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FIJI

Report

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This report was prepared by Mr. Jürgen Reinhardt, Regional and Country Studies Branch, in co-ordination with the Asia and the Pacific Programme, Area Programmes Division.

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SUMMARY

The economic policy environment in Fiji has changed markedly since the mid-1980s. Following a critical review of previous inward-looking and interventionist economic policies, the 1987-1992 Interim Government identified a generally more competitive economic climate as key factor for achieving sustained economic growth in the future. Consequently, in the context of the newly adopted export-oriented growth strategy trade policy reform, has been assigned a crucial role by the Government since and has so far played a major role in the enacted deregulation programme. The ensuing liberalization of the foreign trade regime has been substantial and included the near-complete removal of quantitative import restrictions as well as several rounds of customs tariff reform.

Against this background, on the basis of a thorough analysis of recent trade policy reform in Fiji and the assessment of critical trade policy issues currently debated in the country, the present study ends up with a number of recommendations for further trade-related policy action. The report is organized as follows: By way of introduction, key data on the country's recent economic performance in general and its foreign trade in particular are provided in Chapter I. Chapter II presents a brief analysis of the trade policy framework in place including declared trade policy objectives, the institutional setting, as well as Fijian involvement in international trade agreements and arrangements. Recent trade-related policies and measures with a focus on the liberalization of the import regime in the areas of licensing, customs tariff and export promotion are subject of Chapter III, while the emphasis of Chapter IV lies on a detailed analysis and critical assessment of major current trade policy themes. Inter alia, the rationale of uniform protection as a longer term goal is discussed, the impact trade liberalization has had so far on local business is scrutinized, inconsistencies and concessions of the present customs tariff are reviewed, and the need for the possible introduction of antidumping legislation is explored. The concluding Chapter V contains recommendations pertaining both to the general thrust and to individual segments of future trade policies in Fiji with a distinct emphasis on customs policies. The following sections summarise major findings and conclusions.

RECENT TRADE-RELATED POLICIES AND PRACTICES

The Fijian authorities have taken a number of decisive measures aimed at the gradual liberalization of the country's previously highly regulated and protectionist trade policy regime.

- Due to the progressive removal of the majority of licensing requirements and quantitative restrictions, less than 20 per cent of imports entered the country under license in 1991 as opposed to more than half in 1988. The future abolition of licenses for most of the few goods remaining on the list has been announced and is likely to materialize in the 1994 budget.
- The speedy reform of customs tariffs has been directed at (a) a reduction of tariff ceilings from between 50 and 70 per cent before 1989 to a standard fiscal duty of at present 25 per cent; (b) the ensuing decline of average tariff levels ranging from 3.5 per cent (mineral products) to 20.6 per cent (prepared foodstuffs) in 1993 compared with between 13 per cent (jewelry) and 40 per cent (footwear and headgear) in 1990; and (c) a narrowing of tariff ranges now not exceeding 25 per cent in 87 of the total 97 chapters of the Fijian customs tariff.

However, while this major reorientation of policies has in fact become visible to and in many cases also felt by Fiji's economic agents, the 'true' degree of protection still guaranteed to local producers is by far higher than the mere look at nominal rates suggests. Due to (i) a clear prevalence of lower input tariffs when compared with output tariffs, in conjunction with (ii) widespread input

tariff concession so-called effective rates of protection (ERP) have been distinctly higher than nominal rates up to the present, although a downward tendency of ERPs over a larger band of industries may realistically be assumed.

MAJOR ISSUES OF CURRENT TRADE POLICIES IN FIJI: ANALYSIS AND ASSESSMENT

Uniform Protection as Longer-term Goal

Internationally, the objective of uniformity in the strict sense of the word, i.e. identical tariffs for all imported items, has been explicitly spelt out only very rarely if at all. Fiji is no exception to this. Nonetheless, in economic theory a case can be made that only uniform import tariffs provide for the identical treatment of domestic import-substitution producers viz-a-viz foreign suppliers. In the real world a uniform tariff, particularly at zero level, may not be easily feasible, neither politically nor economically. As to Fiji, it has to be recognized that duties levied on international trade flows play a most significant role for government revenue which is why in order to be successful any further customs tariff reform needs to be carefully coordinated with opening up alternative revenue sources.

Without opting for a strictly uniform tariff in the short-to-medium term any move towards a 'more uniform' tariff can be expected not only to reduce existing distortions, but also in a more practical sense would (i) contribute to greater fairness, (ii) be easier to administer, and (iii) make the structure of tariffs non-negotiable.

There are basically three major approaches available for achieving such a more uniform tariff structure at above-zero level:

- (i) raising tariffs on intermediate imports;
- (ii) lowering tariffs on final consumption goods; or
- (iii) a combination of both,

each of which accompanied by a removal of concessions. Since the Fijian authorities have so far relied primarily on option (ii), the imposition of higher tariffs on intermediates may now deserve some closer attention.

Impact of Trade Liberalization on Fijian Industry

In general, the almost complete absence of company wind-ups resulting from trade liberalization constitutes the single most important argument supporting the assumption that substantial scope for efficiency and productivity improvements has existed in many import-competing branches. However, it cannot be ruled out at the present stage that the further lowering of protection would now pose a threat to the existence of a rising number of individual companies. In this context, it is certainly recognized that in a market economy context it should be primarily private initiative which seeks economic opportunities and thus finally creates the economic structure of a country. But it is here where there is also scope for economic policy-makers to apply some strategic thinking as to future directions of economic including possible alternatives to previous industrial development.

With regard to the further successful implementation of import deregulation in Fiji, taking account of the following business concerns would call for a more cautious approach:

- the retention of the hitherto high speed of import liberalization may endanger any successful efficiency adjustment of local business;

- the economy's high degree of inter-sectoral and inter-industry linkages may be felt in adverse effects throughout these production chains once one industry ceases operation;
- efforts of local business to cut costs may reach limits given the continued existence of regulatory rigidities in other policy fields.

Inconsistencies in Tariff Rates and Concessions

Efforts to identify what constitutes tariff inconsistencies, anomalies or distortions depend critically on the yardstick against which to measure actual customs stipulations. Aiming at the establishment of a "level playing field" for everybody, inter alia, calls for the eventual provision of a uniform import tariff across the board at as low a level as possible - ideally at zero - and the complete abandonment of duty concessions. Therefore any further reduction of the remaining above-standard rates and measures to diminish the tariff gap between intermediate and final goods would serve the continued rationalization resulting in effective rates of protection being brought more into line with nominal rates.

The review of the system of tariff concessions currently in place revealed an urgent need for reform. The core problems appear to lie in (i) a relatively high degree of intransparency in general; (ii) the partial lack of documentation concerning the precise terms and conditions of availability in particular; and (iii) the differential application of concessions stemming from extensive discretionary power with the Minister of Finance, the Comptroller of Customs or both of them, as the case may be. Both these problems have resulted in the different treatment of otherwise identical import transactions as well as in bureaucratic delays in the approval process.

Need for Antidumping Legislation?

Paralleling the progress of import liberalization, demands by the Fijian business community to take action against "unfair trade conditions" favouring foreign suppliers have grown recently. As to the possible introduction of antidumping (AD) legislation in Fiji, a review of international experience made with this instrument in both developed and - more recently also - developing countries yields ambivalent results. Most of the presently enforced AD legislation are modelled along the lines of Article VI of the GATT in conjunction with the GATT Antidumping Code of 1980. However, in practice due to the lacking specification of procedural details, the AD Code has not only resulted in different approaches by different national governments, but also in varying degrees of a more restrictive, i.e. protectionist interpretation of the GATT's AD "spirit".

Summing up, from a legal perspective the AD Code appears to be working reasonably well and in this sense may be regarded a success, since it has brought about a certain degree of standardization between the individual national AD legislations. In turn, from a strictly economic standpoint numerous convincing objections can be raised. It would therefore be critical for any move towards the introduction of AD legislation in Fiji to obtain clarity about the aimed-at objectives. Given the difficulties of devising and implementing sound, consistent, unambiguous and effective AD provisions and their frequently protectionist application, the danger of getting into conflict with the commitment to further trade liberalization cannot be denied. Moreover, the examples of alleged dumping brought forward by Fijian businessmen would not appear to qualify for any AD action.

Arguing politically, it could of course be asked why to deny a country like Fiji a right which has deliberately been claimed by other countries, particularly in the developed world. Thus, while due account would have to be taken of the rather high implementing costs of AD legislation in the Fijian

case, the mere existence of such regulations may serve as a deterrent to foreign suppliers applying aggressive pricing strategies.

Erosion of Trade Preferences

Acknowledging the limited weight of Fiji in international trade flows and its equally limited bargaining power in the international sphere, Fiji cannot realistically expect to mobilize sufficient support to reverse the present tendency towards an erosion of trade preferences enjoyed, such as under the SPARTECA and LOME agreements. Rather, the changes faced should be accepted as a challenge to continuously increase the country's production efficiency on the one hand and to speed up efforts to diversify the economic base, particularly into niche markets, on the other hand. Since preferences will most likely be removed only gradually, the time available for adjustment should not go by unused.

Trade Barriers in Fijian Export Markets

Being confronted with an increasing exposure to foreign competition due to recent trade liberalization, Fijian business is now more frequently hinting at what it perceives as trade barriers in its own export markets. However, information available on such impediments, particularly non-tariff barriers (NTBs), in Fijian export markets is essentially anecdotal. Thus, a more systematic approach towards the compilation of NTB-related information on the side of the Fijian Government may serve as a useful input for the country's international trade talks and thus would constitute a worthwhile effort.

FUTURE TRADE POLICY REFORM IN FIJI: RECOMMENDATIONS FOR ACTION

General Trade Policy Orientation

Since there can be little doubt about the beneficial effects for the overall economic development of a liberal trade regime, the general thrust of Fijian policies towards further trade liberalization should be maintained. In particular, the envisaged removal of as many of the few remaining import licenses as possible should be vigorously pursued in a clearly spelt out time frame.

However, in a more general sense, two aspects appear to require the government's early attention:

- (i) To elaborate a strategic approach with regard to the links between trade liberalization on the one hand and directions of future economic development on the other hand. Here, a policy decision might have to be taken soon as to the "acceptable" extent of close-downs of local business including unemployment resulting from enhanced exposure to international competition. In a small economy like Fiji with its structural disadvantages large-scale alternatives to present production patterns may either not exist or be difficult to realize. Theoretically, in this context the major challenge of future trade liberalization in Fiji would be to reduce protection only up to the point required to spur local efficiency and competitiveness without, however, sacrificing large parts of local business. The critical issue of finding such a balance calls for a gradual approach to further liberalization. Moreover, bringing the country's major economic agents together and devoting more efforts to the common identification and assessment of strategic avenues for future industrial development would seem a worthwhile effort enabling the authorities to reassess their trade-related policies.

- (ii) To take a broader look at the declared policy of deregulation which so far seems to have overly relied on import liberalization. Speedier progress in other areas earmarked for deregulation, such as public enterprise reform, a reduction in price controls, and labour market reforms, would greatly contribute to lowering the high cost structure most of the local companies are faced with and thus facilitate efforts of the latter to better adjust to the new, more competitive environment.

Customs Policies

Customs Management

Given the fact that duties on international trade will continue to play an important role for government revenue in Fiji, sufficient resources should be made available for an adequate customs management if and when the need arises. This requires a principle readiness of government to provide the necessary support - in terms of funding, personnel, technical devices etc. - and calls for a regular review, inter alia, of customs administration, staffing and equipment with a view to identifying bottlenecks and remedial action to ensure an efficient revenue collection at all times. At present, problems awaiting urgent alleviation pertain to delays in customs handling, frequent breakdowns of the computer system currently applied as well as to staff shortages in conjunction with a critical brain drain in recent years.

In particular, it is recommended

- to initiate an in-depth analysis of strengths and weaknesses, achievements and bottlenecks of current customs management;
- to seek assistance of an internationally experienced customs expert or foreign customs official who should be assigned to the Customs Department for a period of six to twelve months. The expert's mandate should include a comprehensive review of organizational structures, managerial practices, staffing requirements and equipment needs and also entail a training component for local staff;
- given the urgent need for the modernization of equipment, particularly as regards the hardware and software used, to seriously consider the introduction of internationally successful customs management tools, such as the Automated System for Customs Data and Management (ASYCUDA) offered by UNCTAD.

Customs Tariff

The Government should provide the public, particularly the business community with a clear and reliable time-table concerning the envisaged steps of further trade liberalization and deregulation. The measures foreseen should be announced in maximum possible detail and include a clear statement of the final policy targets. This implies that the further 5 per cent lowering of the standard fiscal duty rate foreseen to become effective in 1995 will not be altered, particularly that it will not be brought forward or increased in size.

The Government should acknowledge the changing function of tariffs resulting from its move towards import liberalization and export promotion. Policy conflicts emerging from the diminishing revenue function of tariffs and their reduction to a protective function should be clearly stated and resolved. Here, by seeking alternative revenue sources more actively, the Government could avoid finding itself in a position to refrain from further import liberalization merely on the grounds of

revenue considerations. In this context, an increase of VAT should not be ruled out in a longer term perspective.

With regard to the Customs Tariff presently in force it is recommended

- (i) to continue the harmonization of rates by reducing the number of different tariff rates further to a minimum of say three to four rates;
- (ii) to remove tariff anomalies such as 'split tariff rates' for products from similar product groups;
- (iii) to replace the remaining specific duties by ad-valorem duties; and
- (iv) to remove tariffs on items where tariff concessions are predominating.

The debated shift in the calculation of import duties from the current cif (cost, insurance, freight) basis to fob (free on board) basis is becoming less relevant with every step of tariff reductions. Therefore, and in order to avoid additional administrative costs for Customs, it is recommended not to pursue a possible switch with high priority at the present time.

Rather than passively awaiting the further erosion of the current system of tariff concessions which accompanies every reduction of standard tariffs, a reform of present concessionary rules and procedures should be actively sought. The reform should be guided by the objective to provide maximum clarity and transparency of the terms and conditions applied aiming at the identical treatment of like transactions. A promising approach to accommodate the necessary regulatory improvements would be the introduction of a concessions code. Such a code would have to spell out in detail the criteria of eligibility for tariff concessions and the procedures to be followed in the application and decision-taking process. The code should also reduce the substantial discretion resting so far with the Minister of Finance or the Comptroller of Customs, unambiguously regulate the termination of concessions from the outset and consider an extension of duty concessions from TFF to non-TFF firms.

Customs Valuation

It is recommended that Fiji - which for customs valuation still adheres to the 1950 Brussels Definition of Value - considers application of the internationally increasingly applied procedure of the 1979 GATT Customs Valuation Code which is more in line with commercial realities and would bring about a fairer, more uniform and greatly simplified system of evaluation. Fiji should thus seek accession to the GATT Valuation Code.

Membership in CCC and GATT

Organization-wise, an increased international representation of Fijian trade policies would appear beneficial. It is thus recommended that Fiji seeks membership in (i) the Customs Co-operation Council (CCC), and (ii) the General Agreement on Tariffs and Trade (GATT). Under present rules, Fiji is in the favourable position to become a GATT Contracting Party relatively easily. This shortcut to accession is likely to be discontinued upon conclusion of the Uruguay Round.

Unfair Trade Practices

With regard to existing legislation on trade standards, the widespread lack of awareness among the business community about the individual stipulations of the two recently promulgated Decrees on Trade Standards and Quality Control as well as on Fair Trading should be addressed vigorously by the Government. Intensified advertising of the contents and legal procedures to be followed should be directed towards the public, particularly the business community, e.g. by preparing a brochure on major provisions which could be channelled through the major trade associations.

If the Government desires to enact AD legislation, e.g. on the grounds of serving as a deterrent or a bargaining chip in its international trade relations, every effort should be made to ensure compatibility with the country's increasingly liberal trade policy orientation. In this context, by acceding to the GATT AD Code it would be highly advisable to subject the envisaged national legislation to a relatively advanced degree of international standardization. As a preparatory step a closer examination and assessment of selected international AD legislation and experience, including lessons to be learned for Fiji, is being recommended at the present stage. In this endeavour, it appears advisable not only to focus on experience in the region, i.e. Australia and New Zealand, but also to include other major AD players both in developed and developing countries (e.g. EC, USA, Republic of Korea).

Other recommendations

Export promotion

The presently applied system of exempting TFF companies from paying VAT on imports is extremely ponderous. If in line with export promotion policies it is desired to exempt TFF operators from VAT on imports, the corresponding administrative procedure should be designed in as simple a way as possible in order to minimize administrative costs. It is thus recommended to consider a simplification of the Special Temporary Arrangement Scheme including its possible replacement by the issuance of general VAT-free import permits to TFF operators.

Foreign direct investment

There appears to be considerable scope for the streamlining of FDI application and approval procedures in Fiji. Decision-making powers are scattered in several government departments with the FTIB merely acting as the addressee and forwarder of FDI applications and decisions. It is thus recommended to continue present efforts aimed at transforming FTIB into a one-stop shop for investment as outlined in the draft Promotion of Investment Act prepared in late 1992. It has to be noted, however, that any such move towards centralizing the decision-making power at FTIB does not necessarily have to entail the renunciation of competencies by other government bodies. Instead, the secondment of one (or several) senior official(s) each from the departments involved, such as Customs and Immigration, to the investment promotion body as is common practice in a number of developing countries could also be expected to greatly facilitate the processing of FDI applications in Fiji.

Public-private sector dialogue

Views obtained on the desirability of establishing a more institutionalized dialogue between government and private business on trade policy matters differed. On the one hand, notwithstanding rising criticism regarding recent trade liberalization many businessmen feel to have relatively easy access to government officials due to the country's small size. On the other hand, business

representatives particularly from Fiji's western parts report difficulties in making their voices heard by trade-policy makers. Therefore the Government should assess in-depth the demand for as well as possible forms and contents of a more regular or institutionalized dialogue between the public and private sectors.

Non-tariff barriers

In view of the absence of detailed information pertaining to tariff and non-tariff barriers encountered by Fijian exporters in its overseas markets, it is recommended to launch the preparation of an inventory of such measures as a useful input for the country's international trade talks including those at a sub-regional level.

Industrial restructuring

The further liberalization of the foreign trade regime will continue to exert pressure on domestic industries to adjust to an increasingly competitive environment. Market-oriented government assistance in the ensuing process of industrial restructuring may facilitate this adjustment. UNIDO in its capacity as the United Nations specialized agency in the field of industry has accumulated a wealth of experience in many industry-related matters. It is proposed to launch an in-depth investigation of medium- and long-term industrial restructuring needs and possible policy responses in Fiji with a view to contributing to a strategic approach of future industrial policies.

I. KEY ECONOMIC DATA

1. Economic structure and recent performance

With a per capita income of US\$ 1,930 in 1991 Fiji belongs to the group of lower middle-income countries as classified by the World Bank. The country's record of economic growth has been mixed during the last decade, showing an upward tendency in the most recent past, with real GDP growth rates of 4.8 per cent, 0.7 per cent and an estimated 2.8 per cent in the years 1990-1992, respectively. On average, annual real growth amounted to 0.8 per cent in the pre-coup period 1980-1987 which was contrasted by an average annual increase of 4.5 per cent under the interim Government between 1987-1992, thus resulting in an annual average rate of 2.4 per cent for the entire period¹.

As to the country's economic structure, in 1991 little under two-thirds of GDP at constant prices originated in the services sector, while the agricultural sector and the industrial sector accounted for some 22 per cent and 17 per cent, respectively (see table 1).

Within agriculture (including forestry and fishing), the cultivation of sugarcane contributes some 8 per cent to GDP with sugar processing adding another 3 per cent or about a quarter to the manufacturing sector's output. Import-competing foodstuffs, e.g. paddy rice and livestock products, some minor export crops, e.g. copra and ginger, and a substantial though probably underestimated amount of traditional non-market or subsistence food production make up for the remainder of agricultural output.

Production in the industrial sector comprising mining, manufacturing, public utilities as well as construction is clearly dominated by manufacturing which contributes some 70 per cent to the sector's output and slightly more than 12 per cent to total GDP. Within manufacturing, according to the latest census of industries, a number of remarkable changes are underway indicating some progress towards diversification (see table 2). Thus, while total manufacturing value added grew at an annual average of 18.5 per cent between 1988 and 1990, high above average growth is reported for clothing and footwear, wood products, paper and printing as well as for miscellaneous manufactures, resulting in distinctly rising shares of these industries in total manufacturing output. In turn, food production, half of which is accounted for by sugar processing recorded a substantial loss of relative importance - from 61 per cent to 48 per cent - whereas the absolute decline of value added of machinery and equipment was accompanied by its percentage share cut in half.

The relatively large and increasing share of the services sector in GDP, *inter alia*, is a reflection (i) of the growing importance of tourism as Fiji's major source of foreign exchange earnings as expressed in the trade, hotels and restaurants industry group (21 per cent of GDP in 1991) and partially the transport and communications sector; and (ii) of Fiji's position as a transshipment hub and telecommunications centre for the South Pacific region.

With respect to changes of the economy's basic structural pattern in the decade 1981-1991, the observable shift towards the service sector at the expense of both agriculture and industry was almost exclusively attributable to a declining production of sugarcane and the construction industry.

