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CONCERNS AND PROBLEMS OF FIJI: A VULNERABLE SMALL ISLAND ECONOMY

Communication from Fiji

The following communication has been received from the Permanent Mission of the Republic of Fiji with the request that it be circulated to Members of the Committee on Trade and Development.

1. Fiji is an island State of three-quarters of a million people, beset by regular natural disasters and perpetually suffers from the combined tyranny of distance and smallness due to its geographical location *viz-à-viz* its major export markets. These geographical factors severely constrain the country's ability to sustain a prolonged and stable level of economic development, without being visited by natural disasters such as hurricanes, droughts and earthquakes. It is made up of 330 islands of which about one-third are inhabited. Fiji's total land area is 18,333 square kilometres. There are two major islands – Viti Levu which is 10,429 square kilometres and Vanua Levu 5,556 square kilometres. Other main islands are Taveuni (470 sq.km.), Kadavu (411 sq.km.), Gau (140 sq.km.), and Koro (104 sq.km.). Only 16 per cent of Fiji's land mass is suitable for agriculture and is found mainly along coastal plains, river deltas and valleys.

2. Fiji is committed to the WTO agenda of trade liberalization and recognizes the benefits that global economic integration can bring. There are, however, a number of specific difficulties which are common to many other developing countries, particularly in small island economies similar to ours which pose serious limitations in undertaking trade liberalization policies. The pace of trade liberalization must therefore be closely aligned with the development needs of individual countries and with their capacity to implement reforms successfully. The concerns of countries like Fiji which are disadvantaged by the pace of the globalization and trade liberalization process need to be reviewed that it does not result in social dislocation on a scale that triggers political instability.

3. Limited natural resources, small labour force, geographical fragmentation, remoteness from major markets and susceptibility to natural disasters such as flooding and hurricanes are typical features of most islands in the South Pacific region. Just to illustrate the vulnerability of countries like Fiji; in the last 18 months the most severe drought, in recorded history ravaged our sugar cane growing area, resulting in the total destruction of 40 per cent of the sugar crop for this year 1998. Sugar, as will be explained in more detail below, contributes to 36 per cent of our total exports in 1996. These are the kinds of ravages of nature that the people who set the pace of globalization and trade liberalization do not want to understand.

4. Moreover, our economies are dependent, for foreign exchanges, on one or two commodities that are sold under preferential trade arrangements, and only a couple of major industries provide the bulk of our domestic employment.

A. THE IMPORTANCE OF THE SUGAR PROTOCOL TO FIJI

5. Traditionally, the sugar industry has been Fiji's largest export earner. Revenue from sugar and molasses accounts for 40 per cent of Fiji's domestic export earnings. Sugar still dominates our agriculture and cane farming constitutes a major source of income to a great number of families. The sugar industry is the country's largest employer, providing direct employment to over 40,000 people. As the impact of the sugar earnings is felt throughout the economy, the industry's contribution in terms of employment and income generated indirectly is also very substantial. There are a number of businesses which were originally created to service the sugar industry but which now play a larger role in the national economy. These activities have minimized the trend towards "urban drift". In addition, the sugar industry has played, and continues to play, a significant role in the diversification of the country's economy. Moreover, sugar revenues have made a substantial contribution to the reduction of the debt burden and continue to assist in offsetting the negative effects of structural adjustment. The sugar industry's impact on the economy is even more significant because income leakages on account of imports to service the industry and other outflows are small.

6. One of the strengths of the industry is based on small farm system. We have 23,000 farmers on an average of four hectares of land producing four million tonnes of cane each season. This system confers widespread benefits and generates strong multiplier effects in the economy. Thus, the fruits of the industry are widely distributed.

7. Fiji benefits tremendously from the preferential arrangements enjoyed by its sugar exports to the European Union (EU) which are governed by the Sugar Protocol of the Lomé Convention. The exports under the Sugar Protocol represent on average 50 per cent of Fiji's total exports of raw sugar. In terms of tariff duty, the Protocol equates to a tariff exemption to Fiji of ECU 100.2 million in 1996.

8. The Sugar Protocol is a trade mechanism that has promoted and will continue to promote trade in the future. This compiles with the aims of the WTO Agreement. The Sugar Protocol provides a firm foundation for the various sugar industries in the African, Caribbean and Pacific Group countries, signatories to the Protocol, which have small economies and are either land-locked or small island states. Take away the Protocol and the viability of these industries is irretrievably jeopardised. This would then trigger off a series of adverse effects that can only render farcical the noble aims and principles of the WTO Agreement.

