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STUDIES IN TRADE AND INVESTMENT

8

AN  
ANALYSIS  
OF  
FIJI'S EXPORT  
POTENTIAL  
TO  
ASIA



UNITED NATIONS

**ECONOMIC AND SOCIAL COMMISSION  
FOR ASIA AND THE PACIFIC**

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*Studies in Trade and Investment 8*

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**AN ANALYSIS OF  
FIJI'S EXPORT POTENTIAL TO ASIA**

**Study prepared under the Section 20  
of the United Nations Regular Programme  
of Technical Cooperation**



**UNITED NATIONS  
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## FOREWORD

During the last decade Fiji's trade with Asia has grown at a faster rate than its trade with the world. Growth has been accompanied by diversification largely on account of increased imports of a range of manufactured goods from destinations in Asia other than Japan. While trade with Japan has declined over the last three years, there has been diversification of imports from other Asian countries. On the other hand, exports to Asia have remained stagnant with little diversification over the last three years.

Besides general supply constraints and lack of transport linkages, the absence of a well defined strategy for exports to Asia presents a serious impediment to growth of Fiji's exports to Asia. Fiji's policies of economic liberalization pursued since 1988 have had a significant impact on the structure of its global exports but exports to Asia have remained constrained by factors like remoteness, the size of the Fijian economy and its narrow resource base but above all by the absence of a targeted export promotion policy. This has resulted in an export level far below its potential.

A general perception that there is lack of complementarity between tropical Asia and Fiji seems to have hindered any systematic effort at promotion of Fiji's exports to Asia generally and South East Asia in particular. Economies in Asia and particularly those of South East Asia are diversifying and upgrading their production base. The structural changes taking place in these economies will provide fresh opportunities for trade arising out of differences in commercial agriculture technologies and processing sophistication.

During a mission to Fiji undertaken by the ESCAP's Regional Adviser on Trade Policy, Negotiations and Trade Promotion in August and October 1993, the need for a strategy for promotion of exports to Asian countries was identified to take action in the following areas:

- (1) Upgradation of the trade information system in Fiji;
- (2) Systemic and specific identification of export potential to Asian destinations;
- (3) Improve arrangements for export market development and supply of support services to exporters; and
- (4) Determination of priorities in the export policy of Fiji.

The policies initiated in 1988 to deregulate the economy and impart its export orientation have succeeded only partly in their objective of stimulating exports. While the export oriented garment sector grew substantially largely based on preferential access available to Fiji in its traditional markets, other exports have not shown the growth anticipated. Exports to non-traditional markets have also not shown any dramatic results despite macro-economic stability and liberal fiscal incentives for exports. A more targeted export promotion policy would be the only option to such stagnation of exports. A basic requirement of such policy would be the accurate identification of the export potential of Fiji to Asian destinations.

This study was undertaken on the basis of the ESCAP's Regional Adviser's recommendation to identify export potential vis-a-vis Asian countries, aiming at evaluating Fiji's export policy environment, identifying products and product groups Fiji-based producers might be able to export to Asia and providing recommendations to strengthen exports and promote investment in Fiji.

It is hoped that this study would lead to further detailed techno-economic and feasibility studies of export oriented activities appropriate for Fiji. Depending upon the usefulness of this study, similar exercises could be taken for other Pacific island countries to realize their export potential.

ESCAP wishes to acknowledge the effective services provided by the Brooker Group Ltd., Bangkok, Thailand, which undertook a mission to Fiji in order to implement this study.



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## List of Acronyms

ADB	:	Asian Development Bank
AFTA	:	ASEAN Free Trade Agreement
AIDAB	:	Australian International Development Assistance Bureau
APM	:	Asia Pacific Management
BQA	:	Bilateral Quarantine Agreements
CI	:	Che International
CIE	:	Caribbean Island Economy
EC	:	European Community
ECGIA	:	Export Credit and Guarantee Insurance Agency
EDB	:	Ethylene Di-Bromide
ESCAP	:	United Nations Economic and Social Commission for Asia and Pacific
ESI	:	Export Similarity Index
FEF	:	Fiji Employers Federation
FIAS	:	Foreign Investment Advisory Service
FNTC	:	Fiji National Training Council
FTIB	:	Fiji Trade and Investment Board
FTUC	:	Fiji Trade Union Congress
FTZ	:	Free Trade Zone
GDP	:	Gross Domestic Product
GMS	:	Greater Mekong Subregion
GNI	:	Gross National Income
GNP	:	Gross National Product
GSP	:	Generalized System of Preferences
HPAEs	:	High Performing Asian Economies
IOE	:	Indian Ocean Economy
JODC	:	Japan Overseas Development Program
LC	:	Letter of Credit
MDF	:	Medium Density Fiberboard
NIEs	:	Newly Industrializing Economies
NIP	:	National Incomes Policy
OSB	:	Offshore Banking
PIE	:	Pacific Island Economy
RCA	:	Revealed Comparative Advantage
R&D	:	Research and Development
SBAU	:	Small Business Advisory Unit
SES	:	Small European States
SITC	:	Standard International Trade Classification
SPARTECA	:	South Pacific Regional Trade and Economic Cooperation Agreement
SPPF	:	South Pacific Project Facility
TFF	:	Tax Free Factory
TOR	:	Terms of Reference
UK	:	United Kingdom
UNDP	:	United Nations Development Program
USA	:	United States of America
VAT	:	Value Added Tax

# 1. Executive Summary

## I Introduction and Methodology

The United Nations Economic and Social Commission for Asia and Pacific contracted The Brooker Group, a Thailand-based consulting company to undertake a study on Fiji's export potential to Asia. Among the goals of the study are to:

- Evaluate Fiji's export policy environment;
- Identify products and product groups Fiji-based producers might export to Asia;
- Provide recommendations to strengthen exports and promote investment in Fiji.

→ To fulfill these goals, a multifaceted approach to the analysis was conducted, including:

- Public and private sector interviews in Suva, Fiji;
- Conducting a facsimile survey of exporters in Fiji;
- Identifying the export and investment strategies used by countries having similar resource endowments as Fiji;
- Conducting a revealed comparative advantage analysis on the trade performance of Fiji and identified comparison countries to identify promising export opportunities for producers in Fiji;
- Reviewing secondary sources.

→ The study is divided into four main chapters:

- Executive summary (Section 1);
- Introduction and methodology (Section 2);
- A review of Fiji's current export and investment policy environment, an overview of Asian markets, and recommendations to expand exports and draw investment (Sections 3-7);
- Identification of products and sectors with potential to penetrate Asian markets (Section 8).

## II Recent Economic Policy Environment

→ As Fiji moved into the post-1987 period of economic recovery, three key elements of Fiji's development strategy included (a) promoting private sector development; (b) improving public sector management; and, (c) fostering human resources development.

→ The need to establish a competitive private sector is seen as a fundamental element of Fiji's future economic growth.

→ The Fijian economy has not responded positively to detailed planning, direction, regulation and administrative control. A major shift towards de-regulation and reduced protection for the private sector has been widely identified as the most basic economic requirement for more sustained growth.

### III Policy Recommendations

Qualitative analysis suggests that policy guidance for Fiji can be drawn from:

- Other island economies such as Mauritius;
  - Small European states such as Netherlands, Norway, and Sweden;
  - Dynamic Asian countries such as Thailand and Republic of Korea.
- Policy recommendations to create a more favorable export and investment environment include:
- Reorganizing the obligatory 1 per cent training levy and the activities of the Fiji National Training Council to ensure educational and training objectives meet the needs and convenience of the private sector;
  - Reviewing training, compensation, and labour market liberalization issues, including minimum wage and retention policies, greater integration of peripheral labour such as at-home piece workers, greater participation of indigenous Fijians into the economy, and strategies to link wages to productivity;
  - Ensuring further liberalization initiatives such as tariff adjustments are carried out in a systematic, transparent and egalitarian way, with due regard for the impact on the current productive sector;
  - Expanding and strengthening export financing, including provision of an Export Credit Guarantee and Insurance Agency scheme to allow a move from financing based on collateral to a system responsive to trading instruments such as letters of credit.
- Recommendations for greater penetration of Asian markets include:
- Greater exploitation of current business relationships with Asia, including better exchange of information between importers, exporters and investors in Fiji;
  - Greater exploitation of Fiji's Chinese community for guidance on contacts, communication and the cultural context of doing business in Asia;
  - Expanding the provision of market information on demand, and tariff and non-tariff barriers. Development of an export penetration library open to the public is recommended;
  - Promoting subcontracting opportunities with Australian and Asian firms, while reviewing strategies used by Australian and New Zealand firms to penetrate Asian markets.
- Strategies to attract greater investment to Fiji include:
- Reviewing and strengthening image-building, investment-generating and investment service activities of the Fiji Trade and Investment Board;
  - Applying a systematic and targeted approach to investment promotion, including a tailored marketing program based on the needs of identified investors;
  - Expanding investment promotion literature including investment opportunity studies on key sectors of the Fijian economy and production of a Fiji Investment and Export Review;
  - Conducting a survey of investor confidence to identify investor concerns and support policy making.



#### **IV Identifying Export Opportunities for Fiji**

Fiji's revealed comparative advantage to the world and to key Asian markets was analyzed to identify Fiji's strengths as an exporter.

An export similarity index (ESI) analysis was also conducted to identify countries with a similar export structure to that of Fiji. The analysis suggests that Fiji's export structure is similar to the following countries:

<b>Comparison Country</b>	<b>Export Similarity Index</b>	<b>Similarity Ranking to Fiji</b>
Belize	49.59	2
China	27.61	3
Indonesia	20.04	4
Jamaica	19.37	5
Mauritius	52.20	1

The exports of these countries was analyzed to determine products and sectors that may offer export opportunities for Fiji's private sector. Fiji's productive capability and demand in Asia for the identified products was also reviewed.

#### **V Export Opportunities for Fiji**

→ The key products and sectors identified with export potential to Asia include:

- Fruits, vegetables and flowers;
- Cocoa and confections;
- Coffee;
- Seafood products;
- Processed meat products;
- Wood products, including veneer, mahogany, furniture and other downstream processing;
- Cosmetics;
- Marine wear and marine products.

Secondary possibilities to explore include:

- Clocks and watches;
- Leather and leather goods;
- Optical goods;
- Spices;
- Offshore banking.

## 2. Introduction and Methodology

In recent years the country of Fiji has engaged in an active program to diversify exports from the traditional major exports of sugar, tourism, coconut oil, fish, lumber and gold, while at the same time expanding in real terms the value of total exports. In this expansion and diversification the Fijian Government, the World Bank<sup>1</sup>, and others have noted the important role of manufactured exports for Fiji's continued economic development.

While traditional industries will remain important to the Fijian economy into the foreseeable future, their share of GDP is expected to decline in the face of the external environment. The trend towards trade liberalization and reductions in preferential treatment worldwide suggests that Fijian exporters must respond to an increasingly competitive market and explore opportunities for diversifying both export products and export markets.

Given the importance of the Asia region in the context of world trade, particularly as a destination for exports in light of growing domestic demand, the Asian market presents a potentially significant opportunity for expanding and diversifying exports from Fiji.

### 2.1 Basic Country Data

Fiji's land area of 18,272 square kilometers is spread across 332 islands, located centrally among neighboring island countries in the South Pacific, approximately 3,100 km northeast of Sydney, Australia, 2,100 km. north of Auckland, New Zealand, and 5,100 km. southwest of Honolulu, Hawaii. The major islands of Fiji include Viti Levu with an area of 10,429 sq. km., and Vanua Levu with an area of 5,556 sq. km. along with other smaller islets.

The total population of Fiji is estimated to reach 774,000 in 1994. In 1992, Fijians comprised 49.7 per cent of the total population, Indians 45.3 per cent, with the remainder made up of Rotumans, Chinese, part-Europeans, Europeans, and other Pacific Islanders. The population growth rate between 1988 and 1992 averaged 1.3 per cent.

### 2.2 Scope and Objectives of the Study

The scope of the study is to analyze Fiji's export potential to Asia<sup>2</sup>, with the following key objectives:

- To conduct a revealed comparative advantage (RCA) analysis on Fiji and appropriately chosen comparison countries to isolate potential products that show promise for continued or new development as Fijian exports to Asia;<sup>3</sup>

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1 See Fiji: A Transition to Manufacturing, World Bank Country Study, 1987.

2 For the purposes of this study, Asia refers to Japan; the newly industrialized economies (NIEs) of Taiwan Province of China, Republic of Korea, Hong Kong, and Singapore; the developing countries of Thailand, Malaysia, Philippines and Indonesia; and, China.

3 Within the context of this study "products" may refer to individual products, product groups, or broad industry groups as appropriate.

- To assess the potential export competitiveness of these products based on an analysis of Fiji's resource base, labour situation, supporting industries, and other inputs and supports required to produce and export the identified products;
- To identify and assess the potential market demand and access in Asian countries for the identified products;
- To recommend strategies for the Fijian authorities to encourage private investment in Fiji's manufacturing base.

### **2.3 Methodology 1: Interviews and Survey**

Public and private sector interviews were carried out with the assistance of the Ministry of Commerce, Industry, Trade and Public Enterprises during the consultants mission in Suva, Fiji during October 19-28.

A private sector survey was also conducted by facsimile transmission. The objectives of the survey included assessing the interest and performance of Fiji-based businesses in penetrating Asian export markets, and to identify the needs and perceived impediments of exporters in initiating or expanding exports to Asia. A total of 21 questionnaires were returned. Sectors such as garments, housewares and toiletries, fish and food processing, furniture and wood products, sporting goods, and hardware were represented. A sample of the survey instrument is found in Annex 1.

Given a total of approximately 200 companies listed in the Fiji Trade and Investment Board's Fiji Product Directory 1994, the sample size provides reasonable scope for assessing the perceptions of Fiji-based businesses regarding exporting to Asia. Companies who were presently exporting or otherwise expressed an interest in exporting to Asia were targeted. These companies were identified through the statement of export interest found in the Product Directory, by direct statement to the consultant by company representatives or by referrals from knowledgeable public and private sector personnel.

In terms of ownership structure, the distribution of responses between wholly local-owned, joint-venture, and wholly foreign-owned were ten, five, and six respectively. Eleven firms reported exporting over 95 per cent of production, with ten of these operating under the FTIB's investment promotion scheme. Of the remaining ten firms, 9 exported between 2 and 80 per cent of production, while one provided no response under this category.

### **2.4 Methodology 2: Learning from Others**

The study identifies comparison countries as guides to draw conclusions regarding strategies Fiji might use to improve export performance. Implications for Fiji will be drawn where appropriate throughout the paper. Specifically, the comparison exercise will address the following three core issues:

- (a) What products and markets in Asia might provide Fiji with export opportunities?
- (b) What strategies have comparison countries used to facilitate export performance?
- (c) What strategies have comparison countries used to draw foreign investment into their countries?

#### 2.4.1 Other Island Economies

Literature on the economic performance of Pacific Island countries such as Fiji often use as comparison countries other island economies, including other Pacific Island economies (PIEs), Caribbean Island economies (CIEs), and Indian Ocean economies (IOEs). Fiji's neighboring Pacific countries and the IOEs share a similar latitude with that of Fiji suggesting similar climatic and agricultural base characteristics. Indeed, it has been argued that the experience of more successful island economies can help to identify the causes of weaker economic performance in PIEs.<sup>4</sup>

These comparisons often highlight the notion that constraints such as natural disasters, limited and densely populated land area, and limited natural resources, need not curtail economic development, especially when technical advances in communications and transport are combined with concerted efforts to establish and follow policies that foster sustained economic growth and development.<sup>5</sup>

Consistent with Fiji, island economies have to import almost all the capital goods and raw materials needed for manufacturing. Their respective private sectors have also had to contend with high production costs and inappropriate public policies. Low labour productivity, high relative wages, and shortages of skilled labour and entrepreneurs are additional features shared by both island countries and Fiji. Thus, it will be instructive to look at strategies suggested for, and adopted by, these countries.

Within the IOE region, this study focuses primarily on the country of Mauritius whose success at expanding exports and investment is well-documented. Like Fiji, most island economies were former European colonies producing mainly agricultural commodities with very little manufacturing. Upon gaining independence, they sought to industrialize, moving away from the pattern of exporting mainly primary products and commodities.

#### 2.4.2 Successful Asian Economies

The performance of the dynamic East Asian economies will be especially instructive given Fiji's wish to penetrate these same export markets and attract inward investment. The strategies used by the four newly industrialized economies (NIE-4) of Taiwan Province of China, Republic of Korea, Singapore and Hong Kong, and the four Association of South-East Asian Nations (ASEAN 4) of Indonesia, Malaysia, Philippines and Thailand to expand exports and draw investment has been well documented.

While some have argued that the experiences of East Asia are not capable of being replicated by other economies today, most analysts agree that a selective and critical examination of successful Asian economies provides valuable insights into strategies other developing countries might adopt to stimulate growth.<sup>6</sup>

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4 See Pacific Island Economies , World Bank Country Study, 1991.

5 Ibid pp.3-4.

6 Griffith (1991) in his paper The Applicability of the East Asian Experience to Caribbean Countries notes that newly industrialized countries benefited from favorable treatment from Western governments, notably the United States, in their efforts to contain communism during the Cold War. This included waiving or ignoring quotas on textiles, clothing and footwear. Griffith also points out that the late 1950s and early 1960s, when the East Asian countries began their export drive, witnessed unprecedented global growth in total trade, with post-1953 trade in manufactures growing by about 11 per cent per annum. Other factors include the impact of technology which is reducing the advantage of lower labor costs and government control of labor costs and relations. See: Increasing the International Competitiveness of Exports from Caribbean Countries, edited by Wen and Sengupta, World Bank, 1991.

Of course, it should not be assumed that successful Asian economies used identical policies. Indeed, it is reassuring for countries like Fiji that each Asian government, once firmly committed to economic development, ultimately developed a cluster of policies to address economic needs with tools consistent with its institutional capacity and economic environment.

Petri (1993) notes that while commonalities exist between Asian economies in three broad areas of economic management, namely (1) building a stable macroeconomics environment conducive to investment and enterprise, (2) using market or non-market incentives to guide resources and initiatives into efficient activities, and (3) finding a dynamic engine of growth to provide leadership for development, a variety of different paths to the same goal were chosen by emerging Asian economies:

"At a time when world markets were willing to tolerate infant industry subsidies, some countries with forward-looking leaders and effective bureaucracies spurred development by publicly guiding and financing large scale enterprise. But others also achieved excellent results by relying on small scale or foreign enterprise as the engine of growth, and international competition as the steering mechanism."<sup>7</sup>

### **2.4.3 Small European States**

It has been argued that a key factor in the success of dynamic Asian economies has been their exceptional wage productivity, reflecting a culturally inspired work ethic. As countries with authoritarian leaning governments and traditionally docile trade unions, NIEs were particularly successful at wage restraint policies.

Blackman (1991), in his paper recommending wage price strategies for Caribbean countries, notes that because island economies reflect Western European traditions of parliamentary democracy and trade unionism, the experience of small West European States is more instructive when reviewing wage-related trade policies. Countries such as the Netherlands, Belgium, Norway and Sweden share similarities with Fiji such as relative small size, limited resource base and openness to regional economies.

## **2.5 Structure of the Study**

Following the Executive Summary, Section 2 outlines the scope, objectives and methodology of the study. Sections 3 to 7 provide background on Fiji's recent economic performance and policy environment, provides a primer on Asian markets (Section 4), and concludes with policy recommendations to support Fijian exporters (Section 5). Strategies for penetrating Asian markets and strategies for promoting foreign investment inflows are found in Sections 6 and 7 respectively.

Section 8 begins with a discussion of challenges in identifying products Fiji might export to Asia, followed by an outline of the revealed comparative advantage study used to identify products for export to Asia. Section 9 overviews the potential of several product groups, including discussions of Fiji's productive capability and the demand for the identified products in Asian markets.

Following the annexes provided to support the main report, additional annexes are provided on ten key Asian markets. Included are macroeconomic and trade data as available which may be used to support further research on Asian markets.

Finally, a separate volume is provided containing the supporting and intermediate calculations used in the revealed comparative advantage study. This data appears in its original output form from calculations done in Microsoft Excel for Windows.

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<sup>7</sup> The Lessons of East Asia, Petri, World Bank, 1993.

### 3. Fiji's Economic Structure and Policies

A World Bank study completed in 1990 to address the economic policy and strategy issues for Fiji as it moved into the post-1987 period of economic recovery identified three main elements of Fiji's development strategy. These are to: (a) promote private sector development; (b) improve public sector management; and (c) foster human resource development.

In the report the following requirements were identified:

- the need to apply cautious fiscal and monetary policy, including the possible need to further adjust exchange rates;
- the need to support competitiveness through wage moderation and regulation;
- the need to continue to reduce distortions stemming from import and price controls, and high tariffs; and,
- the need to address priority public expenditure areas, including infrastructure bottlenecks and human resources development.

In particular, the need to establish a competitive private sector was seen as crucial by multilateral advisors to Fiji and public sector officials interviewed. Budget planning documents and other government publications commonly identify the development of a strong private sector, inclusive of larger shares of indigenous Fijians and those on the economic periphery, as a fundamental element of Fiji's future economic growth. There has been an acknowledgment that the Fijian economy has not responded positively to "detailed planning, direction, regulation and administrative control". And further that a "major shift towards de-regulation and reduced protection for the private sector" has been identified as the most basic economic requirement for more sustained growth.<sup>8</sup>

The report noted that devaluation of the exchange rate and adjustment of wage determination policies have provided both a boost to the cost competitiveness of the economy as well as creating the opportunity to reduce levels of external protection.

However, a strong caveat of the expected rise in production and exports of especially manufactured goods concerned the improvement and availability of human resources at entry, experienced, and supervisory levels. Other needs identified in the study include the provision of improved industrial advisory services and research, marketing assistance, and labour relations services.

#### 3.1 The Manufacturing Sector

Manufacturing in Fiji has historically been characterized by two features: the dominance of sugar and a policy environment favoring production for the domestic market. While the importance of sugar manufacturing has been declining, it still represents an estimated 27 per cent share of manufacturing GDP and a 33 per cent share of total exports (which includes re-exports). And while liberalization and export promotion efforts have diversified and expanded manufacturing and exports to a significant degree, competitiveness in foreign markets is still constrained by the legacy of a manufacturing sector historically developed to serve an isolated and protected domestic market. In 1990, government officials estimated that almost 70 per cent of the non-sugar manufacturing sector owes its existence to the policy of import substitution<sup>9</sup>.

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8 Fiji: Challenges for Development , World Bank, 1990, pp.iii.

9 Fiji: Challenges for Development , World Bank, 1990, pp.iii.



Industrial growth since independence in 1970 has been in areas such as food and beverages, plastic, wood, paper, metal and chemical products, largely for low volume local demand<sup>10</sup>. Construction output in the seventies was also significantly fueled by government infrastructure spending, private investment in housing, and expansion of the hotel industry. In the 1970s the share of manufacturing in GDP remained virtually unchanged, fluctuating around a level of 11 to 12 per cent. However even this modest contribution to GDP is distorted due to protection and the higher price of domestically produced goods relative to those of comparable international products.<sup>11</sup>

Food processing outside of the sugar industry includes canned fish and meat, fruit juices (e.g. coconut, orange, passion fruit), bakery products, snack foods, tomato sauce, ghee, coconut products and processed ginger.

Non-food manufacturing is dominated by a few key sectors including wood products (veneer, furniture, sawn timber, wood chips) which is the second largest non-sugar manufacturing sector. This sector includes a number of medium-sized furniture firms who have penetrated markets in Canada, the United States, Asia and Australia. Garments and footwear have become dynamic sectors in recent years, with the production index of garment production climbing by 46 per cent compared to a growth of just under 24 per cent in industrial production as a whole. In 1993, garments accounted for 18.6 per cent of domestic exports.

Cement, paint and other building materials (mainly wood and metal products) are produced, primarily for local and regional markets. Other products include soap, paper and plastic products. There are also a number of small manufacturers producing items such as backpacks, life jackets and wetsuits. Finally, a few multinational firms from Australia and New Zealand manufacture a narrow range of chemicals. Table 1 provides Fiji's GDP by sector.

### **3.2 Recent Export Performance**

Fiji's main exports include sugar, gold, garments, fish and wood products, with significant gains in value seen in garments, fresh and canned fish, and wood chips over the 1987-1993 period. Furniture exports, a growing wood sub-sector, achieved exports of \$US 1.49 million in 1992. The fish sector is quite diversified with exports of fresh, frozen, canned and otherwise preserved fish products. Shellfish exports totaled almost \$US 4 million in 1992. Other food products exported include baked goods, taro, cereal, vegetables, fruits, coconut oil, pasta and spices. Other export sectors include a range of paper products (cardboard boxes, stationary, bulk kraft and corrugated paper), building materials (paints, varnishes, wire, roofing sheets, fencing and fittings) and soap/toiletry articles. Table 2 shows Fiji's main domestic exports.

In terms of direction of trade, the destination of Fiji's exports is strongly influenced by regionalism, trade under preferential agreements, and fading but still significant colonial ties to the United Kingdom. Under the South Pacific Regional Trade and Economic Cooperation agreement (SPARTECA) products from Fiji enter Australia and New Zealand duty free and without quantitative restrictions or with more limited concessional treatment for certain products like clothing, footwear and sugar. Sugar exports benefit under the Lome IV convention, allowing preferential access to European Community markets. Fiji also enjoys treatment under the Generalized System of Preferences (GSP) from a number of industrialized nations.

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10 Fiji: A Transition to Manufacturing , World Bank, 1987, pp.31.

11 Fiji: A Transition to Manufacturing. World Bank, pp.52.

**Table 1: Fiji's Gross Domestic Product by Sector**

(Unit : \$F'000)

ACTIVITY	1989		1993	
	Value	Percentage	Value	Percentage
<b>1. Agriculture, Forestry and Fishing</b>	<b>189,578</b>	<b>23.26</b>	<b>186,147</b>	<b>20.65</b>
1.1 Crops				
1.1.1 Sugarcane	78,989	9.69	75,605	8.39
1.1.2 Other Crops	26,421	3.24	24,708	2.74
1.2 Livestock Products	7,399	0.91	7,775	0.86
1.3 Fishing	12,986	1.59	11,728	1.30
1.4 Forestry	12,542	1.54	14,642	1.62
1.5 Subsistence	51,241	6.29	51,689	5.74
<b>2. Mining and Quarrying</b>	<b>1,875</b>	<b>0.23</b>	<b>1,681</b>	<b>0.19</b>
<b>3. Manufacturing</b>	<b>92,837</b>	<b>11.39</b>	<b>108,002</b>	<b>11.98</b>
3.1 Sugar	30,563	3.75	29,303	3.25
3.2 Other Food, Drink and Tobacco	27,422	3.36	30,053	3.33
3.3 Other Manufacturing	32,224	3.95	45,869	5.09
3.4 Self-employment	2,628	0.32	2,777	0.31
<b>4. Electricity, Gas and Water</b>	<b>10,084</b>	<b>1.24</b>	<b>12,334</b>	<b>1.37</b>
<b>5. Building and Construction</b>	<b>33,591</b>	<b>4.12</b>	<b>42,557</b>	<b>4.72</b>
<b>6. Wholesales &amp; Retail Trade, Restaurants &amp; Hotels</b>	<b>160,737</b>	<b>19.72</b>	<b>183,347</b>	<b>20.34</b>
6.1 Trade	132,813	16.29	152,900	16.96
6.2 Hotels, Restaurant, Cafes	27,924	3.43	30,447	3.38
<b>7. Transport and Communications</b>	<b>111,102</b>	<b>13.63</b>	<b>131,606</b>	<b>14.60</b>
7.1 Transport	96,224	11.81	116,124	12.88
7.2 Communications	14,878	1.83	15,482	1.72
<b>8. Finance, Insurance, Real Estate &amp; Business Services</b>	<b>99,423</b>	<b>12.20</b>	<b>119,981</b>	<b>13.31</b>
<b>9. Community, Social and Personal Services</b>	<b>138,603</b>	<b>17.01</b>	<b>149,824</b>	<b>16.62</b>
<b>10. Other N.E.S.</b>	<b>1,592</b>	<b>0.20</b>	<b>1,760</b>	<b>0.20</b>
Less Inputted Service Charges	24,352	2.99	35,951	3.99
<b>All Activities</b>	<b>815,070</b>	<b>100.00</b>	<b>901,288</b>	<b>100.00</b>

Source : Bureau of Statistics, Fiji

**Table 2: Fiji's Domestic Export Structure**

(\$F mil.)

Product	1987		1993	
	Value	Percentage	Value	Percentage
Fish: Canned	20,782	6.64	31,425	5.34
Fish: Other	4,285	1.37	11,819	2.0
Bakery Products	1,098	0.35	2,089	0.39
Pasta: Uncooked & Not Stuffed	1,598	0.51	4,868	0.91
Taro (Dalo)	150	0.05	549	0.10
Sugar	186,158	59.44	230,688	39.2
Molasses	10,559	3.37	9,991	1.86
Ginger: Green	2,797	0.89	1,432	0.27
Ginger: Other	641	0.20	21	0.00
Cigarettes	70	0.02	1	0.00
Cork & Wood: Woodchips	1,970	0.63	18,179	3.38
Cork & Wood: Other	10,724	3.42	12,780	2.38
Trochus Shell	987	0.32	617	0.11
Coconut Oil	3,022	0.96	3,667	0.68
Paints & Enamel	716	0.23	1,029	0.19
Veneer Sheets	3,069	0.98	3,673	0.68
Plywood	2,201	0.70	1,495	0.28
Cartons, Boxes & Cases	2,206	0.70	4,616	0.86
Cement: Portland	291	0.09	360	0.07
Iron & Steel Roofing Sheets	376	0.12	1,527	0.28
Other Iron & Steel	102	0.03	1,036	0.19
Garments	8,804	2.81	128,769	23.96
Gold	50,557	16.14	66,746	12.42
Others	20,815	6.23	51,012	8.67
<b>Total</b>	<b>333,978</b>	<b>100.00</b>	<b>588,389</b>	<b>100.00</b>

Source : Bureau of Statistics, Fiji.

Note : Does not include re-exports.

In 1993, over 37 per cent of Fiji's exports went to the combined market of Australia and New Zealand. Another 26 per cent of Fiji's total exports goes to the United Kingdom, while a further 21 per cent goes to the United States and Canada combined. A significant percentage of the remaining share of Fiji's exports are absorbed by the numerous Pacific nations neighboring Fiji.

The largest Asian destination of Fijian exports is Japan which, following growth in recent years, accounted for almost 10 per cent of Fiji's exports in 1993. Exports to China, Hong Kong and Taiwan Province of China have declined as a share of total Fijian exports over the past few years, while markets in Singapore, Republic of Korea and Thailand have absorbed larger shares in recent years. See Table 3.

**Table 3: Destination of Fiji's Exports**

(\$F mil.)

Country or area	1987		1993	
	Value	Percentage	Value	Percentage
Australia	72,513	24.49	157,223	29.41
Canada	-	-	42,134	7.88
China	12,917	4.36	14,726	2.75
Taiwan Province of China	10,332	3.49	610	0.11
France	-	-	442	0.08
Germany	1,557	0.53	2,676	0.50
Hong Kong	3,023	1.02	3,155	0.59
Japan	12,356	4.17	51,277	9.59
Republic of Korea	-	-	7,745	1.45
New Zealand	23,470	7.93	35,465	6.63
Singapore	190	0.06	3,306	0.62
Thailand	-	-	263	0.05
United Kingdom	138,791	46.88	143,069	26.76
United States	20,927	7.07	72,482	13.56
Others	88,334	22.98	157,831	22.79
<b>Total</b>	<b>384,410</b>	<b>100.00</b>	<b>692,402</b>	<b>100.00</b>

Source :Bureau of Statistics, Fiji.

### 3.3 Foreign Investment Activity

Investment in Fiji is carried out under both Tax Free Factory (TFF) and Non-Tax Free Factory bases. Non-TFF investment has accounted for a larger share of overall investment value. In 1993, implemented investment in TFF and non-TFF accounted for \$F 6,519,500 and \$F 41,038,694 respectively. Services and tourism projects accounted for over 75 per cent of proposed investment under non-TFF investment. Projects in the fish, wood and mineral sectors account for the dominant share of manufacturing projects under non-TFF investment.

Fiji's TFF program has had considerable success in attracting investment, most notably in the garment sector with 95 out of 135 projects implemented between 1988 and 1993 in this industry. Other key sectors represented in TFF investment include wood/furniture, leather/footwear and agro-industry. Wholly-owned Fijian enterprises have represented the bulk of investment, with Australia and New Zealand the next largest investor countries in terms of numbers of projects and value of investment.

Asian investment accounts for a smaller but significant share of total TFF investment. In 1992, Singaporean and Hong Kong investors operated four and five factories respectively, while Taiwanese and Chinese investors each operated 2 factories. All these ventures are wholly foreign-owned. Figures for 1993 suggest an emerging trend of Asian investors formulating joint-ventures with local firms in addition to wholly foreign-owned ventures. This is especially evident with Chinese investors as 11 applications were received for Fiji/Chinese joint-ventures with 3 of these implemented by end-1993.

A second trend, boding well for Fiji's future, is the increasing interest of Asian investors in Fiji in general. China submitted nine applications for wholly Chinese-owned ventures with three of these implemented by year end. Japan, who had no recorded investment during 1990-1992, is also emerging as an important investor. In 1993, Japan submitted applications for four wholly Japanese-owned projects and two applications for joint-ventures. Four of these projects have been implemented. Singapore, Taiwan Province of China and Republic of Korea also implemented projects during 1993.