¹ The following brief overview is partly based on Malcolm Treadgold, *The Economy of Fiji. Performance, Management and Prospects*, International Development Issues, No. 25, Canberra: AIDAB, July 1992, pp.4-10.

Table 1: GDP by economic sectors at 1977 factor cost, selected years

	1981		1986		1990	
	F\$ million	% of total	F\$ million	% of total	F\$ million	% of total
Agricultural sector	172.6	24.0	186.0	24.5	182.1	21.6
Sugarcane	81.2	11.3	85.9	11.3	66.7	7.9
Other crops	22.6	3.1	27.4	3.6	28.1	3.5
Livestock	6.5	0.9	7.4	1.0	7.7	0.9
Fishing	10.2	1.4	9.4	1.2	13.2	1.6
Forestry	6.4	0.9	5.7	0.7	13.9	1.7
Subsistence	45.6	6.3	50.1	6.6	52.5	6.2
Industrial sector	156.6	21.8	143.7	18.9	144.6	17.2
Mining and Quarrying	0.4	0.1	1.3	0.1	1.2	0.1
Manufacturing	88.9	12.3	94.7	12.4	103.4	12.3
Sugar	31.2	4.3	33.3	4.4	25.8	3.1
Other	55.4	7.7	58.8	7.7	74.9	8.9
Self-employment	2.3	0.3	2.6	0.3	2.7	0.3
Electricity, gas and water	6.8	0.9	9.0	1.2	11.0	1.3
Construction	60.5	8.4	38.7	5.1	29.0	3.4
Service sector	410.7	57.0	454.7	59.8	546.3	64.9
Wholesale & retail trade, restaurants & hotels	125.5	17.4	136.0	17.9	174.2	20.7
Trade	102.4	14.2	109.2	14.4	145.7	17.3
Hotels, restaurants, cafes	23.1	3.2	26.8	3.5	28.6	3.4
Transport & Communications	70.6	9.8	89.8	11.8	119.1	14.2
Transport	58.7	8.2	75.7	10.0	103.9	12.3
Communications	11.9	1.7	14.1	1.9	15.2	1.8
Finance, insurance, real estate & business services	87.9	12.2	98.4	12.9	111.3	13.2
Community & social services	125.3	17.4	129.0	17.0	140.1	16.6
Other nec	1.4	0.2	1.5	0.2	1.6	0.2
Less imputed bank service charges	20.0	2.8	23.7	3.1	31.5	3.7
GDP at factor cost	719.9	100	760.7	100	841.6	100

Source: Fiji Bureau of Statistics, *Current Economic Statistics*, July 1992, p. 8.

Concerning employment, available data indicate that as of June 1992 as much as 29.5 per cent and 22.9 per cent of paid employment originated in the - primarily public - social and personal services sector and in manufacturing, respectively, with employment in the trade business ranking

third (14.7 per cent).² However, including the large number of own account and unpaid family workers (who according to the latest census of 1986 represented about half of the total labour force of 241.2 thousand) gives a different picture: close to 50 per cent employment in agriculture, roughly 15 per cent in industry (8 per cent of which in manufacturing) and the remaining 35 per cent in the services sector.

Table 2: Manufacturing value added by industries, 1988-1990

FSIC		Value added						Average annual growth 1988-90%
		1988		1989		1990		
		Tbd.F\$	Share %	Tbd.F\$	Tbd.F\$	1990	Share %	
31	Food manufacturing	95,734	61.3	106,304	55.5	104,778	47.9	4.8
	thereof sugar industry	36,896	27.8	43,365	22.6	54,141	24.7	21.2
32	Clothing and footwear	9,959	6.4	20,084	10.5	31,284	14.3	78.8
33	Wood Products	10,040	6.4	18,944	9.9	25,802	11.8	62.5
34	Paper and printing	8,460	5.4	13,402	7.0	20,149	9.2	54.4
35	Chemical Products	10,157	6.5	12,298	6.4	14,784	6.8	20.7
36/ 37	Non-metallic & Basic Metal Products	5,389	3.5	4,685	2.4	8,719	4.0	36.5
38	Machinery and equipment	15,832	10.1	13,936	7.3	11,110	5.1	-16.2
39	Miscellaneous Products	538	0.3	2,024	1.1	2,314	1.1	145.3
3	Total manufacturing	156,109	100	191,677	100	218,940	100	18.5
	(Total excl. sugar industry)	119,213		148,312		164,799		17.8

Source: Fiji Bureau of Statistics, Census of Industries 1990, Suva 1993, p.15 (draft).

2. International trade

Throughout the 1980s, the pattern of international receipts and payments in the Fijian current account was characterized by merchandise trade deficits and services trade surpluses (including factor income flows) which were accompanied by smaller net outflows of private transfers and inflows of official transfers. Current account deficits were large in the early 1980s, but came down subsequently until they turned into surpluses of F\$57.2 million and F\$65.3 million in the years 1988 and 1989, respectively. The performance has been rather volatile since, with a high deficit in 1990 (F\$99.7 million), and again rising surpluses thereafter (1991: F\$16.5 million, 1992: F\$69.3 million [est.]).

As can be seen from Table 3, as much as four fifths of total domestic exports are accounted for by four product groups only: sugar and molasses, garments, fish and gold. Yet even top-ranking sugar is exceeded by tourism as prime foreign exchange earner with an estimated income of F\$370 million in 1992. Over time, the most significant developments were the declining share of sugar - which in 1987 had accounted for 59 per cent of merchandise exports alone - as well as of gold on the one hand and rapidly advancing exports of the newly established garments industry on the other hand. In turn, imports have been dominated by machinery including transport equipment and manufactured goods with roughly a quarter of the total each, followed at a distance by mineral fuels and food items (see Table 4).

² See Fiji Bureau of Statistics, Current Economic Statistics, July 1992, p.75.

Table 3: Principal domestic exports, selected years^a

	1987		1989 ^b		1991 ^b		1992 ^c	
	F\$ m	% share	F\$ m	% share	F\$ m	% share	F\$ m	% share
Sugar & molasses	196.7	58.9	238.1	43.1	233.7	41.5	241.3	38.5
Garments	8.8	2.6	99.3	18.0	134.2	23.8	150.0	23.9
Fish	25.4	7.6	44.8	8.1	51.4	9.1	54.6	8.7
Gold	50.6	15.1	76.2	13.8	46.6	8.3	52.2	8.3
Timber	18.9	5.7	31.9	5.8	31.3	5.6	37.0	5.9
Ginger	3.4	1.0	4.0	0.7	6.4	1.1	"	-
Coconut oil	3.0	0.9	5.3	1.0	2.3	0.4	2.5	0.4
Other domestic exports	27.3	8.2	52.89	9.6	56.8	10.1	88.8 ^d	14.2
TOTAL DOMESTIC EXPORTS	334.1	100	552.4	100	562.7	100	626.4	100
RE-EXPORTS	74.5		106.2		112.2		120.0	
TOTAL EXPORTS	408.6		658.6		674.9		746.4	

a/ F.o.b. basis.

b/ Provisional.

c/ Estimate.

d/ Included under 'other domestic exports'.

e/ Includes sale of an aircraft at F\$17.8 million.

Source: Fiji Bureau of Statistics, Current Economic Statistics, July 1992, pp. 54, 60-62 (1987-89); Ministry of Finance and Economic Planning, Supplement to the 1993 Budget Address, November 1992, p. 29 (1991-92).

Table 4: Imports by SITC sections, selected years

SITC section	1989 ¹		1991 ¹		1992 ²	
	F\$ million	% share	F\$ mill.	% share	F\$ million	% share
0 Food	124.5	14.5	141.4	14.7	146.8	14.0
1 Beverages and tobacco	6.5	0.8	7.9	0.8	8.1	0.8
2 Crude materials	7.7	0.9	7.9	0.8	8.3	0.8
3 Mineral fuels and lubricants	109.8	12.8	146.3	15.2	160.0	15.3
4 Animal and vegetable oils and fats	9.6	1.1	10.1	1.1	10.5	1.0
5 Chemicals	78.2	9.1	72.5	7.5	76.0	7.3
6 Manufactured goods	206.0	23.9	245.2	25.5	250.0	23.9
7 Machinery and transport equipment	222.0	25.8	216.3	22.5	268.4	25.7
8 Miscellaneous manufactured articles	85.0	9.9	104.0	10.8	106.0	10.1
9 Miscellaneous transactions	11.2	1.3	10.1	1.1	10.9	1.0
Total	860.5	100.0	961.7	100.0	1044.9	100.0
Total Re-exports	106.2		112.2		120.0	
Total Retained Imports	754.3		849.5		924.9	

¹ provisional

² estimate

Source: Ministry of Finance and Economic Planning, Supplement to the 1993 Budget Address, November 1992, p. 31.

Table 5: Direction of trade 1986 - 1991
(percentage share of total)

Exports (f.o.b.) ¹	1986	1987	1988	1989	1990	1991
Australia	20.9	19.5	25.4	21.8	20.2	17.7
New Zealand	6.1	4.9	7.4	16.1	13.4	9.2
European Community	45.5	37.4	34.1	28.5	29.3	26.7
United Kingdom	44.6	36.6	33.8	27.4	28.7	25.9
Others	0.9	0.8	0.3	1.1	0.6	0.8
Japan	2.0	3.5	5.5	7.3	7.0	6.8
United States	5.4	5.3	3.2	6.3	9.2	13.1
Singapore	0.1	0.1	0.2	0.2	3.7	0.2
China	2.5	3.9	3.4	0.2	0.6	1.9
Hong Kong	0.2	0.9	1.1	0.4	0.8	1.2
Canada	2.0	1.7	4.2	3.1	2.5	3.6
Others	15.3	22.8	15.5	16.1	13.3	19.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

Imports (c.i.f.) ²	1986	1987	1988	1989	1990	1991
Australia	33.5	28.7	29.4	29.6	27.8	31.4
New Zealand	16.7	16.9	18.9	17.2	16.3	18.3
European Community	12.4	8.6	10.8	6.3	6.9	5.8
United Kingdom	4.4	4.7	3.7	3.0	3.0	3.0
Others	8.0	3.9	7.1	3.3	3.9	2.8
Japan	14.4	12.1	10.2	13.5	11.0	11.4
United States	4.8	5.2	4.9	5.3	12.9	4.3
Singapore	3.2	11.1	4.2	5.3	5.8	6.2
China	2.1	2.6	2.7	3.2	2.8	2.9
Taiwan Province of China	2.7	3.9	2.8	4.9	4.0	4.6
Hong Kong	1.7	2.0	3.3	3.2	2.9	3.6
Republic of Korea	1.7	2.0	3.5	4.2	2.1	1.8
India	1.0	0.9	0.6	0.9	0.8	1.1
Canada	1.0	0.6	0.4	0.3	0.3	0.5
Others	4.8	5.4	8.3	6.1	6.4	8.1
Total	100.0	100.0	100.0	100.0	100.0	100.0

¹ Domestic exports only.

² Including imports for re-export.

Regarding the direction of the country's trade flows, a remarkable diversification has taken place on the export side in recent years, whereas the pattern of imports has remained largely unchanged (see Table 5). As to exports, between 1986 and 1991 the most pronounced developments were (i) a declining share of the United Kingdom, the prime destination of sugar to the EC, from 45 per cent to 26 per cent; (ii) a rising share of the USA from 5.4 per cent to 13.1 per cent which absorbed the lion's share (40 per cent) of the country's garments exports in 1991; and (iii) a clear upward trend of exports to Japan (mainly fish and woodchips). The share of exports to Australia and New Zealand combined was almost identical when compared to 1986 (27 per cent), but witnessed a sharp reduction after 1989 (38 per cent).

In contrast, on the import side Australia and New Zealand have maintained their role as Fiji's major suppliers, together accounting for some 50 per cent of the total, particularly food and petroleum products. With a share of 11 per cent, Japan was the third largest source of imports. Notable developments over time were (i) the increasing share of imports from the region's newly industrializing countries, i.e. Singapore, Taiwan Province of China, Hong Kong and Republic of Korea, from a total 9 per cent to more than 16 per cent; and (ii) a declining share of Japan.

II. TRADE POLICY FRAMEWORK

1. Objectives

The economic policy environment in Fiji is characterized by marked changes since the mid-1980s. The 1987-1992 Interim Government which took office after two military coups initiated a comprehensive review of previous economic policies resulting in the adoption of an export-oriented growth strategy. This new orientation was in sharp contrast to the increasingly inward-looking and interventionist development strategies followed in the 1970s and the first half of the 1980s. Aiming at import substitution and self-sufficiency, policy makers had provided strong protection to local business by applying extended trade control measures, widespread public sector participation in business activities as well as direct regulation of many facets of both product and factor markets. Since these policies did not result in the desired improvements of living standards, a more competitive economic climate was identified as a major avenue towards the achievement of sustained economic growth in the future.

Consequently, the National Economic Summit of June 1989 which was attended by government and business representatives identified six key elements of a successful export-oriented growth strategy:

- deregulation of the economy to bring domestic prices more closely in line with world prices;
- restraint in the growth of government expenditure to ensure availability of resources for growth in the private sector;
- tax reform to minimize market distortions and improve incentives for risk taking and effort;
- a wages policy that recognizes the importance of maintaining international competitiveness;
- mobilization of all sectors of the community in support of economic expansion; and
- reorientation of sector policies in accordance with the above general policies.³

In this context trade policy reform has since been assigned a crucial role by the Government in the enacted deregulation programme and the foreign trade regime has been liberalized substantially. Measures taken to reduce the level of protection enjoyed by domestic business included a far-reaching removal of quantitative import barriers as well as several rounds of Customs tariff reforms,

³ See Ministry of Finance and Economic Planning, *Review of Performance and Prospects of the Fiji Economy*, National Economic Summit, May 1991, pp.24-25.

particularly the lowering of import duties. While as a result local production, particularly in the industrial sector, has been increasingly exposed to foreign competition, the new Government elected in June 1992 has expressed its ongoing commitment to achieving a more uniform level of protection in the longer run.

2. Institutional setting⁴

Whereas the final responsibility for economic policy decisions including trade policy issues lies with the Cabinet chaired by the Prime Minister, a number of government bodies are involved in the formulation, preparation and implementation of trade-related policies. Major authorities fall under the Ministry of Finance and Economic Planning (MFEP) which in the process of budget preparation retains the final say on all matters bearing budgetary relevance. In particular, in administering the Customs Tariff Act 1986, the MFEP's powers entail all decisions pertaining to customs tariff changes, the granting of import duty concessions and the imposition or removal of licensing requirements.

Inputs are provided by the Tax Policy Committee which is the ultimate advisory board on taxation including customs tariff matters to the MFEP. The Customs and Excise Department which is headed by the Comptroller of Customs is the major implementing arm of customs policies, directly responsible to the MFEP. With offices at the four points of entry Suva (headquarters), Nadi, Lautoka and Levuka and with a fifth soon to be opened in Savusavu, Customs enforces the collection of both customs and excise duties. Further, the MFEP is the formal addressee of reports from the Macroeconomic Policy Sub-Committee (MPSC) which by considering and agreeing upon general economic policy papers prepared by individual ministries performs a central role in the economic policy coordination at government level. Chaired by the Governor of the Reserve Bank of Fiji, the MPSC comprises officials from the Reserve Bank, the Budget Division, the Central Planning Office (CPO) and the Bureau of Statistics (BoS), all under the ambit of the MFEP. The results of MPSC discussions may also be debated at the Economic Strategy Committee (ESC) which is directly responsible for economic policy formulation. The Prime Minister chairs the ESC which is comprised of seven Cabinet ministers, the Governor of the Reserve Bank and three senior Public Service officials. Secretarial assistance to the ESC is provided by the CPO.⁵

The Ministry of Trade and Commerce (MTC) is also exerting considerable influence on the country's trade policies.⁶ Converted into a full-fledged Ministry only in 1988, the MTC reflected the increasing emphasis placed by the Interim Government on the development of the commercial sector. The MTC's central activities are in the areas of investment promotion, particularly under the Tax Free Factory/Tax Free Zone (TFF/TFZ) scheme, export promotion, deregulation, as well as consumer protection. It also has the main responsibility with regard to international trade agreements and has traditionally administered most of the applied im- and export licences. However, while the MTC is regularly voicing its stance and making proposals as to desired customs tariff and licensing requirement changes, etc., the final decision lies with the MFEP. In turn, recent trade-related legislation coming under the MTC includes the Fair Trading Decree, the Trade Standards and Quality Control Decree and the Tax Free Zone Decree. The Ministry also oversees the Fiji Trade and Investment Board (FTIB), a statutory body which performs numerous tasks relating to the promotion of trade as well as the attraction of foreign investment.

⁴ Changes to the following which resulted from a June 1993 cabinet reshuffle, i.e. upon completion of the draft report, could not be taken into account for lack of sufficiently detailed information. However, the previous Ministry of Trade and Commerce has now developed into the Ministry of Commerce, Industry and Tourism, while foreign trade issues are now being dealt with by the Foreign Ministry (new name: Ministry of Foreign Affairs and External Trade).

⁵ See Ministry of Finance and Economic Planning, Review of Performance and Prospects of the Fiji Economy, op. cit., pp. 141-142.

⁶ In the following see Ministry of Trade and Commerce, 1992 Management Plan, pp. 4 ff.

There is also some involvement of the private sector in the design of trade-related policies, the extent and impact of which, however, are difficult to define. Following the National Economic Summit of 1989, a total of seven temporary Working Groups set-up along sectoral lines were retained as Consultative Groups to advise the Government on the implementation of policies⁷ but have not been convened since the 1991 National Economic Summit. The groups were attended by both public and private sector representatives; trade, specifically customs tariff matters were raised in several of these groups. In addition, trade policy and liberalization issues are also being monitored and occasionally commented upon by various private sector trade associations, usually constituted as non-profit organizations financed by members' subscriptions such as the Fiji Chamber of Commerce and Industry with some 1,200 members organized in twelve local/regional branches plus a national branch; the Fiji Manufacturers Association, and the Fiji Employers Federation with some 170 member enterprises and a specialized Manufacturers/Exporters Council under its roof. The private Fijian Institute of Freight Forwarders and Customs Workers set up in 1992 is concerned with monitoring and commenting upon developments in the areas of customs, ports services and freight transport. To a large extent, membership consists of customs agents which, between them, are estimated to handle the required customs formalities for between 50 and 70 per cent of the country's total trade flows. The balance is executed by im- and exporting companies individually and independently.

3. International trade agreements and arrangements

Other than being a full member (Contracting Party) Fiji is listed as applying the General Agreement on Tariffs and Trade (GATT) on a de facto basis. Not having signed nor maintaining observers status to any of the GATT codes and not communicating trade, especially customs-related information to the GATT Secretariat for most of the past, the practical relevance of this de facto membership appears to have been rather limited. Fiji is, however, formally taking part in the current Uruguay Round global trade liberalization negotiations where it has actively participated in the Cairns Group on trade in agricultural goods. It is a member of several other multilateral organizations related to trade, such as the United Nations, UNCTAD, The Asian Development Bank, the International Monetary Fund, the World Bank, the South Pacific Forum and the South Pacific Commission. The country participates in the international commodity agreement for sugar and in 1986 became a member of the Multi-Fibre Arrangement presently under review in the Uruguay Round where a phasing out and/or termination is being aimed at. Fiji has also joined the MFA's repeated extensions provisionally agreed upon until the Uruguay Round's hoped-for successful conclusion and acceded to the latest extension of the MFA Protocol to cover the period 1 January 1993 to 31 December 1993, in January 1993.

At the regional level, Fiji is benefitting from the South Pacific Regional Trade and Economic Co-operation Agreement (SPARTECA) enacted in January 1981. SPARTECA on a non-reciprocal basis offers duty free and unrestricted or concessional access to the two developed member countries Australia and New Zealand for virtually all products originating from the thirteen developing Forum Island Countries. The Agreement includes provisions for general economic, commercial and technical co-operation, safeguard provisions related to dumped and subsidized goods and suspension of obligations, and provisions for general exceptions and revenue duties. Fiji is also enjoying trade preferences under the EC-ACP Lomé IV Convention with the Sugar Protocol offering the most significant advantages. Under the latter for an indefinite period the EC guarantees to purchase an agreed quantity of cane sugar at prices hitherto two to three times above world market prices.

Bilaterally, for the period 1990-1992 Fiji had concluded an agreement which restricted its exports of certain apparel products (nightware) into the USA to a limit of 135,000 dozen units per annum.

⁷ The seven Consultative Groups are: Group 1: Primary Production (agriculture); Group 2: Primary Production (livestock, fisheries and forestry); Group 3: Tourism; Group 4: Manufacturing and Commercial Sector; Group 5: Infrastructure and Utilities Development; Group 6: Construction, Housing and Local Development; Group 7: Social and Community Development.

At the request of the USA, a new agreement is presently being finalized which seeks to restrict Fiji's garment exports in another category (knit shirts and blouses). In the framework of UNCTAD, Fiji participates in the Generalized System of Preferences (GSP). Preferential access for Fijian products is being granted under this scheme by the USA, Canada, Japan, some EC countries, as well as Australia and New Zealand.

