# The Erosion of Preferential Trade Regimes: The Case of Fiji

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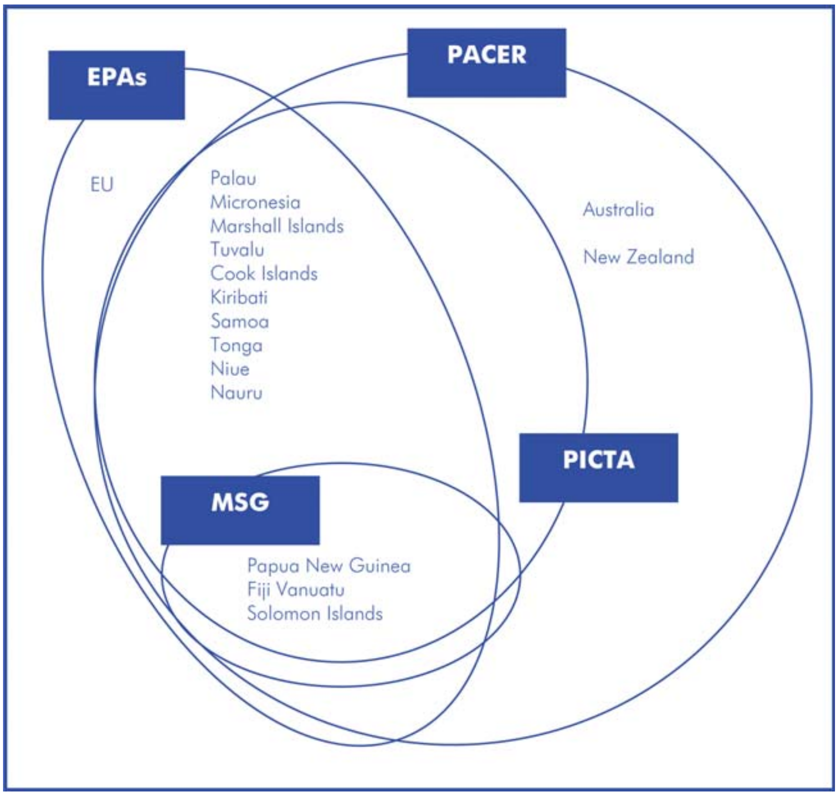
The South Pacific Island states are in the process of negotiating various free trade agreements, not only with the European Union (EU) – the so-called Economic Partnership Agreements (EPAs) – but also with their major trading partners Australia and New Zealand the 'Pacific Agreement on Closer Economic Relations' (PACER). When these come into effect, Island states such as Fiji will be intertwined in an entire network of parallel trade agreements (figure 1), which also include intra-South Pacific agreements (PICTA; Melanesian Spearhead Group), as well as multilateral ones under the umbrella of the World Trade Organisation. This process of multilateral and bilateral liberalisation occurs in an environment of eroding trade preferences.

The South Pacific Island states feature only a handful of 'export success stories', such as sugar and garments in Fiji, canned tuna in Fiji and the Solomon Islands, as well as electric wire harnesses in Samoa (Grynberg 1997). The success of these exports has depended heavily on preferential trade agreements (Grynberg 1997, Holder 1990), the erosion of which will therefore have significant consequences for the economic development of the island states.

**The Sugar Protocol**

Of all South Pacific countries, Fiji is likely to be most affected by an erosion of trade preferences in the near future. First of all, Fiji's garment industry has been increasingly exposed to competition from China due to tariff reductions in Australia and New Zealand, as well as the recent expiry of the Multi Fibre Agreement with the United States (Chand 2005, Dearden 2005). Sec-




Source: ECDPM 2006

Figure 1: A Network of South Pacific Trade Agreements

ond, the EU has decided to reform the so-called sugar protocol, cutting prices by 36 per cent (Roy 2006). The sugar protocol was introduced under the first development cooperation agreement between the EU and the African, Caribbean and Pacific states (ACP). Under the sugar protocol, the EU bought a fixed quantity of sugar from ACP producers each year at a guaranteed price lying approximately 2.5 – 3 times above the world market price (ECDPM 2001). The decision to reform the protocol– taken unilaterally without paying much attention to the ACP countries' pleading (Development Committee 2006) – followed an attack by Australia and Brazil who claimed that the sugar protocol was WTO incompatible (Wilkensen 2002).

**The Case of Fiji**

Fiji constitutes one of the five ACP countries that have been most dependent on the sugar protocol (Roy 2006). The country's sugar industry is highly inefficient and uncompetitive and would thus require significant structural changes if it was to survive under the new, liberalised conditions (Levatis et al. 2003, Narayan and Prasad 2004). Prospects for improving the industry's competitiveness to such an extent that sugar production may be kept at the same level are rather poor (Narayan and Prasad 2004). Narayan and Prasad (2004) predicted that if sugar production was declining by 30 per cent, Fiji's GDP would fall by approximately 1.8 per cent and real welfare would decline by 1.5 per cent. The rural poor would be carrying the bulk of burden (Levatis et al. 2003). A senior official of the EU Delegation to the Pacific was fully aware of the difficulties Fiji faces:

There are a lot of bad things in this country happening like the lower sugar prices, the loss of the garment industry […] With the loss of preferences […] in probably four or five years time, [the garment] sector will as good as disappear. That will mean, unless you will find some other promising areas pretty fast there will be a *higher than ever dependence on tourism* […] But every government should realise that […] in an era of SARS for example, it is a pretty dangerous sector to put all your concentration on (EU Delegation to the Pacific official 2005; *emphasis added*).