### **3.4 Trade and Industry Policies**

In recent years, Fiji has made efforts to reduce the anti-export bias of the incentive structure which favored manufacturing for the domestic market following almost two decades of measures such as import duties, quantitative import restrictions, production licensing, tax holidays, and credit access privileges "reaching down to the level of individual firms". The result of this protection having "eroded the incentives of individual firms to raise efficiency".<sup>12</sup>

The governments Ninth Development Plan (1986-1990) and other economic policy papers note the need to develop selective industries and encourage export promotion through the reorientation of this sector to make it more efficient and competitive.<sup>13</sup>

#### **3.4.1 Trade Liberalization**

Recent major steps to liberalize the trading environment include the removal of import license controls on a large number of commodities beginning in 1989, and progressive reductions in import tariff rates which following reductions in 1989 converged rates at 50 per cent with a 7.5 per cent value added tax (VAT). Currently, rates converge at 20 per cent with a ten per cent VAT following a series of reductions since 1989. Some products, mostly primary, remain under license. The Customs and Excise department report they are aiming to bring tariffs to a common level of 20 per cent.

A detailed review of Fiji's tariff structure was recently completed by the United Nations Development Program (UNDP). The study, Tariff Restructuring Review: Fiji (1993), advises reviewing the impact on Fijian industry of further liberalization:

"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 the economy including possible alternatives to previous industrial development."<sup>14</sup>

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12 Fiji: A Transition to Manufacturing, World Bank, pp.53.

13 Ninth Development Plan 1986-1990, Government of Fiji, pp.10.

14 Fiji: Tariff Restructuring Review, UNDP, 1993, pp.iv.

The report recommends consideration of the following issues with regard to further import deregulation in Fiji:

- that the retention of the hitherto high speed of import liberalization may endanger any successful efficiency adjustment of local business;
- that 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;
- that efforts of local business to cut costs may reach limits given the continued existence of regulatory rigidities in other policy fields.

Despite considerable progress in rationalizing tariffs, the report notes the need to continue this process:

"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.<sup>15</sup>"

### **3.4.2 Export Promotion**

A clear signal of government interest in moving away from a policy of import substitution toward a policy of export promotion is found in the creation of Fiji's Tax Free Zones (TFZ: a number of factories in a designated industrial park) and Tax Free Factories (TFF: individual factories enjoying the same benefits) in 1988. The objectives of these initiatives include improving technical capability, increasing export earnings and increasing employment. More recently, a somewhat more conservative incentive package was established to encourage investment in projects unable to meet the export criterion under the TFZ/TFF schedule.

Benefits under both schemes include a respective range of tax and customs concessions, as well as adjusted and accelerated depreciation, carry forward of losses, reduced rates of withholding tax, and freedom to bring in key expatriate personnel and specialist personnel (the latter where none exist within the country). In addition, there is a range of industry-specific concessions in such sectors as tourism, mining, and agriculture. Finally, there are provisions under the schedule for the trading banks of Fiji to offer concessional rates of interest to qualified exporters.

### **3.4.3 Export Finance Facilities**

The Reserve Bank of Fiji provides pre- and post-shipment financing at the concessionary rate of seven per cent, which represents the Reserve Bank's refinancing cost of 5 per cent and a 2 per cent margin for commercial banks. The facility has a domestic value-added requirement of between 40 and 50 per cent dependent on whether the export goes to a SPARTECA, LOME or other destination. The commercial banks are directed to apply commercial standards of risk assessment. A forward exchange cover mechanism is also available.

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15 Fiji: Tariff Restructuring Review, UNDP, 1993, pp.v.



Interviews with commercial bank representatives and the private sector revealed a span of reactions to the facility. A review of the facility by the Reserve Bank of Fiji found the facility had limited impact during the period 1988-1992, due to excess liquidity causing banks to lend their own funds, and the poor promotion of the facility.<sup>16</sup>

While most agreed the financing facility was useful and currently exploited at moderate levels, both the commercial banking and private sectors expressed concerns regarding the facility. Reserve Bank figures show a rise in average monthly outstanding advances of \$F 2.2 million in 1992 to \$F 3.5 million for the first seven months of 1994, with considerable up and down fluctuation over the years.

The pre-shipment garners the most need, often 2 or 3 times the value of the post-shipment side. The sense received from commercial bank representatives ranged from positive to neutral to indifferent. As one bank representative noted "if we are taking the risk, we would rather use our own product at commercial rates". As expected, individual banks varied in their commitment to promote the facility in their banks.

A key concern of the private sector in Fiji, as expressed in surveys and interviews, is the inability to obtain financing using standard trading collateral such as letters of credit (LC). Sixteen firms responding to the question 'Are you aware and do you use the Pre-shipment and Post-shipment financing facility available through the Reserve Bank?'. Of these, four responded they are, had in the past, or are in the future planning to use the facility, while four firms were unaware of the facility. Of six firms aware of the facility, but not using it, several noted the inability to meet the commercial bank's need for collateral-based security.

Given that commercial banks hold the entire risk, their demand for security is not surprising. Adding new credit to the system without the need for collateral is a key challenge of agencies in developing countries that formulate export financing schemes. Without effective export financing that accepts instruments such as LC, it is only cash-rich firms that will likely be able to aggressively penetrate Asian markets. Of the four firms currently using the facility, one noted needing longer time for financing when dealing in new Asian markets and the general difficulty in Fiji to finance growth. One fashion garment firm stated they had to reject orders from Republic of Korea and the United States due to lack of financing flexibility. The issue of export financing is a significant one. It is explored further in Section 5.4.

### **3.5 Labour Markets**

Fiji has approximately 94,000 persons in paid employment, with some 35,000 of these unionized. Interviews and secondary sources suggest that union membership is declining in one employer's view because employees feel they can negotiate as well on their own while saving union dues. Fiji has also used a Tripartite Forum, bringing together unions, employees and government to negotiate wages. While a 1987 report described the body as 'functioning tolerably' in the past, the current role of this body is unclear as it was not referred to by public sector interviewees while on mission nor in the Labour Regulations and Employment Standards brief provided to the consultant.

Many nonunion wages are negotiated through sector-specific wage councils made up of employee and employer representatives. Other non-unionized and informal labour wages tend to be lower, reflecting more accurately labour market conditions in Fiji. Private sector interviewees varied in their perceptions of labour cost. Some noted that while labour cost is rising, it is still manageable especially given the wage differentials in export markets of Australia, New Zealand and United States. Others felt the labour costs in Fiji are much too high given the relatively low productivity levels of Fiji's labour force.

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16 See: Reserve Bank of Fiji, Quarterly Review, September 1992.

In general, wage scales in Fiji are less than in NIEs, lying more on par with the ASEAN countries of Thailand and Malaysia. However, Fiji's labour elite receive wages more in line with industrial workers in NIEs. Fiji's labour costs are significantly higher than the emerging economies of China, Viet Nam and Myanmar.

Thailand, with a much deeper and diversified manufacturing sector than that of Fiji and similar wage levels (with considerably higher productivity ratios) has been losing its competitiveness in products like textiles, garments and jewelry in recent years.<sup>17</sup> Competition from countries such as China, Viet Nam, Indonesia, Malaysia, India and Bangladesh are causing serious concern within these Thai industries<sup>18</sup>. Table 4 compares garment sector wages in selected countries.

### 3.5.1 Human Resources Development

The World Bank report, Fiji: Challenges for Development notes two challenges facing the education and training system: increasing the participation and performance of indigenous Fijians in education and training, and ensuring the investments in vocational and technical education are driven by labour market demand. This same report noted that despite the high levels of coverage in education, employment levels were not stimulated calling into question the goals of Fiji's education and training initiatives.

Interviews, surveys and reviews of secondary sources suggest that in both these areas considerable work is yet to be done. Members of both the public and private sectors in Fiji admitted that programs such as the Fiji National Training Council (FNTC) and The Garment School were failing to address the needs of a struggling and busy manufacturing sector. Moreover, the obligatory 1 per cent levy on employers is resented in many cases as those surveyed and interviewed felt they received nothing. Some viewed the levy as a 'tax'. Employers noted that the programs only address the lowest of skill levels, while others noted that their employees required firm-specific training. One garment manufacturer noted using available facilities only for administrative staff to upgrade computer skills.

**Table 4: Labour Cost Comparison in Textile Industry**

(\$US per Hour)

Country or area	1988	1989	1990	1991	1992
Fiji	1.01	0.91	0.92	0.96	1.03
Taiwan Province of China	2.94	3.36	4.56	5.00	5.76
Republic of Korea	2.29	2.87	3.22	3.60	3.66
Hong Kong	2.19	2.44	3.05	3.39	3.85
Singapore	N/A.	N/A.	2.83	3.16	3.56
Malaysia	0.81	0.82	0.86	0.95	1.18
Thailand	0.66	0.68	0.92	0.87	1.04
Philippines	0.64	0.64	0.67	0.67	0.78
India	0.77	0.65	0.72	0.55	0.56
Sri Lanka	0.30	0.26	0.24	0.39	0.39
Pakistan	0.40	0.37	0.39	0.38	0.44
Indonesia	0.22	0.25	0.25	0.28	0.43
China	0.27	0.40	0.37	0.34	0.36

Note: Labour costs (in \$US per hour) including allowances and social expenses.  
Sources: Werner International Textile Intelligence Unit; Fiji Bureau of Statistics

17 See: Investment Opportunity Study: Textiles and Related Industries, Thai Board of Investment, 1994.

18 See: Thailand Corporate Alert, October 1994.

## 4. A Primer on Asian Markets

The Asian market presents an enormous and diversified market for Fiji-based exporters. Nevertheless, competition for market share in Asia is extremely fierce, with Asia's own liberalization efforts and the globalization of trade forcing Asian producers to become even more competitive. Asian foreign direct investors are now investing in countries such as China, Myanmar, India and Viet Nam in search of cheaper labour and potential domestic demand. At the same time, higher developed countries like Japan, Singapore and Taiwan Province of China continue to invest strongly in developing human and technical resources in order to remain competitive in rapidly changing high technology markets. Between 1982 and 1992 the average GDP growth of the NIEs, ASEAN and China has averaged 7.9 per cent, over 3 times the world average of 2.5 per cent during the same period.<sup>19</sup>

Particularly relevant to Fiji's export plans is that Asia's economic miracle has included significant increases in intra-regional trade. Asia to Asia trade grew from just over 30 per cent of the region's total trade in 1986 to 42 per cent in 1991, with growth expected to continue. The collective trade of Singapore, Hong Kong, China and Taiwan Province of China with China grew from \$US 250 billion in 1986 to roughly \$US 600 billion in 1991. Also of interest is the external picture. While Asia countries receive 41 per cent of Asia's total exports and 26 per cent of the United States exports, only 6 per cent of EC exports went to Asia in 1991. See Table 5.

**Table 5: US-Asia Inter-regional Trade**

(\$US bil)

Trade	1986	Per cent of Total Trade	1991	Per cent of Total Trade
Asia to USA	142.4	34	191.6	24
USA to Asia	47.4	23	104.3	26
Asia to Asia	136.0	31	332.0	42

Source: Nomura Research Institute

NIEs tend to have well-developed manufacturing sectors, small relative shares of agricultural in their GDP, and high per capita income. Measured by the World Bank's GNP per capita measure, NIEs fall into the 'Upper-middle-income' or 'High-income' level. Barring Japan, Asia's highest wages are found in NIEs. Wages and income levels in Japan are on par with industrialized nations.

The ASEAN-4 countries contrast more dramatically in terms of income and production levels, with Philippines and Indonesia at lower income levels and Malaysia and Thailand sitting at somewhat higher levels. The latter two have engaged in aggressive policies of export and foreign direct investment promotion and boast relatively well-developed manufacturing sectors, but with significantly less diversification, technology and supporting industries than found in NIEs. However, both the Philippines and Indonesia have made significant gains in recent years and it is expected that income levels and manufacturing output will continue to rise.

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<sup>19</sup> Nomura Research Institute as reported in Asia Inc. January 1993 pp.30.

Japan had the second highest GNP per capita (based on 1992 figures) in the World Bank's 1994 development report. With a sophisticated manufacturing sector and as one of the world's key foreign direct investors, Japanese firms are industry leaders in many technical sectors, often in competition with her NIE rivals.

China warrants separate discussion on two accounts: a population of over a billion people and an economy that has been growing at a rapid pace in recent years with expected high growth in the future. While inflation is an ongoing risk and may curtail growth directly by inhibiting spending and investment or indirectly through government policy aimed at cooling the economy, the potential of this huge and diversified market cannot be ignored by any country hoping to expand exports into the next century. Purchasing power varies widely within the country, with demand for consumer products, capital goods and other products at all price levels. The World Bank currently classifies China as a lower-income country. Table 6 provides key economic demand indicators for Asian markets.

#### **4.1 Key Demand and Policy Trends in Asian Markets**

It is beyond the scope of this paper to comprehensively assess the demand and policy trends that will influence the various Asian markets into the next century. Yet there are emerging trends that provide some insight for those considering establishing or expanding exports to these dynamic markets. The most obvious trend flows from the significant rises in purchasing power stimulating growing demand for consumer, intermediate and capital goods.

Within the consumer sector, there is general demand for a wider range of products. With respect to 'high quality', this often implies imported goods from industrialized North American and European nations, but products from NIEs are increasingly valued by world markets including those in Asia. Asian markets are becoming more selective, with demand for many types of products country or even brand specific. There is growing demand for American and European 'designer labels' and other brand name goods in areas such as clothing, cosmetics, housewares and jewelry. International consumer trends such as demand for products with health, leisure and environmental connotations is also growing in Asia.

One component of the Asian market that should be considered is the growing purchasing power and size of the youth market. Survey Research Hong Kong estimates there are 85 million persons in the 10-19 age range Asia-wide. Today Asia's youth are more independent, sophisticated and cosmopolitan than their parents were, and are heavily influenced by Western (particularly American) fashion trends. Interestingly, even adult purchases such as cars and audio equipment are influenced by the perceptions of youth as parents rely on their children for a flow of information on new product specifications, according to Denstsu, Japan's leading advertising agency.<sup>20</sup>

In Japan, toy sales alone are estimated at \$US 3.1 billion per year, with spending on children's shoes and clothes roughly \$US 8.8 billion, according to government figures. Asian banks are increasingly targeting the youth to secure life-long clients. Malaysia's Public Bank, has 38,000 members in its under 12 years of age savings account program, with assets totaling \$US 56 million. Table 7 shows the demographics of the region's youth market.

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20 Consumer Kids Get Star Billing, Asian Business, October 1994, pp.22.

**Table 6: Key Import Indicators of Asian Markets**

Country or area	Population (mil. pers.)	1992 GDP (mil. \$US )	Total Imports (mil. \$US; 1992)	Percentage Growth of Imports (1988-1992)	Percentage Share of Merchandise Imports (1992)						
					Food/Other bev.	Industry supplies	Fuels	Machinery	Transport	Consumer goods	Other
Indonesia	184	126,364	27,279.4	105.9	5.2	40.9	7.5	36.6	7.1	2.0	0.5
Singapore	2.8	46,025	72,067.2	64.7	4.9	22.9	12.7	36.5	8.0	13.8	1.1
China	1,162	506,075	80,585.3	45.8	4.0	48.1	4.4	29.1	8.4	5.1	0.8
Hong Kong	5.8	77,828	123,426.9	93.2	5.2	32.5	2.0	20.7	4.9	34.3	0.5
Japan	124	3,670,979	230,974.8	26.0	14.5	30.1	22.7	11.7	5.2	14.3	1.5
Republic of Korea	43.6	296,136	81,412.5	57.4	4.3	35.7	18.0	31.2	6.4	3.9	0.6
Philippines	64.2	52,462	15,464.9	77.2	6.3	32.0	13.8	20.6	7.4	3.5	16.4
Thailand	57.9	110,337	40,466.4	100.0	4.3	38.7	8.2	31.1	10.3	4.9	2.4
Malaysia	18.6	57,568	35,182.8	179.0	5.5	28.7	4.3	45.8	9.2	5.9	0.6

Sources: World Bank, United Nations Trade Data, Asian Development Bank

**Table 7: Asia's Youth Market**

<b>Country or area</b>	<b>Percentage of Population</b>	<b>Number of Persons (Unit: 000)</b>
Hong Kong	17	839
Philippines	26	11,206
Malaysia	23	3,828
Thailand	24	11,517
Taiwan Province of China	21	3,876
Republic of Korea	22	8,477
Singapore	16	415
Indonesia	26	42,361

Source : Survey Research Group Media Index

A significant trend impacting Asian markets involves the global trend towards trade liberalization and the rise of regional 'free trade zones', designed to liberalize trade between participating countries. The Association of South East Asian Nations (ASEAN) which includes the countries of Thailand, Malaysia, Singapore, Indonesia, and Brunei Darussalam are currently engaged in a program to reduce their import tariffs. During a September ASEAN Ministers meetings the process was speeded up to achieve an ASEAN Free Trade Area (AFTA) by 1 January 2003.

While member countries are currently allowed and have chosen in some cases to opt certain products out of the program, the trend and political pressure is to preserve the integrity of the program and have it successfully implemented. Even despite the exceptions, the product list is extremely wide and the trend is greater inclusion. In general, the impact of the program will likely be to weaken uncompetitive industries, while benefiting competitive industries as specialization occurs in those country's activities which are sustainable in an unprotected market. Until comprehensive global liberalization of trade, it will also make exports from outside the area more expensive.



## **5. Laying a Foundation for Export Growth**

During research for this study, a few salient and critical issues arose that seem lie at the basis of Fiji's efforts to develop a vital export sector. While these may not be new to many familiar with the Fijian economy as these issues have been identified in both primary and secondary sources, they remain important. What is less visible in Fiji is an environment of consensus and commitment on the part of those who influence Fiji's investment and export environment to tirelessly address the challenges facing exporters and investors.

The critical variable to Fiji's future success as a world class exporter is the degree to which the export and investment policy environment is an asset or liability for Fiji's private sector. No amount of market research to identify products exportable to Asian markets will solve fundamental issues such as low business confidence, inefficient and high cost labour, lack of effective export financing, limited marketing expertise, and unavailability of market information.

### **5.1 Human Resources Development**

A thorough evaluation of Fiji's efforts to develop human resources was not completed under the terms of reference (TOR) of this study. However, a review of interviews, surveys and secondary sources raised a number of challenges for the labour market. These can be categorized under the following categories:

- the limited availability of skilled labour;
- relative low productivity of Fiji's workforce.

The impact of wage costs in Fiji need not curtail development of a vital manufacturing sector. However, an outward-looking, export-oriented economy requires productivity increases if exports are to compete for market share in some of the most production-oriented countries in the world. While the need to raise productivity in Fiji is well documented and garners a certain amount of consensus among management, government, labour and unions, the consultant found no agreement on how this is to be achieved.

To ensure educational and training objectives meet the demands of the private sector requires the closest of relationships between the providers of educational services and the private sector end-users of labour. Liberalizing education involves two key elements: (1) the liberalization of education as an area for investment, and (2) the shifting of decision making over educational format, content and delivery mechanism from public sector to private sector control. Above all, education for employment should reflect the needs and convenience of the private sector to the fullest possible extent.

It is clear that in view of the critical need to improve productivity and competitiveness, the luxury of training programs unfocussed on the needs of the private sector, available only during normal business hours and provided with full pay is a luxury Fiji may not be able to afford. There needs to be considerably more flexibility built into the system to allow employers to train in firm-specific skills on a schedule that disrupts production and profits as little as possible. It is interesting to note that 9 of the 21 firms surveyed as part of this study noted 'training' would absorb a portion of their planned increases in investment. The consultant found a general perception that training support in Fiji was inadequate, with the majority of the employers using available facilities to a limited degree or opting to train internally.

A review of the structure and goals of Fiji's training infrastructure is clearly needed, and should include strong private sector input. An initial recommendation is to examine the FNTC levy/grant system so that companies, especially small employers, receive a higher proportions of grants to allow flexibility in training.

The public sector should not be excluded from educational efforts as it is crucial that government trade and export promotion personnel recognize the realities of international competition and the local private sector's struggle to compete. Using local and Pacific region resources, Fijian authorities should endeavor to provide training to Fiji Trade and Investment Board (FTIB) staff and other appropriate officials in export promotion, international information gathering, investment promotion, and other identified areas. Staff exchanges with public sector agencies in Australia, New Zealand and Asia are recommended

A related issue much discussed among the business community (and referred to in a recent budget statement) is the cultural constraint on indigenous Fijians (IFs) to engage in entrepreneurial activities. The consultants experience suggested the issue is not so clear. Indeed, interviews suggest indigenous Fijian entrepreneurs play an important role in a number of sectors, and could participate further if needs-oriented training is provided.

Equally important, however, is the need to expose IF labour and employers to market forces and the demands of international competition. Thus, Fiji's efforts to liberalize the trading, investment and labour markets will act in concert with training efforts to provide opportunities for greater IF participation in the economy.

To supplement these efforts, a public/private sector publicity campaign promoting greater IF participation in the economy is recommended. Publishing profiles of successful IF entrepreneurs in various media including the investment promotion material suggested in Section 7.5 of this report are suggested. However, care should be taken to provide equal opportunity to all members of Fiji's business community.

Other recommendations to strengthen the labour force in Fiji include:

- Expanding opportunities for the study of business and related topics abroad;
- Encouraging the FTIB, SPPF, SBAU<sup>21</sup> and other agencies to provide needs-oriented seminars and other training support in entrepreneurial skills, including provision of peer teaching by successful business people;
- Exploring the issue of compensation packages to ensure they reflect the cultural preferences and actual needs of members of the labour force;
- Ensuring that there are clear signals in the labour market regarding the links between productivity, remuneration and quality of life;
- Encouraging employers to introduce promotion and wage policies that acknowledge training and production achievements.

Fundamentally, private sector, needs-driven investment in education and training is essential to bring Fiji's labour force to levels required to compete in international markets. An additional review of the status of human resources development in Fiji can be found in the World Bank report, Fiji: Performance and Prospects of Education, Training and Health Services, (No. 8119-FIJ, 1989). A number of labour and training issues are also raised in the 1990 World Bank report, Fiji: Challenges for Development. The report includes recommendations to support development of the labour market, to improve formal education, and to improve and expand vocational/technical education.

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21 SPPF: South Pacific Project Facility; SBAU: Small Business Advisory Unit.

The role of investment in education and training among dynamic Asian economies is instructive for Fiji. A brief review is found in Box 1.

**Box : 1 Education and Labour Markets in Asia**

East Asia's high and growing investments in human capital contributed both to accumulation, since human capital is an essential input to economic growth, and to productivity-based catching up, by permitting better mastery of technology. Indeed, between 60% and 90% of the high performing Asian economies' (HPAEs) output growth derives from accumulation of physical and human capital. Accumulation and catching up would not have been possible, however, without flexible labour markets to make optimal use of the well-educated workforce.

Government roles in labour markets in the successful Asian economics contrast sharply with the situation in most other developing economics. HPAE governments have generally been less vulnerable and less responsive than other developing-economy governments to organized labour's demands to legislate a minimum wage. Rather, they have focused their efforts on generating jobs, effectively boosting the demand for workers. As a result, employment levels have risen first, followed by market and productivity-driven increases in wage levels. Because wages - or at least wage rate increases - have been downwardly flexible in response to changes in the demand for labour, adjustment to macroeconomics shocks has generally been quicker and less painful in East Asia than in other developing regions.

Vocational training

Human resources and the training to upgrade them have been important to the HPAEs' successful export drives, despite the high labour intensity of their manufactured exports. High-level skills are essential for a range of manufacturing-related activities. Moreover, adaptive innovations on the shop floor, which are responsible for a major share of productivity growth in manufacturing, demand both higher - and lower - level skills. But vocational training is rarely cost-efficient when provided in the school systems. Firms prefer to do their own training partly because many skills are firm specific.

Lessons can be learned from government efforts to promote training that have gone awry. According to one study, Republic of Korea's 1974 Special Law for Vocational Training, which required firms to provide six months of training in approved schemes, discouraged firm-level training; firms considered the period too long and opted to pay a fine instead. But Singapore succeeded by using training to promote the information technology sector. Singapore has achieved world leadership in information-related services through concerted program that involved technical education institutions, training subsidies to school and office workers, computerization of the civil service, and establishment of TradeNet, a global information network.

Source : World Bank Development Brief, No. 23, October 1993.

## **5.2 Further Regulatory Reforms and Liberalization**

Interviews with the private sector and articles in Fiji's local media noted considerable concern on the part of Fiji-based businesses with the dropping of import controls and tariff rates. One producer in the canned meat and fish sector reported investing large sums of money for efficient machinery only to later lose share to importers who could undercut his price following liberalization moves. The manager noted that efforts to penetrate new export markets were curtailed as the firm's liquidity was damaged from losing its' domestic sales base.

In this regard, Fijian authorities should endeavor to implement liberalization measures in the most transparent, supportive and evenly applied manner as possible. It is clear that the liberalization issue in Fiji, as in most countries, is politically contentious. Viewing the matter more cynically, trade liberalization offers those in positions of political power opportunities to 'manage' the liberalization process to serve their own political ends. This perception has gained some support in the business community, most recently with the government's recent announcement that only indigenous Fijians will be granted licenses to import chicken from the United States.

Business confidence will only continue to be undermined if liberalization is not undertaken in a sensitive manner with the driving mechanism being the development of a confident and internationally competitive private sector. There will likely be some casualties as firms adjust to an unprotected operating environment. However, the commitment and consensus to strengthen Fiji's industrial base must be the overriding principle in liberalization efforts.

The report, Fiji: Tariff Restructuring Review notes two areas for government 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.

### **5.3 Towards a Competitive Labour Market in Fiji**

When looking at the success of the Asian economies there is little doubt that flexible, inexpensive labour was a key variable. This is also reflected in the performance of Mauritius, where minimum wages do not apply to EPZs, and employers are allowed considerable freedom to shed labour. In Fiji's case, the policy of promoting exports must take into account the impact of wage cost and quality on competitiveness, especially as it applies to the development of specific industries and products for export.

In the end, high relative labour costs will pre-empt the feasibility of producing certain products/industries in Fiji. Conversely, a liberal labour market allows a transparent environment from which to assess the viability of producing respective products for export. As in Mauritius, Fiji may experience an increase in employment once compensation packages reflect market conditions.

Interviews with representatives of the Fiji Employees Federation (FEF) and Fiji Trade Union Congress (FTUC) highlighted conflicting perceptions regarding the labour market. The FTUC representative stated that collective agreements are needed to establish and maintain standards of living, while the FEF representative noted the need to allow market forces and productivity to determine wage levels in order to maintain competitiveness and provide transparency. The union representative was concerned for the bargaining power of workers, especially those at the lower end of skill and income levels. Discussions of allowing at piecework to be done at home by housewives and others elicited considerable concern from the union representative.

This is clearly a contentious issue in Fiji, complicated as it has been in Mauritius and small European states (SES) by historically strong trade unions and traditions of parliamentary democracy that preclude the government from unilaterally weakening unions.

While labour market reform is a complex issue having significant social and economic implications, it is crucial that policymakers attempt to move toward market driven wages in drafting labour policies and initiatives. In this regard, the role and legitimacy of unions and government authorities vis-a-vis the labour market should be carefully reviewed.

Options to move toward a more competitive labour market include integrating productivity provisions into collective agreements. Minimum wage standards already exist in Fiji, allowing actual wages to be defined by productivity. This could be a preliminary step to the external market determining the price of labour.

The integration of peripheral labour such as housewives and those confined to the home should also be encouraged and possibly monitored to ensure abuses do not occur. A registration system, managed with the input of government, employees and employers could be established to monitor demands on employees and consistency in remuneration.

The SESs, discussed in Section 2.4.3 share similarities with Fiji, including similar democratic traditions, isolated geographical position and susceptibility to external markets. It has been suggested by Blackman (1991) in his study on the status of wages in CIEs that the wage policies of SESs can be a guide to effective wage level management CIEs. He notes that unlike most CIEs, SESs have followed a flexible posture in the face of international adjustments beyond their control characterized by liberal trading policies and compensatory domestic policies. Peter Katzenstein (1985) describes this approach as follows:

"For the small European states, with their open economies and fear of retaliation by other governments, exporting the costs of change through protectionist policies is not a viable political strategy. Protectionism would not only invite retaliation but also increase the cost of the intermediate inputs of products manufactured for export, thus undermining the international competitiveness of these small, open economies<sup>22</sup>".

In the context of a monetary environment characterized by free convertibility of currency and concern for maintaining currency stability, including devaluation when necessary, SESs have engaged in wage restraint under a national "incomes policy". The purpose of an incomes policy is not to set the rates for each individual job, but to establish guidelines, ceilings and floors. The majority of salaries and wages, especially small and family businesses would be market determined.

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22 See: Increasing the Competitiveness of Exports From Caribbean Countries, Wen and Sengupta, World Bank, 1991.

## Box 2: Incomes Policy Measure

The incomes policy is a multifaceted instrument, hence its versatility and effectiveness. The following are ten measures that may be used in formulating an incomes policy:

- 1. Wage Cut or Voluntary Give-Back.** Wage cuts are usually imposed by government in extreme circumstances as a means of saving public sector jobs, as was the case in Trinidad and Tobago. Such a drastic measure is expected to have a demonstration effect on the private sector. Both the Netherlands, Antilles and Aruba have used cuts in the civil services and public enterprise wages and salaries as a substitute for a currency devaluation, the effects of which they considered unpredictable and more damaging. American trade unions, especially in the steel, automotive, and airlines industries, have frequently agreed to enormous "give-back" in the form of reduced wages and benefits in order to ensure the survival of the enterprise.
- 2. Wage Freeze and Price Control.** Wage freezes are frequently used as a shock treatment to halt spiraling inflation. They are usually imposed in tandem with price freezes. Price freezes are difficult to sustain over long periods except in times of national emergency. However, they can provide a welcome breathing space in which more comprehensive and sustainable policies can be initiated.
- 3. Wage Restraint.** Wage restraint is based on the principle that wage and salary increases should be related to gains in productivity. Indeed, the traditional practice of linking wage and price increases has no basis in economic logic. Indeed, the only means of curbing inflation is to ensure that wage and salary increases fall short of the rate of increase in prices. In periods of declining sales, wage restraint reduces the incentive of management to lay off workers in the short run or to substitute capital for labour over the long term.
- 4. Wage Inflation.** The establishment of a statutory minimum wage technically falls under the rubric of incomes policy. In a rare move in the 1970s, the government of Singapore deliberately stimulated a rise in wages for the declared purpose of squeezing low-wage industries out of business. It had concluded that the use of Singapore labour in low-tech jobs was uneconomical. This policy created difficulties during the 1981-82 recession.
- 5. Differential Wage Increases.** Under an incomes policy, government may deliberately promote wage and salary differentials in order to stimulate the supply of strategic skills. In the Caribbean, especially in Barbados, the practice of granting progressively lower percentage increases to senior staff has so compressed wage scales as to provide little incentive for senior officers to take on increases responsibility.
- 6. Tradeoffs.** Governments may trade cheap social services or income tax concessions that raise real incomes in return for reduced wage increases. This technique is quite common in Western Europe. The late Prime Minister Tom Adams tried this once in Barbados - without success.
- 7. Employee Share Ownership Plans (ESOPs).** ESOPs, a form of payment in kind, have become popular in the United States. They reduce cash payments to employees and improve the cash flow of the enterprise. In effect, the employees trade off current earnings in return for job security, future earnings, and a share in the management of the enterprise.
- 8. Flexible Wages.** It is the practice in many Japanese enterprise to pay a relatively low base wage, and to offer an annual bonus that varies with the profitability of the firm. This reduces the pressure on the enterprise to lay off workers in periods of declining profits.
- 9. Retreating.** Retreating enables workers to earn higher wages from their improved skills. Retreated workers may be moved out of "sunset" into "sunrise" industries, with the cost met entirely by the government or shared between government and private enterprise. Sweden is most famous for this practice.
- 10. Corporate Strengthening.** Government subsidies are sometimes extended to failing enterprises to assist them in restructuring or forming merger programs as a means of restoring their viability. The purpose of this measure is to protect jobs and increase the future earning of workers.

Source : Increasing the International Competitiveness of Exports from Caribbean Countries, World Bank, 1991

Blackman (1991) outlines three considerations at the base of the incomes policies of SESs:

- They accept the futility of subsidizing inefficient labour over the long run; subsidies are used to bring domestic operations to the level of international competitiveness;
- They respect the need for balance of payments: protected and inefficient labour does not promote this stability in the long run;
- They recognize that wage rates are a production variable that is domestically controllable.

An incomes policy can be described as an ongoing program, whether formal or informal, for the regulation of wages and salaries so as to reflect changes in productivity. It involves continuous dialogue and negotiation between government, business and labour unions, with the government acting as intermediary when consensus fails. The Blackman report also identified this institutionalization of the incomes policy as crucial. Fiji, given the relatively centralized organization of trade union management and business would provide a good basis to begin to develop a national incomes policy (NIP).