III. RECENT TRADE-RELATED POLICIES AND PRACTICES

1. Licensing requirements and quantitative restrictions

The progressive removal of a substantial licensing requirements and quantitative restrictions has been a major component of Fiji's export-oriented trade policy reform. Whereas more than half of imports had entered the country under license in 1988, this share dropped to below 20 per cent by 1991. Table 6 illustrates the drastically reduced scope of import licensing in the recent past. In addition, the abolition of licenses for most of the few goods remaining on the list has been announced and is likely to materialize in the 1994 budget. Except for coffee, where licenses are required by the International Coffee Organization to verify country of origin claims, the present licences are maintained for reasons of protecting domestic industries resulting in part from earlier endeavours to achieve self-sufficiency in various markets. Hence, the licenses for bulk butter and milk powder are allocated in total and as a 80 per cent share, respectively, to the biggest local dairy company. Import licenses for canned fish (only pilchards, sardines and herrings) can be obtained on the basis of buying two tins from a domestic manufacturer for each tin imported. In turn, quantitative import ceilings (quotas) are being fixed on an annual basis solely for rice. Import licenses for food products under license control are issued by the Ministry of Trade and Commerce, those for timber by the Ministry of Forestry and those for gold by the Ministry of Finance and Economic Planning.⁸ Import prohibitions are imposed on a few commodities from all sources, mainly for security, health or public policy reasons. On the export side, licenses are mandatory for rice to be issued for individual consignments only, as well as for timber, scrap metals, unprocessed trochus shells and mother of pearls. As to the last two, standards (minimum size) rather than quantities are being prescribed for reasons of avoiding over-exploitation. Export quotas are allocated to the country's sugar exporters at the beginning of each year.

2. Customs policies

(i) Customs tariff

The Fijian Customs Tariff is a single-column tariff. Since no preferential tariff treatment is being granted to any foreign trade partners, the same tariff rates are applied to imports from all sources. With effect of 1 January 1989 Fiji fully implemented the 1983 Harmonized Commodity Description and Coding System (HS) of the Brussels Customs Co-operation Council (CCC) for the classification of imports and exports to replace the old CCC Nomenclature (CCCN). With little over 3,100 eight-digit code descriptions (equalling tariff lines or tariff items) the Fijian Customs Tariff uses about 62 per cent of the 5,019 six-digit code descriptions prescribed by the HS. Nonetheless, with the adoption of the HS, the number of tariff lines in the Fijian Customs Tariff more than tripled, up from less than a thousand tariff lines under the CCCN.

⁸ See IMF, Exchange Arrangements and Exchange Restrictions, Annual Report 1992, p. 163, and ESCAP, Trade Manual for Asia and the Pacific: Fiji, New York, 1991, pp. 3-4.

Table 6: Items under import licensing, over time

Pre 1989	1989 Mini Budget	1991	1993
Baked beans canned	Brown rice	Butter	Bulk butter
Blending compounds for incense sticks	Butter	Canned fish	Canned fish
Brown rice	Canned fish	Coffee	Coffee
Butt hinges & barrel bolts	Cheese & other dairy products	Corned meat of bovine	Gold
Butter	Chili sauce & pasta	animals (sheep/lamb)	Lubricants & hydraulic fluids
Canned fish	Coffee	Gold	Milk powder
Cement and clinker	Milk powder	Lubricants & hydraulic fluids	Rice
Cheese & other dairy products	Corned meat of bovine animals (sheep/lamb)	Milk & cream	Seed potatoes
Chili sauce & pasta	Eggs	Petroleum products	Timber
Coffee	Gold	Rice	
Corned meat of bovine animals (sheep/lamb)	Live poultry	Seed potatoes	
Crown cork	Meat & edible offals	Timber	
Dried leguminous vegetables	Orange & orange products		
Eggs	Pineapple products		
Electric cables and wiring clips	Poultry products		
Flour & sharps	Powdered milk		
Gold	Prawns		
Knitted fabrics	Timber		
Lamb & mutton	Tomato products		
Live poultry			
Louvre window frames			
Margarine			
Matches			
Meat & edible offals			
Mild steel bars & rods			
Multi-wall paper bags			
Noodles			
Onions			
Orange & orange products			
Pineapple products			
Petroleum products			
Polypropylene bags & fabrics			
Poultry products			
Powdered milk			
Prawns			
Prepared incense sticks			
PVC pipes & sheeting			
Ropes of manmade fiber			
Shirts of all kinds			
Shirts and liqueurs			
Steel shelving and rackings			
Sweetened forage			
Tea			
Timber			
Tomato products			
Tubes & pipes of iron or steel			
Vegetable ghee			
Wet cell batteries			
Wick-type kerosene stoves			
Wood screws			

Source: World Bank 1991, p. 31, and Fijian Authorities.

Note: The listing may not be complete.

Customs valuation is still based on the 1950 Brussels Definition of Value which is increasingly replaced internationally by the more advanced GATT Valuation Agreement of 1979. Until June 1992 two types of import duties were distinguished the separation of which, however, had no economic relevance: a variably-rated fiscal duty levied for protection and revenue-raising purposes, and a flat-rate customs duty additionally levied for revenue-raising reasons. With effect of July 1992 the customs duty was dropped and replaced by a 10 per cent general value-added tax rate introduced as part of a major tax reform package intended (a) to broaden the country's indirect taxation base and (b) to reduce the unbalanced tax burden imposed on foreign trade flows by shifting the locus of indirect tax collections to domestic consumption.

Trade liberalization reforms commenced with the 1989 mini-budget which promulgated the replacement of import license requirements for 34 manufactured products with tariffs, set at between 50 and 70 per cent (fiscal and customs duties combined) in order to allow local producers time for adjusting to the increasingly competitive market environment.⁹ Subsequent budgets stipulated the gradual reform of customs tariffs in terms of (a) a reduction of tariff ceilings; (b) the ensuing decline of average tariff levels; and (c) a narrowing of tariff ranges. The 1990 budget saw tariff reductions for textiles, motor vehicles and selected imports required by the tourism industry, as well as a lowering of fiscal duty ceilings of 50 to 30 per cent on fruits, vegetables and juices and of 30 to 10 per cent on some key industrial imports, such as computers, communication and transportation equipment. The 1991 budget announced a 50 to 40 per cent fiscal duty reduction for most products freed from import licensing in 1989 and a proportional decline for the majority of goods in the tariff schedule. Also, export duties levied on sugar, molasses, gold and silver were reduced from 5 to 2 per cent. The standard fiscal tariff rate was further reduced from 40 to 30 per cent in the 1992 budget whereas the pertaining changes of the 1993 budget, inter alia, have brought another cut down to 25 per cent. The clear downward trend of tariff protection also emerges from a comparison of Fiji tariff rates between 1990 and 1993 as set out in Table 7. The major changes to be observed are:

- (a) Corresponding to the above mentioned standard tariff lowerings, already 19 out of the 21 customs tariff sections entail zero minimum fiscal duty rates as opposed to only 13 sections in 1990 (fiscal and customs duties combined). There is in fact now a zero fiscal minimum rate in 58 out of 97 customs tariff chapters accounting for some 22 per cent of total tariff lines.¹⁰
- (b) Maximum tariffs have come down to the present 25 per cent standard tariff rate (excluding VAT) in 14 out of 21 sections with a lower 20 per cent ceiling being applied in two sections (natural/cultivated pearls/precious stones and arms and ammunition), representing cuts of more than half for most sections during the last three years. In spite of reductions, above-standard rates are maintained in five sections, but can be traced back to a limited number of tariff items under a total of six tariff chapters. As shown in Table 8, the highest tariffs reaching a maximum of 100 per cent for fireworks etc. are levied on spirits and motor vehicles for the transport of both passengers and goods. The latter, which aims at counteracting earlier attempts to circumvent the high tariffs on motor vehicles, include bodies, parts and accessories as well as segmented vehicles since recently.

⁹ See World Bank 1991, p. 9.

¹⁰ For details see Annex Table A-1, pp. 50-55.

Table 7: Fiji Tariff Rates, 1990 and 1993

1990

Section Heading	No. of items	Range of Import duties						Average Tariff		
		Fiscal		Custom		Total		Fiscal	Custom	Total
		Min.	Max.	Min.	Max.	Min.	Max.			
Live animals & animal products	162	0	50	0	5	0	55	21.02	4.41	25.43
Vegetable products	222	0	50	0	5	0	55	14.84	4.80	19.64
Animal or vegetable fats and oils	58	5	50	0	5	5	55	23.45	4.31	27.76
Prepared foodstuffs	151	5	50	0	5	5	55	32.32	4.57	36.89
Mineral products	98	5	70	0	7.5	5	77.5	13.04	2.63	15.66
Products of chemical or allied industries	319	0	200	0	7.5	0	207.5	15.73	2.88	18.61
Plastics and rubber	81	7.5	55	0	7.5	7.5	62.5	27.47	7.13	34.60
Raw hides and skins etc.	34	0	50	0	7.5	0	57.5	21.32	6.40	27.72
Wood and articles of wood etc.	70	7.5	50	7.5	7.5	15	57.5	20.39	7.50	27.89
Pulp of wood or of other fibrous cellulosic materials	81	0	50	0	7.5	0	57.5	32.28	6.11	38.40
Textiles and textile articles	233	0	50	0	7.5	0	57.5	27.08	7.24	34.32
Footwear and headgear	38	25	50	7.5	7.5	32.5	57.5	41.84	7.50	49.34
Articles of stone, plaster, cement etc.	82	7.5	50	0	7.5	10	57.5	17.68	7.32	25.00
Natural or cultured pearls, precious or semi-precious stones, etc.	37	0	25	0	7.5	0	32.5	12.43	0.61	13.04
Base metals and articles of base metals	257	7.5	50	0	7.5	7.5	57.5	17.79	6.19	23.98
Machinery and electrical equipment	627	0	50	0	7.5	0	57.5	13.72	6.69	20.40
Vehicles, aircraft, vessels and associated equipment	145	0	80	0	7.5	0	87.5	28.52	6.41	34.93
Optical, precision medical & musical instruments	164	0	50	0	7.5	0	57.5	13.77	5.21	19.98
Arms and ammunition	9	0	25	0	7.5	0	32.5	19.44	5.83	25.28
Miscellaneous manufactured articles	100	0	50	0	7.5	0	57.5	57.45	6.00	33.45
Art works and antiques	7	0	50	0	7.5	0	57.5	15.71	5.36	21.07

Table 7. (cont'd)

1993

Section Heading	No. of items	Range of Import duties					Average Tariff		
		Fiscal		VAT	Total		Fiscal	VAT	Total
		Min.	Max.		Min.	Max.			
Live animals & animal products	167	0	25	10	10	35	11.56	10	21.56
Vegetable products	211	0	25	10	10	35	4.57	10	14.57
Animal or vegetable fats and oils	57	0	25	10	10	35	9.63	10	19.63
Prepared foodstuffs	225	0	65	10	10	75	20.60	10	30.60
Mineral products	112	0	35	10	10	45	3.48	10	13.48
Products of chemical or allied industries	325	0	100	10	10	110	8.97	10	18.97
Plastics and rubber	88	0	35	10	10	45	15.12	10	25.12
Raw hides and skins etc.	34	0	25	10	10	35	13.82	10	23.82
Wood and articles of wood etc.	70	5	25	10	15	35	16.17	10	26.17
Pulp of wood or of other fibrous cellulosic materials	81	0	25	10	10	35	10.12	10	20.12
Textiles and textile articles	235	0	25	10	10	35	11.81	10	21.88
Footwear and headgear, umbrellas etc.	38	20	25	10	30	35	23.34	10	33.34
Articles of stone, plaster, cement etc.	81	0	25	10	10	35	13.15	10	23.15
Natural or cultured pearls, precious or semi-precious stones, etc.	37	0	20	10	10	30	3.75	10	13.75
Base metals and articles of base metals	257	0	25	10	10	35	8.53	10	18.53
Machinery and electrical equipment	627	0	25	10	10	35	9.22	10	19.22
Vehicles, aircraft, vessels and associated equipment	194	0	80	10	10	90	13.96	10	23.96
Optical, precision medical and musical instruments	165	0	25	10	10	35	13.20	10	23.20
Arms and ammunition	9	0	20	10	10	30	17.14	10	27.14
Miscellaneous manufactured articles	105	0	25	10	10	35	17.73	10	27.73
Works of art, collection pieces and antiques	7	0	25	10	10	35	10.83	10	20.83

Source: World Bank 1991, p.32 (1990); Republic of Fiji, Customs Tariff (Amendment), Bill No. 5 of 6 November 1992 (1993).

Table 8: Customs tariff items with above standard 25 per cent fiscal import duty rate, 1993

Item no.	Description	Fiscal import duty (percentage)
22.03 - 22.08	Spirits	65
25.23	Cement Clinkers, portland cement	35
33.06	Dentrifices & other preparations for oral and dental hygiene	30
36.04	Fireworks and other pyrotechnic articles	100
39.17	Fitting for tubes, pipes and hoses	30
40.11 + 40.12	New, retreaded or used pneumatic rubber tyres	35
87.02	Public transport type passenger motor vehicles gross unladen weight \leq 2 tonnes, - cylinder capacity \leq 2000 cc - cylinder capacity $>$ 2000 cc other	60 80 30
87.03	Motor cars and other motor vehicles designed for the transport of persons	60-80
87.04	Motor cars and other motor vehicles designed for the transport of goods	30-60
87.07	Bodies (including cabs) for specific motor vehicles - for transport of persons - other	60 30
87.08	Wheels, fitted with tyres for specified special purpose motor vehicles	35
87.08	Parts and accessories of motor vehicles, assemblies; used motor vehicles in segments	60
87.11	Certain motorcycles	40

Source: Republic of Fiji, Customs Tariff (Amendment), Bill No. 5 of 6 November 1992.

- (c) Due to the lowered tariff ceilings, the range of tariffs has declined markedly, reaching 25 per cent in 36 and between zero and 25 per cent in another 51 of the total 97 tariff chapters.
- (d) The marked reduction of tariff protection is also being reflected in sharp decreases of average tariffs in the period 1990 to 1993. Excluding VAT which by definition is levied on locally produced goods alike and thus is not discriminating against imports, fiscal duties now average between 3.5 (mineral products) and 20.6 per cent (prepared foodstuffs) as opposed to between 13 (jewelry) and 40 per cent (footwear and headgear) in 1990.

Apart from the ad valorem tariffs described so far, the Fijian Customs Schedule also includes specific import duties as well as alternate ad valorem/specific import duties the higher one of which is charged at any one time for a number of major revenue items, such as spirits, tobacco, mineral fuels and tires and motor vehicles, respectively (see Tables 9 and 10). Finally, on the export side, a uniform 3 per cent export duty is levied for revenue reasons on sugar/molasses and certain metals, particularly gold (Table 11).

Table 9: Customs tariff items with specific import duties, 1993

Chapter	Description	Range of specific import duty charged	No. of tariff lines	
			affected	total
22	Beverages, spirits & vinegar	F\$1.4 - 40.7 per litre	26	44
24	Tobacco & manufactured tobacco substitutes	F\$28.65-59.21 per Kg	9	10
27	Mineral fuels, mineral oils & products	F\$0.01 - 0.35 per litre	13	42
29	Organic chemicals	F\$0.35 per litre	4	67
36	Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations	F\$8.16 - 11.16 per gross boxes F\$2 per 1000 matches	3	10

Source: Republic of Fiji, Customs Tariff (Amendment), Bill No. 5 of 6 November 1992.

Table 10: Customs tariff items with alternate ad valorem/specific import duties

Item no.	Description	Ad-valorem fiscal duty (%)	Specific fiscal duty
63.09	Worn clothing and other worn articles	25	F\$1.25 per kg
87.03	Motor cars and other motor vehicles designed for the transport of persons	60	F\$4,000-8,000 per unit ^{u/}
		80	F\$9,000-11,000 per unit ^{u/}
87.04	Motor vehicles for the transport of goods	60	F\$9,000-11,000 ^{u/}
		30	F\$3,000-4,000 ^{u/}
87.08	Parts and accessories of specified motor vehicles	35	F\$9 per unit
96.13	Cigarette and other lighters	15	F\$2 per piece

^{u/}: Depending on cylinder capacity.

Source: Republic of Fiji, Customs Tariff (Amendment), Bill No. 5 of 6 November 1992.

As to the impact of recent customs tariff changes on government revenue, major shifts are presently underway without being fully reflected in the available data (see Table 12). However, in 1991 revenue from international trade taxes (fiscal, customs and export duties combined) showed a decline of 4.0 per cent over the preceding year after rising at an annual average of 24 per cent between 1988 and 1990. In part, this had been due to the imposition of tariffs following the removal of import licensing for a large number of products. The decrease in 1991 of revenue from fiscal and export duties by 18 and 62 per cent, respectively, was only partly offset by a 35 per cent surge in customs duty revenue. Adjusted for refunds, the share of revenue from trade duties in total government current revenues after rising during most of the 1980s from nearly 24 per cent (1981) to 31.6 per cent in the years 1989 and 1990 for the first time came down to 28.9 per cent in 1991.

However, the bulk of further reductions foreseen for the combined share of customs and excise duties in the total government current budget as indicated by available preliminary data for 1992

including 1993 projections appear to result mainly from the abolition of ad-valorem excise taxes in mid-1992.¹¹

Table 11: Customs tariff items with export duty 1993

Item no.	Description	Export duty rate (percentage)
17.01	Cane or beet sugar and chemically pure sucrose	3
17.03	Molasses resulting from the extraction or refining of sugar	3
71.06	Silver	3
71.07	Base metals lead with silver	3
71.08	Gold	3
71.09	Base metals or silver, clad with gold	3

Source: Republic of Fiji, Customs Tariff (Amendment), Bill No. 5 of 6 November 1992.

With regard to the distribution of customs revenue from imports by SITC sections only moderate changes have occurred between 1985 and 1991, as is shown in Table 13. Mineral fuels, machinery and manufactured goods have remained the three major SITC sections accounting for 65 per cent (1985) and 70 per cent (1991) of total revenues. This comes as no surprise given the continuously high share of these product categories in the country's import pattern.

(ii) Duty concessions

Parts II and III of the Fijian Customs Tariff contain provisions for the granting of duty concessions and rebates applicable to a considerable number of import items. Tables 14 and 15 list the goods and persons or bodies, respectively, eligible for concessionary rates which in many cases are set at substantially lower levels compared with the normal rates. The legal base for the concessions granted is provided by the Customs Tariff Act 1986 which in consultations with the Comptroller of Customs empowers the Minister of Finance and Economic Planning to grant remissions or reductions of duties in a number of cases. In particular, "subject to such conditions as the Minister may consider necessary" concessions may be granted for goods "being imported for a purpose that will benefit the country" (Article 10 Customs Tariff Act) as well as for imported capital goods "used in a manufacturing or production process which will promote or create the development of industry in the country" (Article 11). Goods imported solely for a temporary use or purpose may qualify for concessions at the Comptroller of Custom's discretion (Article 15).

¹¹ As mentioned before and implied by its name, the Customs and Excise Department is responsible for the collection of both these types of taxes. In turn, contrary to most countries excise duties were only levied on domestically produced goods and not on imported goods. (See World Bank 1991, p. 63.)

Table 12: Customs revenue 1980 - 1993 (F\$ million)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992 ¹	1993 ²
Fiscal duties	..	50.8	48.3	56.8	74.7	84.5	79.9	76.2	82.9	114.5	125.0	101.9		
Customs duties	..	11.3	9.7	11.3	12.7	13.4	15.8	15.7	18.7	26.8	33.0	57.9		
Export duties	..	-	-	-	-	-	-	-	6.6	6.8	15.0	5.7		
Less refunds	5.0	3.8	2.4	2.4	2.3	3.0	2.3		
Sub-total international trade taxes	..	62.1	58.0	68.1	87.4	92.9	91.9	89.5	105.8	145.8	170.0	163.2		
Share of total government current revenue (%)	..	(23.3)	(22.4)	(23.8)	(26.8)	(27.4)	(26.4)	(26.2)	(27.1)	(31.6)	(31.6)	(28.9)		
Excise duties	..	19.3	23.2	23.1	27.3	31.8	34.2	36.3	38.9	42.7	52.5	56.5		
Miscellaneous receipts	..	5.5	2.7	0.2	0.3	0.2	0.2	0.2	0.2	0.4	0.9	0.7		
TOTAL Customs Revenue	73.7	86.9	83.9	91.4	115.0	124.9	126.3	125.9	144.9	188.9	223.4	220.4	211.9	168.5
Share of total govt. current revenue (%)	..	(33.5)	(32.5)	(31.9)	(35.3)	(36.9)	(36.3)	(36.9)	(37.2)	(40.9)	(41.5)	(39.1)	(34.9)	(25.3)
Memorandum item: total govt. current revenue	232.7	259.5	258.4	286.6	325.7	338.9	348.2	341.2	389.7	461.7	538.2	563.8	606.8	667.1

¹ revised

² estimates

Totals may not add due to rounding.

Source: Parliament of Fiji, Supplement to the Budget 1991 (1980-1986); Fiji Bureau of Statistics, Current Economic Statistics, July 1992 (1987-1991); Parliament of Fiji, Supplement to the Budget 1993 (1992/93).

