ITC
Executive Forum

Ministry of Trade and Industry
Republic of Trinidad and Tobago

Commonwealth Secretariat

SMALL STATES IN TRANSITION – FROM VULNERABILITY TO COMPETITIVENESS

FIJI ISLANDS

MANAGING THE TRADE SUPPORT NETWORK

Port of Spain, Trinidad & Tobago – January 2004

Introduction

A quick review of the performance of the export sector in Fiji shows that it has contributed significantly to the development and growth of the economy. However with changing international trading environment, which invariably impacts domestic conditions, new challenges face the sector. They need to be addressed if the sector is to continue to contribute significantly to the expansion of the economy in the years ahead. Among other things the situation requires that agencies supporting trade development operate efficiently and co-ordinate their activities effectively.

Export trend

The table below shows export earnings of Fiji's main export goods for the 10-year period from 1993-2002. It highlights the following main trends:

EXPORTS (MERCHANDISE)

(F$ MILLION)

Period	Domestic Exports									Re-Exports	Total
	Sugar	Gold	Garments	Fish	Lumber	Molasses	C.Oil	Others	Total		
1993	230.7	66.7	128.8	48.3	36.4	10.0	3.7	68.9	593.5	104.0	697.5
1994	252.2	62.6	141.0	63.8	37.8	13.6	3.8	90.2	665.0	168.6	833.6
1995	276.1	58.6	185.0	69.8	53.1	21.3	3.9	102.6	770.4	105.5	875.9
1996	301.7	81.6	192.2	60.4	45.6	22.0	5.6	114.3	823.4	228.7	1052.1
1997	213.4	73.9	243.6	50.4	34.0	12.7	5.7	123.9	757.6	138.9	896.5
1998	244.2	70.5	302.8	49.4	54.8	10.6	9.1	164.1	905.5	110.7	1016.2
1999	263.2	76.4	322.1	57.5	35.6	12.4	9.7	170.7	947.6	252.9	1200.5
2000	237.5	75.7	332.9	88.8	44.9	9.7	3.6	232.4	1025.5	218.1	1243.6
2001	222.0	85.4	313.9	98.4	41.3	9.5	2.4	234.9	1007.8	216.1	1223.9
2002	235.0	78.1	245.4	89.9	41.5	12.4	5.9	234.9	943.1	251.7	1194.8

- Steady growth in domestic and total exports from 1993-2000 at an average rate of 10% p.a. The growth peaked in 2000 and declined in 2002.

- When expressed as a percentage of GDP export has maintained a relatively high share of over 30%.

- The export sector has achieved some degree of diversification. This is reflected in the marked reduction in the share of sugar earnings from nearly 40% in 1993 to 25% in 2002 and the increase in the share of garment export from 22% in 1993 to 31% in 2001 and 26% in 2002. Similarly shares of other traditional exports like gold and timber products have dropped while new commodities like fresh fish, footwear, mineral water and fresh fruits and vegetables have increased

In addition to these trends the increase in export activity has diversified Fiji's export market - leading to a reduction in heavy reliance on Australia, NZ and UK and increase in exports to new markets like the US, Japan and Pacific Islands.

A significant change has also occurred in the structure of the economy and coincided with a shift in economic policy from import substitution to export promotion. This saw manufacturing sector's share of GDP grow in the 1990s while the share of agriculture, forestry and fisheries contracted.

Another significant development in recent times is the emergence of enterprises, which result in the export of services. Fiji has a nascent call centre & data processing industry and film production.

Contributing Factors to the Growth in Export Sector

The main contributing factor for the growth in the export sectors is the shift in economic policy from import substitution to export promotion. The five main components of the export oriented growth strategy pursued from 1989 onwards are:

- Deregulation of the economy to bring domestic prices more closely into line with world prices.
- Restraint in the growth of government expenditure to ensure availability of resources for growth in the private sector.
- Re-organisation of expenditure to reduce the degree of directs economic involvement of Government and increase Government's supportive role in high return areas.
- The adoption of a wages policy, which recognizes the paramount importance of maintaining international competitiveness and reflects changes in productivity and the availability of skills.
- Reform of the tax system to minimize market distortions; improve incentives for risk-taking and effort and to spread the burden of taxation in a more equitable manner.

Other contributing factors to export growth include:

- attraction of investments in export industries;
- promotion of exports through preferential trade agreements like LOME, South Pacific Trade & Economic Cooperation Agreement (SPARTECA), and bilateral agreements with US, and Pacific Island countries;
- tax incentives under Tax-Free Factory and Tax-Free Zone Schemes; and
- the large exchange rate devaluation in response to the crisis in 1987 and 2000.