The institutionalization and successful operation of an NIP requires the following conditions:

1. A consensus must emerge in society at large to the effect that the wage rate is an important factor in the achievement of economic growth, price stability, balance of payments equilibrium, and full employment; and that it is critical to international competitiveness. It is accepted that the wage rate is an administered price which depends on the attitudes brought to the negotiating table by business, trade unions, and government officials. Moreover, labour is the only factor of production over which we may collectively exert considerable control.
2. Government must take the lead in the institutionalization of incomes policies. They must be continuously involved in the wage determination process; they cannot regard themselves merely as rescuers, intervening only when negotiations are hopelessly deadlocked.
3. The trade union movement should liberate itself from obsolete images of commerce and industry in which management and labour are perceived a natural opponents. This would enable industrial relations to move forward from confrontational zero-sum conflicts into the arena of positive-sum games.
4. Similarly, business must develop greater openness in its dealings with staff and trade unions. Participatory management should be gradually developed and staff encouraged to have a stake in the enterprise through ESOPs.

Finally, the most critical step in this intermediate stage of labour market liberalization requires that the government, in close cooperation with labour and business, promote greater flexibility in labour markets so that the operation of market forces may progressively reduce the burden on incomes policies. For example, experiments with flexible wage should be initiated. Pension rights should be made more portable. Severance payment schemes should be reformed so as to facilitate mergers and the restructuring of ailing businesses. Programs should be developed for retaining workers with obsolete skills, and opportunities provided for low-paid workers to improve their skills and marketability. Finally, the flexibility of labour markets would be greatly enhanced if impediments to the free movement of skilled labour into Fiji are kept to a minimum.

#### **5.4 Expanding and Strengthening Export Financing**

To support exporters, the government may consider changes to the current export financing system to make the facility more appealing to banks and investors. Prior to a full review of the facility the government may consider adjustments in the ownership of the risk. Risk sharing or assuming the complete responsibility for export financing debt may be considered as it has been shown that

commercial banks in developing countries often view collateral as the only measure of credit worthiness.<sup>23</sup> Mauritius has used an export credit guarantee scheme to protect commercial banks against default with considerable success.<sup>24</sup> A short-term adjustment may be made by reducing the per cent of local value-added required to obtain financing, especially in view of the adjustment some industries will undergo as the government's liberalization efforts continue.

Transfer of risk away from commercial banks may encourage more aggressive promotion of the facility. The government could publicly acknowledge banks that have extraordinarily assisted the private sector by expanding use of the facility. Pamphlets promoting the facility were openly available in some commercial banks and difficult to obtain in others. Interviews and surveys also suggested only partial penetration of the facility into the exporting community.

In 1990, the Asian Development Bank (ADB) conducted a comprehensive review of strategies used by Asian countries to finance export growth.<sup>25</sup> The report noted that from the perspective of official support, "It is the most immediately accessible format by which export development is implemented and is ultimately critical to sustained growth and management of export policy." Export financing schemes coupled with export promotion incentives has been, without exception, the strategy of developing countries in expanding non-traditional exports.<sup>26</sup>

A review of several countries' experience in export financing in the study above revealed that communication among players in the scheme - policymakers, central banks, commercial banks and users - is critical to avoid misunderstanding and the development of adversarial relationships. The challenge of any scheme is to put new credit into the system while preserving the integrity of the loan and guarantee portfolios. In order to provide a level of comfort to lending institutions, relative to their risk-return requirements, credit enhancement needs to be clearly defined, comprehensive, non-discriminatory and flexible to the needs of industry. At the same time, refinancing needs to be consistent, non-discriminatory, and responsible to the member banks.

Essentially, Fiji needs to establish an aggressive export financing scheme that fits the needs all of parties to the scheme within the context of Fiji's business environment. The experience of Asian countries offers guidance regarding some strategies Fiji might consider when framing a more comprehensive export finance facility. A key element of export financing in many countries continues to be an Export Credit Guarantee Insurance Agency (ECGIA) which is generally a credit enhancement facility mainly for pre-shipment coverage. The Reserve Bank of Fiji and commercial banks may consider a registry to monitor the performance of exporters using the facility. This will avoid the possibility of individual firms defaulting more than once. Export financing, properly managed, rewards winners - those who have secured export orders and have the capability to fulfill them.

It is also crucial that export financing support the need for industrial linkages in production. Thus, the system should accept back-to-back letters of credit. For example, if an international letter of credit is issued from a foreign buyer to buy from a local manufacturer, this should in turn be able to generate a domestic letter of credit. The domestic letter of credit would then be presented to the exporters suppliers, who may further, link a third letter of credit to finance purchases of the inputs required to supply the exporter with the sub-contracted parts, components or processes. The facility should create an environment whereby LCs 'flow through' irrespective of the number of sub-contracting levels used in the manufacturing process.

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23 See: Export Finance: Some Asian Examples, Asian Development Bank, 1990, pp. 117.

24 See: Pacific Island Economies, World Bank Study, 1991, pp.15.

25 See: Export Finance: Some Asian Examples, Asian Development Bank, 1990.

26 Ibid.



## **6. Export Strategies to Penetrate Asian Markets**

Fiji already has significant business linkages to Asian markets, but these tend to be dominated by imports and foreign investment rather than exports. This suggests some scope for better interaction among the Fijian business community to share contacts, opportunities and knowledge of Asian markets. Focal points for the provision of this information could include the promotional material recommended in Section 7.5, an improved FTIB resource center, and proactive efforts by industry associations to exploit international relationships. Efforts by the public and private sector should be aimed at institutionalizing the sharing of information among the business community.

In addition to Asian investors, Fiji possesses a small but significant local Chinese community. This 'in-house' resource can be exploited in a number of ways. The FTIB, Ministry of Commerce or local International Labour Organization could coordinate a service with appropriate Asian members of the business community. This service could assist with:

- Assisting with identification of contacts and assistance with communication abroad;
- Developing firm and product-specific promotional material for Fiji-based exporters;
- Holding briefings on Asian/Chinese business culture and regulatory environments;
- Assisting exporters to identify Asian market preferences regarding product specifications such as design and packaging.

The FTIB in cooperation with the private sector could also produce a primer on the trading environment in key Asian markets, with a framework for analyzing sources of information to assess markets and identify tariff and non-tariff barriers.

### **6.1 Expanding the Provision of Information**

It was widely communicated to the consultant through interviews and surveys that export companies in Fiji require access to information on Asia to assess the market potential for their products, make adjustments in product design and quality, assess tariff and non-tariff barriers, and develop strategies to penetrate these markets. This information can be divided into a number of areas which is outlined in Section 6.1.2.

An information resource base, open to the local private sector and accessible on weekends and evenings, should be established and promoted. A committee could be established to create and maintain such a facility, including representatives from local public and private sector agencies and libraries. Once developed, the information center could hold industry-specific seminars on export market research in cooperation with the FTIB and relevant industry associations. One interviewee noted that given the lack of marketing and entrepreneurial skills among some manufacturers in Fiji, it would be necessary to provide training on the resources and framework of analysis used to assess export markets. Professional development of the Information Center's staff would be implicit in this regard.

An evaluation of the FTIB's library was conducted by the consultant. While there were a limited supply of useful publications such as product directories and commercially produced country guides, much of the material was several years old and not efficiently organized. Many file boxes were labeled in general terms such as 'marketing' making it difficult to assess the contents quickly. Dated material should be weeded out and evaluated for disposal or archiving, while current and useful information should be organized under appropriate headings. In addition to expanding the holdings of The Center to more adequately reflect the needs of exporters, well-lit

work tables and staff to assist clients should be provided. An outline for a basic export penetration library is found in Section 6.1.2

Fiji's Parliamentary Library was found to have a number of useful publications on Asia and Asian markets. The Library publishes a list of holdings which is distributed internally to various public sector agencies. This resource could be extended to the private sector, most simply by opening the library to the general public and distributing a holdings list through agencies such as industry associations, the FTIB and Ministry of Commerce. Should the Library not wish to open the facility to the public, efficient exchange arrangements between the FTIB and the Parliamentary Library would be the next best option.

### **6.1.1 Sources of Information**

Linking to foreign universities (Australian, New Zealand and others) through library exchange arrangements and Fijian-based students studying overseas should be encouraged. Official requests to foreign government agencies and Asian embassies in Australia and New Zealand are a further source of information as is subscribing to key Asian business publications. Information such as statistics and contacts could be computerized on databases and periodically updated by appropriate public sector officials. Educational institutions in Fiji could be engaged to work on this task as part of the research skills curriculum.

Fijian authorities should also consider wider use of computer communication to retrieve information. The 'Internet' system now involves more than 3 million computers and more than 32 million users in 81 countries. Classes in TCP/IP Protocol, the 'language' of the Internet should be offered to both the public and private sector. Linkages to information sources such as Asian universities, other agencies and individual users in Asia provides a virtually limitless source of information useful for export penetration purposes. Other sources of information include visiting buyers to Fiji, Asian producer's associations and their publications, Fijian overseas missions, and foreign commercial services.

### **6.1.2 Developing An Export Penetration Library**

It is recommended that the Fijian authorities begin to expand their information on Asian markets. The list below reflects, in part, the expressed needs of the private sector in Fiji.

**Annual import/export trade statistics;** Generally available from respective country's department of foreign trade, statistics, or customs. Import figures are useful to assess demand, while the export figures are useful to assess competition.

**Tariff Schedules of Asian Markets;** Generally available from the respective country's customs agencies. Useful to assess and compare markets regarding tariff barriers and policies on protection.

**Key Economic Indicators;** Statistics on trade, investment, production, sectors, per capita income etc. are available from various government agencies (central bank, investment and trade promotion agencies, statistical bureaus, etc.), and multilateral agencies such as the World Bank, Asian Development Bank and ESCAP.

**Inventories of Standards;** This includes labeling requirements, safety and quality standards, and other non-tariff barriers. This information in some cases will be labourious to gather and is often industry-specific. Thus, the strategy to retrieve this data from foreign government agencies and industry associations may be best achieved by industry-specific public/private sector working

groups. Further, an information request service could be established and promoted by an appropriate public sector agency to serve local businesses, relieving the private sector of this task.

**Public Policy Positions and Initiatives;** Government policy papers on monetary and fiscal, labour, trade and investment, industrialization, science and technology initiatives, etc. This information is useful to monitor the macro-economic and trading environment.

**Import-Export Directories;** Both Asian governments and private sector publishers produce import-export guides listing trade and manufacturing companies by sector. These are valuable for identifying distributors, competitors, and suppliers.

**Asian Economic and Business Publications;** The growing availability of information sources on Asia should be evaluated in terms of content and cost to determine suitable publications for subscription. A complete set of up-to-date guides to doing business such as those produced by international accountant firms (i.e. Ernst and Young, Price Waterhouse, etc.) should be obtained through their local Fiji offices.

## **6.2 Linkages to Agents and Distributors**

While some Fijian-based exporters will take steps to assess and penetrate Asian markets directly, the option of linking to Australian, New Zealand or Asia-based distributors should not be underestimated. Many of the exporters interviewed who successfully export to Asia reported using a distributor.

In some sectors in particular Asian countries, key, well-placed distributors can have a virtual monopoly on paths of distribution. Closeness to the markets allows well-placed distributors to assess demand; assist with import regulations, standards and other barriers; and, feedback information to Fiji's manufacturers on product quality and design requirements. Distributors may also be helpful in locating assistance to solve technical problems.

## **6.3 Subcontracting Linkages**

Subcontracting linkages address the labour cost differential between Fiji on the one hand, and Australia and New Zealand on the other. High labour costs in these countries render many less-sophisticated, labour intensive processes uncompetitive in Asia. The effort to promote subcontracting in Fiji should be integrated with efforts to increase the technical capability of labour and to liberalize and expand the labour market. Labour prices are also rising in NIEs and will continue to rise in countries like Thailand and Malaysia. While these countries are more likely to look toward cheaper labour sites in Indo-China, China, and Myanmar as is already happening, Fiji with its quality of life, relatively good infrastructure and proximity to Australian and New Zealand make it a attractive location for fast-turnover, and competitively priced manufacturing support.

Creating a sub-contracting supplier base in Fiji for parts, components, and specified processes could assist Fiji in developing the labour skills, technical capability, and market savvy that was missed as a result of Fiji's damaging policy of import-substitution. Indeed, this concept was recently revealed in the study entitled, Fiji Export Development Strategy (Price Waterhouse, 1993) with regard to auto parts manufacture for the Australian market. Box 3 provides an outline of the opportunity from this report.

With regard to the Asian market, Asian producers are global industry leaders in many of the sectors such as household appliances, original equipment components for electronics,

telecommunications and electrical equipment, automotive components and whitegoods. Thus, efforts should be directed to identifying where Fiji can support the export efforts of Asian producers, especially Japan, Republic of Korea, and Taiwan Province of China to penetrate the Australian/New Zealand market. The Price Waterhouse report noted that the Japanese firm, Yazaki has already established a small wiring harness assembly in Samoa.

This task, in part, could be subsumed under agencies such as the Fiji-New Zealand and Fiji-Australian Business Councils. The Council's publications could advertise subcontracting possibilities both on the capability side of Fijian-based companies and on the demand side of Australian/Australian firms.

### **Box 3 : Subcontracting Opportunities for Fiji**

- I. The world's car manufacturing industry is characterized by high levels of automation and long to very long production runs of components.
- II. However requirements for relatively labour intensive assembly operations still exist for a range of sub-assemblies (such as seats, starter motors, alternators, computerized engine management systems, brake assemblies and dashboards).
- III. Many of those sub-assemblies, and their component parts, are still manufactured in Australia for use in Australian assembled passenger cars.
- IV. Under the SPARTECA agreement, sub-assemblies built in Fiji and including 50 per cent or more Forum Island and Australia/New Zealand content may enter Australia duty free instead of the current duty rate of 32.5 per cent.
- V. For the next few years it may be of value to Australian car assemblers to source certain types of sub-assemblies in Fiji and other Forum Island countries. Yazaki has, for example, already established a small wiring harness assembly operation in Samoa.
- VI. Sub-assemblies suited to manufacture in Fiji would have the following characteristics:
  - relative high labour content;
  - high overall value
  - low freight costs (relative to value), including by air;
  - requiring skills levels appropriate to Fiji (that is, repetitious but high quality assembly operations).
- VII. This apparent opportunity could be pursued by establishing a small government and private sector task force to:
  - fully investigate the range of sub-assemblies that could manufactured in Fiji;
  - develop a clear understanding of the requirements of the industry in terms of infrastructure, transport and skills;
  - package and market these resources on behalf of Fiji.
- VIII. **Such task force:**
  - should have a clear charter and a finite life of no more than two years;
  - should ideally hire the services of an Australian businessman with an intimate knowledge of the Australian car components industry;
  - should not contemplate direct financial or other government assistance for the component industry in Fiji

Source: Fiji Export Development Strategy, Price Waterhouse, 1993.

Fiji could also produce an annual Industrial Linkages Guide identifying quality local firms looking for subcontracting, joint-venture and/or distributor relationships. This guide should provide profiles on companies, including:

- Capability statement;
- Contact details;
- Date established;
- Financial Details (gross turnover, company bank, etc.);
- Total employment;
- Ownership structure;
- Line of business (exporter, manufacturer, service-provider, etc.);
- Products/services available.

A task force with public sector and proactive private sector representatives could formulate the format and content of such a guide. The suggestions found in Annex 3 regarding distribution of the Fiji Investment and Export Review to be discussed in Section 7.5.2 would be applicable to the Linkages Guide. This task force could also develop a mailing list database for distribution.

#### **6.4 Australia and New Zealand as Strategic Partners**

Australia and New Zealand are actively promoting their involvement in Asian markets. Australia is particularly active in initiatives to develop trade and investment, and participate in economic cooperation projects. The widely-promoted, Australian built and funded Lao-Thai Friendship Bridge, linking Lao People's Democratic Republic and Thailand via the Mekong River, reflects a policy whereby Australia wishes for:

"an open trading system in the Asia-Pacific basin in which Australia, as committed supporter of closer trade ties, will be accepted as a partner whose strengthening economy can make a significant contribution to the region's wealth and security."<sup>27</sup>

Indeed, ties between Asia and Australia are presently strong and growing. For over a decade, Japan has absorbed the highest share of Australian exports and stood in the top two suppliers, in terms of value, of Australian imports. In 1993, Australia sent exports valued at \$US 11.6 billion to Japan, representing an increase of over 11 per cent on the previous year. Republic of Korea is Australia's second largest export market, while the countries of China, Singapore, Indonesia are significant players in Australian trade. It is interesting to note that while Australia's exports to the United Kingdom, Germany, France and Italy have remained static or decreased over the last decade, exports to all Asian countries in the present study have increased. Table 8 provides direction of export data for key regions and selected countries.

In all, exports to Asia (as defined by the United Nations) represented almost 54 per cent of Australia's total exports in 1992, while imports from Asia represented 37.9 per cent of Australia's total imports that year. A further factor to be considered is the recent recovery in the Australian economy, with GDP growth of 3 per cent in 1993, and growth of 3.8 per cent projected for 1994. This should boost economic activity between Asia and Australia.

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27 Pushing to be Southern Tiger, Asian Business October 1994.

**Table 8: Value of Australia's Exports by Region and Country**  
(in per cent of total exports)

Region	1983	1987	1992
Africa	2.0	1.5	1.5
America	9.2	11.5	14.0
North America	8.7	10.6	13.0
Asia. excl. USSR	47.3	45.0	53.9
Europe. excl. USSR	14.8	18.0	15.6
EC	13.2	15.1	13.9
Oceania	8.5	8.5	8.7
<b>Country or area</b>			
Japan	25.7	23.1	24.6
United States	7.6	9.8	10.9
Republic of Korea	3.7	4.0	5.8
New Zealand	4.7	5.4	5.7
United Kingdom	4.4	3.7	4.3
Singapore	2.6	2.1	4.0
China	2.0	3.8	3.3
Indonesia	1.5	1.1	3.2
Hong Kong	1.6	2.1	3.1
Germany	2.2	2.7	2.0

Source : United Nations Trade Statistics

Moreover, Australia is particularly engaged in expanding business opportunities in Asia through agencies such as the Australian International Development Assistance Bureau (AIDAB) and Austrade which focus on development and export opportunity issues respectively. Australia has very active embassies with commercial and local development sections in all key Asian markets that could serve as sources of information on markets and contacts. Fiji is advised to develop strong linkages with Austrade offices, both in Australia and in Asia.

Of course, Australia and New Zealand can also be seen as competitors of Fiji for shares of Asian markets. It will be crucial, given Fiji's weaker position, to endeavor to structure relationships along mutually beneficial and profitable lines. Given the disparity in wages, Fijian firms can provide support to Australian and New Zealand manufacturers/exporters as subcontractors/suppliers or as full product suppliers. It is suggested that the Fijian public and private sector monitor activities of these two countries vis-a-vis Asian markets to identify opportunities.

Business magazines such as Asian Business Review, published in Australia outline numerous initiatives and contacts in both these countries. Other sources of information include reports and promotional material from the respective ministries of commerce, industry associations, and trade and investment promotion agencies. In short, Fiji's image building activities should be directed at raising the capability of Fiji's private sector in the eyes of Australian and New Zealand entrepreneurs, while the provision of information on these countries' activities in Asia should be expanded and exploited by Fiji's private sector.

## **7. Promoting Foreign Investment Inflows**

In the past, Fiji has relied on preferential trade agreements, investment incentives, relatively well-developed infrastructure and relatively cheap labour to attract foreign investment. However, with the growing trend toward liberalized international trade, Fiji's rising wages and limited human resources at skilled and supervisory levels suggest that Fiji may need to re-think her strategy in this area. Many of the policy areas discussed previously - labour market reform, export financing, human resources development and quality of the political environment - require attention if Fiji is to maintain an attractive investment environment in the years to come.

### **7.1 Perceived Strengths of Fiji's Investment Environment**

Firm surveys revealed that 'labour cost' was the strongest ranked reason for investing in Fiji, with 'tax, duty and other concessions' a close second. Interestingly, 'quality of life in Fiji' was the third most popular reason for investing in Fiji, according to the survey. An interview with a furniture manufacturer/exporter referring to the limited competitiveness of Fiji in external markets noted that "you're not going to get rich in Fiji, but it's a nice place to live".

The impression received is that local and foreign investors are very happy with the quality of life in Fiji. The survey found 'preferential market access' and 'good infrastructure', to be the next most popular reasons for investing in Fiji. Firm-level interviews and secondary sources strongly suggest that preferential access to markets, investment incentives and relatively cheap labour have much to do with growing investment in Fiji. This appears especially important in the garment sector. Access to the Pacific Island and domestic markets, and utilization of local raw materials were the least important reasons for investing in Fiji according to the survey.

Confidence in Fiji's investment environment was generally positive with thirteen and twelve firms reporting they will increase investment expenditure over the next 12 months and 3 years respectively. The perception of 'growing export markets' was clearly the dominate motivation for these increases with 11 companies responding as such. Moreover, 15 firms felt their competitive position would 'improve' over the next 1-3 years, while 1 and 3 firms felt their competitive position would 'decline' and 'stay the same' respectively.

Currently, the Foreign Investment Advisory Service (FIAS) of the International Finance Corporation is working with the Fijian authorities in three main areas:

- Developing the FTIB into a one-stop-shop;
- Reviewing the investment incentive package;
- Assisting with the preparation of an investment act.

Fiji's package of investment incentives was compared with six South-East Asian countries aggressively trying to attract investment. This is detailed in Table 9. The most salient contrast between Fiji and her Asian counterparts is the profit tax rate applicable following the expiration of the respective tax holiday granted. This issue may be explored with the assistance of FIAS to determine if the relatively high level of tax may be a disincentive to investment. Fiji also excludes 'consumables' from duty concessions which is paralleled in many countries, often due to the difficulty in monitoring consumables and the possibility that firms may re-sell duty free imports into the local market.

**Table 9: Comparison of Salient Features of GMS Foreign Investment Laws**

GMS Country or area	Income Tax Incentives	Profit Tax Rate	Import Tariff Exemption	Notes/Conditions
Fiji	3-13 year holiday	35-45 per cent	100% exemption from duty on all inputs, including factory construction inputs; consumables excepted	-projects exporting 95% or more of production receive optimal benefits -an additional industry-specific package is available
Cambodia	up to 8-year holiday	9 per cent	100% on inputs and capital goods if exporting 80% of production, or located in special promotion zone	-incentives apply to a wide scope of priority activities -future sub-decrees to clarify tax exemption
Lao People's Democratic Republic	available, but unspecified	20 per cent	1% duty on machinery and spare parts; re-exported raw materials/intermediate components fully-exempt	-tax holidays considered case-by-case for large-scale and significant impact projects
Myanmar	3-year holiday; may be extended if in state interest	30 per cent	exemption or relief on machinery, parts, components; 3 year exemption or relief on raw materials	-tariff and other concessions applicable to individual projects not explicitly stated
Thailand	3-8 year holiday	30 per cent	up to full exemption on machinery and five years on raw materials and essential materials	-depends on location -export conditions apply
Viet Nam	1-4 year holiday, plus extensions @ 50%	10-20 per cent	machinery, raw materials, parts and components used for export fully exempt	-tax rate determined on the basis of priority activities
Yunnan	2-year holiday, plus 3-year @ 50%	10-30 per cent	equipment, building materials, and raw material receive 'favorable treatment' to full exemption	-high and new tech projects in industrial zones receive optimal incentives

Source : Various government documents; compiled by The Brooker Group, November 1994



Some countries such as Thailand do allow concessions on consumables with the requirement that firms supply standardized formulas to identify the volume of inputs into their production. Production figures are then cross-referenced with consumable import figures to ensure that consumables were in fact inputs into export products and not sold (duty free) into the domestic market. The public sector resources required to monitor such a program should be weighed against the potential benefits in attracting investment.

## **7.2 Perceived Weaknesses of Fiji's Investment Environment**

Fiji still suffers, both within the country and abroad, from a reputation for political instability and poor race relations. This is evidenced by the perceptions of residents and business persons in Fiji, the continuing emigration of Indians and others (over 4000 persons in 1993), and the fact that unlike the country of Mauritius, for example, political parties in Fiji are defined largely along racial lines. The government is engaged in an advertising campaign along the 'one nation one peoples' concept but the sense one receives while in Fiji and abroad is that while open racial conflict is not evident, there is a general insecurity about the future status of racial relations and their impact on business in Fiji. It was of particular concern to the consultant that while on mission to Suva, it was widely reported in the press and discussed within the Commerce Ministry that licenses to import chicken from the United States were to be issued only to indigenous Fijian's. The thesis that this would bring more indigenous Fijians into the economy seems problematic on two levels.

First, a general sense of insecurity among primarily the non-indigenous Fijian population regarding equal treatment in the business community was identified. A notable example concerns the fears of non-indigenous Fijians regarding the future price of, and access to, land under the control of the Native Land Trust as leases expire over the next few years.

Secondly, it is highly questionable whether granting concessions exclusively to indigenous Fijian's serves Fiji's long term goal of engaging greater numbers of Fijians into the economy. In the end, this strategy is another form of protectionism and may foster, in addition to poor race and government relations, companies that are not able to compete in international markets. Ideally, as licenses are lifted in a transparent and egalitarian manner it should be left to the private sector to compete for import shares with the accompanying benefits flowing through to consumers and the entrepreneurial sector in general.

## **7.3 A Framework for Targeting Foreign Investment**

Two bodies of literature have influenced the marketing strategies of countries trying to draw foreign direct investment. The first concerns the similarity between the process used by multinational firms making large purchases (industrial buying) and the process investors go through when deciding to invest, particularly with regard to the needs and expectations of the buyer at various stages of the buying process.

FIAS in the paper Marketing a Country: Promotion as a Tool for Attracting Investment, defines three broad goals of investment promotion activities:

- **Image building**, to improve a country's image within the investment community as a favorable location for investment;
- **Investment-generating Activities**, to generate investment directly;
- **Investment Services**, to provide services to prospective and current investors.

Ultimately, generating investment is the goal of all investment promotion activities. However, the immediate goals of image-building and investment services is different and may imply different strategies. In the same study, 12 investment promotion activities are identified:

1. Advertising in general financial media.
2. Participating in investment exhibitions.
3. Advertising in industry or sector-specific media.
4. Conducting general investment missions from source country to host or from host country to source country.
5. Conducting general information seminars on investment opportunities.
6. Engaging in direct mail or telemarketing campaigns.
7. Conducting industry or sector-specific investment missions from source country to host country or vice versa.
8. Conducting industry or sector-specific information seminars.
9. Engaging in firm-specific research followed by “sales” presentations.
10. Providing investment counseling services.
11. Expanding the processing of applications and permits.
12. Providing post-investment services.

Empirical research suggests that these promotional techniques are typically employed for different purposes. Techniques 1 to 5 are often used for image building, while techniques 6 to 9 are commonly used to generate investment directly. Techniques 10 to 12 are investment -service techniques.

The foreign investment decision is similar to the industrial buying decision in several respects. In both cases the relevant market comprises large and relatively infrequent but often important ‘purchases’ by corporations. This similarity suggests that much can be understood about the process by which corporations make investment decisions by examining the work of researchers in industrial marketing.

Researchers divide types of industrial purchases into two main groups: first purchase and routine reorder. Moreover, industrial buyers tend to go through the following five stages when making a first purchase decision: awareness, interest, evaluation, trial, and adoption.

Returning to the three types of investment promotion techniques, namely image-building, investment-generating, and investment service activities, the parallels between industrial buying and investment promotion provide a framework by which to structure and evaluate Fiji’s investment promotion program. Table 10 outlines the relationship between industrial buying, investment decisions and investment promotion.

Fiji has engaged in a number of activities at the image-building level, including the production of investment promotion material and undertaking foreign trade missions to countries such as Thailand, Singapore, Malaysia and Japan. At the image-building stage, marketing messages tend to be more general in nature, designed to raise awareness and create a favorable attitude towards the investment environment. At this stage, the information sources tend to be impersonal such as advertising. For Fiji, consideration should be given to the content of marketing messages to ensure they address both the needs of potential investors and any negative perceptions that may be held by the international investor community.

**Table 10: Relationship among Industrial Buying Decision, Investment Decision, and an Investment Promotion Program**

<b>Buyclass</b>	<b>Information source</b>	<b>Stages in industrial buying decision</b>	<b>Stages of investment decision</b>	<b>Focus of investment promotion</b>
Initial Investment	Impersonal source	Awareness	Awareness	Image building
	Advertising	Interest	Interest	
Purchase	Personal sources  Other firms Salesmen Users	Evaluation	Evaluation	Investment generation
		Trial	Trial	
		Adoption	Adoption	
Routine reorder	Limited information requirements		Implementation	Investment Services

Source : Marketing a Country: Promotion as a Tool for Attracting Investment, Foreign Investment Advisory Service, 1990.

In this regard, Fiji may have to reduce the dependence on promoting preferential trade agreements as a strength of Fiji's investment environment should these agreements be suspended under pressure from global trade liberalization. Addressing labour issues and international perceptions of instability that may be present should also be considered. Cambodia, a country with a tragic history of political instability and civil war, recently began an aggressive campaign to promote foreign investment. Their campaign centers on the question "why would anyone invest in Cambodia", followed by a list of several multinationals who have invested in Cambodia. Fiji similarly should carefully assess the strengths of the country as an investment environment and match these to the needs and perceptions of potential investors. Such an analysis may, for example, indicate that Fiji's quality of life for investors and their families should be marketed much more aggressively.

A second lesson for Fiji is the relationship between the buyer and seller. At the image-building stage, an impersonal relationship suffices. However, at the investment-generating stage buyers expect more personal attention, more detail regarding the 'product', and a strong indication that the seller can deliver what is promised with few complications. This has implications for the efficiency of the FTIB as a one-stop-shop, the professionalism and knowledge of investment promotion staff, the quality and speed of replies to specific investor requests and so on. Disappointment of potential investors at this stage of the investment decision process could have serious implications.

Empirical research has also shown that at the investment generating stage, the promotional activities tend to become more targeted. Promotion agencies can target a particular type of investor or particular type of investment project:

"In targeting a particular type of investor, agencies can target by industry, by sector, by geographical region, or by attributes of a class of investors - for example, size, growth rate, export intensity of production, labour intensity of production, level of technology, value added of production, or any attribute that will identify a group of prospective investors that can be matched with the competitive advantages a particular country has to offer."<sup>28</sup>

Additional strategies for targeted investment are found in Section 7.4.

Finally, reinvestment decisions also have their parallel in industrial marketing. The 'routine re-order' decision, which presents a significantly smaller challenge to investment promotion agencies than winning the original sale, depends on the seller's ability to maintain adequate levels of quality and service. This has implications for the quality of service provided by the FTIB and the quality of the overall investment environment in Fiji. Moreover, in countries where most investment comes from reinvestment by existing firms, investment promotion agencies are likely to de-emphasize the function of providing information to new investors, concentrating instead on providing adequate levels of service to existing firms. Satisfied investors also act as a promotional vehicle themselves, and should be incorporated into presentations to potential investors whenever possible.

#### **7.4 Industry-specific Targeting**

A further set of clues regarding how to attract foreign investment comes from the experience of multi-national firms who specialize in re-locating large firms (site selection). Experience identifying the needs of investors on a micro level, combined with ongoing monitoring of industry migration world wide, provide opportunities to develop an intimate understanding of the needs of particular industries. This proprietary information can in turn be marketed to governments who are interested in attracting foreign investment. This body of experience is especially useful when a country is targeting specific industries. By identifying the needs of specific industries, countries can strongly promote their strengths, while addressing any deficiencies that may be present.

In conducting a targeted promotional strategy, a systematic approach is recommended. A major US investment promotion consulting firm was interviewed as part of this study.<sup>29</sup> Their system for targeting industries involves three key phases:

- **Phase One: Competitive Bench Marketing** A comparison of a country's business climate with that of its competitors to determine its most marketable assets and troublesome liabilities;
- **Phase Two: Target Industry Analysis** Systematic selection of industries best suited to the country and most likely to be attracted over the competition;
- **Phase Three: Customized Marketing Action Plan** Development of a tailored and proactive marketing plan designed to aggressively sell a country to a selected targeted audience.

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28 Marketing a Country: Promotion as a Tool for Attracting Investment, Foreign Investment Advisory Service, 1990.

29 The US firm PHH Fantus was interviewed as part of this study.

Competitive Bench marking involves evaluating and rating competitiveness factors and rated based on the degree to which they satisfy the prospective investor's operating needs. Factors include, but are not limited to:

- Labour Costs & Capabilities
- Property Availability & Cost
- Utility Quality & Cost
- Political & Legal Structure
- Taxation & Fees
- Quality of Life
- Cost of Living
- Suppliers & Consumers
- Transportation Access & Capacity
- Education & Training Availability
- Entrance & Operating Regulation
- Business Image
- Political Climate

Contracting a private firm in this field costs from \$US 50,000 to \$US 150,000 depending on complexity of the contract. A second strategy for obtaining this information is to gather it manually. Essentially, the process involves extensive interviews with parties such as foreign commercial services, industry associations, public sector export promotion officials, and industry experts. In Japan, interviews with the EXIM Bank, Japanese Overseas Development Corporation (JODC), and Japan Small Business Corporation, among others, would be recommended. The goal of this research is to determine the plans, needs, and concerns of investors vis-a-vis locating new ventures. Fiji could complete this task by 1) engaging a private consulting firm, 2) engaging a multilateral donor or, if resources are available, 3) completing the task with government personnel. A targeted investment promotion program (with tailored marketing messages) would follow up such a study.

## **7.5 Expanding Investment Promotion Activities**

A series of well-researched investment promotion publications can provide a transparent and credible method of providing the international investment community with concrete information about economic development and business opportunities in Fiji. The FTIB's Product Directory 1994, Trade and Investment Information Update, and An Investor's Guide to Fiji are three commendable efforts. All three publications provide useful information.

