NaudÃ©, & Santos-Paulino, 2010). This means that they have a limited ability to diversify their economic base and hence have a strong dependence on a narrow range of exports. It also means that they have a high import propensity, particularly of strategic goods such as food and fuel, whose prices have exhibited high volatility (AusAid, 2006). They tend to be geographically remote, away from major markets and trading partners. This means what they do export is subject to high transportation costs, weakening their competitiveness (United Nations, 2017). Their ecology tends to be fragile and they are often located in areas that experience a high rate of natural disasters and are threatened by climate change (Robinson, 2018). These countries also have low populations, especially working adult population so that they lack of economies of scale.
Since tourism, FDI, and remittances can be susceptible to both internal (political, security, and natural disasters) and external shocks (foreign exchange market and international economic conditions), it is important to understand the extent of the impact and the vulnerability of these sectors for the economy. As a result, prudent policy measures can be taken to minimize their potential adverse effects, to maintain macroeconomic stability, and achieve long-term sustainable development of the economy.
There are few studies on the role of tourism, remittances and FDI in the same piece of research to allow direct comparisons. Therefore, this paper contributes to the research gap and gauge the discussion on the role and sensitivity of these sectors to domestic economy, using a CGE model. The CGE model for Fiji has been revised with the newly estimated input-output table (Oum & Singh, 2019).
We conduct simulations under two scenarios. The first scenario is for the economy-wide impact of 10% increase in exports of tourism sector, remittances, and FDI inflows under the fixed real wage, assuming sticky or wage rigidity. The second scenario of simulations is conducted with endogenous real wage and supply of labor, allowing for the potential backward-bending labor supply curve, that is, a reduction in labor supply due to an increase remittances (non-wage income) and wage, and the â€œDutch diseaseâ€• (Corden & Neary, 1982)