Table 13: Customs revenue from imports by SITC sections for selected years (percentage share of total)

SITC Section	1985			1988			1991		
	Fiscal Duties	Custom Duties	Total	Fiscal Duties	Custom Duties	Total	Fiscal Duties	Custom Duties	Total
0. Food	11.6	23.9	13.2	11.5	18.9	12.9	7.4	14.8	10.1
1. Beverages and Tobacco	2.7	1.7	2.6	2.4	0.9	2.1	2.4	0.6	1.7
2. Crude materials	0.7	0.6	0.7	0.9	1.0	0.9	0.8	0.7	0.8
3. Mineral fuels	30.6	7.5	27.4	35.5	17.4	32.1	38.3	12.3	28.9
4. Animal and vegetable oils and fats	0.9	3.1	1.2	0.8	2.0	1.0	0.1	0.1	0.1
5. Chemicals	4.3	4.6	4.4	5.3	4.6	5.1	4.5	5.4	4.8
6. Manufactured goods	15.2	19.1	15.7	15.3	23.3	16.8	12.7	23.3	16.5
7. Machinery	21.5	24.3	21.9	13.5	18.3	14.4	21.8	29.6	24.6
8. Miscellaneous manufactured articles	11.4	11.7	11.4	13.4	9.5	12.7	11.5	12.5	11.8
9. Miscellaneous transactions	1.2	3.4	1.5	1.4	4.0	1.9	0.5	0.7	0.6
TOTAL	100	100	100	100	100	100	100	100	100

Source: Fiji Bureau of Statistics, *Current Economic Statistics*, January 1987, p.36 (1985); January 1990, p. 37 (1988); July 1992, p.37 (1991).

- (1) In principle, for the initial establishment of business, all manufacturing companies, i.e. independent from ownership, size, etc., may seek duty reductions or exemptions for the import of plant, equipment and industrial raw materials not available locally thereby lowering the moderate rates on these inputs even further. According to FTIB information, after the abolition in July 1992 of the previously existing partial concessions the above items now enter the country duty free in practically all cases. As to machinery, zero fiscal rate imports are normally permitted on a one-time basis, while the same treatment for reinvestment, e.g. modernization, is considered on a case-by-case basis. Raw and packaging materials enjoy a five year import duty exemption from the establishment, although upon application further extensions have so far been granted every year. In turn, concessions are explicitly being ruled out for the import of mobile equipment, particularly motor vehicles.
- (2) In addition to the above privileges, companies falling under the Tax Free Zone/Tax Free Factory (TFZ/TFF) scheme, inter alia, are also entitled to the duty free procurement of components, spares and other items purchased to set up a TFF, such as building materials, fixtures, furniture and office equipment. Concessions to TFF companies are guaranteed for a period of thirteen years. TFF status can be obtained by any enterprise exporting at least 95 per cent of its annual production. As in the case of Non-TFF enterprises, neither motor vehicles nor consumable articles qualify for duty concessions.

For the various service sectors, normally no duty concessions are available. However, a concessionary 7.5 per cent fiscal duty rate may apply for the import of locally not available equipment (including office equipment), furniture and building materials in the tourism industry. Here, the

special rate reportedly granted by the Minister of Finance under article 11 of the Customs Tariff Act is explained to exceed zero due to the availability of other incentives for tourism suppliers, e.g. investment allowances.

Table 14: List of goods eligible for concessions under Part 2 of Customs Tariff 1993

No.	Goods
101	Wood preservatives
102	Family planning goods
103	Pallets
104	Infants' foods milk substitutes; food supplements; preparations with medicinal properties
105	Sanitary protection products
106	Life-saving appliances
107	Fire engines and fire-fighting equipment
108	Trade samples
109	Parts of milking machines
110	Goods imported for disabled persons
111	Artificial parts of the body; corrective spectacles; invalid carriages, etc.
112	Educational materials
113	Equipment and requisites for games and sports
114	Rubber tyres, tyre cases, etc., for tractors falling in items No. 8701.10.00, 8701.90.10 and 87.01.90.90
115	Vessels as may be approved by the Minister
116	Lamps and parts thereof, of a kind using any source of light other than electricity
117	Goods approved for concession by the Minister
118	Printed matter devoted to advertising local products, etc.
110	Solar cookers, ranges and the like and parts thereof
120	Microcomputers, crystal ware, bone chinaware, leather goods etc.
121	Divers wet suits
122	Goods produced or manufactured in a Forum Island Country or any other country approved by the Minister
123	Breakfast foods
124	Laboratory and pharmaceutical ware and hygienic or sanitary articles of plastic
125	Animal identification ear tags
126	Issued currencies, etc.

Source : Republic of Fiji, Customs Tariff (Amendment), Bill No. 5 of 6 November 1992, p. 491.

The widespread system of tariff concessions and rebates presently in place has resulted in substantial losses of revenue collected by Customs. A 1991 World Bank report estimated the foregone revenue at around 75 per cent for 1989¹². While no recent figures were made available from the Customs Department for this study, losses in the range of 50 to 70 per cent were indicated to the mission as likely by one government official.

12 See World Bank 1991, op.cit., pp. 61-62.

Table 15: List of persons or bodies eligible for concessions under Part 3 of Customs Tariff 1993

Code No.	Person or Body
201	The President and his family
202	Fiji Government
203	Diplomatic Missions
204	An international organisation to which the provision of Section 2 of the Diplomatic Privileges and Immunities Act apply
205	Members of a State, organization or an agency
206	Consulates
207	Consular offices
208	Fiji Museum
209	Fiji Military Forces
210	A consignee of goods listed in Annexes A, B, C, D and E of the June 1950 Agreement approved by U.N.E.S.C.O
211	Churches, temples and mosques
212	A private individual
213	The concessionaire, at an approved airport
214	An organisation approved by the Minister for maintenance and servicing of aircraft communications equipment or maintenance and operation of airfields
215	Charitable and religious organisations
216	The owner, temporary owner or trustees of goods of a deceased Fiji resident
217	An international or local air service, an aerial survey enterprise of the Fiji Government
218	Passengers disembarking in Fiji
219	Passengers disembarking in Fiji
220	Fiji residents
221	A shipping company
222	A hospital or medical institution
223	A university, school or other educational institution
224	Private radio stations
225	A radio telegraphic and radio telephonic organisation
226	A person to whom medals and decorations are awarded
227	An owner or temporary owner of trophies
228	Tourists
229	An institution or organisation approved by the Minister of Finance
230	The Fiji Red Cross Society
231	A producer or manufacturer in Fiji
232	The importer of goods to which Section 10 of the Customs Tariff Act would apply
233	A producer or manufacturer in Fiji
234	A person or an organisation approved by the Minister

Source: Republic of Fiji, Customs Tariff (Amendment), Bill, No. 5 of 6 November 1992, p. 500.

3. Export promotion

In accordance with the declared policy reorientation towards export-led growth the Fijian Government has set up a scheme of primarily fiscal incentives available for export-oriented enterprises. These incentives are largest for Tax-Free Factories (TFF), i.e. companies exporting 95 per cent or more of their output, and apart from the customs concessions mentioned above extend to generous tax exemptions and rebates for a period of 13 years, such as a complete exemption from company tax and - under specific conditions - from withholding tax on interest, dividends and royalty, as well as a reduced 5 per cent final dividend tax on dividend paid to resident shareholders.¹³ Non-TFFs which export more than 30 per cent of their output with a minimum value of F\$10,000 qualify for a full company tax rebate on the export portion since recently.¹⁴ More generally, non-TFFs may

¹³ See FTIB, op. cit.

¹⁴ See Minister of Finance and Economic Planning, Budget 1992, Suva, 6 November 1992, p. 11.

apply for various incentives, as for instance (a) a deduction from income chargeable for tax for a period of five years plus a possible three years extension, (b) a rebate on tax chargeable on the export profit for an eight years period eligible for extension, and (c) in extending (b) above a deduction from export income amounting to 150 per cent of any approved expenditure incurred in promoting Fiji products abroad.¹⁵ Under specific conditions, additional incentives are available for both TFFs and Non-TFFs alike, such as generous or accelerated depreciation allowances or carryovers of losses.

Lately, TFF companies have also enjoyed preferential treatment with regard to the exemption from VAT payable on inputs imported for export production. Under the so-called Special Temporary Agreement Scheme TFF companies are freed from any payment, whereas a VAT drawback scheme is under operation for non-TFF companies and thus providing for the later refund of initially effected payments.

Private business of both domestic and foreign origin appears to have responded strongly to these export promotion incentives. As emerges from Table 16, a total of 418 TFF investment projects were approved by the FTIB between 1988 and August 1992: a third with 100 per cent local ownership, a quarter as joint ventures and 40 per cent with 100 per cent foreign ownership. However, actual implementation is clearly lagging behind approval, recording a total of 120 TFFs operating at end-1991 which provided close to 11,400 jobs. In late 1990, about half of active TFFs were purely locally owned with Australia and New Zealand accounting for the bulk of the remainder (40 per cent), both on a joint venture and sole ownership basis. The sectoral breakdown reveals a clear dominance of the garments industry accounting for as much as 73 per cent of project numbers, 84 per cent of employment and 74 per cent of investment inside the TFF sector. Food production follows at a distance with 9.4 per cent of TFF employment and 13 per cent of TFF investment. With estimated total exports of around F\$230 m in 1990, TFF contributed some 38 per cent to Fiji's overall exports.

4. Conclusion

The review of recent trade-related policy measures has shown that the Fijian authorities have taken a number of decisive measures as to the gradual liberalization of the country's previously highly regulated and protectionist trade policy regime. In particular,

- by reducing the overall level of import tariffs and the number of different tariff rates applied;
- by removing the majority of import licensing requirements; and
- by installing export promotion mechanisms

the Government has made some remarkable headway towards achieving its declared objective to shift its trade policy focus from import-substitution to export-orientation.

¹⁵ See FTIB, *op. cit.*

Table 16: Foreign direct investment in Fiji, 1988-1992

(a) TFF approvals by equity source, planned employment and investment outlays

Year	Ownership structure (no. of projects)				Employment		Investment F\$ m
	100% Local	Joint Venture	100% Foreign	Total	Initial	Normal	
1988	48	20	19	87	6,927	12,805	44.1
1989	46	39	30	115	6,158	11,881	118.8
1990	14	19	39	72	5,222	10,112	104.3
1991	13	19	53	85	4,248	9,303	104.0
1992 ^a	15	14	30	59	n.a.	n.a.	n.a.
TOTAL	136	111	171	418	22,555	44,161	371.2

^a/ As of August 1992.

(b) Operational TFF projects by sectors as of end-1991

	Number	Employment	Investment (F\$ m)
Garments	88	9,555	46.0
Wood and Furniture	9	220	2.6
Leather and Footwear	8	340	1.7
Button and blanks	3	73	0.7
Food	3	1,074	8.0
Others	9	119	3.0
TOTAL	120	11,381	62.0

Source: Fiji Trade and Investment Board.

However, relying only on nominal tariff rates, i.e. (ex ante) border tariffs when analyzing a country's level of protection and changes thereof is clearly not sufficient to judge economy-wide welfare effects of trade reform. The 'true' degree of protection extended to a domestic activity is more accurately reflected in the so-called effective rate of protection (ERP) which measures the effects of tariffs on the finished product and the imported inputs combined.¹⁶

¹⁶ With the help of the well-established ERP concept it can be shown that a nominal 20 per cent import tariff levied on say 'tyres' does not necessarily imply an equivalent real or effective protection of the local tyre production. Rather, the ERP takes account of the combined effects of tariffs and other import restrictions of the finished goods (tyres) on the one side, and of tariffs and other restrictions on the imported inputs, i.e. materials and parts used in the production process (rubber, machinery) on the other side. In other words, the combined effect on domestic value added of output and input tariffs, measured in terms of the possible increase in unit value added, i.e. the price effect, is called effective tariff protection. In the case of identical nominal tariff rates levied on inputs and finished goods, the effective rate on the observed activity is also at the same level. If the nominal rate on the finished goods exceeds the one placed on inputs, then the effective rate is generally higher than the nominal rate on the finished goods. The extent of this discrepancy depends critically on the value added in the local activity under free-trade prices. The lower the value added, the higher the effective rate. For illustration, an industry with a 20 per cent tariff on finished goods and a zero rate on inputs could have an effective rate close to 20 per cent under the condition of high local value added; but in the case of a low value added of say 10 per cent - indicating a high dependence on imported inputs - the effective rate could reach as high a level as 200 per cent. In effect, the 'true' degree of protection granted to the local producer is by far higher than the mere look at nominal rates would suggest. For a formal analysis of the ERP concept, its underlying assumptions and limitations, see, for instance, John Cody, 'A Note on Measurement and Policy Implications of Effective Protection of Industry', in: *Industry and Development*, No. 30, Vienna, UNIDO, 1991, pp. 43 ff.

In Fiji like in many other countries effective rates of protection have been distinctly higher than nominal rates due to (i) a clear prevalence of lower input tariffs when compared with output tariffs, in conjunction with (ii) widespread input tariff concessions in many instances. A World Bank calculation of ERP orders of magnitude by manufacturing industries for 1991 revealed rates of up to 600 per cent and above (see Table 17). In turn negative ERPs at world prices calculated for a number of branches indicate higher tariffs on inputs than on finished goods resulting in an additional taxation of unprotected sectors. In the absence of data made available for the present study, no more recent calculations of ERPs have been possible. However, given the continuation of trade liberalization a certain downward tendency of ERPs over a larger band of industries may realistically be assumed.

Table 17: Effective rates of protection in manufacturing, 1991

Industry 1/	Output 2/ (FS '000)	Nominal Protection 2/	Duty on Raw Materials 2/	Value added With Protection (FS '000)	Value Added Without Protection (FS '000)	Effective Protection Rate
Butchering & Meat Packing	986	35.0%	0.0%	698	492	42%
Dairy Products	15,869	40.0%	0.0%	6,298	-20	n.v.a. 2/
Fruit and Fish	16,235	35.0%	0.0%	5,126	4,340	18%
Edible and Coconut Oils	26,188	40.0%	0.0%	5,331	-583	n.v.a.
Rice and Flour Milling	33,416	20.0%	0.0%	8,338	1,764	373%
Bakery Products	12,876	50.0%	30.0%	4,893	25	above 600%
Sugar	104,768	40.0%	0.0%	27,596	27,676	0% ^a
Confectionary	4,841	40.0%	0.0%	2,619	1,265	107%
Miscellaneous Food Products	4,600	40.0%	0.0%	876	-946	n.v.a.
Animal feed	6,638	40.0%	0.0%	1,721	-926	n.v.a.
Non-alcoholic Drinks	4,690	40.0%	0.0%	2,877	1,009	185%
Textiles and Clothes	16,793	50.0%	7.5%	6,044	-1,084	n.v.a.
Footwear	388	50.0%	7.5%	125	-50	n.v.a.
Sawmilling	19,204	17.5%	0.0%	10,783	8,708	24%
Furniture and Upholstering	10,032	50.0%	7.5%	4,136	-672	n.v.a.
Paper products	7,658	30.0%	0.0%	3,456	1,428	142%
Printing and Publishing	13,577	50.0%	7.5%	7,508	1,321	468%
Paint	6,178	40.0%	0.0%	1,410	-898	n.v.a.
Soap, toileteries and Chemical Products	13,996	40.0%	0.0%	4,213	-930	n.v.a.
Miscellaneous Chemical Products	2,364	40.0%	0.0%	1,936	1,046	85%
Retreading	3,345	50.0%	0.0%	1,423	-263	n.v.a.
Plastics	7,292	40.0%	0.0%	4,117	1,311	214%

Industry ^{1/}	Output ^{2/} (F\$ '000)	Nominal Protection ^{3/}	Duty on Raw Materials ^{4/}	Value added With Protection (F\$ '000)	Value Added Without Protection (F\$ '000)	Effective Protection Rate
Cement and Concrete Products, & Basic Metal Industries	25,493	50.0%	0.0%	14,495	1,943	above 600%
Metal Furniture and Fixtures	747	40.0%	0.0%	318	21	above 600%
Structural Metal Products	15,840	40.0%	0.0%	4,629	-1,497	n.v.a.
Fabricated Metal Products ex. Machinery and Equipment	7,083	40.0%	0.0%	2,553	-127	n.v.a.
Agricultural Machinery and Equipment	1,189	0.0%	10.0%	657	-5	
Repairs and Maintenance of Industrial Machinery	2,541	0.0%	10.0%	773	935	-17%
Boat & Shipbuilding and Repairing	6,958	50.0%	10.0%	1,627	-958	n.v.a.
Bus Building	791	80.0%	10.0%	419	-180	n.v.a.
Jewellery and Related Articles	1,061	0.0%	0.0%	188	188	0%

1/ Industry groups are based on FSIC the Fiji Standards Industrial Classification. Production and cost data are based on the 1985 Census of Industries by the Fiji Bureau of Statistics. Duty rates are actual for 1991.

2/ Gross output less own capital construction and miscellaneous income.

3/ Fiscal and customs duties payable on imports, less excise duty payable by domestic producers.

4/ Duty rate on tradeable raw materials other than fuel, where a 10 per cent duty rate is applied.

5/ Negative value added.

6/ Sugar milling only.

Source: World Bank 1991, page 33.

Against this background, a more substantiated assessment of recent trade policy results with a view to devising recommendations for future policies requires a closer look at the remaining or newly emerging trade-related economic policy problems, major ones of which will be reviewed in Chapter IV.

IV. MAJOR ISSUES OF CURRENT TRADE POLICIES IN FIJI: ANALYSIS AND ASSESSMENT

1. Uniform protection as longer-term goal

While efforts to approach a "more uniform" level of protection throughout the economy have formed part of recent trade policy reforms in many developing countries, strict uniformity i.e. identical tariffs for all imported items, has never actually been pursued. Fiji is no exception to this. Nonetheless, as was shown in the preceding discussion of the concept of effective protection, in economic theory a case can be made that *ceteris paribus* only uniform import tariffs provide for the identical treatment of domestic import-substitution producers vis-à-vis foreign suppliers. However, the only uniform tariff not causing any distortions between producers of import substitutes and

producers of export goods is a zero tariff, rendering any above-zero uniform tariff a second-best solution given the even more distortive effects resulting from a diverse set of different rates.¹⁷

Unlike in economic theory, in the real world a zero uniform tariff may not be easily feasible, neither politically due to resistance from interested groups nor - more importantly - economically due to budget pressures. As is the case in Fiji, it has to be recognized that duties levied on international trade flows play a significant role for government revenue which is why any customs tariff reform needs to be carefully coordinated with opening up alternative revenue sources, e.g. by means of a domestic tax reform.¹⁸ In this context, the introduction of a ten per cent value added tax in Fiji in mid-1992 together with the abolition of four indirect taxes (customs duty, ad-valorem excise tax, turnover tax on miscellaneous services, hotel turnover tax), the basic tax and tax on pensions¹⁹ conceived as a revenue-neutral package has been a first major step towards addressing, inter alia, the revenue impact of trade policy reform.

In conclusion, without opting for a strictly uniform tariff in the short-to-medium term any move towards a 'more uniform' tariff can be expected not only to reduce the described distortions, but also in a more practical sense would (i) contribute to greater fairness, (ii) be easier to administer, and (iii) make the structure of tariffs non-negotiable in that gains individual companies could expect from possible tariff increases would be relatively small thus rendering collective action unlikely. In turn, a high spread in tariff rates would conflict with general objectives of administrative simplicity and transparency or the avoidance of fraud and smuggling. Rent-seeking and lobbying activities would be more likely to be successful since, due to the less obvious costs of raising tariffs in favour of an individual industry, such a move may not provoke any counter lobbying. Concessions to particular firms or groups would be less apparent, and the tariff structure is more likely to be determined by the relative political power of interest groups rather than economic efficiency considerations.²⁰

With regard to how to approach a more uniform tariff structure basically three options are available:

- (i) raising tariffs on intermediate imports;
- (ii) lowering tariffs on final consumption goods; or
- (iii) a combination of both,

¹⁷ For illustration, assume a market exchange rate of 10 pesos per dollar and a 30 per cent uniform tariff to be in place. In this case the domestic resource cost of producing import substitutes amount to 13 pesos per dollar's worth, while the domestic resource cost of producing export goods will be ten pesos per dollar's worth. Clearly, this implies contenting oneself with across-the-board higher domestic resource cost for import substitutes than for exports, a distortion to be rectified only (i) by opting for a zero uniform tariff, or (ii) by introducing a 30 per cent export subsidy (Lerner Theorem). For a discussion of these correlations see Arnold C. Harberger, 'Reflections on Uniform Taxation', in: Ronald W. Jones/Anne O. Krüger (Eds.), The Political Economy of International Trade, Oxford/Cambridge, B. Blackwell, 1990, pp. 82-85.

¹⁸ In a recent survey on its recommendations pertaining to tariff reforms given to a dozen of developing countries, the World Bank rather self-critically states that "it is inadvisable to view tariffs purely as instruments for protection and to neglect their revenue function" adding that "such a public finance perspective is often not present in the Bank's recommendations". See Anand Rajaram, Tariff and Tax Reforms. Do World Bank Recommendations Integrate Revenue and Protection Objectives?, Policy Research Working Paper Series 1018, November 1992, p. 24. For a detailed discussion also see Pradeep Mitra, 'The Coordinated Reform of Tariffs and Indirect Taxes', in: The World Bank Research Observer, vol. 7 (1992), pp. 195-218.