Suggestions to improve these publications include clarifying the investment incentive scheme once the Inland Revenue Department has reviewed the draft supplied by FTIB. All publications should be dated to allow readers to evaluate whether the information is current, especially with regard to the operating cost breakdowns found in the Trade and Investment Information Update and An Investor's Guide to Fiji. The next edition of An Investor's Guide to Fiji may be more user-friendly if bound into a single volume as the pages tend to get disordered easily.

All publications distributed by the FTIB should reflect a competent, stable, and professional attitude on behalf of the Fijian government. Literature should reflect professional publication standards to ensure acceptance by the international business community. Format and design, paper and printing quality, and writing style should reflect these expectations to ensure the material receives a positive response.

### **7.5.1 Investment Opportunity Studies**

Investment Opportunity Studies would provide the potential investor with an overview of the investment environment and opportunities in key sectors of the Fijian economy. Studies would include information on the history of the industry, current status of production and technology, status and sourcing of raw materials, and key investment opportunities.

Given the relative narrowness of the Fijian economy, these studies should be broad in scope covering as many manufacturing activities as possible under each study.

Suggested individual studies could include:

- Agro-processing;
- Garments and related industries;
- Furniture and related wood industries;
- Building and construction materials;
- Light industries: sporting goods, musical instruments, electrical assembly and specialty products;
- Shipbuilding, repair and related marine industries;
- Opportunities in subcontracting: parts, components and processes.

### 7.5.2 Fiji Investment and Export Review

A quarterly Fiji Investment and Export Review published to international standards in English would serve to raise the profile of Fiji as an investment location and export base. Recipients of The Review could include inward and outward trade and investment mission attendees, commercial sections of foreign embassies, foreign industry associations, and foreign public and private sector agencies involved in trade and investment. The development of a circulation database would be integral to The Review's development. Annex 2 contains a list of suggested recipients of the review.

The Review would contain information on Fiji's economy, industry briefs, updates on government policy, foreign investor project profiles, and notices for industrial linkages as discussed in Section 6.3. A suggested outline for The Review is found in Annex 3.

The personnel structure responsible for the Review's production is recommended to be as follows:

**The Steering Committee;** senior officials from agencies such as the FTIB and Ministry of Commerce would guide the overall themes and content expressed in The Review. Their critical role would be to ensure content reflects the policies and initiatives of the Fijian government and places Fiji in a positive light regarding investment and trade. During the editing process, they would provide input and give final content approval.

**The Working Committee;** intermediate level staff from the agencies noted above would be responsible for a significant degree of The Review's content, including the writing and soliciting of submissions. Monitoring and expanding distribution of The Review would also fall under this committee.

**The Senior Editor;** having qualifications in professional writing and editing, would be responsible for liaising with writers to assist on style and content of submissions and ensuring deadlines are met. The Editor would also liaise with printers and consult in overall design and layout.

### 7.5.3 Conducting a Survey of Investor Confidence

To assess the perceptions and future activities of foreign investors, a Survey of Investor Confidence is recommended. The Survey would support investment promotion policy development by isolating trends, strengths and weaknesses in Fiji's investment environment, and provide data to be used in investment promotion literature and other promotional efforts. The content and aims

of The Survey would be developed in close cooperation with the FTIB, Ministry of Commerce and other relevant agencies. Possible topics to be contained in The Survey include;

- General confidence in Fiji's business environment and future;
- Evaluation of success factors for foreign investment;
- Short and long-term investment plans and rationale;
- Appraisal of major constraints;
- Evaluation of major competitors;
- Identification of major problems faced by investors.

An analysis of survey results by criterion such as sector, investor nationality, firm size, ownership structure would be carried out following the survey. Public-private sector seminars could be subsequently organized among foreign investors to address any problems identified. Results could also be fed into public sector decision making structures. A sample survey form used by the Thai Board of Investment is found in Annex 4.

## 8. Challenges in Identifying Potential Export Products

It is dangerous to rigidly include or exclude any products from recommendations regarding potential products Fiji-based producers may export to Asia. Indeed, the concept of "picking winners" for industrial production and export has garnered a certain amount of debate in the literature, especially when reviewing the strategies NIE governments followed during their years of rapid industrial growth. It is generally accepted that the private sector is most capable of determining the viability of producing specific products for export.

Many analysts advise a key role for the public sector in strengthening the private sector. This may include supporting and encouraging strategic industries where appropriate through many of the initiatives explored earlier in this report: expanding export financing, facilitating technical capability and provision of information, developing a transparent regulatory environment, and providing macro-economic and political stability.

Recommendations regarding products and industries that may be competitive for Fiji must be considered cautiously, especially where the funneling of significant resources into industrial development projects is planned without the presence of an identifiable private sector facilitator. The Republic of Korea had a comparative advantage in wigs at one time, filling a niche market with a better and cheaper product. Haiti supplies the United States Baseball Association with baseballs. These peculiar success stories suggest the difficulty in predicting the viability of a proposed export product.

Further, reviewing trade flow data is only partially useful to determine markets for a country of Fiji's size. Fijian producers are well-aware of the potential of niche marketing at smaller volumes. Given the relatively small size of the Fijian economy, a well-conceived product sold into a small market could have considerable impact on the firm involved as well as the Fijian economy. Thus, the standard methods of classifying trade data such as product group and sector are only partly useful since there may be many opportunities for Fiji at much more micro levels. Trade data on specific products is often not sufficiently disaggregated to identify opportunities, as in the case of fruits and vegetables where all varieties are not identified.

### 8.1 A Profile of Competitive Products From Fiji

Despite caveats regarding the inclusion or exclusion of particular products from consideration as potential Fijian exports to Asia, the study revealed a number of clues as to where Fiji might position herself in the Asian market.

The 1987 World Bank study entitled, Fiji: Transition to Manufacturing noted the necessity for Fiji to engage in manufacturing activities that will be competitive in the global market given the relatively high wage scales seen in Fiji:

"With a per capita income of \$US 1,700 and wage scales to match, Fiji is virtually debarred from labour-intensive manufacturing activities where the value added is modest and market access depends upon price competitiveness. Many of the mass-produced low-quality textile, wood, plastic and metal items fall into this category. For this reason they are already the preserve of countries where wages are half of what a Fijian manufacturer would expect to pay." <sup>30</sup>

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30 Fiji: A Transition to Manufacturing, pp.22.



The cost of labour provides a first clue to identifying products Fiji may potentially export to Asia. The same study noted the need to predicate Fiji's export strategy on the standards established by successful exporters such as many newly industrialized countries of Asia: "For a broad range of light manufactures, metal products, engineering goods, machinery, electronic parts and transport equipment, the East Asian countries determine the standards in terms of price, quality, technology, financing, supply capabilities and delivery schedule...hence other economies who desire a share of the business must at least be as efficient and offer terms that are comparable before they stand a chance of establishing a foothold in the export market. This is the basic hurdle that prospective Fijian exporters must overcome."<sup>31</sup>

Given the lack of wage competitiveness in terms of productivity with countries like Thailand, Malaysia, and NIEs, Fiji must look toward products of a different class. These products are described in the report as those:

"...that do not require technical sophistication but quality, design, and finish are critical, productions in lot sizes that can be handled by small producers and the speed of a manufacturer's response to an order or the discovery of an apparent niche in an overseas market is decisive. Armies of disciplined, low-paid workers do not count but superior entrepreneurship, technical and design skills, a flexible work force and government policies, that to a degree, socialize the inherent riskiness of these operations are vital."<sup>32</sup>

'High quality' and 'innovative design' were the two most common responses given by exporters when asked what characteristics a product should have to successfully penetrate Asian markets. Interview responses were also consistent with this view. Interestingly, the third most popular response in the surveys cited 'low cost, mass produced' suggesting that at least part of the Fijian private sector feels that Fiji can and should endeavor to compete in the mass market industries that Asian producers are so highly competitive in.

The Price Waterhouse study entitled Fiji's Export Development Strategy, suggests further clues noting that Fiji's future export products should include light engineering and assembly type activities with:

- relatively high value to weight ratio;
- medium to high labour intensity; and
- medium to high skill intensity.

Additional clues come from the export behavior of medium and small-sized European countries whose products emphasize good design, quality and uniqueness. This relates to both dry good manufactures and agro/fisheries products. Examples to illustrate this class include:

- The 'Swiss Army Knife' and 'Swatch Watch' from Switzerland;
- Well-packaged smoked salmon from Norway;
- Mont Blanc pens from Germany;
- German and Swiss knives, scissors and other culinary instruments;
- Gourmet food products such as sun dried tomatoes, capers and artichoke hearts from Italy;
- European-designed furniture.

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31 Fiji: A Transition to Manufacturing, pp.20.

32 Fiji: A Transition to Manufacturing, pp.22.

In general, Asian markets perceive products from Western Europe as having high quality, good design and high status. European products figure strongly in Asian counterfeiters of watches, clothing, luggage and other designer items. Asian consumers with higher income levels often opt to purchase authentic items. In addition to American fashion, French, Italian, Swiss and German products are often the choice of Asian consumers. The niche markets for such products imply limited competition and competition that in many cases does not primarily depend on price.

### Some Examples

Winners of Fiji's 1993 export awards highlight the characteristics of the niche industries Fiji is advised to focus on as exports. Asia Pacific Management Limited, a manufacturer of high quality personal flotation devices for buoyancy and use in risky water sports won 'New Exporter of the Year'. High standards of quality, safety, and style auger well for exports which began in 1992 with plans to expand future production in the near future. See Box 4.

'Unique Exporter of the Year' winner also illustrates the role uniqueness, quality and innovation play in a niche market export strategy. The winner, Pacific Green Furniture Company Limited, produces "unique and high quality coconut palm furniture". The construction of furniture from palm fronds, traditionally thought of as useless scrap, draw on local materials and innovative designs. A second furniture manufacturer is profiled in Box 5.

## 8.2 Framework for the Revealed Comparative Advantage Study

The commodity composition and direction of international trade are often explained by the law of comparative advantage. This theory assumes that countries tend to produce and export those goods which can be produced with the lowest relative cost. In line with this theory, it is expected that countries should export relatively larger quantities of the goods in which they possess a comparative advantage. In the present study, Fiji's relative export performance in individual industries/products will be used to identify her "revealed comparative advantage".

A country is said to have a *comparative advantage* over another country if in producing a commodity it can do so at relatively lower *opportunity* cost in terms of the foregone alternative commodities that could be produced. Taking two countries, for example, Fiji and Thailand each producing two commodities, rum and jewelry, Fiji is said to have a comparative advantage in the production of rum if its opportunity cost of producing rum in terms of jewelry is lower than Thailand's.

The method used to measure RCA in the present study is the widely-used formula introduced by Balassa (1965). This index is also familiar with the Fijian authorities as it was used in a recent RCA study measuring the comparative advantage of Fiji to New Zealand.<sup>33</sup>

The formula is commonly written as follows:

$$RCA = \frac{x_{ij} / x_{wj}}{\Sigma x_{ij} / \Sigma x_{wj}}$$

where  $x_{ij}$  is country  $i$ 's export of commodity  $j$ ;  
 $x_{wj}$  world's exports of commodity  $j$ ;  
 $\Sigma x_{ij}$  country  $i$ 's total exports;  
 $\Sigma x_{wj}$  world's total exports.

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33 Fiji Exports to New Zealand: A Growth Strategy Report, Thomson Pacific, 1994.

#### **Box 4 : Fashion Lifejacket Manufacture in Fiji**

##### **Company and Product**

Asia Management Company (AMC) produces and exports life jackets for children and adults, some of which are designed for use in water sports such as jet-skiing. The company exports 90 to 95 per cent of production and takes advantage of some export incentives. AMC has 38 employees. The firm is seen as an industry leader and has experienced a 'fishing expedition' from a manager of an Australian-based competitor on a mission organized by the Australian-Fiji Business Council. The company plans to expand to a Tax Free Factory in 2 years.

##### **Marketing Strategy**

A key turning point in company growth was the linking to a Brisbane, Australia-based distribution company. An ex-employee of AMC initiated the linkage. The Brisbane firm provides assistance to AMC in a number of areas, including distribution, design, and guidance concerning the rigid quality standards for such products in countries like Australia. By exploiting this relationship, AMC is able to tailor its products to effectively penetrate the Australian, New Zealand and some Asian markets.

Through this distributor, AMC exports to Singapore and has recently had inquiries for further orders in Singapore as well as in Malaysia and Europe. Management also travels to Asia to research markets and suppliers of inputs such as nylon. The company is now looking toward Japan, and recognizes growing income levels in Asia. AMC could potentially benefit from the growing popularity of leisure time activities among Asians as well as significant watersports-based tourism in countries like Thailand, Malaysia, Indonesia, and Philippines. Growing safety awareness in Asia is also a potential driver of future sales.

##### **Production and Technology Strategy**

While related to the garment industry, the manufacture of marine safety products requires a higher skill level among some employees, and specialized techniques to deal with the materials used in production. The company imports inputs such as nylon from Taiwan Province of China and Republic of Korea through Australian agents.

A major obstacle arose in the area of screen printing. After 18 months of testing the firm turned to a United States-based consultant to produce a manual on the process which brought APM's printing in line with industry standards. The total cost of the manual was \$US 2000.00.

##### **Labour Management**

AMC pays \$F1.20-1.40 for entry-level staff and \$F1.80-2.00 for an employee with 2 years experience. The higher than average pay scale reflects the higher skills levels required than in the mass-produced garment industry, and helps to retain staff which AMC reports is not problematic.

The firm also employs at-home contractors, mainly housewives, who drop into the shop to pick up materials to work on at home. This saves shop floor space, allows housewives to watch children, and provides for a productivity-based wage.

### **Box 5 : Furniture Products in Fiji**

Che International (CI) is a manufacturer of solid pine furniture such as shelving, cabinets, beds, and upholstered furniture such as chairs and sofas. Promoted under the TFF scheme, CI exports over 95 per cent of production, primarily to Australia and New Zealand with a significantly smaller share going to Japan.

The company's big break came with establishing a relationship with the retail furniture giant IKEA who purchases primarily simple knock down shelving from CI. Management has parlayed the IKEA relationship as a marketing tactic to present credibility when pursuing other markets including the Japan's. While small at present, Che is hoping to capture more Japanese market through their distributor by tailoring products to what management sees as a budget-oriented trend in the Japanese retail trade. The distributor also assists with producing Japanese language promotional material

Management is active in marketing through facsimile contact, referrals and visits to markets. Considerable preparation was undertaken for a recent trade mission to Japan. Contacts to the Fijian embassy were made to arrange meetings, letters to distributors were sent, and arrangements were made to tour retail outlets of interest. Catalogues of international standard were brought to Japan. The company representative noted that this preparation significantly improved the scope and progress of the firm's mission.

The index takes values from between zero and infinity. It measures the country *i*'s export performance in commodity *j* relative to the performance of all other exports by that country. A RCA value greater than unity indicates that the country has a revealed comparative advantage in commodity *j*. This occurs when the country's share in the world's exports of a particular product exceeds its share in the world exports of all products. The same reasoning implies that a RCA value less than unity implies that the country has a revealed comparative disadvantage in the commodity concerned. For example, a RCA index of 1.50 means that the country *i*'s share in the particular commodity is 50 per cent higher than its share in all commodity exports.

#### **Data Source**

The analysis is conducted at the 3-digit level of Standard International Trade Classification, Revision 2. The data used for this study was primarily the United Nations Commodity Trade Statistics provided to the consultant by UNESCAP in Bangkok, Thailand. Data selection in terms of the specific years chosen for analysis is outlined under the respective sections describing the various RCA analysis conducted under the terms of the study.

Export data for 1992 was judged to be current and complete enough for a meaningful analysis. While the majority of countries were included when summing world totals for exports, as required by the formula, some countries choose not to provide current trade statistics (generally smaller countries or countries failing to report for political-economic reasons). This would impact the results in terms of slightly amplifying Fiji's RCA for 1992 since the total world trade figures would be slightly less than is actually the case. Thus, borderline RCA cases (i.e. RCAs slightly higher than unity) and the magnitude of increase in 1992 over previous years should be viewed with this in mind. It is the consultants belief that the impact of this on the final analysis is minimal if at all significant.

### 8.3 Scope of the RCA Analysis

In this study, RCA indices were calculated for three sets of trading relationships in order to provide the widest scope for drawing conclusions regarding Fiji's export potential to Asian markets. Results of the RCA analysis figure prominently in Section 9, which reviews a number of products for potential export to Asian markets. The three RCA relationships analyzed can be summarized as follows:

#### 1. The nature of Fiji's revealed comparative advantage in exports to the world

This will suggest products/industries for export to Asian markets based on Fiji's export performance to the world. This analysis will also identify Fijian products/industries that penetrate world markets, but have failed to penetrate Asian markets. Moreover, since Asian trade accounts for only a fraction of Fijian exports, analyzing Fiji's RCA to the world reflects more accurately Fiji's actual production and export capacity.<sup>34</sup> Fiji's strengths and weaknesses as an exporter, as suggested by Fiji's global trade performance, will have significant implications for Fiji's export potential to Asia. The analysis was conducted for years 1985, 1990, and 1992 to assess performance over time. The results appear in Table 11.

#### 2. The nature of Fiji's revealed comparative advantage in exports to selected Asian markets

RCA analysis was conducted on key Asian markets which includes the ASEAN-4 (Indonesia, Malaysia, Philippines, and Thailand), the NIE-4 (Taiwan Province of China, Republic of Korea, Hong Kong, and Singapore) as well as Japan and China. The analysis was conducted on individual countries, rather than on regional groupings. This ensures that relevant idiosyncrasies of individual countries are not ignored in the analysis. The years 1990 and 1992 will be analyzed to identify any anomalies that may exist.

The analysis will cover product categories (at the 3-digit SITC level) in which Fiji had greater than zero exports in terms of value to the Asian country in question in at least one of the years to be analyzed. The formula used is based on the RCA formula above, but since we are concerned with Fiji's RCA vis-a-vis selected Asian countries, the formula is adjusted as follows:

$$RCA = \frac{x_{Fj} / x_{Aj}}{\Sigma x_{Fj} / \Sigma A_{wj}}$$

where  $x_{Fj}$  is Fiji's export of commodity j;  
 $x_{Aj}$  is Asian country's exports of commodity j;  
 $\Sigma x_{Fj}$  is Fiji's total exports;  
 $\Sigma A_{wj}$  is Asian country's total exports.

where F stands for Fiji and A stands for the Asian country.

The results of this analysis is found in Annex 5. The results of this analysis are incorporated into Section 9 which analyzes specific products for potential export to Asia.

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34 In 1993, Fiji's seven largest Asian export markets by value accounted for 11.7 per cent of Fiji's total exports, with Japan accounting for the dominate share at 7.4 per cent.

Table 11: Fiji's RCA to the World Market

SITC CODE	DESCRIPTION	RCA		
		1985	1990	1992
012	MEAT (OTHER THAN BOVINE), AND EDIBLE MEAT OFFALS FRESH, CHILLED OR FROZEN (EXCEPT MEAT AND MEAT)	0.04	1.82	0.00086
014	MEAT AND EDIBLE MEAT OFFALS, PREPARED OR PRESERVED, N.E.S.; FISH EXTRACTS			2.20
034	FISH, FRESH (LIVE OR DEAD), CHILLED OR FROZEN	0.66	1.90	1.12
035	FISH, DRIED, SALTED OR IN BRINE; SMOKED FISH (WHETHER OR NOT COOKED BEFORE OR DURING THE SMOKING)	9.73	1.72	5.36
036	CRUSTACEANS, MOLLUSKS AND AQUATIC INVERTEBRATES, PREPARED OR PRESERVED N.E.S.	0.42	2.69	3.22
037	FISH, CRUSTACEANS, MOLLUSKS AND OTHER AQUATIC INVERTEBRATES, PREPARED OR PRESERVED, N.E.S. D1	76.57	4.08	29.60
046	MEAL AND FLOUR OF WHEAT AND FLOUR OF MESLIN	3.39	0.88	0.37
048	CEREAL PREPARATIONS AND PREPARATIONS OF FLOUR OR STARCH OF FRUITS OF VEGETABLE	20.19	30.60	5.14
054	VEGETABLE, FRESH, CHILLED, FROZEN OR SIMPLY	1.70	1.53	1.00
058	FRUIT PRESERVED, AND FRUIT PREPARATIONS	5.05	0.51	1.69
061	SUGAR, MOLASSES AND HONEY	70.04	102.11	159.40
062	SUGAR CONFECTIONERY	8.61	7.53	2.86
072	COCOA	2.27	1.12	1.44
075	SPICES	43.51	26.54	23.16
098	EDIBLE PRODUCTS AND PREPARATIONS, N.E.S.	0.50	2.15	0.34
112	ALCOHOLIC BEVERAGES	1.18	0.08	0.02
246	WOOD IN CHIPS OR PARTICLES AND WOOD WASTE	0.00	85.25	114.82
247	WOOD IN THE ROUGH SQUARED	2.73	1.93	0.85
248	WOOD; SIMPLY WORKED, AND RAILWAY SLEEPERS OF WOOD	5.23	4.20	2.18
291	CRUDE ANIMAL MATERIALS	10.02	10.46	3.42
292	CRUDE VEGETABLE MATERIALS	2.57	0.85	0.68
424	OTHERS FIXED VEGETABLE OILS, "SOFT", CRUDE, REFINED OR PURIFIED	41.61	0.00	7.63
533	PIGMENTS, PAINTS, VARNISHES AND RELATED MATERIALS	2.19	0.83	0.67
553	PERFUMERY, COSMETIC AND TOILET PREPARATIONS	3.51	0.39	0.58
554	SOAP CLEANSING AND POLISHING PREPARATIONS	3.50	1.73	1.15
611	LEATHER	1.46	0.05	0.06
634	WOOD; VENEERS, PLYWOOD, PARTICLE BOARD AND OTHER WOOD, WORKED, N.E.S.	21.43	4.01	3.32
642	PAPER AND PAPERBOARD; CUT TO SIZE OR SHAPE AND ARTICLES OF PAPER OR PAPERBOARD)	4.00	1.80	1.97
658	MADE-UP ARTICLES, WHOLLY OR CHIEFLY OF TEXTILE MATERIALS	0.20	1.13	0.38
661	LIME, CEMENT, AND FABRICATED CONSTRUCTION MATERIALS	3.93	0.00	0.41
674	UNIVERSALS, PLATES OF IRON OR STEEL	0.25	0.60	0.60
676	IRON AND STEEL BARS RODS ANGLES, SHAPES AND SECTIONS (INCLUDING SHEET PILING)	0.00	10.66	
694	NAILS, SCREW, NUTS, BOLTS, RIVETS AND THE LIKE OF IRON, STEEL OR COPPER	1.54	0.74	0.52
792	AIRCRAFT AND ASSOCIATE EQUIPMENT; SPACECRAFT	0.00	1.93	1.32
793	SHIPS, BOATS AND FLOATING STRUCTURES	1.50	0.06	0.06
821	FURNITURE			
842	CLOTHING ARTICLES OF APPAREL WOMEN'S OR GIRLS' OF TEXTILE FABRIC, NOT KNITTING OR CROCHETED	3.60	12.19	7.99
843	CLOTHING, ARTICLES OF APPAREL MEN'S OR BOYS' KNITTED OR CROCHETED (OTHER THAN THOSE OF HEADING)	0.20	1.78	5.99
844	UNDER GARMENTS OF TEXTILES FABRICS, OTHER THAN KNITTED OR CROCHETED	2.36	0.00	17.41
845	APPAREL OF TEXTILE FABRICS; WHETHER OR NOT KNITTED OR CROCHETED N.E.S.	0.18	4.50	4.61
846	UNDER GARMENTS, KNITTED OR CROCHETED OF WOOL OR FINE ANIMAL HAIR, NOT ELASTIC NOR RUBBERIZED			4.69
899	OTHER MISCELLANEOUS MANUFACTURED ARTICLES	1.67	0.83	0.25
971	GOLD NON-MONETARY (EXCLUDING ORES AND CONCENTRATES)	54.63	32.74	16.10

Source :UN Trade Statistics; The Brooker Group Calculations

### 3. Fiji's export potential to Asian markets

This analysis will be conducted at two levels, interindustry and intraindustry.

The interindustry analysis assumes that the export performance of countries similar to Fiji in terms of resources endowments provide a useful guide to Fiji's potential for export growth and diversification. Thus, if a comparison country exports a product in the 3-digit level product category that Fiji does not, that would indicate unfulfilled export potential for Fiji. This of course would be subject to further analysis in regards to technical, policy, competitive, and other factors to imply a realistic export opportunity.

The intraindustry analysis involves a detailed analysis of the product composition of industries (at the 3-digit SITC level) in which Fiji has exhibited potential to penetrate Asian markets. To the extent Fiji already has a revealed comparative advantage, there is export potential through diversification into other products within the same industry.

#### 8.4 Selecting Comparison Countries

The first step in identifying comparison countries involved consideration of qualitative factors including:

- Export and production structure;
- Stage of economic and industrial development;
- Labour cost and per capita income;
- Resource endowments;
- Geo-political and social factors;
- Population size.

The countries selected on the basis of these factors is displayed in Table 12 with selected economic indicators.

**Table 12: Selected Indicators for Initial Screening of Comparison Countries**

Country	1992 Population (mil)	Per Capita (\$US/1992)		Distribution of GDP (1992) (in Percent of Total GDP)			
		GNP	GNI	Agri.	Manufac.	Serv.	Other
Fiji	0.75	2,010	-	16.3	8.7	54.1	8.8
Vanuatu	0.2	1,210	-	-	-	-	-
Papua New Guinea	4.0	950	780	24.8	9.02	37.3	29.0
Mauritius	1.1	2,700	2,100	9.3	18.2	47.6	8.5
Belize	.2	2,220	2,000	16.7	11.1	46.2	10.3
Costa Rica	3.2	1,960	1,660	18.0	20.2	55.4	6.5
Jamaica	2.4	1,340	1,120 <sup>a</sup>	5.0	20.0	51.0	24.0
China	1,162	470	-	27.2	-	38.4	34.4
Indonesia	184.0	670	530	19.2	21.0	40.5	19.3
Philippines	64.3	770	610	21.7	24.5	45.0	8.9

Note: 'a' - figure refers to 1991.

The second level of filtering involved conducting an Export Similarity Index (ESI). An ESI is defined as a measure of the similarity of the exports of any two countries, in this case, to the world market. The world market was chosen as the focus for the ESI analysis since comparison countries are geographically located throughout the world and in many cases show few exports to Asia. Once product capability is identified (suggested by the exporting behavior of comparison countries), the demand in Asian markets and Fiji's resource endowments vis-a-vis these products may be assessed. The formula used is:

$$ES = \min(x_j[fa], x_j[ba]) 100$$

where  $x_j$  is the share of industry's exports in the country 's total exports,  $f$  is Fiji,  $b$  is the selected comparison country and  $a$  is the world market.

If their is total (scaled) similarity the index will take on a value of 100. On the other hand, if their is total dissimilarity in the product or industry's pattern of  $a$  and  $b$ 's exports, the index will take on a value of 0.

The results of the ES analysis is as follows:

**Table 13: Results of Export Similarity Analysis**

Comparison Country	Export Similarity Index	Similarity Ranking to Fiji
Belize	49.59	2
China	27.61	3
Costa Rica	18.05	7
Indonesia	20.04	4
Jamaica	19.37	5
Mauritius	52.20	1
Papua New Guinea	12.84	8
Philippines	19.08	6
Vanuatu	6.6	9

The results suggest that Mauritius, Belize, China, Indonesia and Jamaica have a similar export structure with that of Fiji. An RCA to the world was conducted for these countries to identify products that may have implications for Fiji in terms of export growth and diversification.

### 8.5 Interpreting Revealed Comparative Advantage

Care must be taken when interpreting revealed RCAs. For example, Fiji showed an RCA in 'aircraft and associated equipment' (SITC 792) based on a high-cost single export to the United Kingdom in 1992. Conversely, a number of exports of 'ships and boats non-war' (SITC 793) did not reveal a comparative advantage in 1992. While the value of ship exports was lower than that of aircraft exports, one cannot assume there is more basis to build an aircraft industry in Fiji as opposed to a shipbuilding industry. Indeed, Fiji's potential to develop a shipbuilding industry may be much more favorable than an aircraft industry despite the RCA vis-a-vis aircraft.

One could imagine that if Fiji imported one high value plane, reconfigured it (say by replacing the engine with an import) and re-exported it, an RCA for this product would be revealed on the basis of a single anomalous transaction. Possibly, this export may have been nothing but a product of chance - a plane was incapacitated, a technician was available, and the owner of the plane was able to sell it to a contact in the United Kingdom. Hardly the bases for establishing an industry in Fiji.



## **9. Potential Products for Export to Asia**

A number of products having export potential to Asia were identified in both food and non-food sectors.

### **9.1 Fruits, Vegetables and Flowers**

Fijian fruits and vegetables have found a number of markets abroad, while production and export marketing of flowers is presently minimal. A number of issues require addressing to further expand these sectors, including the availability and security of land, ability to market fresh produce, the capability of research and development, managing the occurrence of cyclones, quarantine requirements and pest control, and transportation.

Fiji is fortunate to have a relatively well-developed transportation infrastructure and air links to foreign markets. Interviews revealed that most exporters felt that while costs were somewhat high the availability of sailings and flights was adequate given recent improvements. However, this industry has specific transportation needs such as refrigerated depots (especially at airports), adequate air transport capacity, and proficiency in handling, storing, and packaging. Ongoing communication with cargo plane operators is imperative to respond to changes in production to ensure unused capacity does not stimulate reductions in service.

Challenges for this sector include cyclone and quarantine management. The establishment of an insurance fund and proper cyclone management including consideration of orchard and flower shade house windbreaks, orchard layout, tree size and pruning, and natural shelter should be explored by appropriate public/private sector representatives (See Box 6). Fruit flies are a further threat and limit export markets. A fruit fly information center should be established and promoted to identify foreign market requirements, and linkages with foreign institutions battling this challenge should be expanded. Internationally, there are health concerns regarding Ethylene Di-Bromide (EDB), suggesting Fijian producers may have to explore alternatives to ensure future market share. Fiji should also explore bilateral quarantine agreements (BQA) with key export markets.

To strengthen Fiji's industry, more inputs into research and development (R&D) are required to achieve quality standards capable of competing with both domestic Asian producers and other competitors for Asian markets share. Research can be carried out in a number of areas: production of seeds, the optimal plant varieties and breeding techniques; orchard management, including grafting and pruning techniques to reduce the vulnerability of the trees to cyclones; the proper post-harvest handling and packaging for the various fruits and vegetable; and pest control. One of the most important areas for research and development at this stage of development of Fiji's industry is tissue culture which provides a rapid and safe means of introducing large quantities of high-yielding, disease-resistant varieties. The use of tissue culture requires modern research facilities, as well as supporting infrastructure such as conditioning stations.

#### **9.1.1 Fruits and Vegetables**

Fiji has capability to produce a number of fruits and vegetables (See Table 14). Mixed crops (not included in Table 14) include cassava/dalo, dalo/yaqona, dalo/yam, maize/bean, and other vegetables and rootcrops.

### Box 6: Degree of Care and Cyclones

A constraint in the flower, fruit and vegetable sector is the high degree of care that is necessary for horticultural plants, particularly when compared with the minimal demands placed by sugarcane, and the specter of calamitous losses during a cyclone. The risk associated with such losses has presumably been a major hindrance to the development of a large-scale horticultural industry in many countries such as Fiji. Fiji is located in a region which experiences tropical cyclones fairly regularly with six effecting the country since 1985.

There are a number of strategies available to minimize the damage from cyclones, including orchard planting, proper selection of tree type, pruning, and the creation of artificial or natural windbreaks, for example, trees and other natural shelters. Close orchard planting with microirrigation would enable tree crops to come into production within three years, giving early production and returns. Selecting fruit trees which are tough, pruning them to reduced height and allowing wind to pass through the tree canopy can minimize damage. Windbreak should ideally allow 30 to 70 per cent of the wind to pass through; the idea is to create turbulence to dissipate the energy of the wind. Windbreaks not only serve to reduce cyclone damage, but also retard spread of pests and diseases and wind blemish on the fruit. They should therefore be seen as part of the overall strategy for orchard management.

The government, together with organization like the Ministry of Primary Industries and Co-operatives, can establish small test blocks where alternative strategies of dealing with cyclones can be tested. Within the test blocks, anemometers (wind speed measuring devices) can be set up measure wind speed within the tree canopy. The anemometers reading give a direct measure of the effectiveness of the various windbreak strategies. Similar measurements should be made on building structure used for anthurium and orchids.

Cyclones or hurricanes are a common phenomenon in many fruit-growing areas, e.g., Bowen, Queensland, where mangoes are grown, and Florida where citrus orchards abound. The approach adopted in Fiji should be one which emphasizes damage control in the event of a natural disaster. This can best be achieved by studying what is done in similar circumstances in different parts of the world. The Government could also examine the possibility of establishing an insurance scheme to remove some of the uncertainty associated with horticultural development.

Despite some success in export markets, a number of challenges are evident for Fiji to maintain long-term competitiveness in international markets. These issues, such as maintaining consistency in domestic supply, raising quality and packaging standards, and increased promotion in international markets are well-documented in the report A Program for the Development of the Fijian Food Industry (July 1994) The report recommends the establishment of a Program for Industry Excellence (PIE) in which government and industry cooperate to "upgrade all aspects of participating companies and permits a collective approach to product development, quality control and export marketing".