Issues Limiting Further Export Growth

As earlier observed, export earnings peaked in 2000 and 2001 and dropped in 2002. This trend reflects underlying challenges facing the export sector, which need to be addressed. These are exemplified in the performance of the two main export products - sugar and garments:

- Sugar export has declined since 1996. This has occurred despite the fact that the industry has enjoyed decades of assured market access to the EU and preferential

  prices under the Sugar Protocol of Lome. These conditions and other reasons have tendered to postpone the taking of measures to improve the efficiency of the industry. It is widely accepted that unless the industry is restructured quickly it could collapse. The quality of sugar exported has also deteriorated relegating Fiji's sugar from the preferred status it enjoyed in the past.

- The drop in garment export also reflects a contraction the industry due initially to a marked reduction in garments exported to Australia. After the crisis in 2000 Fiji lost major garment orders to China and other Asian countries as buyers shifted sourcing away from Fiji due to perception of political instability. In addition the import credit scheme that encouraged many Australian manufacturers to make garments in Fiji expired in 1999. Export of garment to the US has also declined although for somewhat different reasons compared to Australia. A number of factories exporting to the US have closed down because their tax-free status has ended. A number have relocated to South Africa to take advantage of preferential access into the US for sub-Sahara African countries under the African Growth Opportunity Act (AGOA) introduced in October 2002. Another reason for the closure is stiff competition and inability to improve the competitiveness because of cost rigidities including wages in Fiji.

In addition to these factors growth in exports has also been constrained by:

- Delay in finalising quarantine protocol to allow for example the export of a range of fruits and vegetables to Australia and beef to NZ.
- Irregularity of supply of exports commodities.
- Inability to meet large orders consistently. Buyers are reluctant to buy in quantities that Fiji can supply. They like the samples from Fiji they get but when it comes to placing orders they are often well beyond the ability of the company to supply.
- High freight charges that discourage some local products to be exported e.g. cut flower to Japan.

The problems in the sugar and garment industries highlight issues that need to be addressed to improve export prospects. They include:

- The need to improve competitiveness by raising efficiency and keeping cost increase in check. Improving competitiveness is critical if the demand for the products is to be maintained after the preferential agreements are dismantled.
- The quality of products exported must be maintained at a high level if demand is to continue.
- The search for new exports be they goods or services must continue necessitating continued export promotion and export facilitation work such as negotiation of quarantine agreements.

Trade Support Network

The following are the main agencies that assist in the promotion of export development in Fiji:

- Fiji Trade & Investment Bureau (FTIB) – Promotes and facilitates investment in export industries and the promotion of exports. It promotes both investment and exports. It hopes to set up an ICT promotion unit to specifically promote opportunities in information, communication, technology ventures.

- Ministry of Foreign Affairs & External Trade – Negotiates trade agreements and other trade protocols and coordinates compliance with international agreements like WTO. Chairs a committee with private sector representatives, which meets regularly to review trade matters. Its overseas missions place a lot of emphasis in promoting Fiji's exports to the countries they are accredited to.

- Fiji Islands Revenue & Customs Authority – Administers the tax and duty concessions available to export industries.

- Fiji Audio Visual Commission (FAVC) – Promotes and regulates the development of this new industry – audio and visual production.

- Ministry of Agriculture – Through its AgTrade Unit promotes export of agricultural products, and through its Quarantine Unit facilitates the establishment of quarantine protocols.

- Exporters Club – Recently set up to monitor export incentives available to export industries as part of self regulation.

- Training & Productivity Authority of Fiji (TPAF) – Provides training for employees to improve skills and raise productivity and quality.

- Reserve Bank of Fiji – Regulates exchange rate and promotes export development through its own Export Credit Facility and by encouraging commercial banks to lend to the export sector.

- Industry Councils e.g. Textile Clothing & Footwear Council – Promote interest of industries they represent including policies and measures to promote export of their products.

Observations

The urgent need to develop export critical for economic growth has spurned new agencies to encourage exports and prompted existing ones to put more emphasis on creating the conditions for the growth of exports.

Fiji does not yet have National Export Council, which coordinates export activities. A number of industries e.g. ginger producers have their own export councils to regulate the conduct of their members to ensure a high standard of export.

There is no Competitiveness Council. The closest perhaps is TPAF, which tries to promote competitiveness running programmes to improve productivity and quality. There is a Commerce Commission that regulates the activities of monopolies. Also a competition policy is being developed to encourage greater competition.

Investment and export promotions are being carried out by the same agency i.e. FTIB. It works closely with AgTrade when it comes to promoting export of agricultural products. FTIB also works closely with FAVC and the Fiji Visitors Bureau and undertakes joint promotion activities where possible. Although intended to be a one-stop-shop it is not functioning as one.