¹⁹ See Ministry of Finance and Economic Planning, Supplement to the 1993 Budget Address, p. 48.

²⁰ For a discussion of pros and cons of uniform viz. non-uniform tariffs see World Bank, Strengthening Trade Policy Reform, Vol. II: Full Report, 13 November 1989, esp. pp. 121-125.

each of which accompanied by a removal of concessions. Since the Fijian authorities have so far relied primarily on option (ii), the imposition of higher tariffs on intermediates may now deserve some closer attention. Two advantageous effects could be expected: a decline of the effective protection enjoyed by final goods industries using these inputs, and an increase of customs revenue which would in turn enhance the scope for further revenue neutral, general tariff cuts on outputs. However, these advantages would have to be balanced with at least two types of costs. First, if the importable inputs are produced domestically, any higher protection may attract additional resources into the production of these goods, thereby contributing to a worsening general resource allocation. It may also be difficult to reduce these tariffs again at a later stage of liberalization. Second, to the extent these importable inputs are used in the production of exportables, a tariff increase may adversely effect profits and production of the respective industries. The latter objection only holds if there is no functioning duty drawback system in place.

With these more general observations on the usefulness of a more uniform tariff structure in mind, in the following some of the major problem areas of Fiji's present trade policies will be analyzed and assessed.

2. Impact of trade liberalization on industry

Since its inception in 1989, the policy of deregulation with its focus on trade liberalization, particularly the progressive removal of import licenses and lowering of import duties, has constituted a major theme of domestic policy debate, both within government and between government and local business. Discussions intensified in the course of 1992 when an increasing number of manufacturers catering for the local market expressed fears that adverse effects leading to close-downs would be imminent should the envisaged further import tariff cuts materialize as foreseen. While the government has repeatedly acknowledged that the ensuing restructuring towards a more efficient and competitive economy might entail the closure of inefficient companies, private sector concerns appear to have been partly accommodated in the current 1993 budget. Thus the standard fiscal duty rate was lowered from 30 per cent to 25 per cent rather than 20 per cent as initially foreseen, and plans of further cuts were limited to scheduling a 20 per cent standard rate for 1995 only.²¹

As to the impact trade liberalization has had so far on production and performance of Fiji's industrial sector, particularly on manufacturing, the available evidence suggests a mixed picture, from firms simply mourning for the loss of comfortable niches of protection to a number of factors possibly posing a real threat to the future viability of domestic industry.

In general, the almost complete absence of company wind-ups resulting from trade liberalization constitutes the single most important argument supporting the assumption that substantial scope for efficiency and productivity improvements has existed in many import-competing branches. It must be borne in mind, however, that two major devaluations of the Fijian currency in 1987 contributed to an improvement of the competitive position of local import-competing business, thereby strengthening many firms' capacity to absorb cost pressures resulting from subsequent import liberalization measures. In turn, it may well be that with the latest reduction of import duties a bottom line has been reached threatening the very viability of a larger number of companies.

²¹ It is open to debate, however, to what extent increasing strains on the budget may form part of the reason for this softening of earlier announced trade liberalization intentions.

On the one hand, after growing employment from little under 14,000 in mid-1986 to 23,400 in mid-1991 manufacturing industries reduced staff considerably to some 21,200 by June 1992. Also, as indicated to the mission, at end-1992 the announcement of staff lay-offs appeared to be imminent in several other cases. While this downward employment trend may not exclusively be attributable to import liberalization, some impact of the latter is supposed to be reflected in these figures.²² On the other hand, the overall industrial production index showed a clear upward trend between 1988 and 1991, even when major export-oriented industries (sugar, garments, coconut oil, canned fish) are excluded (Table 18). Yet, data for 1992 indicate a decline of overall industrial production again with output of manufacturing (less the main export-oriented industries) remaining slightly below the 1986 level.

Table 18: Industrial production index, 1988-1992

	1988	1989	1990	1991	1992
Milk	103.5	115.4	93.2	118.6	126.3
Milled rice	62.1	66.0	65.7	88.6	100.2
Flour	103.8	115.3	100.6	109.6	113.0
Biscuits	105.9	106.3	103.0	94.8	92.2
Soft drinks	113.8	135.6	180.9	210.3	235.6
Sawmilling	106.1	96.3	92.8	89.9	77.4
Printing	68.9	70.1	80.5	88.8	90.9
Paint	92.7	95.6	114.2	122.1	133.9
Soap	114.9	93.1	96.0	102.6	100.0
Plastic products	49.5	56.3	42.4	43.3	50.0
Cement	47.9	62.9	84.4	85.5	88.7
Manufacturing sector	86.9	97.7	106.4	112.9	109.7
Manufacturing sector (less main export oriented industries)	83.9	86.7	93.4	94.2	97.5

Source: Fiji Bureau of Statistics, *Current Economic Statistics, op. cit.*, January 1993, p. 13 and Central Planning Office, p.5.

- Notes:
1. The base for the index is 1986 = 100
 2. Main export oriented industries for this purpose are sugar, garments, coconut oil and canned fish.

In an attempt to obtain more clarity about the consequences of deregulation - largely confined to trade liberalization - on manufacturers serving local markets, the Central Planning Office conducted a survey covering 51 firms in both capital and consumer goods markets which provide a wide range of products, such as steel and cement products, construction materials, plywood, electrical cables, footwear and garments, paint, toiletry products and various food products. 70 per cent of the surveyed firms supply more than 90 per cent of their output to local markets; at least 80 per cent of

²² See Central Planning Office (CPO), *Report on a Study to Monitor the Impact of Deregulation on Industries Producing for the Local Market*, 1992 Update, October 1992 (draft), p. 7. Also in this context, several businessmen drew the mission's attention to socio-economic factors at work in the Fijian society which contribute to avoiding close-downs as long as possible: in order to preserve self-respect and self-esteem and for fear of being stigmatized in case of failure, in a crisis situation lacking capital is frequently being borrowed from the family and friends until the very last moment.

output is sold locally by 85 per cent of the questioned firms. The results of the survey can be summarized as follows:²³

- Only 12 per cent of firms reported not to feel any impact from deregulation in 1992, as compared to 28 per cent in the preceding 1991 survey; 39 per cent (1991: 26 per cent) reported a negative, only 3 per cent (10 per cent) a positive impact. The largest portion of firms (46 per cent; 1991: 36 per cent) stated both positive and negative effects.
- As regards performance trends, downward tendencies appear to outweigh upward tendencies in the 1990-91 period in the areas of production, sales, employment, market share and profitability. Upward trends are indicated to exceed downward trends only in investment with the majority (55 per cent), however, adopting a wait-and-see attitude reporting no change at all. Downward trends were strongest in terms of market share, profitability and production, particularly when compared with the 1986-90 period (see Table 19 for details).

Table 19: Performance trends of import-competing manufacturing industries, 1986-1990, 1990-1991

	Production		Sales	
	1991 survey (% firms)	1992 survey (% firms)	1991 survey (% firms)	1992 survey (% firms)
Upward	35	40	36	42
Downward	32	48	45	46
No change	<u>32</u>	<u>12</u>	<u>18</u>	<u>12</u>
	100	100	100	100
	Employment		Investment	
	1991 survey (% firms)	1992 survey (% firms)	1991 survey (% firms)	1992 survey (% firms)
Upward	9	15	35	30
Downward	50	39	13	15
No change	<u>41</u>	<u>46</u>	<u>52</u>	<u>55</u>
	100	100	100	100
	Market Share		Profitability	
	1991 survey (% firms)	1992 survey (% firms)	1991 survey (% firms)	1992 survey (% firms)
Upward	13	9	35	39
Downward	42	58	48	55
No change	<u>43</u>	<u>33</u>	<u>16</u>	<u>6</u>
	100	100	100	100

Source: CPO 1992, *op. cit.*, p. 10.

Note: Performance trends in the 1991 survey relate to the period 1986-90, while trends in the 1992 survey relate to the period 1990-91.

²³ See Central Planning Office, *op. cit.*, 1992, pp. 8 ff.

- More than four fifths of the surveyed firms acknowledge to have initiated business strategy adjustments as a response to the changing business environment under deregulation. These changes are mainly related to
 - (1) production: greater emphasis on quality, the dropping of non-viable production lines and increasing cost awareness;
 - (2) marketing: strengthened market research and advertising efforts including innovations in pricing policies;
 - (3) manpower development: devoting more attention to staff training programmes, team-work systems as well as quality improvements of managerial and supervisory functions; and
 - (4) a greater outward orientation: in terms of sourcing of raw materials and technology and of a more active search for export opportunities.
- Major negative impacts of deregulation as perceived by the surveyed firms pertain to (i) losses of market shares and profitability due to increased competition from imports; (ii) mounting difficulties to realize economies of scale in view of shrinking market shares; (iii) a feeling of trade-related and price-control legislation being applied in a manner discriminating local producers; (iv) uncertainty as to the pace and extent of deregulation; and (v) with the danger of unemployment increasing, fears to suffer economy-wide losses of skills.
- On the positive side, a limited number of firms report improvements in the procurement of raw materials, both in terms of lower import prices resulting from declining tariffs, and of a greater flexibility in sourcing supplies due to the abolition of import licensing requirements. Deregulation is also welcomed for the stimulus it provided for initiating efficiency improvements which as is admitted had not come about in the same way in the absence of import liberalization.

Summing up, while there is little doubt about the beneficial pressure deregulation has exerted on efficiency enhancement at the enterprise level, it cannot be ruled out that the further lowering of protection would now pose a threat to the existence of a rising number of individual companies. The theoretically valid reasoning that the impact of liberalization should be judged from a macroeconomic rather than an individual company level implying a more or less automatic transfer of productive resources from perishing into new and viable economic activities may not materialize in a small economy such as Fiji, at least not within too short a time frame. It has to be noted, for instance, that in some market segments a rather small number of deliveries from abroad would suffice to supply the whole Fijian market (e.g. matches, some toiletry articles) thereby driving out local competitors relatively easily.

The issue of continuous import liberalization thus leads to the critical question which size and structure of industry Fiji envisages to maintain in the future. In this context, it is certainly recognized that in a market economy context it should be primarily private initiative which seeks economic opportunities and thus finally creates the economic structure. But it is here where there is also scope for economic policy-makers to apply some strategic thinking as to future directions of economic including possible alternatives to previous industrial development. In any case, regarding the further successful implementation of import deregulation in Fiji, it would appear necessary not to lose sight of the following aspects frequently brought forward by the country's business community:

Firstly, a continuous high speed of import liberalization may not provide sufficient time any longer for many local businesses to make the adjustments necessary to compete with foreign supplies. In international comparison, Fijian tariff rates have been reduced exceptionally fast. For instance, Australia has reportedly chosen a ten-years period for tariff reductions equivalent to what Fiji implemented in two years time.²⁴

Secondly, the relatively high degree of inter-sectoral and inter-industry linkages to be observed in a variety of branches, such as tobacco growing through to cigarette production and packaging or dairy farming through to milk, cheese and butter production and packaging, may be felt in adverse effects throughout these production chains once one industry ceases manufacturing due to rising import pressure (domino effect).

In this context it has been noted, for instance, that flour reaches Fiji at the same price as wheat. Under these circumstances any further facilitation of imports may render the decision between importing finished products and local manufacturing rather marginal. Consequently, business representatives point at the risk of Fiji being turned into a warehouse rather than remaining a manufacturing base with negative consequences not only for employment. For illustration, it is conceivable that profit squeezes experienced by the single domestic brewery due to a sharp reduction of protection and leading to the replacement of local production by imports would go along with a substantial fall of demand for water and electricity. Since overheads in the production of utilities normally cannot be reduced easily, utility prices would have to be raised unless growing losses are accepted which in turn might increase costs for the local carton manufacturer, the label printer etc. beyond the point of also becoming vulnerable to import competition.

Thirdly, efforts of local business to meet rising import pressure by cutting costs may be reaching limits given the continued existence of regulatory rigidities which, contrary to earlier policy announcements, appear not to have been addressed with the same rigour as import liberalization, such as a deregulation of labour and financial markets, the winding down of price controls or the reduction of government size including the public sector's involvement in production through nearly 30 public enterprises.

3. Inconsistencies in tariff rates and concessions

The necessity to review the presently levied customs tariff rates as well as the system of concessions for possible inconsistencies and shortcomings has been repeatedly acknowledged by various government bodies, such as the Ministry of Trade and Commerce and the Ministry of Finance and Economic Planning. However, any effort to identify what constitutes tariff inconsistencies (also referred to as anomalies or distortions) depends on the norm or the yardstick against which to measure actual customs stipulations and policy decisions including their implementation. The establishment of a "level playing field", i.e. offering identical incentives to all economic agents - as has been envisaged by Fijian authorities - inter alia, calls for the eventual provision of a uniform import tariff across the board at as low a level as possible - ideally at zero - and the complete abandonment of duty concessions. Only such a scenario would ensure identical treatment and thus a neutral incentive structure for domestic business, export-oriented and local market-oriented alike. Any move towards (i) reducing the number of different tariffs applied, and (ii) narrowing the range of tariffs both within and between individual product groups could thus be considered as steps towards the "rationalization" of a customs tariff regime.

²⁴ See Ron Fisher, The Deregulation of the Fijian Economy, September 1992.

As described above, Fiji has already made commendable progress in this respect. However, a number of problems remain. Therefore any further reduction of the remaining above-standard rates and measures to diminish the tariff gap between intermediate and final goods would serve the continued rationalization resulting in nominal rates of protection being brought more into line with the effective protection. One particular inconsistency appears to exist in the application of a kind of "split tariff rates", i.e. of different rates for the same product or product line basically depending on package size or weight. For instance, butter put up for sale by retail in packages not exceeding 1 kg is coming in at a 25 per cent fiscal tariff rate while pat butter put up in packages exceeding 1 kg may enter the country free of fiscal duty. Tea and maté are other examples: if imported in packages not exceeding 5 kg a 5 per cent fiscal rate is levied while a 25 per cent duty is applicable for bulk deliveries. Rye, maize and rice flour are less heavily charged (5 per cent) than wheat or meslin flour (20 per cent), and corned meat of sheep or lamb require a higher fiscal tariff (10 per cent) than of other animals (5 per cent).

In addition, the high degree of intransparency of the system of tariff concessions as well as its actual implementation have raised manifold concerns about the clarity of the 'rules of the game'. Generally, it must be noted, however, that with the lowering of overall protection together with the recent rise of several concessionary rates from 7.5 to 10 per cent, the relative degree of preference enjoyed because of concessions is diminishing. In parallel with this dwindling of preferences, concessionary schemes can be expected to become less and less subject to lobbying. At present, complaints can be heard that bigger companies due to their negotiating power tend to find easier access to incentives or concessions than smaller ones, particularly in the non-TFF sphere.

The core problems with current tariff concessions appear to lie in (i) the partial lack of documentation concerning the precise terms and conditions of availability, and (ii) the differential application of concessions stemming from extensive discretionary power of the Minister of Finance, the Comptroller of Customs or both of them, as the case may be. Both these problems have resulted in the different treatment of otherwise identical import transactions. For example, subject to conditions as prescribed by the Minister under Code Nos. 117 and 120 of Part II Customs Tariff the following diverse items may enter either freely or at reduced rates: compound preparations for the manufacture of beverages; air conditioners; electric instantaneous or storage water heaters; industrial washing, drying, ironing etc. machines; solvent gasoline; industrial distillate fuel oil; large refrigerating installations for industrial use; clasps, pointed shanks and similar fittings for use in the manufacture of jewellery; shaped textile fabrics; sweet fat and similar preparations etc. of a kind used by bakers; refrigerators and freezers; knitted fabrics not locally manufactured; electric conductors not locally manufactured; microcomputers below F\$ 2,000; crystalware; bone chinaware etc.²⁵

In some instances, opposing views or recommendations of Customs and the MFEP as to the fixing of a particular import tariff have reportedly been witnessed. For example, while Code No. 115 of Part II Customs Tariff empowers the Comptroller of Customs to apply a concessionary 10 per cent fiscal tariff as opposed to the normal 25 per cent rate for a broad range of vessels - explicitly referring to yachts and other vessels for sports - subject to conditions the Comptroller may prescribe, in practice the latter so far has refused to subsume sporting vessels hereunder, but agreed to levy a special fiscal duty of 20 per cent, thus introducing a third level between the normal and the "standard" concessionary rate.

Due to these discretionary powers bureaucratic delays in the approval of concessions are frequently observed. In the case of both TFF and Non-TFF companies Customs only starts scrutinizing detailed lists of desired imports submitted by the would-be importer after the applicant's

²⁵ See Republic of Fiji, Customs Tariff (Amendment), Bill No. 5, *op. cit.*, pp. 496-498.

general eligibility for concessions has been approved by the Project Committee and communicated to him through the FTIB. It is only then when at times substantial arguing starts off between Customs and the applicant over the inclusion of individual items listed into the concessionary scheme. Also, the checking by Customs whether a particular item is in fact not available locally - either in general or of a specified quality - in order to qualify for a concession may be a time-consuming process. Moreover, business representatives frequently point at lengthy arguments with Customs over the concessionary import of urgently needed spare parts for machinery. In a number of these cases, companies have preferred to pay the full tariff to ensure the quick resumption of production rather than to wait for the decision by Customs.

Furthermore, the rather high export requirement to be met for receiving and maintaining TFF status (95 per cent of production) may lead to problems when a temporary reduction of export demand results in a decline of the export share say to 92 per cent of total output in a single year. The only - undesirable - alternative to reverting to local status at enterprise level in such a case may be to deliberately lower local sales.

Finally, the administrative procedures TFF companies have to follow in order to be exempt from VAT payments on imports appear overly complicated and cumbersome. Basically, upon application with the Comptroller of Customs TFF Companies may be entitled to VAT-free imports under the condition of perfecting the provisional entries within 60 days after importation. During this period the TFF operator has to seek approval from the Commissioner of Inland Revenue for an input credit refund which is issued in the form of a refund cheque made payable to the Comptroller of Customs. The presentation of this cheque to Customs by the TFF operator will then serve as the major prerequisite for having the import transaction perfected and the exemption from VAT confirmed.

Summing up, although the evidence as regards the application, spread and effectiveness of tariff concessions available for the present study has been rather anecdotal, there is good reason to assume that the system currently in place is in urgent need of reform.

4. Need for antidumping legislation?

Paralleling the progress of import liberalization, demands by the Fijian business community to take action against what is summarily called "unfair trade conditions" favouring foreign suppliers have been growing recently, both in number and intensity. Two directions of these demands can be distinguished which have not always been clearly separated in the domestic debate.

On the one hand, allegations of foreign producers pursuing predatory pricing strategies have resulted in frequent calls for the introduction of antidumping legislation. It is argued that by applying aggressive pricing policies, e.g. by setting prices below cost foreign sellers would deliberately attempt to drive local firms out of business with a view to establishing a quasi monopoly situation and - subsequently - exploiting their market power by raising prices above previous domestic levels.

On the other hand, business urgently requests government action to counter (i) the inflow of goods perceived to be of inferior quality compared with local ones, and (ii) an alleged discriminatory treatment of locally produced against imported goods with the latter not being subjected to the same strict weights, measures and packaging prescriptions or price controls. For example, while toothpaste is permitted to be manufactured only in certain sizes, imported toothpaste is reportedly allowed in any size. Or, pricing regulations by the Prices and Incomes Board set a maximum retail price for locally produced 750 gram laundry soap while placing no price limit on the imported product. As a result, local retailers tend to raise their margin by increasingly stocking the foreign rather than the local

product. Or, insufficient labelling requirements considered to mislead consumers as to the origin of a product are felt to be harming local business, as e.g. in the case of an Indonesian-made laundry detergent, the label of which only notes its being packed for an Australian company.²⁶

As regards this second category of business concerns, the Government feels that the proper enforcement of two decrees promulgated only in May 1992 - the Trade Standards and Quality Control Decree and the Fair Trading Decree - will address and resolve most of the disputed issues. At present, there still appears to be a widespread lack of awareness among the business community about the new stipulations, thus calling for intensified advertising or marketing efforts by the Government, particularly the Ministry of Trade and Commerce as the responsible body for implementation. However, administrative adjustments to enable the proper enforcement of the new laws are still underway. Thus, the creation of a new Department of Fair Trade and Standards within the MTC was expected to materialize only with the beginning of 1993.

Concerning the usefulness of introducing antidumping (AD) legislation in Fiji, a review of the international experience made with this instrument leads to ambivalent results. Most economists appear to agree that in all too many instances the actual application of AD legislation has been nothing but a more or less well disguised form of protection. Or, in the words of one observer: "Antidumping puts the fox in charge of the henhouse: trade restrictions certified by GATT. The fox is clever enough not only to eat the hens, but also to convince the farmer that this is the way things ought to be. Antidumping is ordinary protection with a grand public relations program".²⁷

Historically, national AD legislation goes back to 1897 when it was first introduced by Canada. Most of the presently enforced AD legislations are modelled along the lines of Article VI of the General Agreement on Tariffs and Trade (GATT) in conjunction with the GATT Antidumping Code of 1980. While Article VI provides a basic legal though rather broad definition of dumping, the AD Code which emerged from the Tokyo Round of trade negotiations at the initiative of the developed countries sets out in more detail the circumstances and procedures to be followed in conducting dumping and injury investigations, effecting antidumping duties or price undertakings and in arranging dispute settlements.

