Fiji Sun Paper | Online | Mobile
Saturday, September 28 2013

On Fiji's trade policy issues

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This month there were two events of major importance.

These two events were sponsored by official agencies. One by the Ministry of Industry and Trade was on trade policy framework; and the other by Investment Fiji was on promoting export awareness.

Fiji's exports in 2012 were F$2.2 billion and imports were F$4.0 billion, with a trade deficit of F$1.8 billion. For 2013, the total trade deficit would be F$2.85 billion, which includes aircraft payment expenditure of F$918.6 million. The trade deficits for 2014 and 2015 are expected to be F$1.81billion and F$1.84 billion.

Despite natural disasters in the last two years, signs of Fiji's economic recovery are strong. Negative or low growth years are now over. A positive growth at 1.9 percent in 2011 was followed by 2.2 percent in 2012. In 2013, growth rate would be 3.2 percent.

Growth and trade deficits

Investment is expected to be 28 percent (private sector investment:13 percent; statutory agencies:10 percent and government: 5 percent) of gross domestic product in 2013 exceeding the targeted ratio of 25 percent. Hence, increase in imports, especially of capital and intermediate goods and emergence of trade deficits do not present any surprise. The deficits are more growth oriented.

It reflects the re-emergence of business confidence.

Trade deficits are not always worrisome. Growth in tourism earnings and a steady rise in remittances do more than offset trade deficits, leaving current account balances either positive or low. Capital inflows by way of foreign direct investment balance external accounts.

Presently, Fiji's international reserves are at a record level of F$ 1.8 billion which keeps the exchange rate stable.

Major destinations for Fiji's exports are: Pacific island countries (PICs) which include Melanesian Spearhead Group (MSG) countries (22 percent of total exports); Australia (15 percent of total exports), followed by US (12 percent); United Kingdom (8 percent); Japan (6 percent); New Zealand (5 percent); and China and India (1 percent).

Major sources of imports are: Singapore, being fuel and other petroleum products (32 percent); Australia (18 percent); New Zealand (14 percent); China (9 percent); US (3 percent); and Japan and India (2 percent each).

Need for new markets and new products

The Permanent Secretary for Ministry of Industry and Trade, Mr. Shaheen Ali stressed the need for new markets and more value-added Fijian made and Fijian grown products.

The new markets are not very far. They are New Caledonia and other French territories. With relatively high per capita income, their consumption potential can be usefully exploited for more value added exports from Fiji. One point of interest stressed by Mr Ali was that Australia is the most under exploited export destination. If garments and gold exports to Australia are ignored, the other exports to Australia remain on par with exports to New Zealand.

Considering the fact that Australia is seven times bigger than New Zealand, there is a large scope for expanding trade in agricultural exports – vegetables and fruits, if standards, quality and regularity in supply can be maintained. That will help narrowing the bilateral trade deficits.

As for the new products, they can be introduced by the way of value added activities, which would eventually help find niche markets. While Fiji water has been the leading example in the past, some new value added exports are emerging: custom built Pacific Island buses for public transportation in Nauru.

Trade with PICs

Collectively speaking, PICs form a major trading partner. Fiji's exports and imports to PICs, which were below 1 percent of total trade in 2000, rose to 8 percent in 2012. Rise in exports is rapid. Imports from PICs have been stagnant.

Ratio of exports to imports in 2012 is 14:1, as compared to 7.5: 1 in 2009. That will be a matter of concern from the point of view of current efforts for evolving a single market for MSG countries. Growing trade imbalances with steady rise in surpluses in favour of a major partner without scope for rise in imports from other members may present a hurdle.

In the mid 2000s, there were kava and biscuit wars; and Solomon Islands suspended trade under MSG Agreement. Since then, much progress has been recorded. Both PNG and Vanuatu decided to remove import tariffs on Fiji's manufactured goods.

A way has to be found out how trade gains can be shared and the spirit of sub-regionalism be maintained.

It is not easy in any regional integration arrangement.

European experiences are a pointer. In the single market: Eurozone, Germany built trade surpluses with all other Eurozone countries in good times. In bad times, when the euro depreciated, German exports to the rest of the world rose. Thus, the European powerhouse has benefitted much more from the Eurozone.

There are already formalized institutional mechanisms in the Eurozone, short of fiscal transfers. So, there is some scope for spreading the gains depending on the willingness of the newly elected German legislature and government to keep the euro alive and kicking.

That will be a permanent challenge to policy makers in any economic union.