An evaluation of this plan was not undertaken under the TOR of this study. However, it is recommended that care be taken to ensure the goals and strategies of any PIE are market-driven and private sector led. Given the proper role in export development, the activities of the public sector is equally important and may include improving and promoting national standards system, provision of information on export markets, investment in food industry R&D, facilitating the involvement of the educational system in industry development and providing seed money in the form of short-term grants and loans to develop productive capability and penetrate markets.

**Table 14: Selected Crop Survey Statistics**

Crop	Area of Temporary Pure Stand (Has)		Permanent Pure Stand (Has)		Number of Scattered Plants and Trees	
	Planted	Harvested	Planted	Productive	Planted	Bearing
Avocado					4,209	3,272
Banana			901	432	943,164	635,240
Bele			77	39		
Breadfruit					207,486	182,623
Cabbage	854	469				
Cassava	16,387	6,220				
Cereals for Grains	318	278				
Chili					14,216	12,640
Citrus Fruit			75	45	164,104	135,093
Cocoa			3,335	1,670	7,575	7,291
Coconut			28,986	21,590	622,152	461,067
Coffee			216	140		
Cow Peas	1,685	71				
Cucumber	157	94				
Custard Apple					8,252	8,485
Dalo	5,545	1,810				
Duruka			255	145	19,573	29,465
Eggplant	378	247			22,519	18,937
Ginger	271	116				
Grape Fruit					2,380	2,380
Guava					14,596	13,486
Kawai	223	64				
Lemon					35,378	31,123
Maize	2,436	1,483				
Mandarin & Tangerine					30,110	26,219
Mango					164,433	146,745
Okra	478	313				
Oranges			373	371	46,785	42,528
Other Cultivated Fruits					83,692	79,828
Other Crops	624	266	280	176		
Pawpaw			544	39	144,511	125,440
Peanuts	675	314				
Pigeon Pea	729	407				
Pineapple			392	164	88,388	74,573
Pumpkin	406	155				
Rice	11,676	9,642				
Sourlime					3,793	3,620
Sweet Potatoes	2,207	969				
Tobacco	756	177				
Tomatoes	893	449				
Urd	186	99				
Water Melon	765	320				
Yaqona	3,745	258				
Yam	1,101	374				

Source : Fiji Ministry of Primary Industries and Co-operatives 1991 Census

### The Competition

There is considerable competition in this sector. Asian countries, particularly China, Thailand, Indonesia, Philippines and Malaysia, despite growth in the last decade or so in their respective manufacturing sectors, maintain large agricultural sectors. Agriculture contributed 27, 19, 16, 31 and 12 per cent to GDP in China, Indonesia, Malaysia, Philippines and Thailand respectively in 1992. Despite agriculture's declining contribution to GDP in these countries, these sectors employ

large numbers of the population, with rural wages remaining quite low. Moreover, many of these countries have decades of experience and have invested significantly in species development and mass processing facilities for tropical agro-products such as tropical flowers, fruits and vegetables. Particularly, fruits like coconuts, pineapples, mango and papaya are grown in vast quantities at a quality and price very competitive in international markets.

Thailand and China have been in the top ten exporters of vegetables (fresh and preserved) in the world by value for several years. The Philippines, Thailand and China are also major exporters of fruit, especially tropical fruit. Even Republic of Korea and Hong Kong export significant quantities of fruit, with Hong Kong exporting sizable quantities of their own production as well as re-exporting Chinese production, and Republic of Korea exporting domestic production.

### **The Opportunity**

The report, Fiji Export Development Strategy (September 1993), provides a case of the potential of developing new export products for Asian markets. Tongan exports of squash to Japan, which grew from virtually zero in 1987 to \$T 50. million in 1991. In Fiji, there has been some success exporting high quality, well-packaged mangoes to the Japanese market. Fresh tropical fruit to Japan can be seen as another market opportunity if supply and standards of quality and packaging can be maintained.

Except for Republic of Korea and to a lesser extent Taiwan Province of China, NIEs have small agricultural sectors. Singapore and Hong Kong registered zero contribution of agriculture to GDP in 1992, both down from 2 per cent in 1970. Republic of Korea protects local markets, while Singapore has tight regulations and standards for agricultural imports. However, once a viable, competitive industry is established, future exploration of markets beyond Japan for high quality fruits and vegetables is advised.

ASEAN countries can be seen as niche markets for non-tropical produce. The development in recent years of locally produced lettuce, tomatoes, apples, strawberries and grapes has not stemmed imports of these items as quality and selection is not sufficient. Interestingly, small but significant quantities of fresh tomatoes (SITC 0544) are exported by Thailand, Malaysia and Indonesia. However, trade data shows that these countries also import significant quantities of this product, with Malaysia importing almost as much as it has exported over the past five years.

This niche market, driven by the hospitality industry, expatriate communities, and increasing Asian interest in Western and international foods is for traditionally non-tropical foods and those products grown in Asian countries at insufficient quality levels to satisfy all segments of the domestic market. In general, experiments growing some Western produce have not eliminated the need to import high quality foreign produce. 'Organic', pesticide-free, and 'out of season' produce represent additional markets. Regarding the former, consumer concerns about health and safety among local and expatriate Asian communities are resulting in greater presence of these products in selective Asian retailers. At least one producer in Fiji has penetrated this market in the United States and New Zealand, exporting \$F 300,000 in 1993. The firm reports plans to expand production facilities over the next few years due to perceived growing domestic and export markets.

While trade data doesn't differentiate by variety, a review of retailers and wholesalers in Thailand suggests that imported produce is clearly distinct in the market in terms of price and quality from tomatoes locally-produced. Import data shows that major suppliers to Asian countries are Australia, United States, China, and several ASEAN and NIEs. This is also the picture regarding vegetables generally (SITC 0545).

A significant supplier of fresh tomatoes to Asia, Australia exported fresh tomatoes valued at \$US 4,094 million in 1992, representing a relatively small .2 per cent of the world export market. 41 per cent of this went to the combined markets of Hong Kong, Singapore and Japan. Australia may be seen as a model and possible conduit to penetrate Asian markets if Fiji's quality, supply and price are competitive.

Other fruit and vegetable products that are imported into Asian markets include avocado, cucumber, eggplant, grapefruit, tomatoes and lettuce. Annex 6 reviews the demand in selected Asian markets for fruits and vegetables. These imported products are high quality, well packaged and considerably more expensive than any local counterparts that may be available. Australia has made considerable inroads into these markets. Some produce in Asia appears in the market labeled 'pesticide free'. The study, Fiji Export Development Strategy, September, 1993 also identifies some of the strengths, weaknesses, and opportunities in Fiji's fruit and vegetable sector. This is summarized in Box 7.

<b>Box 7 : Agro-business in Fiji</b>	
<ul style="list-style-type: none"> <li>• Small and medium size entrepreneurs have already demonstrated their interest and ability in processing and marketing agriculture products.</li> <li>• The shipping and transport links to markets already exist.</li> <li>• Other island countries, most notably Tonga and Vanuatu, have successfully developed new agricultural based exports such as tropical squash and beef.</li> <li>• Fiji has several advantages in the production of fruit and vegetables for export:               <ul style="list-style-type: none"> <li>• adequate good quality land;</li> <li>• skilled agriculture workforce;</li> <li>• large Government investment in infrastructure;</li> <li>• existing market amongst emigrants from Fiji;</li> <li>• potential "out of season" production for northern hemisphere.</li> </ul> </li> <li>• Despite these advantages Fiji still faces some significant difficulties in developing its fruit and vegetable exports:               <ul style="list-style-type: none"> <li>• quarantine restrictions in destination and transshipment countries restrict access;</li> <li>• handling, grading, packaging and storage systems need improving;</li> <li>• climatic conditions affect the reliability to supply;</li> <li>• land tenure systems restrict availability of suitable land;</li> <li>• commitment to sugar production limits available workforce, capital and land resources.</li> </ul> </li> <li>• Much of the work necessary to open up these markets is already underway and the private sector has shown its capacity to react to market opportunities.</li> <li>• The Government can assist by negotiating entry into other markets for Fiji produce.</li> <li>• The quarantine issues must be addressed. The Government has a role in the bilateral negotiations and through budgetary funding for a competent quarantine service with adequate quarantine and phyto-sanitary facilities.</li> </ul>	

Source : Fiji Export Development Strategy, September, 1993

As sophistication of these industries improves, Fiji-based producers may look toward joining with successful international firms such as Delmonte, Dole, Chiquita, Geecht or South African or Israeli exporters. Technical and marketing linkages with New Zealand or Australian firms may also prove beneficial. Established exporters can assist with transportation, quality control, market intelligence and management, and provision of capital, technical and management expertise.

Other Recommendations for this sector include reviewing the possibility of establishing international standard organic produce certification and subscribing to industry publications such as Asia Pacific Food Industry.

### **9.1.2 Flowers**

Mauritius is well-known as a country recently developing a successful cut flower industry, primarily for the European market. Their primary export flower is anthurium, while species like heliconia and orchids offer further opportunity.

According to interviews with a flower producer in Fiji, among the flowers produced in Fiji are:

- Anthuriums
- Dendrobium Orchids
- Vinder
- Heliconia
- Red Ginger
- Pink Ginger
- Parrot

Thailand and Malaysia have well-developed export flower industries which include the R&D infrastructure to develop new hybrids on a large scale. These trade secrets are carefully guarded by producers as ongoing development of new species is a key component of a firm's competitive advantage. Indonesia has recently developed a cut flower industry with exports jumping from \$US 550,000 in 1988 to \$US 3,030,000 in 1992.

Competing with these established and sophisticated producers would be ill advised. However small niche markets in initially the Japanese market would likely offer the best opportunity for Fijian flower exports as Japan is a major importer of cut flowers, is relatively close to Fiji (with good air links) and is engaged in expanding business relationships. Moreover, inroads into this market have already been established with \$US 2,600 in exports to Japan in 1992, representing roughly 70 per cent of total exports of this small sector. Exploring the market for tropical potted plants in Japan may offer a further opportunity.

The four most popular types of flowers imported into Japan in 1990 were orchids (34.7%), chrysanthemums (9%), beargrass (7%) and carnations (3.5%). Suppliers in order of value are The Netherlands, Thailand, Taiwan Province of China and New Zealand. Imports from both New Zealand have seen dramatic growth in recent years suggesting an opportunity for Fiji. Austria and New Zealand collectively held 16 per cent of a market valued at \$US 126 million in 1990. Flowers available during Japan's off season, or those difficult to grow in Japan should be seriously considered by Fijian producers. Box 8 reviews the Japanese market for flowers. Annex 7 contains more detail on the Japanese market, including import trends, regulations, distribution channels and contacts.

### Box 8 : Japanese Market for Cut Flowers

In the last six months of 1994, Japan imported cut flowers valued at 6,929,134 thousand yen, an increase in value of over 14 per cent from the previous year. Major exporters to Japan include the Netherlands, which holds imported 26.54% of total imports, followed by Thailand (23.94%) , Singapore (10.70%) and Taiwan Province of China (7.24%)

Types of flowers imported include both tropical flowers and cold climate flowers. They include carnations, roses, orchids, anthurium and small varieties such as statice, baby's breath, gentian stock and freesia. Sonia and Anna are the two most popular orchid varieties. Cut flowers are very popular in Japan because the prices are reasonable, roughly 400-500 yen per bunch.

Japan has a high demand for cut flowers, even for non-traditional types. In the past, Japan imported mainly chrysanthemums, orchids and carnations. In 1990, 80% of all orchid imports were dendrobium thalaenopsis. The next most common imported cut flower is chrysanthemums (30.5 million units), followed by beargrass (26.71 million units) and carnations (12.89 million units)

To be successful in the Japanese market, foreign countries should market varieties of flowers which are difficult to grow in Japan, or are available during Japan's off season. The Japanese market welcomes new varieties of flowers and orchids. However, foreign countries must bear in mind that the major factor in importing the flowers is the transport time which has to be short. Other factors consider are the production costs and the technological capability to control insects and disease.

NIEs would offer markets for expansion once experience is gained. Transport is critical in the flower industry - customs, quarantine and land-air links must be fast and efficient. Key exporters fund the cost of having inspectors from their major export markets in-country to speed import procedures. Table 15 shows imports of flowers for selected countries.

**Table 15: Selected Country's Imports Cut Flowers and Foliage  
(SITC 2927)**

(\$US '000)

Country or area	1988	1990	1992
Japan	108,433	126,972	140,168
Hong Kong	13,036	19,200	22,975
Singapore	7,305	11,515	19,209

Source : United Nations Trade Statistics

Recommendations specific to Fiji's flower sector include:

- Promoting required bio-technology, especially hybrid development in the academic and private sectors;
- Considering dwarf varieties of orchids due to cyclonic conditions;
- Supporting the strengthening of an industry association to communicate to government and industry service providers.

Recommendations specific to the fruit, vegetable and flower sector include:

- Conducting detailed country by country market research on demand trends in Asian markets for high-value varieties, including potential supply of "out of season" produce;
- Reviewing high value species to determine which are suitable to Fiji's climatic and resource conditions;
- Engaging the South Pacific Trade Office or other appropriate body to do a study on promising markets for Fijian produce and flowers similar to the 1991 study, Exporting Fruit and Vegetables to New Zealand.
- Involving educational institutions in R&D focused on the needs of the private sector, including scholarships for graduate work on raising efficiency and capability;
- Support the Native Land Trust to clarify and commit to a long-term policy on land leasing and management to bring confidence to investors;
- Have the Ministry of Agriculture investigate the viability of irrigation expansion and develop a master plan.

## 9.2 Cocoa and Confections

Fiji has capability to produce cocoa, with exports of beans totaling \$US 356,000 in 1992. A small amount of powder and chocolate was also exported in 1992. Fiji's RCA in cocoa to the world declined slightly from 2.27 in 1985 to 1.44 in 1992. Fiji recorded no cocoa exports to Asia in 1992. Cocoa is exported by all comparison countries, with Jamaica, Indonesia and Belize revealing a comparative advantage for the year analyzed. There are a number of strong competitors in the cocoa sector, with Malaysia, Indonesia and Singapore in the top ten world exporters by value. China is also a significant exporter of cocoa.

Nevertheless, Fiji exported beans to the United Kingdom, the United States, New Zealand and Australia in 1992. Initial analysis suggests that Fiji may look to Japan to expand cocoa products exports. Japan has the fifth largest market for cocoa powder, the eighth largest market for cocoa butter, and the sixth biggest market for chocolate in the world. The production of cocoa butter and other related products offers a diversification opportunity.

Fijian producers should be encouraged to explore this market, while at the same time expanding production to include downstream processing. Market analysis is necessary to determine taste preferences. If production in the chocolate area is expanded, care is needed to formulate a product that can travel and store in both the climatic conditions in Fiji's and the receiving market.

**Table 16: Japan's Imports of Cocoa Bean Products**

(\$US '000)

Product	1988	1992
Cocoa Beans (SITC 0721)	84,861	71,017
Cocoa Powder (SITC 0722)	12,148	11,697
Cocoa Butter Paste (SITC 0723)	66,116	61,163
<b>Total</b>	<b>163,125</b>	<b>143,877</b>

Source : United Nations Trade Statistics



## Confections

With a sugar-based economy, the manufacture of confections (both chocolate and non-chocolate) may be an area of opportunity. Exports of Fijian non-chocolate confections totaled \$US 841,000 in 1992. Confections have a relatively high value to weight ratio and many non-chocolate products are non-perishable. Asia's market has traditionally been dominated by European parent firms, with entrants like Cadbury Schweppes, Nestle and Mars moving into markets more recently. The marketing and distribution of smaller firms such as those in Fiji is best handled by local Asian firms. While Australian producers have entered into joint-ventures with firms in Malaysia and Indonesia, Fijian producers may look simply to distributor and/or sub-contracting relationships once capability is established.

Fiji's RCA in sugar confectionery (SITC 062) has dropped over the period 1985-1992, However proper market research and product development could be rewarded with larger market shares. Statistics on key Asian markets show increasing imports in both chocolate and non-chocolate products driven by rises in per capita income and changing tastes. See Table 17. An assessment of tariff and non-tariff barriers would need to be undertaken. Competitors in the confection trade are high-wage developed countries. The top ten exporters in 1992 were all countries from North America or Western Europe. This suggests that Fiji with an indigenous sugar supply and lower wage levels could compete on price if the proper products were developed. An additives guide for food products entering Asian markets is found in Annex 8. Some marketing issues to consider are found in Box 9.

**Table 17: Selected Country's Imports of Confection Products**

(\$US '000)

Country or area	1988	1990	1992
<b>Non-Chocolate Sugar Candy (SITC 062)</b>			
Hong Kong	49,944	65,173	116,071
Japan	34,249	46,521	48,562
Singapore	18,605	20,656	22,468
Republic of Korea	2,773	21,318	17,929
China	6,134	9,501	14,928
Malaysia	3,871	4,973	9,878
<b>Chocolate and Products (SITC 073)</b>			
Japan	221,241	233,908	231,258
Hong Kong	52,576	75,215	91,945
Republic of Korea	7,727	29,972	50,058
Singapore	23,266	28,915	38,582
Philippines	2,457	5,977	17,095
Thailand	4,331	7,759	11,072
Malaysia	3,202	6,923	11,330

Source : United Nations Trade Statistics

### **Box 9: Confections: Critical Marketing Issues in Asia**

While increasing economic prosperity, improving communications and population growth in Asian confectionery markets auger well for the future, it is not an easy market for small new-comers to penetrate.

Manufacturers exporting to Asia must avoid the trap of imposing their products on new markets. The success stories come from those who carefully assess market preferences. Commitment to extensive market research, product design and development, as well as innovative packaging and media promotion will be well rewarded.

Some unique features of the Asian markets that exporters must address include:

Firstly, different nationalities have different preferences in taste, texture and presentation. For instance, the flowing center style of chocolates popular in Australia are less acceptable to many Asian consumers. Chocolates with nut centers, on the other hand, sell well.

Secondly, flavors are very important and preferences can vary between countries. In sugar candy flavors, melon and strawberry are popular in Japan, herbal and floral in Republic of Korea, passionfruit in Taiwan Province of China, grape and lime in Hong Kong, and tropical fruit flavors in South-East Asia.

Thirdly, packaging style and color choices also vary from region to region, reflecting cultural and aesthetic preference. Functional considerations are also important. In tropical countries, European-style chocolate tends to melt quickly. Australian chocolate is made to suit warmer conditions and is preferred by distributors and retail outlets where storage conditions cannot be controlled.

Trade barriers, import regulations and distribution present a totally different set of challenges. Many Asian markets have complex and time consuming import requirements along with high tariffs. Upon successful entry to the country of destination, exporters can expect to face other problems such as price disadvantages reflecting lower input costs compared to local producers or competition against subsidized products from other countries. Consequently, quality and brand image rather than price become the basis of competitive advantage.

Distribution can also be a complex business. Being close to the market place, either by having a strong local presence or forging solid relationships with local agents, retailers or manufacturers is crucial.

Source : Asia Pacific Food Industry, October 1992

### **9.3 Coffee**

Four out of five of the comparison countries identified export coffee, with Indonesia and Jamaica showing an RCA in years analyzed. Fiji exported green coffee valued at just under \$US 19,000 in 1992. Reports by consumers in Fiji suggest Fijian-grown coffee is of good quality, but not widely available in the domestic market. A possible opportunity to expand coffee exports might include diversifying into roasted coffee (SITC 07112), coffee extracts (07120), decaffeinated and flavored coffees. Coffee extracts are a popular flavoring for confections in Asia.

Doubtless the international market for coffee is competitive. Yet there are a number of niche opportunities available to a country like Fiji given quality and consistency on the production side. Stronger promotion of Fijian coffee among the tourism sector offers scope for increased sales. The

trend in both the West and Asia for specialty coffees and the emergence of 'coffee bars' offering customers coffee from different regions of the world could provide further niche opportunities for well-marketed products.

Fijian coffee could be marketed as a unique and exotic product to the coffee trade. In the West, many of these coffee bars are franchised, suggesting scope for large bulk purchases. Flavored coffees offer further opportunity. These products, often flavored with fruit or liqueur essences require careful market research and attractive packaging. A more detailed study on the scope for expanding Fiji's coffee exports is recommended.

#### 9.4 Seafood Products

Fiji exports a number of seafood products, including fresh, frozen and preserved fish, and fresh frozen shellfish. Prepared and preserved fish (SITC 0371) is by far the strongest export, both in terms of value at \$US 19,114,000 in 1992 and in terms of RCA. In 1992, SITC 0371 was Fiji's third highest RCA to the world in 1992 behind sugar and wood chips. Fresh chilled fish fillets (SITC 0343), fish salted, dried or smoked (SITC 0350), and fresh frozen shell fish showed significantly lower export values, but maintained a strengthening RCA to the world over the 1990-1992 period.

Of all Fiji's exports, seafood products show the most success in terms of penetrating diverse markets in Asia. Key markets for Fijian fish products include Japan, Singapore and Hong Kong, while Fijian shellfish finds additional markets in China, Republic of Korea, Thailand and Malaysia. Table 18 shows 1992 exports of seafood products by country with corresponding RCAs for the 1990-1992 period.

**Table 18: Fiji's Main Seafood Exports to Asia**

Country/Product	1992 Export Value (\$US' 000)	1990 RCA	1992 RCA
<b>Japan</b>			
Fish, Fresh, Chilled Frozen (SITC 034)	317	8.0	5.0
Fish, Dried, Salted, Smoked (SITC 035)	1	14.6	51.0
Shell Fish, Fresh, Frozen (SITC 036)	100	31.9	52.0
<b>Singapore</b>			
Fish, Dried, Salted, Smoked (SITC 035)	8	2.6	5.3
Shell Fish, Fresh, Frozen (SITC 036)	506	2.9	3.5
Fish, Prepared or Preserved (SITC 037)	0.6	142.2	115.3
<b>Hong Kong</b>			
Fish, Fresh, Chilled Frozen (SITC 034)	21.0	3.0	2.2
Fish, Dried, Salted, Smoked (SITC 035)	1,044.0	11.8	22.8
Shell Fish, Fresh, Frozen (SITC 036)	2,228.0	11.8	20.6
<b>Republic of Korea</b>			
Shell Fish, Fresh, Frozen (SITC 036)	48.0	1.5	2.2
<b>Malaysia</b>			
Shell Fish, Fresh, Frozen (SITC 036)	35.7	2.1	3.1
<b>Thailand</b>			
Shell Fish, Fresh, Frozen (SITC 036)	18.6	0.2	0.2
<b>China</b>			
Shell Fish, Fresh, Frozen (SITC 036)	45.6	0.5	1.0

Source : United Nations Trade Statistics

In general, RCA analysis and import statistics suggest considerable promise for expanding exports in the following areas:

- fish and shellfish to Japan based on strong and improving RCAs and large volume import demand;
- salted, dried or smoked fish, and shellfish to Hong Kong based on a strong and improving RCAs growing import demand;
- fresh fish to Hong Kong should also be explored due to strong and growing import demand;
- salted, dried or smoked fish, and shellfish to Singapore based on a mildly improved RCA and rising import demand;
- the fresh chilled, frozen fish market in Singapore should be explored based on growing import demand and large import volumes;
- shellfish to Republic of Korea, Malaysia, and China based on very small but improving RCAs, and dramatic growth in imports;

Table 19 reviews import demand of seafood products for selected Asian markets.

**Table 19: Selected Country's Imports of Seafood Products**

(\$US '000)

Country or area	1988	1990	1992
<b>Fish , Fresh, Chilled Frozen (SITC 034)</b>			
Japan	4,297,448	4,378,962	5,655,878
Republic of Korea	246,490	246,186	340,228
Hong Kong	204,948	258,227	347,712
Singapore	148,859	150,402	231,188
China	57,762	76,821	206,733
Malaysia	62,951	78,060	86,073
Philippines	38,770	50,176	63,887
<b>Fish Salted, Dried, Smoked (SITC 035)</b>			
Japan	360,569	363,088	350,267
Hong Kong	157,593	164,982	270,764
Singapore	29,721	28,642	51,024
China	13,772	6,836	33,024
Malaysia	5,386	5,810	6,288
<b>Shell Fish Fresh, Frozen (SITC 036)</b>			
Japan	4,841,019	4,849,354	5,189,579
Hong Kong	579,877	585,419	640,764
Singapore	129,192	136,187	196,548
Republic of Korea	44,796	85,202	105,644
Malaysia	20,218	30,222	31,763
China	19,545	17,834	82,720
<b>Fish ETC Prepared, Preserved (SITC 037)</b>			
Japan	961,548	915,954	1,369,902
Hong Kong	72,115	84,136	126,831
Singapore	43,213	39,189	59,082
Malaysia	34,395	21,836	30,455

Source : United Nations Trade Statistics

## 9.5 Processed Meat Products

Fiji has considerable capability to produce processed meat (SITC 014), with exports of \$US 1,150,000 in 1992, including a small amount exported to Japan. Under this category, exports of prepared and preserved meat (SITC 0149) exports have been significantly stronger than sausage (SITC 0142) which is also found within the SITC 014 category.

Beyond increasing exports of products like canned corned beef and other processed meats in view of significant demand from Asian countries (see Table 20), Fiji could explore the possibility of starting a Halal beef industry for export to Malaysian and Indonesian Moslem communities. During a recent trade mission, Malaysian religious authorities verbally confirmed that Fiji's Moslem authority would be accepted in Malaysia. It is recommended that producers in Fiji initiate communication with Malaysian importers/suppliers to present Fiji's capability in this sector and to identify the market's needs in terms of quality, packaging and religious standards. The public sector and local religious authorities may assist in this regard.

Recommendations for this sector include having Fiji subscribe to the International Registry on Disease based in Brussels, improving breeding stock and ensuring standards of slaughtering are both high and consistent. One player in the industry noted the need to deregulate the control over female breeding stock and identifying land areas suitable to expand grazing.

**Table 20: Selected Country's Imports of Prepared and Preserved Meat (SITC 014)**

(\$US '000)

Country or area	1988	1990	1992
Japan	137,237	190,262	295,416
Hong Kong	77,936	91,631	123,068
Singapore	40,005	46,223	61,857
Republic of Korea	4,516	12,855	19,515
Malaysia	15,293	13,848	29,406

Source : United Nations Trade Statistics

## 9.6 Spices

There has been some discussion in Fiji regarding expanding the Fiji's spice industry for export. Indeed, a number of documents are available on the topic, including Fiji: Prospects and Possibilities for Development of a Spice Industry, and the more general Ground and Packaged Spices: Options and Difficulties in Processing at Origin. These documents are available from the Fiji Ministry of Commerce.

While the industry could develop to serve many markets, it is doubtful that a Fiji-based spice industry could prosper on hopes of penetrating the Asian market alone. Moreover, there are a number of technical and financial issues that require addressing to competitively and consistently grow, process and market spices in Fiji, including structuring grower-processor relationships; establishing proper storage, handling and transport facilities; and, establishing niche markets for the limited range of spices grown in Fiji.

Further, there is considerable competition in bulk spices. An industry in Fiji would have to aggressively target the local and tourist markets, while tailoring high-value added niche products for foreign markets. Innovative packaging and marketing would be critical. Bar coding and other

value-added elements should be introduced. It may also be necessary to broaden the product line by introducing new spices to Fiji, which would be possible in most cases given Fiji's climate.

On the positive side, the quality of spices grown in Fiji is reportedly high, and include vanilla, cardamom, nutmeg and pepper. Thus, if the private sector initiated development of the sector, the opportunity to develop a diversified industry in terms of products and varieties would seem available. Box 10 provides an overview of the Asian spice market.

#### **Box 10: Spice Market in Asia**

Major exporters of spices in Asia are China (mostly cinnamon), Malaysia, Indonesia, and India. Spices are commonly packaged for export in clear containers of glass or plastic.

Fiji has potential in developing a spice industry since it has available agricultural land, appropriate climate and sufficient skilled labour. Major types of spices already grown are vanilla, pepper and cardamom. These three types have high quality and have a substantial market inside Fiji.

However, the demand for vanilla, pepper and cardamom in Asia is low compared to other kinds of spices. Besides, spices have been traded in Asia for many centuries. Outside traders would have difficulties breaking into traditional circles. Moreover, Fiji has a disadvantage in terms of transporting the products to the Asian region. Fiji has to consider the cost of production and transport, and the need to acquire better technology for storing and packaging products.

At present, Fiji may not be able to compete with most Asian producers because of relatively low labour costs, especially in India, China and Indonesia. However, rapid economic growth in these countries is raising labour costs so this advantage may gradually erode. The only current weakness Asian producers have is the quality of packaging for up-scale markets.

Indeed, Fiji will face tough competition in entering the Asian spice market. The niche market for Fijian exports to Asian countries would be the high-end of the market, particularly resident foreigners with high purchasing power and concerns about quality irrespective of price. This high-end market segment is growing because of rising incomes and increasing urbanization throughout Asia. Aiming at a top quality image also offers the potential to export to Western markets. In order to compete with Asian exporters, Fiji has to develop more sophisticated, Western-style packing technology and reduce the cost of transport.

### **9.7 Wood Products**

Opportunities in the wood sector include the export of veneer and plywood, the potential utilization of mahogany plantations, and well-conceived and marketed furniture for niche markets. Indigenous timber offers a further opportunity but may suffer from limited supply, "Green Bans", and lack of awareness of some species in the market. Lower value pine, while accepted in the market, suffers from a number of weaknesses as a potential export product. The study, Timber Building Materials and Furniture Components: Market Assessment (1994), completed by The South Pacific Project Facility to identify opportunities in the Australian market provides a good overview of the sector.

Development of the wood sector in Fiji requires a number of inputs including improved milling, grading, marketing and supply. Should the indigenous wood industry become competitively viable in export markets, marketing would be important due to raise awareness of some species in international markets.

The commercial wood industry is dominated by a narrow range of woods with qualities that have become industry and design standards. Thus, the development of Fiji's wood resources must attend to the expectations of the international market. Given the objectives of creating employment and higher value added, resources of timber should be encouraged into sectors such as furniture and other light manufacturing sectors. Fiji's mahogany and pine resources, properly managed, could provide reliable inputs for downstream processing.

### 9.7.1 Veneer

Fiji produces a number of woods for veneer production (See Table 21). Sources of data on Fiji's veneer exports is highly contradictory. According to United Nations trade data, veneer sheet exports (SITC 6341) fell from \$US 3,093 million in 1988 to zero in 1992. Forestry department figures, however, show veneer sheet exports of 3,761 cu.m. valued at \$ 4,155,338 in 1992 (no indication is given in statistics as to whether this is Fijian or American dollars). This represents 12 per cent of the total value of Fijian timber and wood products exports.

**Table 21: Tree Species Peeled for Veneer Production in Fiji**

Local Name	Botanical Name
Kaudamu	Myristica chartacea
	Myristica gillespieana
Damanu	Callophyllum vitiense
Kauvala	Endospermum macrophyllum
Bauvudi	Palaquium fidjiense
	Palaguium vitilevense
Yaka	Dacrydium nidulum
Dakua makadre	Agathis vitiensis
Vusavusa/Kaunicina	Canarium vitiense
Pine	Pinus caribaea

Source : Department of Forestry, Fiji

There is only 1 veneer products producer in Fiji, with the mill inputting 28,000 cu. m. annually. Veneer is primarily used in the furniture industry in association with particle board or Medium Density Fiberboard (MDF). Worldwide, veneer is consumed by the furniture, musical instrument and interior construction materials industries among others. The United States, Germany and Canada were the top exporters by value of veneer in 1992, sharing 38 per cent of the total world export market. In Asian markets, Malaysia and Indonesia are strong exporters of veneer products, with exports in 1992 of an estimated \$US 130,287 million and \$US 22,634 respectively, which represented 8.5 and 1.5 per cent of total world exports that year. Malaysia should be seen as a strong competitor for Fiji in this industry with competitive prices, consistent quality, good packaging, and marketing efforts that include joint-ventures to ensure shares in key markets. On the positive side for Fiji, Malaysia is beginning to exhaust its supply of hardwoods. Both Belize and Indonesia show a RCA in 1992 for 'veneers, plywood or reconstituted wood' (SITC 634). Demand in Asian markets is found in Table 22.

**Table 22: Major Asian Market's Imports of Veneer and Plywood**

(\$US '000)

Product	1988	1992
<b>Veneer (SITC 6341)</b>		
Japan	79,959	143,863
Republic of Korea	19,830	30,222
Singapore	14,873	18,798
<b>Plywood (SITC 6342)</b>		
China	572,306	660,511
Hong Kong	168,488	289,601
Japan	609,788	1,010,436
Republic of Korea	104,560	350,534
Singapore	136,374	147,023

Source : United Nations Trade Statistics

### 9.7.2 Mahogany

A recent assessment of mahogany resources in Fiji completed by a New Zealand agency estimates plantation area at 27, 578 hectares. However, Department of Forestry officials believe the estimates in the study are considerably low, suggesting that Fiji's potential output of mahogany to be considerable higher. Their document Forestry Information 1993 states that 48,000 hectares have been replanted since the early 1970s.

The Year 2000 will be the first year of commercial harvesting given no complicating factors such as climatic disaster or disease. To date, only a small amount of damaged wood from natural disasters has been commercially available, with some used by local furniture manufacturers. A small quantity, roughly 400 cu.m. was exported in 1992.