Basically, according to the above stipulations AD action will only be allowed if it can be proved that (i) a product is actually dumped into a foreign market, i.e. sold at an export price which is less than its normal value, and (ii) as a result causes or threatens material injury to an established domestic industry or retards materially the establishment of a domestic industry. The principal meaning of 'normal value' is the price of the product in the exporter's home market, but Article VI also provides that "in the absence of such domestic price", the highest comparable price in a third market or the estimated cost of production in the exporting country may be used (see box 1). With regard to the determination of material injury the examination of the impact of such dumping prices according to the Code "shall include an evaluation of all relevant economic factors and indices having a bearing on the state of the industry", e.g. an actual and potential decline in output, sales, market share, profits, productivity, return on investments, or utilizations of capacity; factors affecting domestic prices; actual and potential negative effects on cash flow, inventories, employment, wages, growth, ability to raise capital of investments. An investigation to determine the existence, degree and effect of any alleged dumping is normally to be initiated upon request by or on behalf of the affected

²⁶ See "Bring in quality control", in: *The Review. The News and Business Magazine of Fiji*, October/November 1992, p. 16.

²⁷ J. Michael Finger, "Dumping and Antidumping: The Rhetoric and the Reality of Protection in Industrial Countries", in: *The World Bank Research Observer*, vol. 7, no. 2 (July 1992), p. 141.

industry which is obliged to submit sufficient evidence of (i) dumping, (ii) injury within the meaning of Article VI and the AD Code, and (iii) a causal link between the dumped imports and the alleged injury.

In spite of a relatively extensive set of rules and interpretations of AD action as indicated above, the AD agreements concluded under the GATT regime have always left some arbitrary scope for national policymakers in the formulation of individual AD legislation. The lacking specification of procedural details in several respects in the AD Code has not only resulted in the adoption of different approaches by different national governments; also, as for instance can be shown in comparing AD legislation of the USA and the EC introduced under the seal of GATT conformity, various degrees of tilts towards a more restrictive, i.e. protectionist interpretation of the GATT's AD "spirit" appear to be prevaili. g in practice.²⁸

Box 1: Article VI of GATT, para. 1

"A product is considered as introduced into the commerce of an importing country at less than its normal value: if the price of the product exported from one country to another

- (a) is less than the comparable price, in the ordinary course of trade for the like product when destined for consumption in the exporting country; or
- (b) in the absence of such domestic price, is less than either:
 - i) the highest comparable price for the like product for export to any third country in the ordinary course of trade; or
 - (ii) the cost of production of the product in the country of origin, plus a reasonable addition for selling cost and profit.

Due allowance shall be made in such case for differences in conditions and terms of sales, differences in taxation, and any other differences affecting prices comparability.

While AD activities have long remained a domain of developed countries, in recent years a growing number of developing countries have entered the scene. However, as of end-1992, only nine of the 26 signatories to the GATT AD Code belonged to the latter group: Argentina, Brazil, Egypt, Hong Kong, India, Republic of Korea, Mexico, Pakistan and Singapore.²⁹ Countries having passed AD legislation since 1989 without becoming a party to the AD Code include Colombia, Peru and Turkey. A large number of developing countries are in the process of developing AD legislations or have expressed an interest in doing so, such as Egypt, El Salvador, Indonesia, Jamaica, Malaysia, Morocco, Thailand, Tunisia and Venezuela.³⁰

Given the rather short 'history' of AD legislation in developing countries, very little information is available on the experience made so far. However, enactment of AD legislation in Mexico in 1986

²⁸ For illustration, see the synopsis provided in Table A-2, pp. 56-57, which compares major features of US and EC AD legislation with the GATT AD Code.

²⁹ Other signatories: Australia, Austria, Canada, Czech and Slovak Federal Republic, EEC, Finland, Hungary, Japan, New Zealand, Norway, Poland, Romania, Spain, Sweden, Switzerland, USA, Yugoslavia.

³⁰ See GATT, International Trade and the Trading System. Report by the Director General 1991-1992, Geneva, May 1992, p. 18.

was followed by the initiation of more cases than in the USA in the first year reaching a "coverage" ratio of imports of one per cent which was comparable to coverage ratios in developed countries that had used AD legislation for many years. The preponderance of developed countries, particularly the US and Western Europe, on the list of accused parties suggests a certain amount of reciprocity for restraints on Mexican exports. The country appears to have copied many of the US and EC AD provisions, though in most cases with less specificity. Generally, the threshold for investigation is reported to be relatively low, while the time period foreseen for the investigation of alleged dumping actions has been qualified as insufficient to permit a thorough examination of the complaints. However, amendments to the law coupled with administrative changes have recently resulted in a certain decline of AD cases.³¹

In Brazil, AD legislation adopted in 1987 was primarily intended to replace the highly protectionist system of reference prices, i.e. fixed prices below which a duty was automatically imposed. Since the envisaged phase-out did not materialize and all imports potentially involving dumping were placed on the 'prohibited' list, the country saw only little need to use its AD legislation.³²

As of May 1992, a total of eight AD complaints were registered by the Republic of Korea since it had joined the GATT AD Code in 1986. Among them four cases were dismissed due to confirmation of non-industrial damage. One case was withdrawn by a complainant, and two were settled by compromise between the parties concerned, while only one case ended up with the imposition of AD duties. Showing a sharp contrast to advanced countries where AD suits tend to be filed by declining industries, in Korea the disputed products stemmed mostly from newly established or technically advanced industries. Also, unlike in developed countries with a tendency of large groups of complainants jointly filing dumping allegations, the number of Korean complainant firms has been rather small. The preponderance of heavily-equipped industry exposed to substantial overheads and characterized by high price elasticities are further features of the dumping complaints brought forward. Against the background of past experience the Korean Government has indicated its intention to streamline and reinforce the AD procedure in several ways, e.g. by neutralizing short cuts encountered to nullify AD duties or by taking appropriate measures to levy tentative AD duties in order to relieve damages to the domestic industry during the investigation period.³³

Reflecting their still limited role in the AD business, at present developing countries account for some ten per cent of AD investigations worldwide (AD Code signatories only) with a total of 17 cases in the period 1990 to 1991 initiated by Mexico (13 cases), Brazil (2) and the Republic of Korea (2). In turn, the traditional AD "lead countries" - the USA (52 cases) and Australia (46) - were jointly responsible for 56 per cent of all cases in the reporting period alone. Total figures with a near doubling of the number of AD investigations initiated by 11 of the 26 AD Code signatories from 96 to 175 indicate a growing resort to AD action on a global scale, most likely reflecting mounting AD

³¹ For a more detailed analysis of the Mexican example see Malcolm D. Rowat, 'Protectionist Tilts in Antidumping Legislation of Developed Countries and the LDC Response: Is the 'Race to the Bottom' Inevitable?', in: Journal of World Trade, vol. 24 (1990), pp. 18-21.

³² See M.D. Rowat, op. cit., p. 2.

³³ For the Korean example see 'Pros and Cons of Bolstering Korea's Anti-Dumping Measures', in: Korean Business Review, May 1992, pp. 7-10.

pressures under the circumstances of economically difficult, i.e. recessionary periods.³⁴

Summing up the AD experience made under the GATT, from a legal perspective the AD Code appears to be working reasonably well and in this sense may be regarded a success, since it has brought about a certain degree of standardization between the individual national AD legislations. The AD Code does provide a basis for taking up differences between trading partners at a technical level. From a strictly economic standpoint numerous objections can be and actually have been raised many times.³⁵ To name just three major ones, firstly, the legislation focusses only on the impact of imports on domestic producers (the injury test), while completely ignoring the potential benefits to be enjoyed by consumers as a result of lower prices in the shorter or longer run. Second, dumping can often occur when the seller enjoys a monopoly situation in its home market and thereby can exercise market power by raising prices while at the same time charging 'normal' prices in the export market. And third, AD involving sales below cost is consistent with business practices, laws and economically rational behaviour in many countries in the short term during periods of recession and/or market downturns with pricing below average but above marginal costs. Even the justification of AD measures on the grounds of predatory pricing policies by foreign firms loses in importance in a trading system where an abundance of alternative sources will remain even if the predator drives a local supplier out of business. Attracted by promising profit margins enjoyed by the predator in a quasi monopoly situation, alternative suppliers are likely to enter the scene. Thus open access of consumers to such alternatives would appear to keep predatory pricing threats under control.

Whereas in practice these fundamental criticisms cannot be expected to be adequately dealt with in the ongoing Uruguay Round multilateral trade negotiations, the working group on AD has presented a draft agreement which seeks to rectify a number of difficulties of interpretation and operations with the present code. Among the changes foreseen are:

- a strengthening of the requirements for the importing country to establish a clear causal relationship between dumped imports and injury to the domestic industry;
- more clear-cut procedures regarding the initiatives of AD cases and the conduct of subsequent investigations;
- new provisions covering provisional measures, agreements on undertakings, conditions for retroactive duties, duration and review including a new 'sunset clause' calling for the termination of AD duties after five years;
- an immediate termination of the investigation in cases where the authorities determine that the margin of dumping is de minimis (less than 2 per cent) or that the volume of dumped imports is negligible; and
- measures to prevent circumvention of definitive AD duties.³⁶

Against the background of the foregoing analysis it would be critical for any move towards the introduction of AD legislation in Fiji to obtain maximum possible clarity about the aimed-at

³⁴ As to the figures, see GATT, Activities 1991, Geneva, July 1992, p. 81.

³⁵ In the following, see M.D. Rowat, op. cit., pp. 5-6.

³⁶ See GATT, 'The Draft Final Act of the Uruguay Round', in: News of the Uruguay Round, NUR 055, Geneva, 3 December 1991, pp. 5-6.

objectives. Given the difficulties of devising and implementing sound, consistent, unambiguous and effective AD provisions and their frequently protectionist application in practice, the danger of getting into conflict with the hitherto credible commitment to the further liberalization of Fiji's foreign trade regime cannot be denied. Whereas in view of the economy's high cost structure or the cheap labour available in large parts of Asia it may indeed be difficult for a number of Fijian producers to compete successfully with foreign suppliers, the examples of alleged dumping brought forward by Fijian businessmen do not appear to easily qualify for any AD action, such as local costs of US \$1.20 per kg of chicken as compared to chicken imported from the US at US \$0.5 per kg.

Again, as soon as such considerations lead to the principle question whether the government would want to assist a specific domestic industry to better cope with competition from abroad, the maintenance or imposition of an import duty openly declared as protectionist device may be superior to any AD activity.

Arguing politically, it could of course be asked why to deny a country like Fiji a right which has deliberately been claimed by other countries, particularly in the developed world. Thus, while due account would have to be taken of the probably high implementing costs of AD legislation in the Fijian case, the mere existence of like regulations may serve as a deterrent to foreign suppliers applying all too aggressive pricing strategies. International experience shows that in many cases the credible threat of imposing AD action leads to concessions on the side of the allegedly dumping firm. Also, in a more global context, there may be a chance of developed countries recognizing the costs of AD measures to their own exports with AD legislation also being enforced in an increasing number of developing countries, thereby establishing a common interest in reform.

5. Erosion of trade preferences

Up to the present, Fiji has been reliant on preferential trade access for the prospering and/or survival of major industries, such as sugar and garments, particularly through the Lomé Agreement with the EC, the SPARTECA agreement with Australia and New Zealand, the Multifibre Agreement, and the US general system of preferences. However, in the light of recent tendencies towards a lowering and/or removal of certain trade barriers including a reduction of import duties on a global scale fears have grown in the country that declining margins of trade preferences enjoyed may adversely affect future development prospects of Fijian export producers. Particular concerns have been raised with respect to the strived-for conclusion of the GATT Uruguay Round negotiations, the formation of the North American Free Trade Area (NAFTA), and the envisaged reform of EC Common Agricultural Policies all of which are felt to result in a less favourable treatment for Fiji than hitherto.

As to the available evidence, regarding garments with effect of March 1993 the Australian Government intended to phase out import quotas for textile, clothing and footwear (TCF) products while at the same time accelerating the gradual reduction down to 25 per cent by the year 2000 of duties on TCF imports from non-Forum countries. Thus the termination of the quantitative import ceiling for Fijian garments initially maintained under SPARTECA as an exception is accompanied by a decreasing margin of tariff preferences. Other stipulations of the SPARTECA agreement continue to apply. In this context, the adherence to the original Rules of Origin (ROO) requirement has met with rising criticism recently not only from the side of Fijian garment producers. In order to qualify for SPARTECA concessions unprocessed raw materials must originate in the Forum island countries while in the case of manufactured goods (i) the final manufacturing process must be carried out in the country claiming the concession, and (ii) at least 50 per cent of production costs must originate in the Forum island countries and /or Australia or New Zealand. Aiming at expanding into new and

up-market "low volume high price/quality" segments of garment production, such as the production of winter clothing or high fashion items, local producers refer to high costs of raw materials to be imported from third countries making it increasingly difficult to meet the ROO requirements. Primarily driven by Fiji, the ROO issue will thus be the major theme of the 1993 meeting of the South Pacific Forum's Committee for Regional Economic Issues and Trade (CREIT). However, Australia may not feel to have much scope for concessions beyond the 1993 TCF liberalization moves.

With regard to the production and export of sugar, the price advantages currently enjoyed by Fiji under the Sugar Protocol of the Lomé Convention are likely to erode progressively in the years ahead. At present, in spite of a slight reduction of the guarantee price for sugar imports into the EC - basically in line with the price paid to EC sugar producers - since the mid-1980s, it remains almost three times higher than the present world market price. About 35-40 per cent of Fiji's sugar production is sold in the EC under the Protocol, amounting to an annual subsidy for the country's cane farmers of some F \$80 million in 1990. Being a contractual relationship of indefinite duration, the very existence of the agreement would not appear to be threatened in the future. However, whereas no direct incompatibility between the Sugar Protocol and the envisaged establishment of the Single European Market can be identified, it seems unlikely that the present price level can be maintained,³⁷ given the pressure to reform the CAP in general and to reduce internal price support for agricultural products in the GATT negotiations in particular.

In conclusion, acknowledging the limited weight of Fiji in international trade flows and its equally limited bargaining power in the international sphere, Fiji cannot realistically expect to mobilize sufficient support to reverse the present tendency towards an erosion of trade preferences enjoyed. Rather, the changes faced should be accepted as a challenge to continuously increase the country's production efficiency on the one hand and to speed up efforts to diversify the economic base, particularly into niche markets, on the other hand. Since preferences will most likely be removed only gradually, the time available for adjustment should not go by unused.

6. Trade barriers in Fijian export markets

Being confronted with increasing foreign competition due to recent trade liberalization, Fijian business is now more frequently hinting at what it perceives as trade barriers in its own export markets. Complaints are related to (i) individual tariff rates reported to be higher than in Fiji in a number of foreign markets, especially in Asia and neighbouring Pacific island economies, as well as (ii) to a number of non-tariff trade barriers (NTBs) allegedly applied by most trading partners.³⁸ In parallel with the distinct global downward trend of tariff rates in the past, the application of NTBs has spread dramatically worldwide, particularly throughout the 1980s. Consequently, NTBs entered the agenda of the Uruguay Round under various headings.

³⁷ See EC Delegation of the Commission of the European Community, "The Sugar Industry in Fiji", Suva (mimeo), August 1992, p.3.

³⁸ NTBs may comprise a wide spectrum of trade-related measures ranging from quantitative restrictions and similar specific limitations (e.g. quotas, licensing, voluntary export restraints, local content and mixing requirements) to various types of non-tariff charges, government participation in trade and restrictive practices (e.g. subsidies, public procurement policies, state trading, foreign exchange and other financial controls, immigration rules), customs procedures and administrative practices (valuation, classification, clearance), and numerous barriers of a technical kind (e.g. health and sanitary regulations, safety and industrial standards, packaging and labelling regulations, advertising and media regulations).

Given a near complete absence of information as regards NTBs against Fijian exports, the latter's relevance could not be assessed in the course of the present study. Two international inventories of NTBs were approached with little success:

First, the NTB Inventory administered by the GATT Secretariat which basically is accessible only for GATT Contracting Parties is rather sketchy and considered highly unreliable at present since members have largely refrained from notifying the Secretariat about changes in their NTB regimes (impositions or liftings) since launching of the Uruguay Round in 1986. As a result, the Inventory appears to be of little use for analyzing NTBs as encountered by Fijian exporters.

Second, while UNCTAD has seemingly made substantial headway in the establishment of a computer-based inventory of trade-control measures by country accessible to all members, the database so far has not included Fiji.³⁹ Again, the usefulness of the inventory is directly dependent on the timely and complete communication of NTBs from governments, affected parties or other. For instance, a sample survey on the basis of Fijian exports to Australia, New Zealand and the USA in 1988 did not contain any other measure than the few import quotas mentioned elsewhere in this report which does not reflect the true extent of NTBs in place.

In sum, available information on NTBs in Fijian export markets is essentially anecdotal, such as the hint at an import quota for biscuits in Noumea or the recent or announced banning of anti fruit fly chemicals for growing fresh produce (fruits, vegetables) destined for Japan, the USA, New Zealand and Australia. Thus, a more systematic approach towards the compilation of NTB-related information on the side of the Fijian Government may serve as a useful input for the country's international trade talks and thus constitute a worthwhile effort.

V. FUTURE TRADE POLICY REFORM IN FIJI: RECOMMENDATIONS FOR ACTION

1. General trade policy orientation

Since there can be little doubt about the beneficial effects for overall economic development of a liberal trade regime, the general thrust of Fijian policies towards a further trade liberalization should be maintained. In particular, the foreseen removal of as many of the few remaining import licenses as possible should be vigorously pursued in a clearly spelt out time frame. In a more general sense, it would appear highly advisable for the Government:

- (i) to elaborate a strategic approach with regard to the links between trade liberalization on the one hand and directions of future economic development on the other hand, and
- (ii) to take a broader look at the declared policy of deregulation which so far seems to have overly relied on import liberalization.

Concerning the first issue, a policy decision might have to be taken soon as to the acceptable extent of close-downs of local business including unemployment resulting from a continuously enlarged exposure to international competition. So far the Government - or parts thereof - has appeared ready to accept local business going bust if it is unable or unwilling to adjust to the more competitive environment.

³⁹ For details see UNCTAD, Directory of Import Regimes, Part I: Monitoring Import Regimes, UNCTAD/DOM/2(Part I), Geneva, 19 October 1992.

In a market-oriented economy it is certainly imperative to accept the results of market forces in general and the ensuing permanent change of economic structures in particular. Consequently, the decay of inefficient and uneconomic business and its replacement by newly created innovative and more efficient economic activities would be nothing but a normal development pattern. However, in a small-scale economy like Fiji with its structural disadvantages large-scale alternatives to present production patterns may either not exist or at least be difficult to realize in a short- to medium-term horizon. Theoretically, in this context the major challenge of future trade liberalization in Fiji would be to reduce protection only to the point up to which it continues to spur local efficiency, productivity and competitiveness without, however, sacrificing large parts of local business. Finding such a balance calls for a gradual approach to further liberalization, a path which given the reduced lowering of the standard import tariff in the 1993 budget appears to have been given some thought already. Nonetheless, bringing the country's major economic agents together and devoting more efforts to the common identification and evaluation of strategic avenues and options of future development would seem a worthwhile effort enabling the authorities to reassess their trade-related policies.

With regard to the second recommendation, business complaints according to which contrary to earlier announcements deregulation policies have largely - though not exclusively - been confined to the trade area should be taken much more seriously than hitherto. Speedier progress in other areas earmarked for deregulation, such as public enterprise reform, a reduction in price controls, and labour market reforms, would greatly contribute to lowering the high cost structure most of the local companies are faced with and thus facilitate efforts of the latter to better adjust to the new, more competitive environment. Since representatives from a number of branches claim to be confronted with overheads exceeding those in Australia by more than double (due to far higher prices for utilities or telecommunications services in Fiji), it is recommended to launch a study to investigate these cost structures in international comparison with a view to proposing policy measures to reduce the cost burden of local business.

2. Customs policies

(i) Customs management

Given the fact that duties on international trade will continue to play an important role for government revenue in Fiji, sufficient resources should be made available for an adequate customs management. This requires a principle readiness of government to provide the necessary support - in terms of funding, personnel, technical devices etc. - and calls for a regular review, inter alia, of customs administration, staffing and equipment with a view to identifying bottlenecks and remedial action to ensure an efficient revenue collection. A number of problems related to customs management appear to have grown in recent years; the respective concerns are shared more or less unanimously by Customs itself and private business, thus calling for closer policy attention.

- First, delays in customs handling are reported frequently resulting in additional charges for storage to be paid by the business community, particularly to the Ports Authority. Complaints are also directed at the limited documentation of customs action and a lack of coordination within Customs, particularly between Headquarters and the regional offices, in a number of instances. Moreover, it appeared to the mission that many customs data were not easily retrievable, thereby adding to the impression of administrative slacks.
- Second, frequent breakdowns of the computer system applied by Customs which bring large parts of customs handling to a halt, are the most visible hint at the existence of substantial managerial deficiencies. For instance, as of early December 1992, as many as 17,000

documents had not been keyed into the computer system according to Customs. Both hardware and software were installed in 1986 and have not seen any technical back-up since. Customs computer terminals are hooked up to the centralized government computer system which is approached for a multitude of purposes by up to a dozen government offices. Although the applied software is reported to be extremely complex, due to a lack of expertise the system has never been fully used. However, Customs now acknowledges that both hardware and software are in urgent need of being upgraded.