The former Fijian government has indeed identified tourism as the most important growth sector in which it sees its clear 'comparative advantage' (Qarase 2002), laying its hopes in tourism to compensate for sugar's and garments' losses (Narayan and Prasad 2004). However, while the 'sugar dollar' stays in the country to almost 100 per cent (EU Delegation for the Pacific official 2005), tourism in Fiji - as in most South Pacific Island states - is characterised by a leakage factor of between 50 and 70 per cent (Harrison 2003, Levett and McNally 2003). Economic leakage relates to tourism revenue that flows out of the country due to import requirements or the repatriation of profits of major hotel chains, thus diminishing the sector's contribution to the local economy. Moreover, as noted by the EU official quoted above, it is a rather 'dangerous' strategy to rely on tourism as the backbone of the economy not least due to the potential for political unrest. The various coups in Fiji, as well as the recent unrest in Tonga and the Solomon Islands

Rail Network for Harvesting Sugar Cane, Sigatoka, Fiji with their negative impact on visitor arrivals clearly illustrate this point (Fiji Times Online 2007, HALL 1997). It is therefore essential to diversify the economy.

**Tourism Dependency**

Economic diversification in a small island states such as Fiji is "horribly complicated" (DG Development official 2006b). The EU, for example, tried to assist Fiji in diversifying away from sugar by developing pineapple production destined for export. After a rather successful start the project ultimately failed as Fijian producers were pushed out of the market by large-scale Philippine based firms (GRYNBERG and FORSYTH 1998). All of the South Pacific Islands face some severe constraints to economic development; problems which they share with small island developing states in general (GÖSSLING 2003). These include their remoteness from overseas markets, small and fragmented domestic markets, and vulnerability to natural disasters (HARRISON 2003, LAL and FORTUNE 2000, MCRAE 2000, MILNE 1992). The islands further face a general lack of natural resources apart from fish, timber and phosphate – which are, however, disappearing fast (HALL 1997). Given such constraints coupled with high unemployment rates, some countries have tried to generate income through rather unconventional means. These included the sale of passports, the licensing of telephone lines for international phone sex services, and even the establishment of an offshore detention centre on behalf of Australia (HARRISON 2003).

Apart from these unconventional attempts to foster economic growth, the general lack of development alternatives has led to a steady growth of tourism in nearly all Pacific Island states (GÖSSLING 2003b, HALL 1997, MILNE 1992, SPTO 2003). Tourism may simply be the best bet for fostering economic growth (QARASE 2002) despite the risks involved, as well as the industry's various negative impacts. As in most small island developing states, the development of tourism may be considered an 'obvious' policy choice (WILKINSON 1989). A variety of island states have by now become fully dependent on tourism's earnings with the sector's contribution to GDP accounting for almost 50 per cent in the Cook Islands and Palau (APOSTOPOULOS and GAYLE 2002, GÖSSLING 2003b, SPTO 2003) (figure 2).

| Country | Tourism GDP % | Tourism % Employment |
|---|---|---|
| Cook Islands | 47.0 | n.a. |
| Fiji | 12.8 | 9.5 |
| Kiribati | 15.5 | 1.7 |
| Niue | 13.0 | n.a. |
| Palau | 49 | n.a. |
| Papua New Guinea | 6.3 | 3.2 |
| Samoa | 9.5 | 10.0 |
| Solomon Islands | 2.9 | 1.6 |
| Tonga | 5.0 | 3.2 |
| Tuvalu | 3.0 | n.a. |
| Vanuatu | 16.6 | 12.0 |

Source: SPTO 2003: 8

Figure 2: The Economic Importance of Tourism in the South Pacific

Tourism's contribution to the individual economies must, however, be set into context. While in Fiji, tourism's 12.8 per cent contribution to GDP (SPTO 2003) is indeed based on substantial visitor numbers of around 400,000 per annum (figure 5.8), Niue's 14 per cent were generated by a mere 1,600 arrivals in 2002 (SPTO 2003). The reason for such a divergence lies in Fiji's economy being relatively large by South Pacific standards. Niue's economy, on the other hand, is extremely small and therefore even modest tourism revenue contributes disproportionately to GDP (Pro€Invest 2004a). This implies that if a country like Fiji faces severe constraints to economic diversification and has to increasingly rely on tourism earnings in a liberalised economic environment, other small island states such as Niue are bound to experience an even greater tourism dependency. Apart from fisheries, tourism constituted the only sector in which all Pacific Island states have potential (GRYNBERG and ONGUGLO 2002). In tourism, some of the factors that usually impact negatively on the islands' ability to compete are in fact turned into positives. The remoteness of location has helped to preserve their natural and spectacular beauty, which forms a significant part of their attractiveness for tourism (Pro€Invest 2004a: 9).

From a perspective of fostering economic growth in an economically open environment, Pacific Island governments would therefore need to promote tourism (and fisheries). Whether the benefits of such a strategy would outweigh its environmental and social costs is, however, a different question altogether.

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