An assessment of the strengths and weaknesses of establishing a mahogany export industry borrowed from the Price Waterhouse study, Fiji: Export Development Strategy is found in Box 11.

### 9.7.3 Furniture

There are a number of furniture manufacturers in Fiji who export primarily to Pacific regional markets, with some production going to the United States and Japan. Exports in 1992 totaled over \$US 1.3 million. While all the comparison countries exported some furniture in the year under analysis, only China and Indonesia showed an RCA in the category 'furniture and parts thereof' (SITC 821). This suggests that furniture produced in Fiji must be high value-added and unique, especially in terms of design to penetrate Asian markets. Cultural considerations must also be taken into account in designing furniture for these markets. One producer noted that she is planning to market small two-seater sofas suitable for the smaller homes in the Japanese market.

Fiji producers may also look to the European designs such as those produced by Danish, Swedish and German manufacturers. These designs are gaining popularity in Asia. Fiji could compete given the development of design capability, much of which could be developed through reverse engineering and mimicry of popular European designs. The high wages in these northern European countries suggest that Fiji could compete on price.



### Box 11 : Export Opportunities in Mahogany

- Fiji has the only mature mahogany plantations in the world.
- Mahogany is a high value timber which, unlike many of Fiji's native timbers, already has an established position in the international market place.
- In the face of increasing international pressure to halt the harvesting of natural rainforest timbers, Fiji has a strong competitive advantage over traditional suppliers.
- Supplies of rainforest mahogany are already dwindling and former users are being forced to substitute lower grade timbers.
- Fiji is in the position to capture a significant part of the international mahogany market. Despite the encouraging market situation, Fiji must address several domestic issues if the value of the mahogany resource is to be fully realized:
  - Existing harvesting and sawmilling technology in Fiji is not geared to maximize the recovery of high value timber;
  - Post harvest technology such as drying, storage and grading must be upgraded.
- The main issue facing the Government is the establishment of a system for the sound management of Fiji's mahogany resource. Issues which will have to be addressed include:
  - Allocation of harvesting rights;
  - Establishment and enforcement of suitable harvesting codes of practice;
  - Pricing system for the harvested timber;
  - Setting appropriate resource rents and royalties;
  - Degree to which domestic value adding should be encouraged.

Source: Fiji: Export Development Strategy, Price Waterhouse, 1993

Diversification opportunities include specialized furniture for the medical, dental, surgical, veterinary and home health care sectors (SITC 821.21). Given proper market research into design and quality standards, Fiji could theoretically compete with higher cost producers in Europe, North America and NIEs. As income levels rise in Asia, these products will find increasing demand, especially in the areas of home care for the infirm and in outfitting Asia's regional areas with health care facilities of international standard.

#### 9.8 Leather and Leather Products

Fiji exports leather products such as handbags, belts and shoes with leather inputs to primarily Pacific region markets. The abattoir of the Fiji Meat Industry Board reports that roughly 9000 local hides are tanned per year using chrome or vegetable methods. Another 8000 hides are imported to supplement demand from manufacturers. There are plans to privatize the tannery in the near future.

The general manager of the abattoir noted the difficulty in funneling hides to the abattoir from animals slaughtered in Fiji's regional areas as many villagers simply discard the hides in fields once the meat is obtained. Good communication with local level community leaders could assist to identify strategies to ensure hides reach the abattoir. Moreover, an examination should be conducted to determine what financial incentives and storage/transport facilities would have to be in place to encourage villagers to supply the abattoir with hides.

Preliminary analysis suggests that although market demand in Asian countries for leather is rising rapidly, Fiji's labour costs, significant competition, and limited and inefficient local production of hides suggest penetration of Asian markets would require a very careful strategy. Copying designs for production in low cost centers like China is common in Asian business circles, presenting a further challenge.

On the positive side, imports of value-added tanned hides and manufactures of leather are rising rapidly in Asian countries. Thus, given a competitive price, Fijian producers may be able to penetrate some of this market, especially in the area of leather fashion items with unique design, well-tanned leather and high quality construction. Local distributors in Asia would likely be needed to market niche products. Table 23 provides import statistics of selected Asian markets.

**Table 23: Selected Country's Imports of Leather Products**

(\$US '000)

Country or area	1988	1990	1992
<b>Manufactures of Leather (SITC 612)</b>			
China	41,032	167,105	367,760
Hong Kong	56,172	144,886	298,447
Japan	58,166	103,742	147,772
Republic of Korea	24,646	82,181	86,300
Thailand	6,625	23,012	37,486
Singapore	7,977	10,889	12,075
<b>Leather (SITC 611)</b>			
Hong Kong	478,509	683,564	1,162,684
Republic of Korea	553,828	599,834	481,645
China	149,359	138,439	1,081,601
Japan	155,784	250,275	192,090
Thailand	47,084	158,041	239,859
Singapore	47,724	79,873	86,148
<b>Raw Hides and Skins (SITC 211)</b>			
Republic of Korea	976,579	1,192,743	903,157
Japan	760,459	770,741	500,428
Thailand	64,753	107,460	166,748
Hong Kong	58,144	52,285	89,904
China	48,108	15,740	105,941
Singapore	10,290	10,388	9,762

Source : United Nations Trade Statistics

## 9.9 Cosmetics

Fiji produces high quality coconut and sandalwood soap, the former having received medals in international competition. Also produced are coconut oil and aloe vera products including lotions and creams. These products fit well into the growing international trend towards healthy and natural body-care products, which is also gaining popularity in Asian markets. Fiji's exports of soap (SITC 5541) and cosmetics (SITC 5530) totaled \$US 1,588,000 with a declining RCA to the world over 1985-1992.

This sector, defined as SITC 55 'essential oils, perfume materials, toilet, polishing and cleansing preparations', includes a number of products that offer diversification opportunities for Fiji. These include essential oil, perfume and flavor materials (SITC 551), perfumery, cosmetics and toilet preparations (SITC 553), and soap, cleansing and polishing preparations (SITC 554). Moreover, these products are commonly exported by comparison countries, with Belize and Jamaica showing RCAs in SITC 551 and in SITC 551, 553, and 554 respectively.

These products require more inputs into marketing and design (in packaging and formulation) than in 'hard' technology. The early stages of developing a cosmetics industry in Fiji would focus on products marketed as 'natural', health, and environmentally concerned products, rather than cosmetics marketed on the basis of high-technology scientific research. Indeed, Fiji's tropical environment with limited industrial development can be promoted as an asset when marketing cosmetics. Cosmetics are extremely popular in virtually all Asian markets. Spas in Thailand report that Asian clientele prefer European preparations during their treatments, while Western visitors opt for tropical-based products.

In Thailand, for example, the Body Shop, a British-based international skin and hair care retailing chain has opened 3 shops since 1993, with plans to open four more shops by end-1995. The complete product range is imported into Thailand from the London head office. The Body Shop's marketing director in Thailand notes that customers range from the youth market to the elderly in the middle and upper class income levels. Moreover, the Body Shop already has experience sourcing from the Pacific Islands, having bought Ngali nuts for use in self tanning lotion from Solomon Islands.

Red Earth, the Body Shop's Australian-based rival has also moved into the Asian market.

Annex 9 contains market information on these companies. The health-beauty market should be seen as one that is growing as per capita spending rises for the following reasons:

- Growing health and environmental awareness: the 'green revolution';
- Concern for personal appearance is high in Asian cultures;
- The youth market is large and self conscious regarding appearance;
- Asians having traveled/studied in Europe/North America will be familiar with the products.

Other outlets for Fijian cosmetics include distributors who supply upmarket hotels and resorts, especially those that are marketed with island or ocean-side connotations such as those in Southern Thailand, Malaysia, Indonesia and Philippines.

### **9.10 Marinewear and Marine Products**

As an island nation, Fiji has a marine heritage that can be exploited. A few Fiji-based producers are already producing life jackets, wetsuits, foul weather clothing and camping gear. The garment industry's capability would serve as a resource for inputs such as design, technical support and supplier/distributor contacts.

While popular in North America and Europe for some time, the popularity of water sports like wind surfing, jet skiing and sport sailing are still developing in many Asian countries. Safety standards and awareness is also rising in Asia leading to higher demand for safety equipment of international standard.

A distinction has to be made regarding quality segments of the market. Fiji, due to price and productivity would likely be uncompetitive in cheap, mass-produced products such as simple nylon backpacks. However, the competitors for higher-end products have in the past been the United States and Northern European countries, with Japan and the NIEs entering some parts of the market more recently. Quality, design and finish will be crucial - not incidental - to successfully penetrating Asian markets with these type of products.

Current styles and colors as well as the functional aspects of products must be carefully researched with the aim to incorporate improvements in functional design and predict fashion trends for improvements in cosmetic design. Further, many sports and leisure products lend themselves well to reverse engineering at moderate levels of sophistication.

Other drivers of the sports/leisure market include:

- Many Asian countries have significant outdoor recreational areas;
- Interest in and availability of leisure time is growing;
- Due to a history of low quality production and status, many Asian consumers prefer foreign-made leisure products;
- The youth and young adult market represent a potent consumer force;
- Asians are adopting traditionally Western sports;
- Many Asian countries have high-end resort areas, where water and non-water sports are offered.

### **9.11 Clocks and Watches**

Three of the comparison countries export products under the 'optical goods' (SITC 884) and 'watches and clocks' (SITC 885) categories, with Mauritius showing a RCA in both industry groups in 1992. Interestingly, aside from China's RCA in SITC 885, the other comparison countries producing these products - China, Indonesia and Jamaica - despite their lower relative wages did not reveal a comparative advantage. This suggests that factors other than wage cost are important considerations for some products within these categories. Indeed, previous studies of Fiji's manufacturing potential identified specialty watches as a possible opportunity for Fiji.

Construction of watches is now a semi-skilled assembly industry given the recent advances in mass producing movements. The 'Swatch' watch, designed with dynamic colors and graphics is a well known success story. Recently, Asia has seen the entry of other watches upscale brands, including a watch marketed exclusively for men under the trade name 'Roman'. Design and marketing are essential to the success of such products.

### **9.12 Optical Goods**

Under the optical goods category (SITC 884), a number of products are identified by intraindustry analysis including 'lenses, prisms, mirrors and other optical elements' (SITC 884.1), unmounted (SITC 884.11) and mounted (SITC 884.12) polarizing material, and spectacles and spectacle frames (SITC 884.2). For production in Fiji, foreign investment would likely be required to bring in the required technology. Another related area Fiji may explore is in the area of precision laboratory glassware and associated equipment. These products are commonly produced by European and NIEs.

### **9.13 Offshore Banking**

During a round table discussion with Fiji's private banking community in which several commercial banks were represented, the topic of offshore banking services arose. Fiji, as a key economy in the Pacific region with relatively strong links to Australia and New Zealand may consider the opportunity of establishing off-shore banking (OSB) facilities, if a number of precursors can be put in place to support such a development.

There is currently no international-caliber regional off-shore banking facility in the Pacific. And while Fiji has a reasonably well-developed financial infrastructure that boasts a number of foreign commercial banks, there are a number of issues to explore before serious consideration to (OSB) in Fiji could be considered. The Bahamian model and recent moves in Mauritius to establish OSB could serve as models for this endeavor.

One key to offshore banking is stability, both economic and political. Along with fees and taxation issues, these will impact directly on the attractiveness of a Fijian OSB. Banks that are attracted to OSB generally tend to have strong regional links, with the ability to attract and direct business towards their OSB. Thus, banks like ANZ and Westpac are likely to be interested. A potential source of funds, given low sovereign risk, is capital flight from less stable regional economies. Other preliminary issues to consider in establishing OSB in Fiji include the need to:

- Evaluate telecommunications, including membership in the SWIFT international financial message network in Brussels;
- Balance monitoring between preserving client confidentiality and avoiding undesirable activities such as money laundering;
- Evaluate applications carefully, to ensure quality control;
- Determine to what degree TFZ/TFF business will be allowed to shift to OFB facilities;
- Determine licensing fees and if any taxation will be levied;

### **9.14 Sample Follow Up Project Profile**

A framework for completing Project Profiles to be used as a basis to further explore promising sectors/products is found below. This framework can be applied to any of the products and sectors outlined in Section 9 of the main report.

#### **1 Project Name:**

Expanding Fijian Export of Fruits, Vegetable and Flowers to Asia

#### **2. Sector:**

Agro-industry: Fruits, Vegetables and Flowers

#### **3. Rationale and Objectives**

Fiji has proven capability in producing fruits, vegetables and flowers for export, while Asian markets show current and increasing demand for such products. Moreover, these exports have proven significant for many small island economies.

Accordingly, a detailed assessment with recommendations and an action plan on this sector is recommended, the goal of which would be to expand present markets and establish new markets

for Fijian produce. Implicit here would be strengthening the private sector's ability to produce for and penetrate Asian markets, and defining a role and workplan for the public sector to support such a goal.

#### **4. Scope:**

The project would cover the following broad areas:

- (i) determine the current status of Fijian production by variety/species, tropical and non-tropical, including the status of inputs and supporting industries;
- (ii) identify constraints on the production and exporting of Fijian produce, and provide recommendations to alleviate these;
- (iii) identify and provide recommendations regarding the organization of the private sector, including the status and effectiveness of trade associations;
- (iv) determine the status and future role of R&D in this sector;
- (v) conduct detailed market assessments for key Asian markets, including demand, tariff and non-tariff barriers, and competition;
- (vi) define a role for the public sector to support expansion of the sector
- (vii) review the role of foreign investment in this sector, including recommendations on increasing such investment, especially in areas where foreign investment may address constraints on Fiji's industry;
- (viii) develop a workplan with timelines, budget and responsible agent to achieve the scope of activities outlined.

#### **5. Expected Impacts/Benefits:**

It is expected that the project would identify specific export opportunities for Fiji-based producers. The project would also assist the public and private sector in assigning resources to support this sector in the most efficient and profit-oriented manner possible. It is also expected that the identification of constraints would assist policy makers to address such issues in policy planning. The overall impact expected is the expansion of Fijian exports in Asian markets.

#### **6. Estimated Costs:**

It is recommended that the funding agency review previous studies of a similar nature to determine cost, and to tender such a project to several appropriate consulting bodies. Commercial rates for such as study range from \$US 7,500 to \$30,000, excluding out of pocket expenses.

#### **7. Financial Arrangements:**

A number of multilateral/regional agencies may be approached to fund such as study, including Asian Development Bank, United Nations Commission for Asia and Pacific, South Pacific Project Facility, South Pacific Forum Secretariat, United Nations Development Program, and others. Alternatively, resources may be available from the Fijian public sector, possibly supported by the Fijian private sector.

## **8. Implementation Arrangements:**

- (i) secure funding;
- (ii) hold a public/private sector working meeting to define the objectives of the study, and raise any areas of concern that should be addressed in the study;
- (iii) review potential consultants to undertake the study;
- (iv) arrange for logistical and other support for the consultant;
- (v) following the study, hold a private/public sector meeting to review the study and define next steps.

## **9. Status:**

This project may flow from activities to be conducted as follow up to the study, Fiji's Export Potential to Asia, completed under a TOR funded by the United Nations Economic and Social Commission for Asia and Pacific.

## **10. Critical Success Factors:**

Once funding is secured, a number of issues require addressing to realize the goals of this project, including:

- accurate assessment of Fiji's capability and resource endowments in this sector;
- accurate assessment of demand in Asian markets;
- accurate assessment of competition for Fiji in this sector;
- developing a supportive R&D infrastructure for this sector;
- addressing any biased or unproductive policies regarding import and export regulations and land tenure;
- raising the capability of quarantine provision, including undertaking bilateral quarantine arrangements with key Asian markets;
- developing a strategy for dealing with cyclones, pests, and other constraints on production, including exploring the issue of an insurance scheme;
- raising the standards of packaging and transport facilities;
- exploring the viability of an expanded irrigation system;
- identifying ways to strengthen private sector producer associations.
- ensuring public sector commitment to address any constraints on the private sector in an efficient and egalitarian manner.

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## Annex 1: Investor and Exporter Survey

### THE MINISTRY OF COMMERCE INVESTOR AND EXPORTER SURVEY

October, 1994

**Please Return At Your Earliest Convenience Or By Latest November 15**

The United Nations Economic and Social Commission for Asia and the Pacific is engaged in a study to assess Fiji's potential to increase manufactured exports to Asian countries. The views and suggestions of the Fijian-based private sector is considered central to this study. Study results will help guide export-related government agencies and provide information to exporters based in Fiji.

Your cooperation is highly valued and appreciated; Please complete as much of the questionnaire as possible.

Please return the questionnaire by post or fax to: **Attention: R. Singh, Ministry of Commerce, Industry, Trade and Public Enterprises, P.O. Box 2118, Government Buildings, Suva, Fiji; Fax: (679) 302 617**

#### Status of Your Company

wholly local owned \_\_\_\_\_ joint venture \_\_\_\_\_ wholly foreign owned \_\_\_\_\_  
representative office \_\_\_\_\_ other \_\_\_\_\_ year \_\_\_\_\_  
created/acquired \_\_\_\_\_

2. Country of home office (i.e. Parent) \_\_\_\_\_
3. Principal products manufactured \_\_\_\_\_
4. Principal markets \_\_\_\_\_
5. Are you in a Tax Free Zone \_\_\_\_\_ or are you a Tax Free Factory \_\_\_\_\_?
6. What percent of your production is exported \_\_\_\_\_?
7. What were your gross sales in 1993? \_\_\_\_\_?
8. Please rank in order of importance your reasons for investing in Fiji?  
(most important reason, 1; second, 2; and so on)

_____ labour costs	_____ preferential market access
_____ tax, duty and other concessions	_____ to utilize local raw materials
_____ good infrastructure in place	_____ potential of domestic market
_____ access to pacific ocean markets	_____ quality of life in Fiji
_____ other (please explain) _____	

9. Please describe your future investment plans: (check as appropriate)

Investment Activity	Over Next 12 Months	Over Next 3 Years
make additional investment		
reduce investment (disinvest)		
stay the same		
unknown		

10. Please describe the reasons for your plans above:  
(number in order of importance & circle appropriate answers)

<input type="checkbox"/> growing/declining export markets	<input type="checkbox"/> growing/declining local markets
<input type="checkbox"/> falling / rising labour costs	<input type="checkbox"/> improving / declining political environment
<input type="checkbox"/> improved/reduced availability of skilled labour	<input type="checkbox"/> better / worse access to capital
<input type="checkbox"/> improved/reduced exchange rate position	<input type="checkbox"/> other (please explain)
_____	
_____	

11. If you plan to increase investment, what percentages of this investment will go to:

<input type="checkbox"/> promotion & marketing in present markets	<input type="checkbox"/> hiring additional labour
<input type="checkbox"/> promotion & marketing in new markets	<input type="checkbox"/> raw materials, parts and components
<input type="checkbox"/> upgrading technology	<input type="checkbox"/> general capital expenditure
<input type="checkbox"/> other (please explain)	<input type="checkbox"/> staff training
_____	

### Your Competitiveness

12. Over the next 1 to 3 years, will your competitive position:  
 improve                       decline                       stay the same  
 unknown

13. What factor(s) could improve your competitiveness (number in order of importance):

<input type="checkbox"/> allowing market conditions and production levels to determine labour wages and retention	
<input type="checkbox"/> moving toward higher quality and higher value-added product(s)	
<input type="checkbox"/> upgrading production technology	<input type="checkbox"/> reducing shipping and transport costs
<input type="checkbox"/> upgrading technical/shop floor labour skills	<input type="checkbox"/> upgrading management skills
<input type="checkbox"/> other	_____
_____	

**Potential to Export to Asia:**

(South Korea, Singapore, Hong Kong, Taiwan, China, Thailand, Malaysia, Indonesia)

**14A. If you are currently exporting to Asia:**

What countries do you export to? _____
What specific products do you export? _____
What additional Asian markets interest you? _____

**14B. If you are not currently exporting to Asia:**

Which Asian markets interest you? _____
What products might be competitive in Asia? _____

15. What factors are important to begin or increase your exports to Asia?  
(please number in order of importance)

- \_\_\_\_\_ improving knowledge of market demand for your products in Asian markets
- \_\_\_\_\_ improving knowledge of tariff and non-tariff barriers on your products
- \_\_\_\_\_ the need to develop relationships with buyers/distributors
- \_\_\_\_\_ the cost of air freight/shipping to Asian markets
- \_\_\_\_\_ increasing competitiveness through reduced wages and/or higher productivity
- \_\_\_\_\_ increasing competitiveness through improved technology levels and management skills
- \_\_\_\_\_ other (please explain) \_\_\_\_\_

16. What characteristics should a product have to effectively penetrate Asian markets?  
(please number in order of importance)

- \_\_\_\_\_ low cost, mass produced      \_\_\_\_\_ innovative design      \_\_\_\_\_ high labour content
- \_\_\_\_\_ uniqueness to Fiji      \_\_\_\_\_ high quality      \_\_\_\_\_ low labour content
- \_\_\_\_\_ other \_\_\_\_\_

17. Please describe any further obstacles to exporting to Asian markets:

_____
_____
_____
_____

18. What do you feel are the critical success factors in successfully exporting to Asia?

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**Government Support for Exporters**

19. Do you use any government training/skill development programs such as the Garment Training School, the Fiji National Training Council, or others?

Please

comment: \_\_\_\_\_

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20. Are you aware and do you use the export Preshipment or Postshipment finance facilities from the Reserve Bank of Fiji (administered by commercial banks).

Please

comment: \_\_\_\_\_

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21. Please use the space below to provide suggestions on ways the government can support you as an exporter. (please attach additional sheets if desired)

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**Thank You for Taking the time to Complete this Questionnaire.**

## **Annex 2: Suggested Circulation of Fiji Investment and Export Review**

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- Local, regional and international chambers of commerce and industry;
- Foreign mission participants (to be included in the mission materials);
- Follow-up contacts generated through foreign missions;
- Local, regional, and international embassies and consulates;
- Identified corporations active in the region;
- Incoming foreign missions visiting Fiji;
- Foreign industry associations;
- Regional and international business-related libraries
- Replies to The Review's Reader Response Form;

### **Annex 3: Suggested Outline for Fiji Trade and Investment Review**

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- Fiji's investment policies and promotion activities;
- Fiji's macroeconomic, trade and investment indicators;
- Updates on the legal environment and printings of trade and investment-related laws;
- Industry briefs on key sectors of the Fijian economy;
- Discussions on business environment issues (eg. manpower, supporting industries, science and technology, etc.)
- Profiles of economic cooperation projects with Fiji's regional neighbours;
- Profiles of successful investment projects and firms in Fiji;
- Descriptions of services available from Fiji's government agencies;
- Notices of joint-venture, distributorship, and subcontracting opportunities;
- Guest viewpoints from local and regional journalists, academics, and business persons;
- A 'reader response form' to advertise government publications and expand circulation of The Review.



Office of the  
Board of Investment

**BOARD OF INVESTMENT OF THAILAND**  
**INVESTOR CONFIDENCE SURVEY**  
**October, 1994**

**Please Return by November 11, 1994**

This survey will assess attitudes and outlooks of foreign investors in Thailand on a number of topics of general interest. Results of this survey will be evaluated by the Board of Investment and those with an interest in foreign investment issues to address specific situations and/or problems that are identified. Meetings with selected groups of foreign investors will be held to discuss these issues.

Please complete as much of the questionnaire as possible. If you should receive more than one questionnaire, **please return only one**. All respondents will be informed of the results of the survey at the completion of the project.

Thank you for your cooperation. We look forward to being of greater service to you in the future.

**International Affairs Division**  
**Office of The Board Of Investment of Thailand**

**I. Your Company**

**1. Status of Your Company:**

joint venture _____	year created/acquired _____
wholly owned _____	
representative office _____	
other _____	

2. Country of Home Office \_\_\_\_\_

3. Per Cent of registered capital held by foreigners \_\_\_\_\_

4. Amount of total investment (Thai baht) \_\_\_\_\_

5. Principal business activity in Thailand: (please check one & describe in detail)

_____	Manufacturer
_____	Trading Company
_____	Service Provider
_____	Tourism, Hotel

6. Principal business activity of Home Office \_\_\_\_\_

7. Exports as a per cent of total sales \_\_\_\_\_

8. If a manufacturer, what province of Thailand is your manufacturing facility located in? \_\_\_\_\_



9. How did your company's gross revenues during the past six months compare with the same period last year?

_____ Large decrease	_____ Small Increase
_____ Small decrease	_____ Large Increase
_____ About the same	

II. Investment in Thailand

10. What were your principal reasons for investing in Thailand ?  
(please rank principle reasons)

_____ labor costs	
_____ to utilize the resources of the local area	
_____ to establish presence in Asia	_____ to establish presence in SE Asia
_____ economy of country	_____ potential of local market
_____ stable political system	_____ promotional incentives
_____ good infrastructure in place	_____ expand regional office
other (please explain) _____	
_____	

11. Which countries do you view as main investment location competitors to Thailand? Why? (please be as specific as possible and rank your choices)

Malaysia _____	Indonesia _____	India _____
Singapore _____	Philippines _____	Hong Kong _____
Taiwan _____	China _____	Vietnam _____
Other (please specify) _____		
_____		

12. Please describe your investment plans over the next three (3) years:

_____ additional investment in:	_____ Thailand	_____ Other ASEAN
	_____ Other Asia	
_____ dis-investment in:	_____ Indochina, Myanmar, South China	
	_____ Thailand	_____ Other ASEAN
	_____ Other Asia	
	_____ Indochina, Myanmar, South China	
_____ stay the same		
other (please explain) _____		
_____		

13. If you plan to expand, what are your motivations behind the expansion? (please rank accordingly) If Thailand, please indicate the province where you would expand?

_____ labor costs	
_____ to utilize the resources of the local area	
_____ to establish presence in Asia	_____ to establish presence in SE Asia
_____ economy of country	_____ potential of local market
_____ stable political system	_____ promotional incentives
_____ good infrastructure in place	_____ expand regional office
other (please explain) _____	
_____	

14. Have you any plans to relocate existing facilities? If so to where and why?

\_\_\_\_\_

\_\_\_\_\_

15. If a new businessman/potential investor were to ask you for your overall opinion of the business climate in Thailand, which of the following would best describe your outlook ? (please circle one)

Please use a scale of 1 to 5 (1 = very negative, 5 = very enthusiastic)

1	2	3	4	5	no opinion
---	---	---	---	---	------------

III. Your Company and BOI

16. Has your company received BOI promotion?

\_\_\_\_\_ Yes \_\_\_\_\_ No

17. If not, have you considered applying for BOI promotion ?

\_\_\_\_\_ Yes \_\_\_\_\_ No

18. If yes, why haven't you applied yet?

\_\_\_\_\_ not enough capitalization  
\_\_\_\_\_ too much bureaucracy  
\_\_\_\_\_ not enough information available  
\_\_\_\_\_ not at that stage yet  
\_\_\_\_\_ need joint venture partner  
\_\_\_\_\_ BOI conditions not workable

19. If you receive BOI promotion:

Please use a scale of 1 to 5 (1 = very negative, 5 = very enthusiastic)

a. promotion was difficult to obtain	1	2	3	4	5
b. start up was easy	1	2	3	4	5
c. BOI staff were helpful	1	2	3	4	5
d. easy to import equipment	1	2	3	4	5
e. easy to export products	1	2	3	4	5
f. easy to obtain licenses & permits	1	2	3	4	5

20. Have you received sufficient information to understand investment promotion policies?

\_\_\_\_\_ Yes \_\_\_\_\_ No \_\_\_\_\_ Not applicable

21. Are you satisfied with BOI investment promotion policies?

\_\_\_\_\_ Yes \_\_\_\_\_ No  
Please explain \_\_\_\_\_  
\_\_\_\_\_

22. Please describe your experience with the following government agencies:  
(please use same ranking system as in #19)

a. Immigration	1	2	3	4	5
b. Labor Dept	1	2	3	4	5
c. Ministry of Commerce	1	2	3	4	5
d. Industrial Estate Auth.	1	2	3	4	5
e. Revenue Dept	1	2	3	4	5
f. Embassy	1	2	3	4	5
g. Customs Department	1	2	3	4	5
h. Factory Registration Dept	1	2	3	4	5
i. Other (please specify) _____	1	2	3	4	5
_____	1	2	3	4	5

23. Please describe any major problems in more detail:

\_\_\_\_\_

\_\_\_\_\_

24. If you consulted with the BOI on any problems, were they helpful in addressing the problem?

Yes       No       Not Applicable

25. What would you say were the main reasons for problems that occurred?

language problems	_____ Yes	_____ No
"communication" problems	_____ Yes	_____ No
lack of experience on your part	_____ Yes	_____ No
lack of "responsiveness" of the administration	_____ Yes	_____ No
special circumstances (please explain) _____		
_____		
other (please explain) _____		
_____		

#### IV. Confidential Information (this information held strictly confidential)

Name of person filling out questionnaire: \_\_\_\_\_

Your Position: \_\_\_\_\_

Company Name: \_\_\_\_\_

Name of CEO/Mgr. Dir \_\_\_\_\_

Name of Home Office: \_\_\_\_\_

Address of Local Office \_\_\_\_\_

Telephone: \_\_\_\_\_ Fax: \_\_\_\_\_

**Thank You for Taking the Time to Complete this Questionnaire**  
Please return the questionnaire by post or by fax. It should be sent to:  
**International Affairs Division, Thailand Board of Investment**  
555 Viphavadee-Rangsit Rd., Chatuchak, Bangkok 10900  
Tel: 537-8111 ext.1111-8, Fax: 537-8188

## Annex 5: Fiji's RCA to Selected Asian Markets

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### Japan

SITC Code	1990 RCA	1992 RCA
014	82.00625	122.78610
034	8.02872	4.97137
035	14.60521	50.95063
036	31.86390	51.95603
048	19.71213	30.58632
054	225.12210	198.18397
057	10.45630	8.55438
061	14,509.80500	15,661.45727
074	48.77884	32.21438
075	1,948.80260	681.83410
081	4.03974	3.84792
246	52,652.41800	90,498.22104
247	241.66765	309.86867
248	262.09401	245.46310
291	85.36148	41.59421
292	5.89336	4.79950
411	0.45495	0.07269
554	3.47222	2.88884
634	96.84050	112.79814
659	0.23585	0.08514
821	2.26882	2.66851
843	187.96662	181.62418
846	123.62183	84.04822
892	0.11016	0.33437
897	0.08955	0.08863
899	1.07524	0.41063
931	0.23546	0.31846

### Hong Kong

SITC Code	1990 RCA	1992 RCA
034	3.01956	2.19785
035	11.78830	22.77423
036	11.79837	20.56953
122	0.02450	0.00081
211	9.06486	3.32696
291	35.20429	16.40476
653	0.01583	0.00209
842	1.07322	1.21368
897	0.00374	0.00351
931	0.38337	0.32557

## Indonesia

SITC Code	1990 RCA	1992 RCA
282	17.60146	10.83422
288	16.89071	2.18747

## Korea Rep.

SITC Code	1990 RCA	1992 RCA
036	1.45019	2.20898
291	24.73091	10.21424
522	0.15375	0.13722
634	18.17243	20.29326
673	0.46014	0.13009
674	0.25234	0.24025
899	0.31374	0.11663
931	8,876.21520	1,245.22595

## Malaysia

SITC Code	1990 RCA	1992 RCA
036	2.09438	3.09854
061	124.36912	221.65295
122	1.20498	0.00940
764	0.02235	0.01874
931	0.97281	1.18712

## Singapore

SITC Code	1990 RCA	1992 RCA
035	2.55164	5.29836
036	2.88065	3.53377
037	142.15274	115.33063
291	10.40060	6.26333
652	0.03792	0.09058
653	0.01431	0.00137
655	0.09682	0.13191
723	-	0.00026
778	0.03606	0.02950
831	2.06136	1.34014
843	10.40015	12.02419
844	14.43473	17.82602
845	1.30052	3.41382
846	5.03438	3.93630
892	0.03266	0.08258
931	0.33424	0.39431

## Thailand

SITC Code	1990 RCA	1992 RCA
036	0.17705	0.22301
062	3.68764	3.75201
075	16.13795	11.72272
248	10.20033	7.78827
892	0.32406	0.68509

## China

SITC Code	1990 RCA	1992 RCA
036	0.54770	0.99258
061	77.08364	51.10307
651	0.02511	0.04333
931	0.19319	1.02098

## Indonesia

SITC Code	1990 RCA	1992 RCA
282	17.60146	10.83422
288	16.89071	2.18747

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061	77.08364	51.10307
651	0.02511	0.04333
931	0.19319	1.02098



## Annex 6: Demand for Agro-products in Asia

### Agro-product Demand in Thailand

As Thailand becomes more Westernized, the demand for Western fruits and vegetables is increasing. The expansion of the foreign community driven foreign investment adds to the demand for Western fruits and vegetables. The demand for "insecticide-free" fruits and vegetables has grown since newspapers report that some local producers do not follow government regulations controlling the use of insecticides.

The types of fruits and vegetables which are imported to Thailand are those which cannot grow in Thailand or are of low quality when grown here due to the unsuitable climate. They include apples, grapes, strawberries, avocados, white cabbage, red cabbage, zucchini, broccoli, celery, carrots, lemons, squash and Japanese cucumbers. The United States and Australia are major exporters of fruits to Thailand.