- Third, referring to a tripling of the workload in recent years, Customs with a total of 240-260 staff claims to be seriously understaffed. The department still suffers from a critical braindrain after the 1987 events and has reportedly been considered a training ground for several staff who left for the private sector.

Against this background and given the limited analysis possible in the context of the present study it is highly recommended to initiate an in-depth analysis of the weaknesses and bottlenecks of current customs management.

For doing this, it is recommended to seek assistance of an internationally experienced customs expert or foreign customs official who should be assigned to the Customs Department for a period of six to twelve months. Based on every day experience, the mandate should include a comprehensive review of organizational structures, managerial practices, staffing requirements and equipment needs and also entail a training component for local staff.

In parallel, since the available evidence suggests an urgent need for the modernization of equipment, particularly with regard to the hardware and software used, the introduction of internationally successful customs management tools, such as the Automated System for Customs Data and Management (ASYCUDA) should be seriously considered. ASYCUDA which has been developed as part of the trade facilitation programme of UNCTAD in Geneva is a software package designed

- (i) to increase government revenue by reinforcing customs control and by monitoring the collection of customs duties;
- (ii) to speed up clearance procedures and reduce delays in deliveries from overseas suppliers and to overseas customers; as a result the associated overhead costs affecting the cost of imports and the price of exports are substantially diminished;
- (iii) to serve the double purpose as a customs management tool and as a source of accurate and speedily available trade statistics to be used for a variety of statistical economic analyses.

Overall, the system aims at reducing the administrative costs of external trade control and monitoring activities by means of simplification and rationalization as well as at providing governments with the tools to bring about a more efficient and effective application of external trade regulations.⁴⁰

To date ASYCUDA has been installed, is being implemented or under negotiation in nearly 60 developing countries. Available information on the experience made is encouraging. For instance, in Ghana the average time needed to clear a good came down from 4-14 days earlier on to one day - with a 3-4 days maximum for difficult items - after the installation of ASYCUDA. Average customs

⁴⁰ For details, see UNCTAD, ASYCUDA, Automated System for Customs Data, Geneva, January 1991, pp. 1 ff.

revenue went up 30 per cent within days just by proving that declared import values were actually correct.

With the latest version of the software nearing completion, there will be no technical limits as regards the number of entries to be processed on a daily basis. Due to the system's high efficiency requests of Fijian Customs to increase its staff by some 40 per cent to 350 could most likely be rendered obsolete, thus avoiding any further strains on the budget from this side. The software is provided free of charge through UNCTAD-executed technical assistance projects, but countries have to arrange for the financing of experts, equipment and training.

In this context it has been indicated to the mission that the EC would be ready to provide funding for the introduction of ASYCUDA in the Pacific Island Countries through the Forum Secretariat provided Fiji follows several of its neighbouring countries and expresses its interest in forming part of this effort. Implementation of ASYCUDA which may take 1-1.5 years is normally started with a preparatory phase during which customs procedures, documents and codes are harmonized and the software is adopted to the country's needs. The subsequent installation phase proper consists of the installation of equipment; final adjustments concerning the organization of work, technical configuration and information interchange mechanisms; organization of training sessions for national customs officials and the local trade community; test sessions to guarantee the smooth running of the system; and the introduction of the final automated system.

(ii) Customs tariff

If clarity, simplicity, neutrality and the separation of the protection and revenue-generating objectives are accepted as essential features of a "good" customs policy, the following recommendations would merit attention.

- (1) The Government should provide the public, particularly the business community with a clear and reliable time-table concerning the envisaged steps of further trade liberalization and deregulation. The foreseen measures should be announced in maximum possible detail and include a clear statement of the final policy targets. This implies that the further 5 per cent lowering of the standard fiscal duty rate foreseen to become effective in 1995 will not be altered, particularly that it will not be brought forward or increased in size. The foreseen tariff reduction may, however, be made conditional upon the outcome of another review of the impact of deregulation on local business in the course of 1994. Also, if it is intended not to go below the 20 per cent standard fiscal rate scheduled for 1995, this should be clearly stated.
- (2) The Government should acknowledge the changing function of tariffs resulting from its move towards import liberalization and export promotion. Policy conflicts emerging from the diminishing revenue function of tariffs and their reduction to a protective function should be clearly stated and resolved. Here, by seeking alternative revenue sources more actively, the Government could avoid finding itself in a position to refrain from further import liberalization merely on the grounds of revenue considerations. In this context, while raising VAT in the immediate future may not be feasible politically due to its inception only in 1992 an increase should not be ruled out in a longer term perspective. Under this condition, a maximum fiscal duty rate in the range of 10 to 15 per cent for all items would appear to be a realistic target for the end of the decade. In the meantime it might be helpful to clearly indicate the extent to which individual tariffs are levied for revenue, protectionist or other reasons.

- (3) With regard to the Customs Tariff presently in force it is recommended
- (i) to continue the harmonization of rates by reducing the number of different tariff rates further to a minimum of say three to four rates in the next round of customs tariff changes;
 - (ii) to remove tariff anomalies such as 'split tariff rates' for products from like product groups as described above (see Ch.III, 2.(ii), p. 31-32);
 - (iii) to replace the remaining specific duties by ad-valorem duties which are superior to the former since they maintain the automatic responsiveness of import prices to international price changes, caused by variations of supply and/or demand, inflation or foreign exchange fluctuations;
 - (iv) to remove tariffs on items where tariff concessions are predominating.
- (4) At present, import duties are calculated on a cif (cost, insurance, freight) basis. Given the remote location of Fiji, the share of transport costs in total import prices is relatively high thus adding to the tariff burden importers are exposed to. Hence, the possibility of changing the basis for calculation to fob (free on board) prices, i.e. the export price in the country of the exporter has been given some thought recently. On the one hand, levying import duties on the lower fob prices would undoubtedly reduce costs for domestic importers and may provide an incentive to diversify imports geographically. On the other hand, according to an MFEP estimate, revenue losses in the range of 12 per cent are to be expected from a switch to fob prices. The need to check the correctness of fob prices in the country of origin may also make the valuation exercise more difficult for customs. While Article 8 of the Customs Valuation Code of GATT leaves the inclusion or exclusion of transport and/or insurance costs entirely with the individual national legislation, internationally the application of customs duties on fob prices is the exception rather than the rule. As to Fiji, with every step of import liberalization, i.e. tariff reductions, the issue is becoming less relevant. Therefore and in order to avoid additional administrative costs for Customs it is recommended not to pursue a possible switch with high priority at the present time.
- (5) Rather than passively awaiting the further erosion of the current system of tariff concessions which accompanies every reduction of standard tariffs, a reform of present concessionary rules and procedures should be actively sought. If the above estimates on revenue losses due to tariff concessions in the area of 50 per cent and above are correct, the recommended reform would be the single most important measure to solve the revenue problem linked to any further reduction of tariffs. It is most likely that even a rather limited or partial removal of concessions would greatly expand the scope for revenue-neutral tariff reductions.

The reform should be guided by the objective to provide maximum clarity and transparency of the terms and conditions applied aiming at the identical treatment of like transactions. A promising approach to accommodate the necessary regulatory improvements can be seen in the introduction of a concessions code. Whereas in general such a code would spell out in detail the criteria of eligibility to tariff concessions and the procedures to be followed in the application and decision-taking processes, the reduction of the substantial arbitrary scope resting so far with either the Minister of Finance or the

Comptroller of Customs to a minimum should form a core element of any new set of rules.

Also, it would be important to more clearly state the preconditions for concessions by major economic sectors which in the past has been largely confined to manufacturing with a distinct coverage of agriculture or services clearly lacking. The code should also end the current practice of 'eternal' extensions of concessions by unambiguously regulating the phasing out or termination of concessions from the beginning. The extension of duty concessions available for TFF firms to non-TFF firms should be seriously considered as a means to move towards the strived-for 'level playing field' for all business in the country. In a broader perspective, the preparation of a concessions code could also serve the various bodies of government to reopen the general debate on the usefulness of maintaining viz. abolishing in part or in total the tariff concessions granted. In this context the international experience should be recalled that duty concessions are only one and frequently not even the most important determinant of attracting foreign direct investment.

(iii) Customs valuation

In 1989, the Fijian authorities adopted the 1983 Harmonized Commodity Description and Coding System (HS) of the Brussels Customs Co-operation Council (CCC) to replace the old CCC Nomenclature (CCCN). With this the country responded to the internationally recognized need to improve the degree of detail with which to classify international trade flows for customs (and statistical) purposes.

In turn, for customs valuation, i.e. the process by which customs authorities assign a value to imports serving as basis for the levying of tariffs, Fijian Customs stills adheres to the 1950 Brussels Definition of Value (BDV). Although the BDV was based on Article VII of GATT which sets valuation guidelines of a rather general type the discretion still left for determining import values was considered unacceptably high by major trading nations, as it left too much scope for a protectionist application. As a result, the GATT Customs Valuation Code was agreed upon in the Tokyo Round trade negotiations in December 1979 which has been widely acknowledged as being based on commercial realities. The Code specifies transaction values, i.e. the prices paid or payable for the goods, as the primary valuation method. It goes on to provide for a transaction value method based on identical or similar goods imported in cases of a transaction between related parties and stipulates in detail specially constructed measures of value when the former approach is not feasible.⁴¹

Consequently, while the number of Contracting Parties to BDV has dropped continuously to about a dozen countries worldwide at the present time, the GATT Valuation Agreement has been adopted by an increasing number of countries reaching 29 (accepted or accepted under a reservation, condition and/or declaration)⁴² plus another 23 parties taking observer status to the Code as of end-1991.

The Code's success can be attributed to its bringing about a fairer, more uniform, and greatly simplified system of valuation. In the late 1980s already more than 90 per cent of customs valuation

⁴¹ See GATT, Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade and Protocol, Geneva 1979, pp. 5 ff.

⁴² The countries are Argentina, Australia, Austria, Botswana, Brazil, Canada, Cyprus, Czech and Slovak Federal Republic, EEC, Finland, Hong Kong, Hungary, India, Japan, Republic of Korea, Lesotho, Malawi, Mexico, New Zealand, Norway, Romania, South Africa, Sweden, Switzerland, Turkey, United Kingdom, United States, Yugoslavia, Zimbabwe.

by signatories was based on transactions value. The duties to be paid are now highly predictable, and both traders and customs authorities have benefitted from the greater ease of customs administration. The major change to the Code under negotiation in the current Uruguay Round is related to transfer the burden of proving the accuracy of declared import values to the importer in cases of doubt which can be expected to encourage more developing countries to join the agreement.

Against this background, as a means to increase the reliability of customs valuation procedures in accordance with international standards, this study recommends that Fiji seek accession to the GATT Valuation Code. Such a move would also underline the ongoing commitment to liberalizing the country's trade regime since it would greatly reduce the principle susceptibility of the present valuation approach to interest group pressures. Slightly greater regulatory flexibility conceded to developing country signatories in their customs procedures may add to the Code's attractiveness for Fiji. This includes a transitional period of five years plus a possible extension of three years for certain stipulations.

3. Membership in CCC and GATT

Organization-wise, an increased international exposure of Fijian trade policies would appear beneficial. It is thus recommended that Fiji seeks membership in (i) the Customs Co-operation Council (CCC), headquartered in Brussels, and (ii) the Geneva-based General Agreement on Tariffs and Trade (GATT).

The CCC with a membership of 125 countries (November 1992) administers the internationally agreed conventions in the areas of customs classification - the CCC Nomenclature and the Harmonized System - and customs valuation - the Brussels Definition of Value and the GATT Valuation Agreement. As to classification, aiming at uniformity on a worldwide scale, the CCC promotes application of the HS, whereas the GATT Agreement is supported as the preferred method of valuation. As a member, Fiji would be eligible to manifold technical assistance activities provided by the CCC for the successful introduction and continued improvement of these two sets of rules. Assistance largely takes the form of seminars and training courses usually conducted in the requesting country, but may also extend to specialized training facilities offered to customs officials in donor countries. In this respect, the South Pacific Region has been earmarked the Australian Government's present target area. Numerous documentation on HS and valuation issues, including a Handbook on Valuation Control, particularly for developing countries, is also available from the CCC. Classification enquiries, the majority of which (some 70 per cent) stemming from developing countries are being dealt with, too.

The GATT is the world's major binding contract aimed at providing a secure and predictable international trading environment for the business community and a continuing process of global trade liberalization. Acceding to the Agreement would thus seem to be the logical consequence of Fijian policies to progressively open its economy to international competition and to pursue an export-led development strategy. GATT membership would constitute an external commitment to maintain the reformist stance and at the same time limit the scope for any reversal of recent policies. As a Contracting Party to GATT, presently comprising 106 members (March 1993), Fiji could expect the full technical and administrative support of the GATT Secretariat pertaining to all trade-related matters dealt with in the Agreement and/or under negotiation in the current Uruguay Round. Access to trade information and dispute settlement assistance as well as the possibility of joining forces with countries in similar situations would improve Fiji's stand in defending its trading interests within the world trade community. Given Fiji's very limited role in global trade, relying on its strength in bilateral

negotiations may only be a second best solution when compared to benefitting from the multilateral 'umbrella' of GATT.

Under present rules, Fiji is in the favourable position to become a GATT Contracting Party very easily. Whereas the normal route to accession in accordance with Article XXXIII regularly involves a lengthy process of examinations and negotiations, Fiji would qualify for a simpler way of joining provided for in Article XXVI. The article rules that in the cases of countries (i) becoming independent of a previous colonial relationship, (ii) whose trade regimes have therefore been based upon the GATT by virtue of an existing contracting party, and (iii) which can demonstrate autonomy in conducting their external commercial relations a simple letter of sponsorship from the relevant contracting party, i.e. the UK, secures membership without any requirement for negotiations. Since this letter was already provided when Fiji declared its application of the GATT on a de facto basis in October 1970, a simple letter seeking accession will suffice to become a full Contracting Party.

As can be seen from the Draft Final Act of the Uruguay Round multilateral trade negotiations, upon conclusion of the Round this short-cut to accession is likely to be discontinued, thus in any case suggesting a more time-consuming process. With member countries contributing to GATT's budget of presently around 75 million Swiss Francs in proportion to their 0.03 per cent share in world merchandise trade, the Fijian portion would be in the area of Swiss Francs 26,280 per annum (GATT estimate for 1993 of December 1992 on the basis of 1989-91 trade data) plus a one-time contribution to the GATT Secretariat's working capital fund of SF24,689.

While the full adaptation to the rights and obligations under the GATT regime might necessitate a number of policy, administrative and/or legal adjustments on the Fijian side, technical assistance offered by the Technical Cooperation and Training Division of the GATT Secretariat, inter alia, is designed to provide the relevant information on a continuous basis. The four major forms of technical assistance available comprise (i) trade policy seminars and missions; (ii) provision of data and trade information; (iii) assistance towards participation in GATT activities; and (iv) activities involving co-operation with other organizations. In addition, GATT is conducting two four-months trade policy training courses each year for officials from developing countries including those of non-member states. These courses are aimed at giving participants greater understanding of trade policy matters, the work of GATT, major problems of international trade and past trade agreements.

4. Unfair trade practices

In the area of combating 'unfair trade practices' by foreign suppliers two sets of recommendations are related (i) to existing legislation on trade standards and (ii) to the possible introduction of antidumping (AD) legislation.

- (i) With regard to the former, the widespread lack of awareness among the business community about the individual stipulations of the two recently promulgated Decrees on Trade Standards and Quality Control as well as on Fair Trading should be addressed vigorously by the Government. Intensified advertising of the contents and legal procedures to be followed should be directed towards the public, particularly the business community, e.g. by preparing a brochure on major provisions which could be channelled through the major trade associations.

Also, with the proper enforcement of the new laws getting underway, a review of experiences made should be foreseen for 1994, i.e. two years after start of implementation in order to assess whether the declared objectives have been reached.

- (ii) If the Government desires to install AD legislation, e.g. on the grounds of serving as a deterrent or a bargaining chip in its international trade relations, every effort should be made to keep the potential protectionist tilt of the rules as small as possible to ensure compatibility with the country's increasingly liberal trade policy orientation. In this context, by acceding to the GATT AD Code (which is possible even without becoming a GATT member) it would be highly advisable to subject the envisaged national legislation to a relatively advanced degree of international standardization. Moreover, it should be borne in mind that, in view of the level of special expertise required, decreasing and enforcing adequate AD measures usually carry special problems for developing countries. In order to keep implementing costs for AD legislation down, to the extent possible the Fijian Government should seek to establish a rather simple and straightforward legal structure of any AD regulations. A sunset clause clearly governing the termination of any AD action approved should become a core element of any such AD provision.

Since a more detailed analysis of these issues is deemed essential, as a preparatory step a closer examination and assessment of selected international AD legislation and experience, including lessons to be learned for Fiji, is being recommended at the present stage. In this endeavour, it appears advisable not only to focus on experience in the region, i.e. Australia and New Zealand, but also to include other major AD players both in developed and developing countries (e.g. EC, USA, Republic of Korea).

5. Other recommendations

(i) Export promotion

The presently applied system of exempting TFF companies from paying VAT on imports is extremely ponderous. While no money flows and thus no government revenue are recorded, the processing of applications absorbs administrative resources at both the Customs and the Inland Revenue Departments. If in line with export promotion policies it is desired to exempt TFF operators from VAT on imports, the corresponding administrative procedure should be designed in as simple a way as possible in order to minimize administrative costs. It is thus recommended to consider a simplification of the Special Temporary Arrangement Scheme including its possible replacement by the issuance of general VAT-free import permits to TFF operators.

With respect to Non-TFF companies waiting periods for VAT refunds should be avoided. The present VAT drawback system could be supplemented by offering an advance rebate on VAT payments corresponding to the share of past or foreseen exports in total output. This might work as an additional export incentive.

(ii) Foreign direct investment

Given the high significance of FDI policies in Fiji for the promotion of the country's exports, clear and unambiguous FDI rules and procedures constitute key prerequisites for successfully attracting foreign investors. In this context there appears to be considerable scope for the streamlining of FDI application and approval procedures in Fiji. Decision-making powers are scattered in several government departments with the FTIB merely acting as the addressee and forwarder of FDI applications and decisions. This has frequently led to administrative delays, particularly with respect to customs and immigration matters.

It is thus recommended to continue present efforts aimed at transforming FTIB into a one-stop shop for investment as outlined in the draft Promotion of Investment Act prepared by the Ministry of Trade and Commerce in late 1992. It has to be noted, however, that any such move towards centralizing the decision-making power at FTIB does not necessarily have to entail the renunciation of competencies by other government bodies. Instead, the physical relocation of one (or several) senior official(s) each from the departments involved, such as Customs and Immigration, to the investment promotion body is common practice in a number of developing countries.⁴⁹ Provided the seconded officials are vested with the necessary competencies, i.e. the final decision-taking authority, following a like approach in Fiji could also be expected to greatly facilitate the processing of FDI applications.

(iii) Public-private sector dialogue

Views obtained by the mission on the desirability of establishing a more institutionalized dialogue between government and private business on trade policy matters differed. On the one hand, notwithstanding rising criticism regarding recent trade liberalization many businessmen feel to have relatively easy access to government officials due to the country's small size. On the other hand, business representatives particularly from Fiji's western parts report difficulties in making their voices heard by trade-policy makers. Therefore the Government should assess in-depth the demand for as well as possible forms and contents of a more regular or institutionalized dialogue between the public and private sectors.

(iv) Non-tariff barriers

In view of the absence of detailed information pertaining to tariff and non-tariff barriers encountered by Fijian exporters in its overseas markets, it is recommended to launch the preparation of an inventory of such measures as a useful input for the country's international trade talks including those at a sub-regional level.

(v) Industrial restructuring

As discussed in this report, the further liberalization of the foreign trade regime will continue to exert pressure on domestic industries to adjust to an increasingly competitive environment. Market-oriented government assistance in the ensuing process of industrial restructuring may facilitate this adjustment. UNIDO in its capacity as the United Nations specialized agency in the field of industry has accumulated a wealth of experience in many industry-related matters. It is proposed to launch an in-depth investigation of medium- and long-term industrial restructuring needs and possible policy responses in Fiji with a view to contributing to a strategic approach of future industrial policies.

⁴⁹ See for instance UNIDO, Report of the Expert Group Meeting on Export Processing Zones. Development, Management and Promotion, Vienna, 8-11 December 1992, (IO.63(SPEC)).