9. Fiji strongly subscribes to the view that the sugar cane industry supports and promotes the non-trade concerns of the WTO, viz:

- (i) Food security through inter and mixed cropping on sugarcane farms;
- (ii) Poverty alleviation through incorporation of small-scale farmers and their families in sugar cane farming;
- (iii) Creation of employment through manual harvesting of labourers who may not have been employed otherwise and other forms of employment through sub-contracting and provision of services to the industry;
- (iv) Democratisation through empowerment of the poor by giving them an income and by their own participation in industry and rural politics;
- (v) Environment conservation through cane ratooning, crop rotation, soil conservation through terracing, mulching etc.;

- (vi) Rural development by farmers' own choice for rural existence, as against urban existence.

The above clearly demonstrates the multifunctionality of sugarcane framing in a small island economy.

10. Fiji continues to explore further possibilities of diversification. However, because of soil conditions, climate and vulnerability to natural disasters, no other crops have been identified which could replace cane sugar production in the short or medium term. The resilience of the sugar cane crop after suffering from natural disasters is also a tremendous advantage over other agricultural commodities.

11. We support strongly the current debate within the WTO and its Member countries which has now recognized the difficulties which the vulnerable developing countries face in the current pace of trade liberalization. We hope as a result of this awareness and debate some positive action will ensue in the immediate future.

B. FIJI'S EXPORTS TO THE EU UNDER PREFERENTIAL ARRANGEMENTS

12. Fiji's total exports to the EU between 1990 and 1996 rose by 7 per cent annually. The total Pacific ACP countries export to the EU in that period rose from ECU 348 million to ECU 506 million – 27 per cent of that represents Fiji's exports. In 1996 alone, Fiji's total exports to the EU was ECU 135 million of which ECU 119 million was for sugar exports only.

13. About 90 per cent of Fiji's raw sugar is exported to overseas markets, 50 per cent of that export amount is to the EU market, mainly to the UK on a preferential basis under the Sugar Protocol.

14. Canned tuna from Fiji enters the EU market duty free; a significant part of that export commodity is accessible only due to temporary relaxation of the rules of origin under Protocol 1 of the Lomé Convention. It is a fact that without preferences, not only Fiji, but other countries in the Pacific, like Solomon Islands and Papua New Guinea, would lose their market share to the much larger canning operations in more developed economies.

15. Through the capacity building assistance available under the ACP-EU development assistance arrangement, Fiji has been developing its garment industry as part of its efforts to diversity its export base. Our market access of garments to the EU is limited due to highly restrictive rules of origin and is presently only possible under special relaxation of the requirements under Protocol 1 of the Lomé Convention. Our efforts to look at export markets for Fiji garments to other major markets in the US, Canada and Australia have also been severely restrained by the lack of progress in the WTO rules of origin determination process.

C. COST OF ADJUSTMENT

16. Fiji's case is not against globalization and the trade liberalization that is an integral part of that process. However, it is against the pace with which the process is dictated by the developed economies, through the various multilateral institutions and instruments, including international financial institutions. There is no equity and justice in the way the pace for trade liberalization is being pushed. It is a trite fact that not all countries trading within the global economy and participants in the trade liberalization process share equal rights and privileges in determining the conditions for the changes being required.

17. Small island economies like Fiji are being blithely asked to understand and accept that in managing the policy challenges required as part of the trade liberalization the short-term painful

consequences far outweigh the long-term gains. There is an attractive simplistic logic in that view until you test it against the socio-economic realities of a country like Fiji. The short-term pain may possibly be national suicide and therefore unless there is incarnation when the long-term gain arrives there will be no nation state to enjoy it.

18. In this context, we suggest that the Committee should focus more on how the world developed economies, in the spirit of mutual respect and international comity, may explore development assistance programmes with corresponding financial support to assist least-developed and small economies sustain the cost of adjustment. If that is possible some of these vulnerable small economies will only suffer a minor stroke and not a lethal heart attack.

D. CONCLUSION

19. The erosion of Fiji's trade preferences by the gradual dismantling of preferential trade agreement is a real threat to our survival. We are exploring alternative strategies to secure foreign exchange earnings with minimum social disruptions, but this will take time. Therefore, at this stage, given the peculiarities of a small island economy, we recognise the fact that we cannot efficiently trade on the global market without preferences and particularly those afforded under the Sugar Protocol of the Lomé Convention and under SPARTECA with Australia.

20. Our request is that a special and targeted effort should be prioritized by the Committee in the development of an acceptable framework within the WTO competencies to address the concerns of least-developed and small vulnerable states to undertake and complete trade liberalization policies at a pace that respects their different stages of developments and susceptibility to nature.