The shelf prices of these fruits and vegetables are quite high compared to local products:

Product	Retail Shelf Price in Thailand
Apples	0.80 each
Seedless Grapes (USA)	13.00/kg.
Strawberries	16.00/kg.
Carrots	2.60/kg.
White Cabbage	4.00/kg.
Red Cabbage	2.40/kg.
Lemons	3.60/kg
Japanese Cucumber	2.400/kg
Squash	2.40/kg
Avocado	2.40 each
Source : Foodland and Robinson Supermarkets, Thailand	

## **Agro-product Demand in Singapore**

Singapore has a strong market for fruits and vegetables from abroad due to limited land and high purchasing power. In 1993, Singapore imported fresh vegetables valued at S\$ 327.16 million, a 11.7 % increase over 1992. Fresh fruit imports in 1993 were valued at 579.8 million Singapore dollars, representing an increase of 2.9 % over the year previous.

Popular imported fresh vegetables include thick leaf vegetables, garlic, onion, beans, cauliflower, white and red cabbage, chili, tomatoes, potatoes and sweet corn. Singapore's suppliers for these products in order of importance are Malaysia, China, Australia, India, United States of America, Thailand and the Netherlands.

Fresh fruits imported include: oranges, apple, pears, durians, grapes, nuts, melons, water melon, banana, cashew nuts, guavas, mangosteens, mangoes and avocados, plums, dates, limes, coconuts, pineapples, lychees and pomellos. These are imported from Malaysia, the United States of America, China, New Zealand, Thailand, Iran and Germany.

The Singapore government requires importers or wholesalers to obtain import licenses from the Trade Development Board of the Ministry of Trade and Industry. The quality of the products is randomly checked in the market by the Primary Production Department. Singapore has a reputation of being very strict on the quality of products.

There is no import duty on fruits and vegetables, but the importers have to pay goods and services tax. (3%)

Singapore has a systematic way of distributing products. All imported fresh fruits and vegetables are brought to Pasir Panjang Wholesale Center which was built by the Ministry of National Development and is under the management of Em Services, a private company. Importers can rent space in the Center.

### **Agro-product Demand in the Republic of Korea**

The Republic of Korea shows increasing demand for imported fruits. The Seoul metropolitan area imported 60,408 tons of fruit in 1993, with a value of \$US 59 million, a 3.4% increase from the previous year.

Besides pineapples, a key import from the Philippines, the Republic of Korea imported kiwi fruits from New Zealand, and grapefruits and lemons from the United States of America.

Other agricultural products in great demand are tapioca, which is not grown in the Republic of Korea, and coffee. In 1991, the Republic of Korea imported 453,971 tons of tapioca products reached 558,369 tons valued at \$US 51,768,963. About 90% of these imports come from Thailand. Other suppliers are Indonesia, China and Viet Nam.

However, product from Thailand has recently deteriorated in quality so the Republic of Korea has turned to Viet Nam for higher quality product. Fiji, with capacity to export tapioca, should try to develop sales in the Republic of Korea.

Coffee is one of the major imports in the Republic of Korea. From January to May 1994, Thailand exported 7,240 metric tons of coffee to the Republic of Korea, valued at \$US 8,695,404 compared to 4,396 tons valued at \$US 3,818,056 for the same period the year previous. Other supplier countries include Brazil, Indonesia, Colombia and Honduras.

## The Japanese Market for Cut Flowers

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### I Market Overview

Demand for cut flowers in Japan has been increasing rapidly since the mid 1980s, resulting in a remarkable growth in domestic production. At the same time, the environment for imported cut flowers has improved, and imports of cut flowers are on the rise as well. In 1990 a Flower Expo was held in Osaka, stimulating Japan's growing interest in flowers. This trend has continued into the 1990s.

Consumption of cut flowers is a function of Japan's national income level rather than the size of the country's population. As long as the Japanese economy continues to grow steadily in the coming years, consumers will continue to spend more on non-essential items such as flowers. For this reason, demand for cut flowers is expected to show uninterrupted growth throughout the 1990s. In fact, some in the industry predict that demand will double by the mid 1990s or by the end of the decade.

There are no official statistics documenting the exact size of Japan's cut flower market, but market size is often estimated using sales figures compiled by the Japan Flower Wholesale Market Association. These figures, however, include only sales through the association's member wholesale markets. Sales through non-member wholesale markets are estimated to account for 20 percent of total sales through wholesale markets, while 5 percent of this share is distributed from one wholesale market to another. An additional 10 percent of the total volume is believed to be distributed without going through wholesale markets. Taking into account these statistics and the fact that retailers generally mark up flowers 100 percent or more from wholesale prices, total market size in 1990 can be estimated at ¥820.5 billion on a retail price basis, compared to ¥694.7 billion in 1989.

#### CUT FLOWER SUPPLY STRUCTURE\*

Unit: ¥ million

	1985	1986	1987	1988	1989	1990	1991
Domestic production	157,705	159,632	174,341	191,707	210,604	244,360	n. a.
Exports	136	160	114	93	111	98	77
Imports	5,754	6,729	8,946	13,905	16,272	19,806	20,807

Note: \* includes cut leaves and branches.

Source: MOF

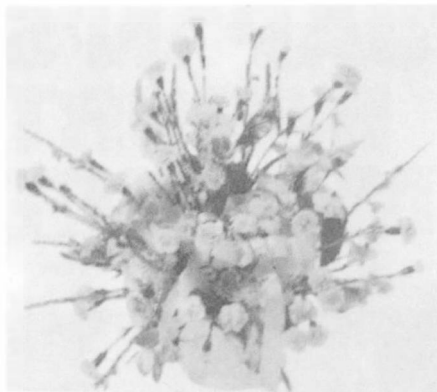
# ACCESS TO JAPAN'S IMPORT MARKET



Japan's flower market blooms



Demand for high-quality cut flowers continues to grow



Gift-giving accounts for 30 percent of demand

## II Demand

Although Japan consumes more cut flowers than any other country on a value basis, the purchase frequency per household is as low as 10 times a year by some estimates. While there is no official breakdown of flower consumption by purpose of use, demand for home use is estimated to account for only 30 percent of the total, while businesses such as hotels, restaurants and funeral services account for 40 percent and gift-giving comprises the remaining 30 percent.

The low purchase frequency by households reveals some important characteristics of Japanese consumers. For instance, they prefer very high-quality and unusual flowers, even if it means paying higher prices. This preference is manifest in *ichirin-zashi* (single flower), for which the focus is on the beauty of a single bloom. Similarly, traditional Japanese flower arranging focuses on the beauty of selected flowers rather than a large bouquet. It is therefore easy to understand the preference for quality no matter what the cost.

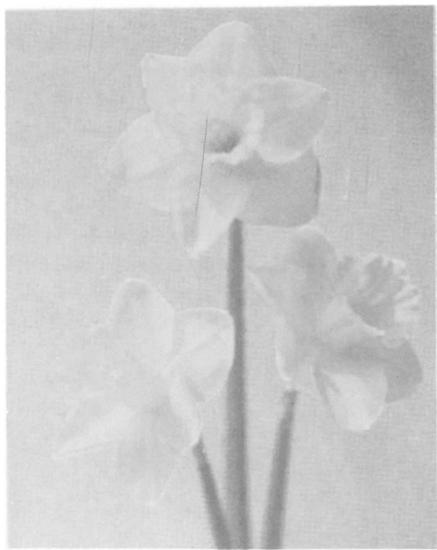
**Seasonal Trends:** Demand for cut flowers peaks four times each year. In March and September when the vernal and autumnal equinoxes occur, there is a tradition among the Japanese to place flowers on the tombs of their ancestors. During the New Year season there is another tradition to give flowers as gifts. Similarly, in June there is a high demand for red carnations to be used as Mother's Day gifts though pink carnations and roses have been gaining popularity in recent years.

**Color Preferences:** Traditionally, Japanese consumers also prefer subtle colors, such as pale pink or white. Brightly colored red and yellow flowers favored in the U.S. and Europe, do not enjoy the same popularity in Japan. Gradually, more and more consumers are buying more brightly colored flowers, but it is expected to be some time before these consumers are in the majority, especially taking into consideration the living environment in Japan.

In addition to favoring subdued colors, the Japanese are strongly influenced by the season in their choice of color. For instance, they subconsciously see yellow as a spring color, so they tend to buy yellow flowers, such as daffodils, during the spring. Demand for cool tones such as blue and white peaks in the summertime, while purple is seen as a fall color and red is preferred during the winter.

**"Casual Flowers":** Given the Japanese penchant for upmarket products, the prices of cut flowers in Japan are relatively high. This reinforces the tendency to purchase flowers only as gifts or for special occasions. To promote the widespread use of cut flowers, a committee to study their production, distribution and consumption was formed in 1989 by the Ministry of Agriculture, Forestry and Fisheries. In a report submitted in April 1991, the committee recommended promoting more widespread use of flowers for daily consumption in households, which they defined as "casual flowers," which consumers can purchase "casually" for home use. The report recommended that these flowers be priced 30-50 percent lower than cut flowers currently on the market.

Some industry experts, however, believe that demand is not strongly linked to price, because flowers are not an essential item. People over 30, especially, do not customarily purchase cut flowers for daily home use, so price is not necessarily a factor in their purchase decision. These experts feel that purchasing patterns will have to change over time in order for demand to increase. On the other hand, there is a growing



Yellow flowers such as daffodils are preferred during the spring

trend among young females in their 20s to purchase flowers for daily household use. This group sees flowers as an important item for their daily enjoyment, and for these women lower prices might indeed increase the demand for "casual flowers" in the coming years.

### III Domestic Production

Over the past several years domestic production of cut flowers, including cut leaves and branches, has grown steadily. In 1990 it reached ¥244.4 billion, an increase of 16 percent over the previous year. Ferns showed the most growth at 38 percent, followed by irises (up 35 percent), Turkish bell flowers (up 33 percent), lilies (up 31 percent), and tulips (also up 31 percent). On the other hand, production of cut leaves and cut branches dropped 2 percent. Total acreage for cut flower farms increased 4 percent to 16,609 hectares, while the total number of floriculture farms stood at 81,382.

Chrysanthemums represented the largest share of production volume (35.8 percent), with large and mid-sized blooms in especially high demand. Other major flower crops included carnations (11.7 percent), roses (10.7 percent), lilies (5.1 percent) and baby's breath (4.1 percent).

Domestic farmers ship cut flowers to wholesale markets mainly through farmers' and agricultural cooperatives, though some farmers in local areas occasionally ship flowers directly. Farmers can benefit from an economy of scale in shipping flowers if volume is large and planned shipment is possible. Agricultural cooperatives and their upper body organization, *Keizairen*, are expected to continue their dominant role in the delivery of cut flowers to market.

The remarkable growth in the cut flower market has resulted in different market positions for flowers produced in different regions, and some regions now enjoy the status of brand products. This trend is particularly dominant in the purchase of cut flowers for business use.

#### DOMESTIC PRODUCTION OF CUT FLOWERS\*

	1985	1986	1987	1988	1989	1990
Production Value (¥ million)	157,705	159,632	174,341	191,707	210,604	244,360
No. of Farmers	72,678	73,390	75,776	78,521	79,547	81,382
Total Acreage (hectares)	13,087	13,463	14,225	15,301	16,006	16,609

Note: \* includes cut leaves and branches.

Source: Ministry of Agriculture, Forestry and Fisheries

#### DOMESTIC SHIPMENT OF CUT FLOWERS BY ITEM

	1986	1987	1988	1989	1990
Chrysanthemum	1,773	1,746	1,763	1,833	1,868
Carnation	622	665	690	712	701
Rose	336	345	364	398	412
Statice	79	91	101	124	132
Baby's Breath	94	100	103	121	120
Lily	97	101	111	119	129
Stock	120	114	113	117	108
Gentian	86	92	91	109	108
Freesia	73	79	79	79	81
Total	4,495	4,617	4,786	5,130	5,316

Source: Ministry of Agriculture, Forestry and Fisheries



Domestic farmer at his "office"



Chrysanthemums, Japan's most popular flower

### CUT FLOWER PRODUCTION IN 1990\*

	Acreage (hectares)	% Incr. Over 1989	Volume Shipped (units)	% Incr. Over 1989	Production Value (¥ million)	% Incr. Over 1989
Chrysanthemum	5,538	2	1,868,372	2	87,596	17
-large bloom	3,683	0	1,241,744	0	65,064	14
-spray	329	18	117,471	18	5,857	35
-small bloom	1,525	5	509,157	4	16,675	25
Carnation	596	2	701,269	99	28,565	9
Rose	468	9	412,472	4	26,086	15
Stock	346	-2	108,011	-8	4,487	1
Gentian	648	6	108,022	-1	4,569	22
Baby's Breath	575	8	119,673	-1	10,093	22
Orchid	163	8	24,623	5	8,023	14
Statice	364	8	132,154	7	5,948	23
Gerbera	57	15	50,725	14	1,839	22
Turkish Bell Flower	227	33	84,997	24	4,501	33
Cut Bulb	1,498	10	540,385	11	28,318	24
Lily	437	10	128,766	8	12,347	31
Tulip	80	24	60,461	22	3,931	31
Gladiolus	369	1	71,674	0	3,366	9
Freesia	108	8	80,903	3	2,163	4
Iris	59	3	46,674	35	1,066	35
Daffodil	152	2	37,678	10	809	20
Others	292	26	114,229	16	4,097	24
Cut Branches	3,412	2	318,874	6	9,652	-2
Cut Leaves	583	7	185,898	10	4,251	19
Fern	102	13	37,615	33	665	38
Others	481	6	148,283	5	3,586	16
Other Cut Flowers	2,134	1	660,872	6	20,433	18
Total	16,609	4	5,316,347	4	244,360	16

Note: \* includes cut leaves and branches.

Source: Ministry of Agriculture, Forestry and Fisheries

#### IV Import Trends

In 1991 imports of cut flowers, including dried flowers, amounted to 15,627 tons worth ¥19.2 billion, representing a 25.9 percent increase in volume and a 15.5 percent rise in value over the previous year. Imports of cut leaves, branches and other non-flowers, including mosses and lichens, amounted to 3,362 tons worth ¥1,577.9 million in 1991.

In 1990 imports of cut flowers, including cut leaves and branches, amounted to 357.9 million stems, a 2.9-fold increase over 1985. Orchids mainly from Thailand and Singapore, chrysanthemums mainly from Taiwan and ferns mainly from the United States comprised 58 percent of the total, though market share for these flowers has been declining since 1985 as imports of untraditional varieties of flowers have grown. These include new varieties of lilies and tulips and varieties for which domestic production is low, such as kangaroo paw and wax flower. There has also been diversification in import sources, illustrated by the sharp rise in imports from Australia and New Zealand, where the seasons differ from Japan. Imports from the Netherlands are also increasing, while Latin American countries are benefitting from the low cost of their products, such as fern from Costa Rica and carnations from Colombia. Imports are now estimated to comprise 7.5 percent of Japan's total supply of cut flowers, including cut leaves and branches.

To succeed in the Japanese market, cut flowers must generally fall into one of the following categories:

- 1) Varieties that are difficult to grow in Japan.
- 2) Varieties that are available during Japan's off-season.



Carnations



Roses

3) New varieties.

4) Varieties indigenous to Japan that can be grown at lower cost overseas.

Import is also feasible in the case of wild plants which can be picked economically. In addition, various other factors such as geographical location, cost and infrastructure of the producing countries are also important. These include:

1) Short transportation distance to Japan.

#### VOLUME OF IMPORTED CUT FLOWERS IN 1990\*

Unit: 1,000 stems

	Thailand	U.S.A.	Holland	Taiwan	Singapore	Australia	New Zealand	Total
Orchid	104,850	40	80	20	16,220	60	1,630	124,220
Ferns	2,120	31,200	0	0	950	0	0	52,310
Chrysanthemum	-	-	70	30,430	0	0	-	30,500
Bear Grass	-	26,710	-	-	-	-	-	26,710
Carnation	-	2,050	2,220	-	10	720	270	12,890
Rose	0	80	7,180	0	0	10	300	11,010
Lily	-	0	9,200	230	-	20	60	9,600
Freesia	-	0	8,550	-	-	0	10	8,560
Tulip	-	0	7,890	-	-	-	0	8,230
Gladiolus	-	-	330	6,430	-	20	0	6,810
Nerine	-	0	5,840	-	-	0	380	6,230
Anthurium	0	2,320	20	20	620	0	-	7,370
Waxflower	-	80	-	-	-	3,820	0	4,110
Kangaroo Paw	-	-	-	-	-	3,960	-	3,960
Ruscus	-	10	-	0	-	-	-	3,250
Dracaena	40	40	-	40	1,800	0	-	2,190
Calla	-	-	10	-	-	20	1,810	1,850
Leucadendron	-	0	-	-	-	560	380	1,040
Others	330	18,620	7,810	770	60	2,830	2,570	39,630
<b>Total</b>	<b>107,340</b>	<b>81,340</b>	<b>49,190</b>	<b>37,960</b>	<b>19,660</b>	<b>12,020</b>	<b>7,430</b>	<b>357,920</b>

Note: \* includes cut leaves and branches.

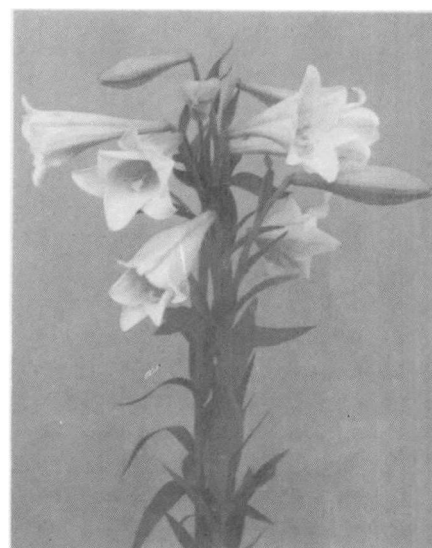
Source: Ministry of Agriculture, Forestry and Fisheries

#### IMPORT VOLUME TRENDS BY VARIETY

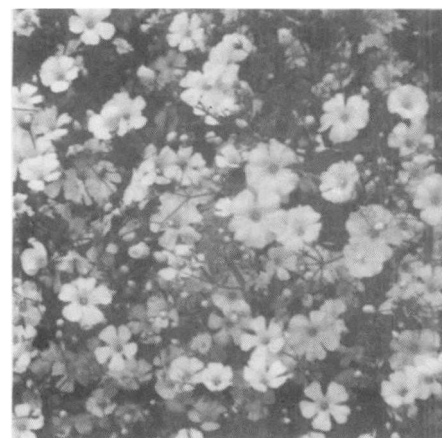
Unit: million stems

	1984	1985	1986	1987	1988	1989	1990
Orchid	49.1	63.2	78.8	84.1	115.3	112.0	124.2
Ferns	12.4	17.0	28.4	31.2	45.6	50.6	52.2
Chrysanthemum	23.3	24.6	15.9	27.7	41.2	44.1	30.5
Bear Grass	-	-	5.9	9.7	27.6	26.4	26.7
Carnation	2.9	3.3	7.0	7.6	11.5	10.1	12.9
Freesia	-	-	3.2	4.7	11.9	11.2	8.6
Anthurium	4.9	4.6	5.8	4.4	4.2	4.5	5.1
Gladiolus	0.4	1.5	3.7	3.6	6.5	9.9	6.8
Nerine	-	-	2.0	3.0	4.9	6.7	6.2
Lily	-	-	1.8	3.0	6.0	9.9	9.6
Ornithogalum	-	-	0.5	2.1	3.5	-	-
Tulip	-	-	0.9	2.2	9.4	10.6	8.2
Daisy	-	-	1.7	1.8	1.1	-	-
Ruscus	-	-	-	1.4	1.4	2.0	3.3
Waxflower	-	-	-	1.1	1.4	3.2	4.1
Anigozanthos	-	-	-	1.0	2.4	-	-
Leucadendron	-	-	0.6	0.8	0.9	0.9	1.0
Rose	-	-	-	-	-	9.9	11.0
Others	6.0	9.3	7.9	10.6	29.9	82.3	-
<b>Total</b>	<b>99.2</b>	<b>123.4</b>	<b>164.1</b>	<b>200.0</b>	<b>324.8</b>	<b>357.3</b>	<b>357.9</b>

Source: Ministry of Agriculture, Forestry and Fisheries



Lilies, considered very elegant



Baby's Breath





Tulips

2) Production costs 30-50 percent lower than Japan.  
3) Well-established technology to control insects and diseases to meet requirements of plant inspection.

4) Financial ability to bear burdens of long-term investment until a break-even performance can be realized.

Assistance offered by Japan's trading firms and special importers has been helping exporters overcome some of the hurdles they face when trying to approach the Japanese cut flower market. Such assistance is often required for the following reasons:

1) Very strong demand for quality and freshness from Japanese consumers.

2) Rejection of low quality products, even if they are low in price.

3) Traditional aesthetic preferences in Japan, which can be difficult for an outsider to understand.

For example, qualities of flowers are expressed using adjectives based on the traditional Japanese sense of beauty. They include "well-tailored," "dignified" and "elegant," but the implications of the original Japanese words are not easily translated.

To develop a long-term export relationship with Japan, it is indispensable to tie up with a Japanese importer that has experience in the Japanese floriculture business and to follow their advice. Generally speaking, Japanese importers look for well-established leading companies in exporting countries as partners, because these companies can bear long-term financial burdens during the development stages.

There are signs that importers are seriously considering a shift from air transportation to sea transportation. This will have a major impact on overseas suppliers of cut flowers, because sea transportation can cut costs of imported cut flowers substantially. Progress in technology is leading to the development of new breeds that bloom for longer periods. Other new technologies, such as humidified cooling containers, a low-cost system for the removal of ethylene gas and new sterilization techniques have also been opening ways for importers to source an increasing number of cut flowers from overseas in large volumes. As a result, cut flowers shipped by air will be limited to those with value high enough to offset the high cost of air transportation. At the same time, the development of new technology for maintaining freshness also raises the prospects for any exporter within a seven day sailing of Japan to increase its exports substantially in the future.

There is no doubt that cut flower imports will continue to grow steadily in the years ahead. It is also likely that their role will change. Previously, cut flowers were imported to fill gaps in the Japanese market or to establish niche markets. In the future, however, their role is expected to shift toward the supply of basic flower items in Japan. According to industry sources, imports currently account for about 6-8 percent of the total supply, but there is a possibility that this share will rise to 15-20 percent. If the total cut flower market is expected to grow at an annual rate of 5-10 percent, the growth in imports will be substantial.

According to industry experts, the import outlook for major flower varieties is as follows:

**Rose:** Domestic floriculture farmers are concentrating on large-bloomed roses, clearing the way for roses with small or medium-sized blooms to be sourced from overseas in larger volume than ever before. The outlook is particularly bright for roses from tropical highlands in Latin America and elsewhere.



Orchids, Japan's most imported cut flower

**Chrysanthemum:** Because growing chrysanthemums is very labor intensive, little growth in domestic production is expected. The import of chrysanthemums is promising particularly from neighboring regions such as China and Taiwan. A constant year-round supply is very important, because demand for funeral ceremonies is extremely high.

**Orchid:** Thailand and Singapore have a strong presence in the Japanese market for dendrobium imports. Imports of dendrobium from Indonesia and Malaysia via Singapore are also expected to grow. Imports of phalaenopsis from Taiwan and Brazil have started to rise, though they are still small in volume. The main suppliers of cymbidium



*Some imported flowers arrive by air*

**IMPORT OF CUT FLOWERS**  
(on a quantity basis)

Unit: 1,000 kg

	1986	1987	1988	1989	1990	1991
Taiwan	1,381	2,396	3,669	4,987	3,352	4,998
Thailand	2,023	2,402	3,760	3,917	4,190	4,338
Holland	335	562	1,530	2,284	1,952	2,495
Australia	84	230	558	512	757	1,109
New Zealand	219	285	398	440	615	710
Singapore	112	164	275	361	435	665
U.S.A.	409	346	403	309	388	351
South Africa	33	35	102	107	115	135
Malaysia	25	23	52	80	127	87
Colombia	16	23	38	54	128	294
Spain	44	56	46	51	54	38
Mauritius	-	-	16	48	53	102
Mexico	-	3	0.2	37	45	21
Israel	5	26	43	32	43	44
Sri Lanka	22	16	18	25	25	36
Others	53	43	48	126	131	206
<b>Total</b>	<b>4,760</b>	<b>6,607</b>	<b>10,956</b>	<b>13,369</b>	<b>12,412</b>	<b>15,627</b>
<b>EC Total</b>	<b>391</b>	<b>630</b>	<b>1,591</b>	<b>2,386</b>	<b>2,047</b>	<b>2,575</b>

(on a value basis)

Unit: ¥ million

	1986	1987	1988	1989	1990	1991
Taiwan	615	939	1,505	1,663	1,357	1,756
Thailand	2,776	3,352	4,224	3,829	4,077	4,247
Holland	852	1,674	3,835	5,705	5,844	6,506
Australia	135	338	799	649	859	1,341
New Zealand	588	744	1,039	1,099	1,541	1,653
Singapore	284	410	624	877	1,091	1,516
U.S.A.	645	549	564	555	647	667
South Africa	44	37	98	116	141	159
Malaysia	35	26	61	88	167	109
Colombia	24	30	50	78	185	428
Spain	92	91	71	85	104	60
Mauritius	-	-	33	91	124	234
Mexico	-	3	0.4	36	72	34
Israel	10	34	60	42	62	69
Sri Lanka	35	26	30	38	36	40
Others	96	89	100	294	337	411
<b>Total</b>	<b>6,230</b>	<b>8,340</b>	<b>13,093</b>	<b>15,243</b>	<b>16,645</b>	<b>19,229</b>
<b>EC Total</b>	<b>970</b>	<b>1,801</b>	<b>3,945</b>	<b>5,926</b>	<b>6,069</b>	<b>6,705</b>

Source: MOF



*Greenhouses for flowers*



*Flower auction at a wholesale market*

are countries in the southern hemisphere, such as New Zealand and Australia.

**Lily:** Lilies are considered very luxurious in appearance, and demand for these flowers is growing for gift giving and party use. Lilies are more durable than many flowers and can be shipped by sea over long distances. Lilies are now being imported mainly from European countries such as the Netherlands, France and Italy. New varieties such as Casablanca have great potential in Japan.

**Cut leaves:** Cut leaves are also viewed as promising in the Japanese market. Leather fern is now being imported mainly from Florida and Costa Rica. Malaysia exports dracaena, while bear grass comes from Oregon. The Philippines are also regarded as a promising supplier of leather fern. Because the cultivation of cut leaves requires relatively large acreage despite lower per unit prices, they are in strong demand as imports. New species of cut leaves from new sources are expected to appear in the Japanese marketplace.

### **V Distribution**

Cut flowers are distributed via two different channels, one which uses the wholesale market and another that bypasses it. As much as 80% of all cut flowers are distributed through the former. Recently, however, there has been a slow but steady increase in the volume of cut flowers bypassing the wholesale market. Most of these flowers are used by businesses or supplied to major retail chains. In addition, some small retailers have begun to form joint ventures and establish distribution systems for imported cut flowers which also bypass the wholesale market.

Domestic growers send flowers to agricultural cooperatives or their respective prefectural-level organizations for bulk collection. From there they are sent to wholesalers in either central or regional wholesale markets. At wholesale markets the flowers are sold at auction, and only middlemen and authorized buyers can participate in bidding. Most small retailers buy from middlemen who have stores at the markets. Authorized buyers comprise major retailers, flower processors, and other large users of cut flowers. Although they are able to bid at auctions, they also place small orders with middlemen. The Tokyo wholesale market takes a 9.5% commission on floricultural products, but this figure may be higher at regional wholesale markets. Wholesalers send the proceeds from auction sales, minus their commission, back to the collection organizations who, in turn, pay the producers.

The middleman's main function is to reduce sales lots. The minimum auction lot is usually one case, or 100 flowers. Because small shops cannot sell such a large volume of the same type and color of flower, middlemen supply the flowers they buy in bulk at auctions to retailers in groups of ten.

In principle, imported flowers follow the same route after leaving the hands of importers. The merits of distribution systems that incorporate wholesale markets and auctions are as follows:

- (1) It is possible for large volumes of cut flowers to be collected from domestic and overseas producers and sold the next day.
- (2) The auction system means prices accurately reflect the demand situation.
- (3) The system guarantees payment for sales.

On the other hand, auctions can cause wild fluctuations in price. A



*Domestically-grown flowers arrive at a wholesale market*

tightening in supply coupled with high demand can send prices soaring, while temporary drops in demand or the concentration of a single type of flower carries the danger of sharp price reductions. Such erratic price fluctuations translate into large risks for retailers who cater to business-use demand. The system also makes it difficult to plan supply.

The planted flower wholesale market is currently being modified under a law to improve the wholesale market system, which aims to further exploit the merits of wholesale markets. The functions of wholesale markets are expected to be upgraded and their scale increased in the future.

According to Ministry of Agriculture, Forestry and Fisheries data, there were 17 central and 229 regional wholesale markets as of September, 1990. Apart from small variations, the functions of the central and regional markets are the same. There are also another 80 small-scale markets which do not belong to the Japan Flower Wholesale Market Association.

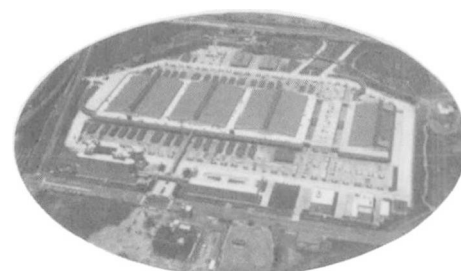
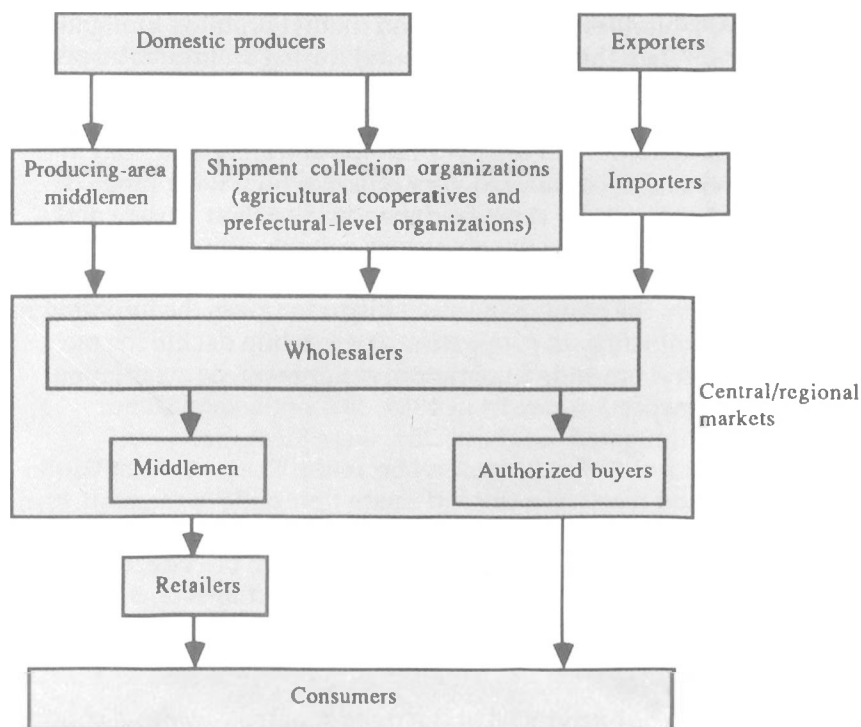
The mixture of wholesalers, middlemen and authorized buyers varies according to the market. In the flower and plant section of Tokyo's Ota market, Japan's largest wholesale market, there are 2 wholesalers, 20 middlemen and 1,336 authorized buyers (as of January 1, 1992).

The role of wholesale markets in flower and plant distribution is not expected to change in the near future. In the case of fresh vegetables, a system of distribution to large supermarkets through a prior bidding system has emerged and fewer vegetables are passing through the wholesale market. This is less likely to happen with floricultural products as the volumes handled by mass sales outlets are still limited.

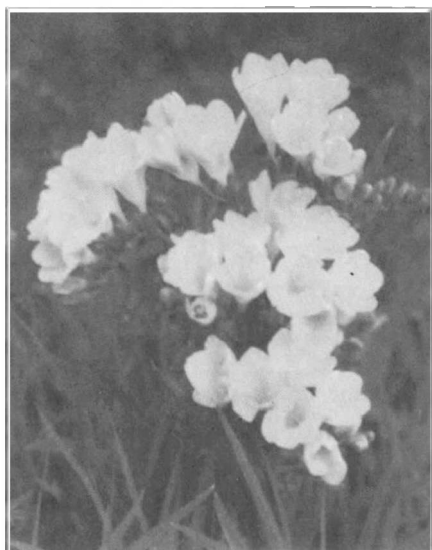


Inside Tokyo's sprawling Ota Market

#### DISTRIBUTION CHANNELS



Aerial view of Ota Market



Retail chains hope to sell flowers such as freesia in large volume

However, an increasing number of large retail chains have become aware of the potential of floricultural products and are pouring considerable resources into flower sales. These chains target large sales volumes, making the most of the large number of customers that visit their shops and their ability to handle large volumes. A substantial increase in the sales volume at these stores may result in changes to the current distribution system.

## VI Import Regulations

### 1 Plant Quarantine

Cut flower production involves cutting flowers from growing plants and immediately packing and shipping them. Because of this time pressure to get flowers to market quickly, they face a high risk of contamination by diseases and pests in the cultivation area.