Table A-1: Fiji tariff rates and structures by tariff chapters, 1993

Chapter Heading	Range of Import duties					Average Tariff		
	Fiscal		VAT	Total		Fiscal	VAT	Total
	Minimum	Maximum		Minimum	Maximum			
Section I. Live animals; animal products	0	25	10	10	35	11.56	10	21.56
1. Live animals	0	0	10	10	10	0	10	10
2. Meat and edible meat offal	0	25	10	10	35	14.6	10	24.6
3. Fish crustaceans etc.	25	25	10	35	35	25	10	35
4. Dairy produce etc.	0	25	10	10	35	17.63	10	27.63
5. Products of animal origin, n.i.e.	0	25	10	10	35	0.57	10	10.57
Section II. Vegetable products	0	25	10	10	35	4.57	10	14.57
6. Live trees and other plants etc.	0	0	10	10	10	0	10	10
7. Edible vegetables etc.	0	25	10	10	35	14.5	10	24.5
8. Edible fruits and nuts etc.	5	25	10	15	35	10	10	20
9. Coffee, tea, maté, spices	5	25	10	15	35	9	10	19
10. Cereals	0	5	10	10	15	0.31	10	10.31
11. Products of milling industry etc.	0	20	10	10	30	5.55	10	15.55
12. Oil seeds etc.	0	20	10	10	30	1.79	10	11.79
13. Lac, gums etc.	0	0	10	10	10	0	10	10
14. Vegetable plaiting materials etc.	0	0	10	10	10	0	10	10
Section III: Animal or vegetable fats and oils etc.	0	25	10	10	35	9.63	10	19.63
15. Animal or vegetable fats and oils etc.	0	25	10	10	35	9.63	10	19.63
Section IV. Prepared foodstuffs etc.	0	65	10	10	75	20.60	10	30.60
16. Preparation of meat etc.	0	25	10	10	35	21.11	10	31.11
17. Sugar and sugar confectionary	25	25	10	35	35	25	10	35
18. Cocoa and cocoa preparation	5	25	10	15	35	2.92	10	12.92

Chapter Heading	Range of Import duties					Average Tariff		
	Fiscal		VAT	Total		Fiscal	VAT	Total
	Minimum	Maximum		Minimum	Maximum			
Section IV. Prepared foodstuffs etc. (contd.)								
19. Preparation of cereals etc.	0	25	10	10	35	18.4	10	18.4
20. Preparation of vegetables etc.	25	25	10	35	35	25	10	35
21. Misc. edible preparations	5	25	10	15	35	22.57	10	32.57
22. Beverages, spirits and vinegar	10	65	10	20	75	40.71	10	50.71
23. Residues or waste from the food industries	0	25	10	10	35	4.72	10	14.72
24. Tobacco and manufactured tobacco substitutes	25	25	10	35	35	25	10	35
Section V. Mineral products	0	35	10	10	45	3.48	10	13.48
25. Salt, sulphur etc.	0	35	10	10	45	3.32	10	13.32
26. Ores, slag and ash	0	0	10	10	10	0	10	10
27. Mineral fuels, mineral oils etc.	0	20	10	10	30	7.11	0	17.11
Section VI. Products of the chemical or allied industries	0	100	10	10	110	8.97	10	18.97
28. Inorganic chemicals etc.	0	25	10	10	35	0.75	10	10.75
29. Organic chemicals	0	25	10	10	35	0.1	10	10.1
30. Pharmaceutical products	0	0	10	10	10	0	10	10
31. Fertiliser	0	0	10	10	10	0	10	10
32. Tanning or dyeing extracts etc.	0	25	10	10	35	17.61	10	27.61
33. Essential oils and resinoids etc.	0	30	10	10	40	14.92	10	24.92
34. Soap, organic surface active agents etc.	0	25	10	10	35	17.14	10	27.14
35. Albuminoidal substances etc.	0	25	10	10	35	10.18	10	20.18
36. Explosives, pyrotechnic products etc.	5	100	10	15	110	27	10	37
37. Photographic or cinematographic goods	0	10	10	10	20	1.82	10	11.82
38. Misc. chemical products	0	25	10	10	35	9.14	10	19.14

Chapter Heading	Range of Import duties					Average Tarrif		
	Fiscal		VAT	Total		Fiscal	VAT	Total
	Minimum	Maximum		Minimum	Maximum			
Section VII: Plastics and articles thereof etc.	0	35	10	10	45	15.12	10	25.12
39. Plastics and articles thereof	15	30	10	25	40	17.71	10	27.71
40. Rubber and articles thereof	0	35	10	10	45	12.52	10	22.52
Section VIII: Raw hides and skins etc.	0	25	10	10	35	13.82	10	23.82
41. Hides and skins etc.	7.5	20	10	17.5	30	10.91	10	20.91
42. Articles of leather etc.	0	25	10	10	35	13.06	10	23.06
43. Fur skins, artificial fur etc.	0	20	10	10	30	17.5	10	27.5
Section IX: Wood and articles of wood etc.	5	25	10	15	35	16.17	10	26.17
44. Wood and articles of wood etc.	7.5	25	10	17.5	35	16.63	10	26.63
45. Cork or articles of cork	5	7.5	10	15	17.5	6.88	10	16.88
46. Manufactures of straw etc.	25	25	10	35	35	25	10	35
Section X: Pulp of wood or of other fibrous cellulosic materials	0	25	10	10	35	10.12	10	20.12
- Pulp of wood or of other fibrous cellulosic materials etc.	0	25	10	10	35	3.57	10	13.57
- Paper or paperboard etc.	7.5	25	10	17.5	35	19	10	29.0
- Printed books, newspapers, pictures and other products, etc.	0	25	10	10	35	7.79	10	17.79
Section XI: Textiles and Textile articles	0	25	10	10	35	11.81	10	21.88
50. Silk	5	5	10	15	15	5	10	15
51. Wool, fine or coarse, animal hair, etc.	5	5	10	15	15	5	10	15
52. Cotton	5	5	10	15	15	5	10	15
53. Other vegetable textile fibres; etc.	5	5	10	15	15	5	10	15
54. Man made filaments	5	25	10	15	35	7.5	10	17.5
55. Man-made staple fibres	5	5	10	15	15	5	10	15

Chapter Heading	Range of Import duties					Average Tariff		
	Fiscal		VAT	Total		Fiscal	VAT	Total
	Minimum	Maximum		Minimum	Maximum			
Section XI: Textiles and Textile articles (contd.)								
56. Wadding, felt and non-wovens, etc.	5	25	10	15	35	10.19	10	20.19
57. Carpets and other textile floor coverings	25	25	10	35	35	25	10	35
58. Special woven fabrics, etc.	5	25	10	15	35	8.52	10	18.52
59. Impregnated, coated, covered or laminated textile fabrics, etc.	0	25	10	10	35	8.18	10	18.18
60. Knitted or crocheted fabrics	5	20	10	15	30	12.5	10	22.5
61. Articles of apparel and clothing accessories, knitted or crocheted	0	25	10	10	35	24.18	10	34.18
62. Articles of apparel and clothing accessories, not knitted or crocheted	0	25	10	10	35	22.33	10	32.33
Other made up textile articles; etc.	0	25	10	10	35	21.88	10	31.88
Section XII: Footwear, headgear, umbrellas etc.	20	25	10	30	35	23.34	10	33.34
64. Footwear, gaiters etc.	20	25	10	30	35	24.17	10	34.17
65. Headgear	25	25	10	35	35	25	10	35
66. Umbrellas, sun umbrellas etc.	20	25	10	30	35	21.67	10	31.67
67. Prepared feathers etc.	20	25	10	30	35	22.5	10	32.5
Section XIII: Articles of stone, plaster, cement etc.	0	25	10	10	35	13.15	10	23.15
68. Articles of stone, plaster, cement, asbestos, mica	7.5	25	10	17.5	35	12.96	10	22.96
69. Ceramic products	0	25	10	10	35	14.64	10	24.64
70. Glass and glassware	5	25	10	15	35	11.84	10	21.84
Section XIV: Natural or cultured pearls, precious or semi-precious stones, etc.	0	20	10	10	30	3.75	10	13.75
71. Natural or cultured pearls, etc.	0	20	10	10	30	3.75	10	13.75

Chapter Heading	Range of Import duties					Average Tariff		
	Fiscal		VAT	Total		Fiscal	VAT	Total
	Minimum	Maximum		Minimum	Maximum			
Section XV: Base metals and articles of base metals	0	25	10	10	35	8.53	10	18.53
72. Iron or steel	0	25	10	10	35	2.54	10	12.54
73. Articles of iron or steel	0	25	10	10	35	12.75	10	22.75
74. Copper and articles thereof	0	25	10	10	35	9.21	10	19.21
75. Nickel and articles thereof	5	25	10	15	35	7.66	10	17.66
76. Aluminium and articles thereof	0	25	10	10	35	9.02	10	19.02
77. Reserved for possible future use								
78. Lead and articles thereof	5	25	10	15	35	9.58	10	19.58
79. Zinc and articles thereof	-	25	10	15	35	8.04	10	18.04
80. Tin and articles thereof	0	25	10	10	35	7.5	10	17.5
81. Other base metals etc. ^a	5	25	10	15	35	6.13	10	16.13
82. Tools, implements, cutlery, etc. ¹	7.5	20	10	17.5	30	6.6	10	16.6
83. Misc. articles of base metals ¹	0	25	10	10	35	14.83	10	24.83
Section XVI: Machinery or mechanical appliances etc.	0	25	10	10	35	9.22	10	19.22
84. Nuclear reactors, boilers, machinery and mechanical appliances, etc. ¹	0	25	10	10	35	8.09	10	18.09
85. Electrical machinery and equipment, etc.	0	25	10	10	35	10.35	10	20.35
Section XVII: Vehicles, aircraft, vessels and associated equipment	0	80	10	10	90	13.96	10	23.96
86. Railways or tramway locomotives, etc.	0	0	10	10	10	10	10	20.0
87. Vehicles other than railway or tramway etc.	0	80	10	10	90	21.56	10	31.56
88. Aircraft, spacecraft etc.	0	7.5	10	10	17.5	6.0	10	10.0
89. Ships, boats etc.	5	25	10	15	35	18.28	10	28.28

Chapter Heading	Range of Import duties					Average Tariff		
	Fiscal		VAT	Total		Fiscal	VAT	Total
	Minimum	Maximum		Minimum	Maximum			
Section XVIII. Optical, precision medical and musical instruments	0	25	10	10	35	13.20	10	23.20
90. Optical, precision and medical instruments etc.	0	25	10	10	35	7.98	10	17.98
91. Clocks and watches etc.	0	25	10	10	35	16.61	10	26.61
92. Musical instruments etc.	0	20	10	10	30	15.0	10	25.0
Section XIX: Arms and ammunition etc.	0	20	10	10	30	17.14	10	27.14
93. Arms and ammunition etc.	0	20	10	10	30	17.14	10	27.14
Section XX: Misc. manufactured articles	0	25	10	10	35	17.73	10	27.73
94. Furniture, beddings, lamps: illuminated signs, etc.	0	25	10	10	35	20.25	10	30.25
95. Toys, games and sports requisites, etc.	0	25	10	10	35	16.61	10	26.61
96. Misc. manufactured articles	0	25	10	10	35	16.33	10	26.33
Sections XXI: Works of art, collector's pieces and antiques	0	25	10	10	35	10.83	10	20.83
97. Works of art, collector's pieces and antiques	0	25	10	10	35	10.83	10	20.83

1 Customs data incomplete.

Source: Republic of Fiji, Customs Tariff (Amendment), Bill No. 5 of 6 November 1992; own calculations.

Note: The mean tariff rate for each product category (= chapters (1-97) has been calculated by taking a simple average of the mean tariff rates applicable to each 4 digit tariff heading.
The mean tariff rate for each section (I-XXI) has been calculated by taking a simple average of the mean tariff rates applicable to the chapters of the respective section.

Table A-2: Comparison of protectionist tilts in antidumping legislation

	European Community	United States	GATT Antidumping Code
A. Procedure			
(1) Initiation of investigation	Searching informal and formal review by Commission before launching (Article 7, Sec.1)	Low threshold to establish justification for investigation, which may cost half to one million dollars excluding subsequent annual reviews.	Article 5(1) establishes only minimal standard.
(2) Industry representation	Any natural or legal person acting on behalf of a Community industry (Article 5, Sec. 1)	Petition has to be on behalf of an industry (Sec. 732 (b)).	Article 4 (no specific minimum threshold level).
(3) Prospective exporters	Residual duties imposed on new exporters not included in original antidumping determination at highest level.	Newcomers or those not investigated would receive the weighted average of the dumping margin of the individual companies investigated in the original investigations.	Not covered.
(4) Anti-absorption procedure	Possibility of additional duty if first duty "absorbed" by exporter (Article 13 11(a)).	Not covered	Not covered even under retroactive provision of Article II.
(5) Settlement and undertakings	Can include VERs in addition to price undertakings and cessation of exports.	Undertakings by exporters to cease dumping and/or eliminate injury (Sec. 734(B) and (c)) rarely used in practice, rather QRs agreed to following "public interest" assessment.	Proceedings can be suspended or terminated based on satisfactory voluntary undertakings of exports to revise prices or cease exports (Article 7).
(6) Refunds	Rarely given and subject to substantial delay and no interest (Article 17, Sec. 7).	Disregard deficit if cash deposit collected is lower than the duty order, and refund if in excess. (Sec. 737(a)) with interest.	Where fixed duty exceeds preliminary duty paid in any investigation, no additional collection. If less, difference reimbursed (Article 1).
B. Substantive Methodology			
(a) Foreign market value			
(1) Use of constructed value	Includes fixed and variable costs (VCs) plus reasonable selling, administrative and other general expenses (SAG) and project margin.	Same as the European Community (Sec. 773(e)) except "floors" for selling and administrative expenses established.	Use of constructed value with reference to "reasonable" level for administrative selling costs and profits (Article 2, Sec. 4)
(2) Sales at a loss	Full cost of production; exclusion of domestic production below cost transactions less than 20 per cent.	Where home market sales have been made over an extended period and in substantial quantities and not at prices that permit recovery of costs over a reasonable period of time, then constructed value can be used (see 773(h)).	Used only where there are no sales in home market or sales that do not permit a proper comparison in the ordinary course of trade or third country.
(3) Condition and terms of sales.	No adjustment for indirect selling expenses in home market, unlike calculation of export prices (Article 2 (10) (c)), which can be substantial for consumer goods.	Use of ESP offset adjustment with "caps" limitation (Section 777 (c)).	Not covered.

	European Community	United States	GATT Antidumping Code
(b) Export price			
(1) Dumping margin	Transaction by transaction margin calculation, thereby omitting transactions that do not involve dumping from the weighted average (no credit for negative dumping).	Same "weighted" average as E.C. <i>De Minimis</i> dumping margin set at half a per cent, which given the many adjustments, implies an unwarranted degree of precision.	Not specified.
(2) Rules of origin (anticircumvention).	"Parts" provision; requires sourcing of 40 per cent of E.C. components to avoid antidumping procedure and/or qualify for undertaking after circumvention. Discounts and rebates deducted from export price but not from home market sales.	Anticircumvention provision for parts and components subject to antidumping duty is applied where difference between value of goods sold in the United States compared to value of parts and components used to produce such goods is "small" (Sec. 781).	Not specified.
(3) Exchange rates	Based on official exchange rates.	Based on official exchange rate set by Federal Reserve for the quarter unless average rate used throughout the quarter on a particular day varies by more than 5 per cent, in which case the daily rate is used; recently, the United States began permitting the use of currency hedging in limited circumstances.	Not covered
C. Injury			
(1) Material injury	Based in practice on total imports rather than dumped imports, though Regulation only refers to dumped imports (Article 4, Sec. 1).	Material injury defined as not inconsequential, immaterial, or unimportant. US International Trade Commission (ITC) need show injury and that imports were a cause (not the major cause-Sec. 771(7)).	Injury must be shown from dumped imports but need not be the major or only factors causing injury (Article 3, Sec. 4).
(2) Cumulation	Cumulation of exporters from several exporting countries. Bias against small exporters including LDCs (see Article 13 of GATT).	ITC cumulates imports from two or more countries of like products in determining their effect on domestic industry, irrespective of size, though "negligible" imports can be ignored (Sec. 771 (7)(c)(iv)).	Not covered.
(3) Size of remedy	Use "lesser duty" (below dumping margin) if it would be adequate to remove the injury (Article 13, Sec. 3).	Margin calculated based exclusively on dumping rather than injury.	Amount of duty should not exceed the margin of dumping (Article 8, Sec. 3).
(4) Sunset provision	Except under special circumstances, antidumping duties lapse after five years (Article 15, Sec. 1).	Quasi-sunset that can be avoided by U.S. producers.	Antidumping provisions should remain in force for only as long as needed to counteract injury (Article 9).

Source: Malcom D. Rowat, Protectionist Tilts in Antidumping Legislation of Developed Countries and the LDC Response: Is the "Race to the Bottom" Inevitable?, in: *Journal of World Trade*, Vol. 24 (1990), pp. 26-28.

TERMS OF REFERENCE

TSS-1 Fiji Tariff Restructuring

A. Background

Until recently, domestic production had been heavily protected in line with the Fiji Government economic policy of industrialization through import substitution. Import licensing and tariffs had been used as tool for protection. Contributing approximately one third to overall fiscal income throughout the 1980s, import duties (customs and excise) have also been a major form of government revenue collection. In 1987, when in the wake of severe economic difficulties capital outflows and a reduction in domestic demand called for adjustments of economic policies, the government turned towards an open economy approach and initiated a number of liberalizing and deregulating measures. Thus the currency was devaluated by 30 per cent and numerous ad-hoc changes implemented concerning the rates and structure of border tariffs leading to a lack of transparency and consistency of the overall system. This has been aggravated by tariff concessions granted on imported inputs on a rather piecemeal basis which has become one way of favouring domestic producers. Given the multiplicity of available concessions (e.g. deductions at source under industrial rebates, concessions to specified products), many anomalies in the tariff structure have been observed in the most recent past. Hence, whereas the continued reduction of maximum tariff levels from 40 per cent in 1991 to 30 per cent in 1992 and 20 per cent in 1993 underlines the government's ongoing commitments to increase competition in domestic markets and provide consumers with cheaper goods, the government is stressing the urgent need for a review of the entire tariff system in place with a view to formulating a schedule for tariff restructuring and rationalization to establish a solid basis for further decision making.

B. Objectives

1. To review the country's tariff system presently in force with special emphasis on anomalies and inconsistencies to be observed.
2. To make recommendations pertaining to tariff restructuring and rationalization needs.

C. Government commitment and intended use of results

The Fiji Government is committed to reducing the overall level of tariffs and to achieving a broadly uniform tariff rate. The envisaged study will assist the government in the formulation of an appropriate schedule of tariff restructuring thereby contributing to the medium-term objective of neutral protection.

D. Activities

The study to be undertaken will base its recommendations pertaining to the restructuring and rationalization of the present tariff system on a detailed stocktaking exercise. Major elements of the foreseen study are:

- to compile a comprehensive list of import/export tariffs and other border taxes presently employed, by (groups of) commodities and/or sectors, range and average level;
- to identify major anomalies and inconsistencies of the present tariff structure and to recommend measures for their elimination;
- to review scope, nature, extent and impact of current tariff concessions with special emphasis on export processing zones, draw back schemes, bonded factories/warehouses, and to explore alternatives to granting tariff concessions;

- to evaluate the current practice of levying tariffs on CIF input values and to explore the usefulness of possible alternative approaches;
- to analyze key elements of and recent developments regarding the Fiji trade policy framework with a focus on tariff-related issues, such as trade policy objectives, the institutional setting (trade policy bodies and decision-making mechanisms, general trade law/legislation, existing trade agreements and arrangements) as well as measures operating directly on imports/exports;
- to look into recent trends and future prospects of government revenue from trade taxes/duties;
- to identify and assess major non-tariff barriers (NTB) in key export markets with a focus on garment industries and to recommend ways to circumvent these barriers. Special emphasis will be placed on quantitative restrictions, such as import quotas, as well as on non-tariff charges, customs procedures and technical trade barriers including health standards/quarantine regulations;
- to explore the need and possible format of anti-dumping legislation or mechanisms;
- to develop recommendations as to a limited number of appropriate and more rational tariff rates including a timetable within which and how to achieve the aimed-at uniform tariff.

One UNIDO headquarter staff will be fielded to Fiji in order to collect all the relevant information, specifically tariff data, and to ascertain views of all parties concerned - ministries, industry associations etc. -, particularly on perceived shortcomings of the current tariff system and priority areas for its restructuring and rationalization. In addition, a UNIDO headquarter staff mission to Geneva will serve to secure the information available at pertinent organizations (GATT, UNCTAD, ITC) on NTBs bearing relevance for Fiji exports.

E. Modalities and Timing of Implementation

The study will be prepared under the overall responsibility of UNIDO's Regional and Country Studies Branch with inputs to be provided by the Institutional Infrastructure Branch. Total work input of two UNIDO headquarter staff will amount to 1.7 w/m (1.5 w/m PPD/IPP/REG, 0.2 w/m IO/IIS/INFR).

An international consultant (tariff specialist) with inputs of 1.5 w/m will assess the data and material obtained during the UNIDO mission and elaborate on the restructuring and rationalization needs of Fiji's current tariff system as well as make recommendations for reform.

The foreseen timing comprises:

Desk research, preparation of field mission, recruitment of consultant, preparatory mission to Geneva (GATT, UNCTAD, ITC), 1 REG staff	2.0 weeks
Field mission (1 REG staff)	2.0 weeks
Preparation of draft report	
- UNIDO staff input	3.0 weeks
- International consultant input	1.5 months

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