Although there are few cut flowers that cannot be imported, cut branches with fresh fruits for decoration, wheat, barley and rice straw, etc. cannot be imported from some regions.

**Import inspection:** Import inspections are carried out at plant protection station inspection facilities. Air cargo inspections are made at places designated by the plant quarantine inspector, while marine-containerized cargo is inspected in container yards.

In the case of marine-containerized cargo, several kinds of plants are often put together in one container. In LCL cargo (less than container load cargo), especially, items subject to inspection are often put in the rear, making it difficult for inspectors to draw samples out of the container. If possible, it is better to load a container with a single item. When several items must be put in one container, it is preferable to arrange loading so that it is easy to confirm the lot and take out samples for inspection.

**Disinfection and destruction:** Two methods of fumigation are usually used for cut flowers in Japan: hydrocyanic gas fumigation for scale insects, thrips, whiteflies and aphids, and methyl bromide fumigation for other pests. When these pests are found during an import inspection, the cut flowers can be delivered to the consignee only after fumigation with either hydrocyanic gas or methyl bromide.

Although fumigation with methyl bromide is widely practiced in many countries and is considered very effective for a wide range of pests, it may damage some flowers, depending on their variety and condition. Therefore, it may not always be suitable. When pests other than scale insects, thrips, whiteflies and aphids are found during an import inspection, the plant quarantine inspector gives the importer past data on the phytotoxicity of fumigation and lets him decide the measure to be taken: methyl bromide fumigation, reshipment, or destruction.

According to inspection results in 1989, 34% of the total stems imported were fumigated. Of these, 20% were fumigated with hydrocyanic gas and 80% with methyl bromide. Therefore, 80% of the amount fumigated received a dose of methyl bromide at the request of the importers.

**Japanese Plant Quarantine:** Since freshness is top priority in the cut flower trade, it is necessary to get flowers to market as soon as they are imported. To speed this process a pre-clearance system can be implemented by providing Japanese plant quarantine inspection in the exporting country.

This system can be introduced at the request of the exporting country

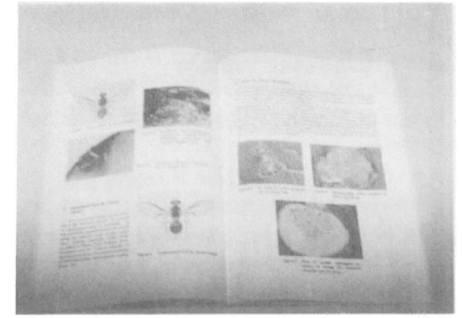


Quarantine inspection

after a thorough technical investigation and negotiations between the requesting country and Japan have been completed. In order to make such a system feasible, the following requirements must be met:

- 1) A large amount of cut flowers are regularly exported to Japan.
- 2) There is little history of disease and pests in cut flowers shipped.
- 3) The inspection facilities are concentrated in a limited area, and the system covers all the cut flowers being exported to Japan.
- 4) The expenses for dispatch of the Japanese plant quarantine inspector to the exporting country are paid by that country.

Under this system, the Japanese plant quarantine inspector confirms the export inspection of the exporting country, conducts an inspection similar to the port-of-entry inspection and takes measures to prevent diseases and pests from recontaminating the flowers before entry into Japan. Cut flowers imported under this system require only nominal inspection at ports of entry in Japan and can be distributed very quickly, making it beneficial to all concerned. The Netherlands has already implemented the system, resulting in a marked increase in its export volume.



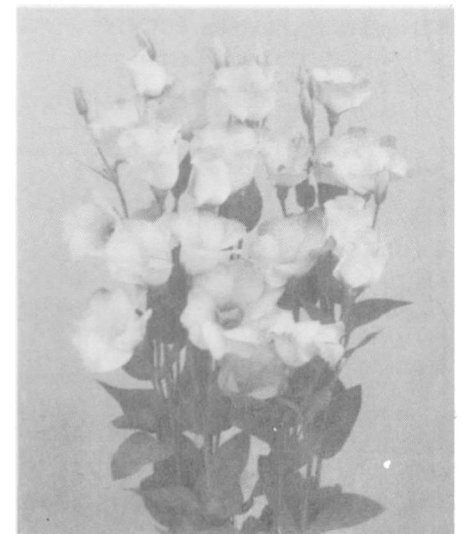
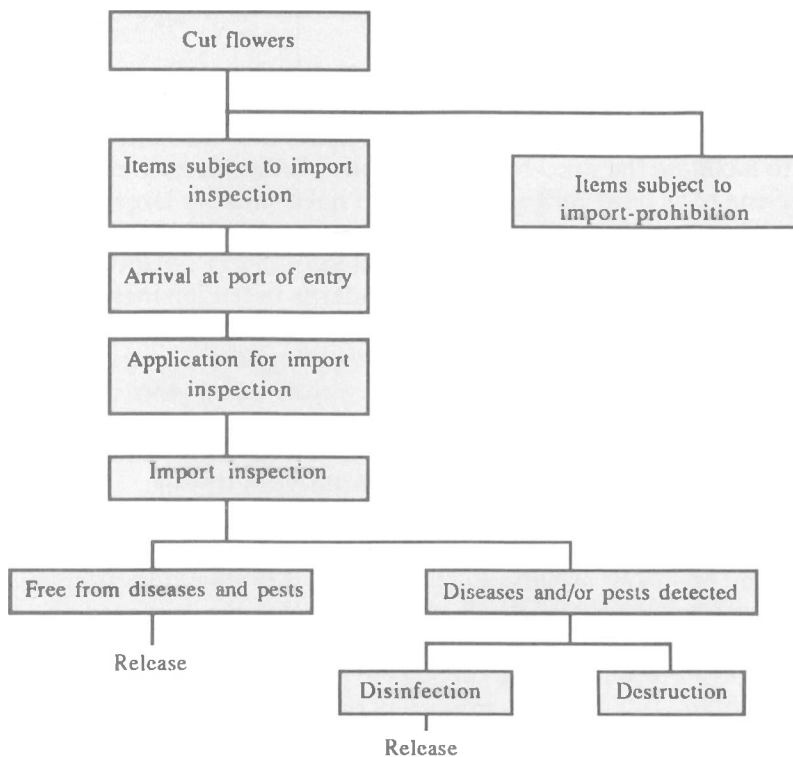
*Just some of the pests that can infect plants*

## 2 The Washington Convention

The object of the Washington Convention is to prevent unlimited international trade in endangered wild animal and plant species. The convention lists wild plants and animals believed to be in danger of extinction or in need of protection and places them in one of three different categories (appendices). Regulation of international trade in these plants or animals varies according to the category.

**Appendix I:** This category is for species in danger of extinction, and which are, or may be, adversely affected by import and export. Import

### IMPORT PLANT QUARANTINE PROCEDURE FOR CUT FLOWERS



*Importers may require tightly closed, partly open or fully open flowers*

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## VIII List of Related Organizations

### Governmental Agency

Office of Flower, Fruit and Flower  
Division,  
Agricultural Production Bureau,  
Ministry of Agriculture,  
Forestry and Fisheries  
2-1, Kasumigaseki 1-chome, Chiyoda-ku,  
Tokyo 100  
Tel: 03-3502-8111

### Industrial Organizations

Japan Flower Promotion Center  
Nihonbashi Nishiki Bldg., 1-3,  
Nihonbashi Kodenma-cho, Chuo-ku,  
Tokyo 103  
Tel: 03-3664-8739

Japan CutfLOWER Importers Association  
7-16, Nishiazabu 2-chome, Minato-ku,  
Tokyo 106  
Tel: 03-3796-1838  
(Direct line to chairman)

Japan Flower Growers Association  
7-16, Hamamatsu-cho 2-chome,  
Minato-ku, Tokyo 105  
Tel: 03-3434-9554

Japan Flower Wholesale Market  
Association  
Fukuroku Bldg. 7F, 2-7,  
Kandatsukasa-cho, Chiyoda-ku,  
Tokyo 101  
Tel: 03-3291-6987

Nihon Seikasho Kyokai  
9-7, Minami 3-chome, Koenji,  
Suginami-ku, Tokyo 166  
Tel: 03-3312-4057

Japan Flower Telegraph Delivery  
Association (JFTD)  
Nihon Flower Kaikain Bldg., 11-9,  
Kitashinagawa 4-chome, Shinagawa-ku,  
Tokyo 140  
Tel: 03-5496-0369

Japan Indoor Green Association  
Ebisu Union Bldg., 2-10, Minami  
1-chome, Ebisu, Shibuya-ku, Tokyo 150  
Tel: 03-3793-1777

The Flower Association of Japan  
Komatsu Bldg., 3-6, Akasaka 2-chome,  
Minato-ku, Tokyo 107  
Tel: 03-3584-6531

and export of these products primarily for commercial purposes is prohibited. They may be imported for scientific research, but written permission must be obtained from both the exporting country and the destination country. Around 100 plant species and genera have been specified under this category.

**Appendix II:** This category is for species that are not necessarily in danger of extinction but may become endangered if exports and imports are not regulated to prevent threats to their survival through human use. Written permission from the exporting country must be received prior to import or export. These species may be used in commercial transactions if the necessary permission to export is obtained. Around 50 plant species and genera have been specified under this category.

**Appendix III:** This category is for species deemed by any of the signatory countries to require regulation within its own jurisdiction. Control of trade requires the cooperation of other signatory countries. Certificates of place of origin and permission from the exporting country must be obtained before import or export of these species. Five plant species have been specified under this category.

### 3 Customs Tariffs

Cut flowers can be imported into Japan duty free. The customs tariff for cut leaves and branches is 5 percent, however, the preferential tax rate for cut leaves and branches is duty free.

## VII Advice

**Plant Quarantine:** The ability to supply insect-free flowers is the single most important factor in expanding exports to Japan in the long term. Efforts in this area will also result in improved quality, another important factor in exporting to Japan. It is also important to gain an understanding of consumer tastes in Japan. Establishing long-term relationships with Japanese importers would be helpful in this regard.

In order to ensure a smooth inspection upon arrival in Japan, the following measures should be taken:

- 1) Pest control should be vigilantly practiced on farms.
- 2) Only cut flowers free of diseases and pests should be exported.
- 3) Given the possibility of fumigation in Japan, flowers should be packed to facilitate the process. For example, plastic sheets and polyethylene bags used for packing should have suitably large holes.
- 4) Prior to export, the exporting country's plant quarantine agency should conduct an inspection to obtain a phytosanitary certificate.

**Grading by Size, Shape and Color:** Standards in the Japanese market are extremely strict, and great care needs to be taken in grading. For example, if a length of 70 cm is specified, anything under, or even over, that length will be unacceptable. If buyers specify that a plant must have five flowers, only five flowers are acceptable, and so on. Suppliers must also follow detailed directions regarding the cutting stage. Buyers may specify tight buds, partly open flowers or fully open flowers.

**Documentation:** Flowers cannot pass through customs unless invoices are filled in accurately. They may begin to deteriorate in the time it takes to rectify any mistakes, so simple calculation errors should be avoided.

**Packaging:** Packaging also needs to be adapted to the Japanese market. For example, in the U.S. 600 flowers make up a carton, but in Japan it is 100. In order to avoid damage to packaging, it is important to discuss carefully with Japanese importers the materials used. Exporters should also seek importers' advice regarding package labeling. ■

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## Legislation

*This special review by Patricia Lee, scientific officer at Bush Boake Allen's Regional Technical Centre, Singapore, serves to create an awareness of the existing food flavour and colour legislation in East Asia. It is not an actual interpretation of the Food Laws, as many additives are restricted as to maximum dose or specific product use.*

## Flavour and colour legislation guide for East Asia

**O**UR perception of the food that we eat is generally determined by sensory appeal such as colour and primarily by its flavour and odour. Factors such as increasing demand, popularity and technology advancement have increased the mass production of food products extensively, resulting in an increased demand for food flavourings for use in food ingredients, with or without food additive formulations. Due to the wide range and complexity of food flavourings and colourants used, stringent health controls are required, especially by food-related government bodies, for the protection of the health and well being of consumers, who normally accept these food products on



Patricia Lee

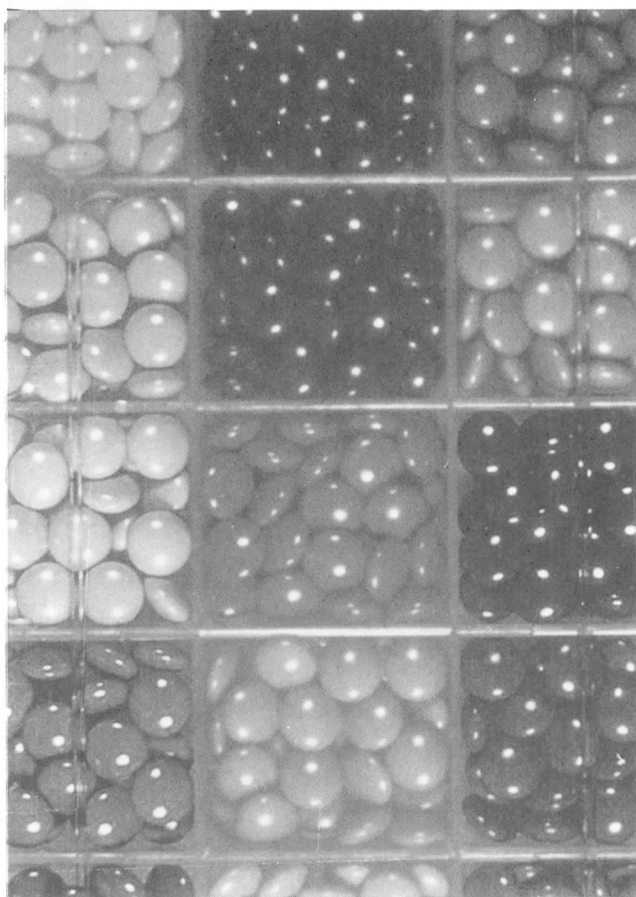
trust. This being so, food industries and suppliers have long recognised the need for standards for food products and the materials used in their manufacture.

Flavourings, as defined by the International Organisation of the Flavour Industry (IOFI), are considered as concentrated preparations, with or without solvent or carriers, used exclusively to impart flavour and not intended to be consumed on their own. This division of flavouring substances is regulated under three categories proposed by the IOFI and has been adopted by the FAO/WHO of the United Nations, the Codex Alimentarius Commission. They are as follows:

**Natural flavours and natural flavouring substances** For the purpose of the Codex Alimentarius, "natural flavours" and "natural flavouring substances" are preparations and single substances, respectively, acceptable for human consumption, obtained exclusively by physical processes from vegetable or animal raw materials, either in their natural state or processed for human consumption.

**Nature-identical flavouring substances** For the purpose of the Codex Alimentarius, "nature-identical flavouring substances" are substances chemically isolated from aromatic raw materials or obtained synthetically. They are chemically identical to substances present in natural products intended for human consumption, either processed or otherwise.

**Artificial flavouring substances** For the purpose of the Codex Alimentarius, "artificial flavouring substances" are those substances which have not



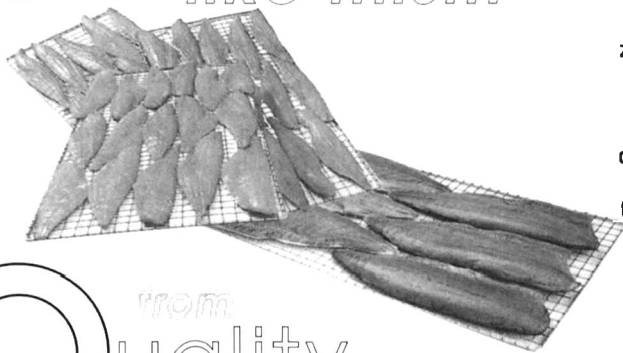


Acceptability of common synthetic food colours

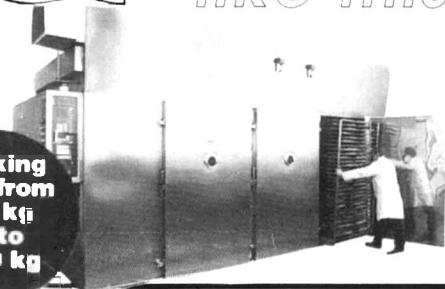
Colours	Colours Index No.	EEC No.	Hong Kong								
			Hong Kong	Indonesia	Korea	Malaysia	Philippines	Singapore	Taiwan	Thailand	Japan
Allura Red	16035	E129	✓	-	✓	-	✓	✓	✓	-	-
Ponceau 4R	16255	E124	✓	✓	X	✓	-	✓	✓	✓	✓
Carmoisine	14720	E122	✓	-	X	✓	-	✓	-	✓	X
Amaranth	16185	E123	✓	✓	✓	-	✓	✓	✓	-	✓
Erythrosine BS	45430	E127	✓	✓	✓	✓	✓	✓	✓	✓	✓
Tartrazine	19140	E102	✓	✓	✓	✓	✓	✓	✓	✓	✓
Sunset Yellow FCF	15985	E110	✓	✓	✓	✓	✓	✓	✓	✓	✓
Greens (Brilliant Greens)	44090	E142	✓	✓	✓	-	-	✓	-	-	X
Fast Green FCF	42053		-	✓	✓	✓	✓	✓	✓	✓	✓
Indigo Carmine	13015	E132	✓	✓	✓	✓	✓	✓	✓	✓	✓
Brilliant Blue FCF	42090	E133	✓	✓	✓	✓	✓	✓	✓	✓	✓
Chocolate Brown HT	20285	E155	✓	-	✓	X	✓	✓	-	-	X
Black PN	28440	E151	✓	-	✓	X	✓	✓	-	-	X

✓ = Permitted    X = Not permitted    - = Undetermined

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yet been identified in natural products intended for human consumption, either processed or otherwise.

**A common food legislation?**

As mentioned before, the wide range and complexity of flavouring chemicals available poses legislation problems, and thus, there is a need for general legislative regulations to cover their use. These regulations should ensure protection of consumers'

Acceptability of common flavour solvents						
Solvents \ Countries	Propylene Glycol	Ethanol	Iso-propyl alcohol	Glycerol	Diacetin	Triacetin
Singapore	✓	✓	✓	✓	X	X
Malaysia	✓	✓	✓	✓	✓	✓
Thailand	✓	✓	✓	✓	✓	✓
Indonesia	✓	✓	X	✓	X	X
Taiwan	✓	✓	X	✓	X	X
South Korea	✓	X	X	✓	X	X
Japan	✓	✓	X	✓	X	✓
Philippines	✓	✓	X	✓	X	✓
Hong Kong	✓	✓	✓	✓	✓	✓

COUNTRY	LEGISLATION	COUNTRY	LEGISLATION
Hong Kong	Tends to follow United Kingdom* flavour legislation.	Singapore	Flavourings acceptable in the USA* and UK* are generally accepted but they also have a negative list banning certain ingredients.
Indonesia	Flavourings acceptable in the USA* and UK* are generally accepted.	Thailand	No actual flavour regulations, as each specific flavouring must obtain government authorisation prior to food use.
Japan	Has a large positive list of permitted synthetic flavouring agents and a small negative list banning certain specific ingredients.	United Kingdom*	Has a large positive list with a small negative list.
Korea	Has a positive list of food flavourings.	USA*	Has a very large positive list, which has been screened by the Flavouring Extract Manufacturers' Association (FEMA) and subsequently classified by the Food and Drug Administration (FDA) as "generally recognised as safe" (GRAS).
Malaysia	Flavourings acceptable in the US* and UK* are generally acceptable but it has a negative list banning certain specific ingredients. Although ethanol can legally be used as solvent, its Muslim "Haram" status usually precludes its acceptance.		
The Philippines	Tends to follow the USA flavour legislation.		

✓ = Permitted  
X = Not permitted

health by verifying that flavouring ingredients are safe to use; prevention of fraud by misrepresentation or deception and unification of standards necessary for well-regulated trade.

Food laws in each country are tailored to its needs and requirements. There are certain difficulties in developing an international standard for food legislation. Therefore, for better control and communication in trade between food industries, both nationally and internationally, flavour legislation is controlled and regulated under various systems as indicated below:

**The negative list** contains all flavouring substances which are prohibited for inclusion in foods or may be used only to a very limited extent. All other non-listed flavouring materials are acceptable. Though this system of classification allows a wide range of flavouring chemicals to be used, it does not offer adequate protection to consumers.

**The positive list** defines all the individual substances which

are permitted for use in food flavourings. Any substance not listed is automatically prohibited.

This list offers good protection to consumers' well-being, but it restricts the use of many flavouring chemicals for creative work, besides hampering research work on new flavourings as the safety test for each new chemical is time-consuming and expensive. Moreover, existing technology may not be suitable to test the item.

The mixed system offers the best of both the preceding options – flavouring materials are appraised both technologically and by their prior use in foods without any ill-effects. Natural and nature-identical components are permitted and the use of artificial flavouring materials is regulated to a degree corresponding to the recognisable risk.

This system gives adequate protection to the consumer without undue cost, it can be enforced technically and the method of approval does not restrict the development of new flavouring substances.

**Colours** Food colourants, as part of food additives, can be added to food products for better visual presentation and consequent consumer acceptance. As with food flavours, the legislation governing food colours can be quite varied and diverse, depending on the country concerned.


International regulations divide the colour additives used for food into three groups:

- Synthetic organic colouring matters,
- Natural colouring matters, which may be of either vegetable or

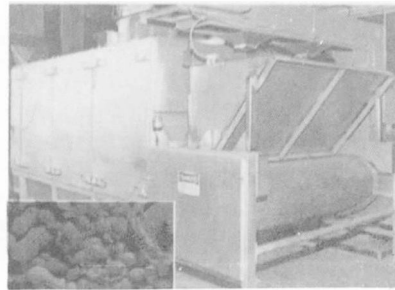
animal origin, and

- Inorganic colours, of which synthetic dyes form the largest proportion of colouring agents used.

Safety in the use of food

colourants is under constant and critical review by the joint FAO/WHO expert committee on food additives. 

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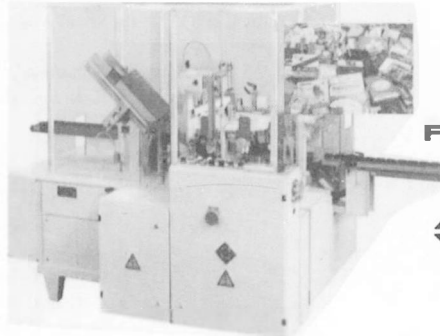
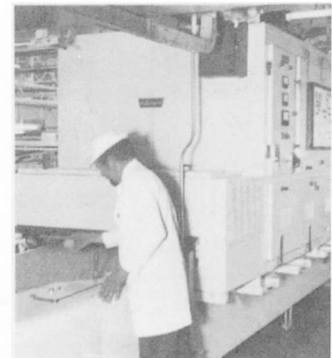
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Enquiry Number **630**

# The BODY SHOP

## OVERSEAS SHOP LIST

### NO. OF SHOPS

Antigua	1
Australia	44
Austria	8
Bahamas	4
Bahrain	1
Belgium	10
Bermuda	1
Brunei	1
Canada	104
Cayman Islands	1
Cyprus	1
Denmark	13
Eire	10
Finland	15
France	18
Germany	39
Gibraltar	1
Grand Canyon	1
Greece	25
Holland	42
Hongkong	8
Iceland	2
Indonesia	2
Italy	39
Japan	15
Kuwait	2
Luxembourg	2
Malta	1
Malaysia East	3
Malaysia West	7
New Zealand	7
Norway	15
Oman	2
Portugal	8
Qatar	1
Saudi Arabia	12
Singapore	10
Spain	38
Sweden	36
Switzerland	19
Taiwan	5
U.A.E.	2
U.S.A.	129*

### OVERSEAS HISTORY: FIRST SHOPS OPENING IN:

1977	Belgium (Brussels)
1979	Sweden (Stockholm)
	Greece (Athens)
1980	Canada (Toronto)
	Iceland (Reykjavik)
1981	Denmark (Copenhagen)
	Eire (Dublin)
	Finland (Tampere)
1982	The Netherlands (Londen)
	France (Paris)
1983	Australia (Melbourne)
	Cyprus (Limassol)
	Germany (Cologne)
	Singapore
	Switzerland (Zurich)
	U.A.E. (Dubai)
1984	Hong Kong (Tsimshatsui/Kowloon)
	Italy (Catania/Sicily)
	West Malaysia (Kuala Lumpur)
1985	Bahamas (Nassau)
	Bahrain (Manama)
1986	Norway (Oslo)
	Austria (Vienna)
	Kuwait (Safat)
	Oman (Muscat)
	Portugal (Lisbon)
	Spain (Madrid)
1987	Antigua (St. John's)
	Qatar (Doha)
	Saudi Arabia (Jeddah)
	Malta (Sliema)
	East Malaysia (Kota Kinabalu)
	Bermuda (Hamilton)
1988	U.S.A. (New York)
	Gibraltar
	New Zealand (Wellington)
	Taiwan (Taipei)
1990	Indonesia (Jakarta)
	Japan (Tokyo)
1991	Luxembourg
	Iceland (Reykjavik) - re-open



## TRADE NOT AID

"Trade Not Aid is quickly growing into a cornerstone for The Body Shop. It provides a platform from which our purchasing power is used to direct money straight to the primary producers. The next ten years will see a huge development in this part of the business not least because it does not patronise or degrade the people with whom we trade."

Gordon Roddick

Since 1987, The Body Shop has built trading relationships with communities where money is most needed. We call this policy Trade Not Aid (TNA). Trading directly with the poorest people in developing countries in an un-patronising, and non-exploitative manner creates employment and income for local people.

The Body Shop believes that trade-not-aid-offers a positive solution to economic hardship. Rather than give handouts we prefer to provide communities with the tools and resources they need to support themselves.

Trade Not Aid programmes must be commercially viable - for both parties. In this way there is no imbalance or feeling of reliance, just mutual benefit and respect. Wherever The Body Shop obtains TNA raw materials or finished products, we adhere to strict ethical trading guidelines. We will not exploit producers in the developing world and will research their methods of harvesting and manufacture to ensure our trade supports neither exploitation of an underclass nor environmental degradation.

The principles behind Trade Not Aid

- Respect all environmental and cultures
- Use traditional skills and materials
- Benefit the primary producer
- Cut out the middle men
- Create successful and sustainable trade links

- Trade in renewable natural materials
- Encourage small-scale projects which can be easily duplicated
- Provide long term commitment to projects
- Treat trading partners with respect and integrity
- Give people control over their resources, land and lives

Trade Not Aid is the umbrella title for a number of programmes in different continents.

## **BRAZIL**

The Body Shop's Trade Not Aid project in South America is based on the principle that the people of the Brazilian rainforest have a right to continue their traditional way of life and determine their own future. They are the custodians of the rainforest, with an intimate knowledge of the flora. Protection of the forest is implicit in any TNA Project in Brazil.

The Body Shop has forged links with the Kayapo Indians in the eastern Amazon basin, who are producing a traditional range of beaded wristbands for limited sales in branches of The Body Shop.

The Kayapo now produce Brazil Nut oil using nuts they harvest from rainforest. We use the oil in Brazil Nut Oil Conditioner which was launched in The Body Shop in Autumn 1991.

To date, two Kayapo villages, Aukre and Pukanu, sell Brazil Nut Oil to The Body Shop. This has helped initiate a number of essential programmes - health care, dental care and the re-emergence of traditional learning. The villages of Kubenkokre and Capoto are also producing beaded jewellery.

**"Many indigenous groups must find alternative sources of income in order to survive. We need a new and responsible form of industry to help them make stable market links that guarantee just compensation for their knowledge and natural resources. Otherwise the growing interest in natural products will be nothing more than another neo-colonial attempt to destroy the living treasures that**



survive on Planet Earth: the indigenous peoples, their cultures and their ecosystems."

Darrell Posey, Director, Institute of Ethnobiology of the Amazon.

#### **INDIA**

The Body Shop helped set up wood-turning workshops in Tamil Nadu producing wooden massage rollers for the feet - known as 'footsie rollers' - and body massagers made from a fast growing leguminous thorn tree, the *Acacia Niloticca*. The workshops supply wooden massagers to branches of The Body Shop all over the world.

The aim was to teach a skill and create badly needed employment. A premium is paid by The Body Shop to a Community Action Fund. With these monies the community has provided health care, education, improved conditions at work. The latest initiative is a national AIDS awareness campaign.

#### **MEXICO**

The Body Shop buys cactus fibre body scrub mitts from three small communities of Nahauti Indians. This trade provides vital support for this indigenous people who supplied *Ichugilla* cactus fibre as a raw material for brushes before the demand died with the introduction of synthetic fibres.

The Body Shop has helped the communities with their first re-planting programme to replace cactus plants used in the production of the mitts.

#### **NEPAL**

The Body Shop commissions a range of hand-made paper products from a village in the Kathmandu Valley in Nepal. The programme uses local organic materials and revives a traditional craft dating from the 11th century.

The project has created trade for Nepal, one of the poorest countries in the world and work for local people in a skill which had declined with the government's restrictions on cutting *lokta*, a daphne shrub and traditionally the main source of paper fibre. In the past, excessive numbers of *lokta* shrubs were stripped and

killed, leaving the hillsides vulnerable to the heavy rains which washed away the fertile topsoil. Unable to use lokta for paper, entire villages had been out of work.

The Body Shop employed a consultant to research alternative raw materials. These include water hyacinth (a virulent weed which chokes the waterways) and banana tree fibre. Plantations of banana trees help keep the topsoil in place. These fibres are mixed with cotton rag waste or used on their own to create beautiful new papers.

Products made in Nepal and designed specifically to be sold in The Body Shop, include notebooks, gift bags, drawer liners, writing paper, envelopes and scented sachets.

An important tenet of Trade Not Aid is paying a fair price for products made in developing countries. In Nepal, The Body Shop pays a premium which goes into the Community Action Fund. The community has decided to invest the funds in healthcare, education, alternative income generation projects and a reforestation project.

"I like The Body Shop's approach: a reluctance to pillage land for profit, an understanding that long term local investment is necessary and that work, rather than hand-outs, is what is needed in the the developing world."

Mara Amats, Overseas Development Expert

#### NICARAGUA

The Body Shop helped the Al Campo organisation - a small co-operative in northern Nicaragua - install simple oil presses to produce sesame seed oil. Initially the producers met local needs for cooking and supplied supermarkets in the closest cities.

Cotton oil is traditionally used for cooking but a dangerous percentage of the pesticides used on the crop can be present in the oil. The co-operative's organically grown sesame oil is therefore in great demand. After meeting local demand, the





co-operative offered The Body Shop its excess stock. We placed our first order for 2 tons of organic sesame seed oil in March 1993.

#### **SIBERIA**

The Body Shop now buys silver birch combs which are hand tooled by 21 people from the city of Barnaul in the Altai region of southern Siberia. Many are ex state-employed engineers who formed a small co-operative. They harvest the wood from the huge, well-managed Taiga forest which covers 42% of Russia. A premium on the combs is paid into a Community Action Fund.

The Body Shop is researching other wooden products in the area with a view to developing more Trade Not Aid links. For instance, 46 people from the village of Turachak are supplying us with bowls made from birch bark. Traditionally, birch bark has been used to make shoes, belts and drinking utensils. It is waterproof and feels soft, not unlike chamois leather.

Siberian silver birch is a much harder wood than its western equivalent. The tree can be cropped and coppiced without killing it. Local people have traditionally derived several products from the trees, e.g. birch sap (similar to maple syrup), birch bark oil and birch fungus (medicinal properties)

The Body Shop now trades with a community in the Siberial region of Biyst producing Seabuckthorn oil. The oil comes from a berry on a bush and is a traditional medicine, one of the richest natural sources of vitamin E. We use this oil in our sun care products (Sun Block SPF20, Sun Lotion SPF12, Sun Spray SPF6), in which it counteracts burning.

#### **SOLOMON ISLANDS**

The Body Shop has set up a trade link with Solomon nut producers in the Solomon Islands. The inhabitants of Rendova Island bring the Ngali nuts to the capital, Honaira, where they are sorted and the nuts crushed to produce the Solomon nut oil we use in our Self Tanning Lotion. The Body Shop expects to use 52kg of the oil in 1993.

The Ngali nut is a staple food for the islanders and is a strong part of their culture. We use the relatively low yielding nuts for oil production, so as to avoid taking food nuts from the local markets. We pay a premium into their Community Action Fund.

#### UNITED STATES

The Pueblo Indians of Santa Ana, New Mexico have lived as an agricultural community at their present location since the early 18th century. Until the 1940s they made their living from farming but lack of access to credit meant that by the 1960s this had largely died out. Blue Corn, of great ceremonial importance, became their lifeline. The Santa Ana Tribal Elders developed a long-term plan to restore the tribe's agricultural tradition in the early 1980's.

In 1991 The Body Shop loaned the Santa Ana Pueblo money to purchase a new grinding mill to help process their Blue Corn harvest. The Santa Ana now grow, grind and package Blue Corn in a variety of forms for sale in the USA and abroad. The new mill increased corn production from 60 to 300 pounds an hour and permitted The Body Shop to purchase 12,000 pounds of coarsely ground Blue Corn meal for use in a new Blue Corn based product range.

In 1992 the Santa Ana planted 18 acres of Blue Corn, at 1500 pounds of corn per acre and the mill made its first ever profit.

#### ZAMBIA

In line with our fair trading ethics, The Body Shop is now sourcing honey and beeswax for our Honey Stick ( a soothing lip balm) from the Tabora Co-operative group in north-west Zambia, which has been in operation for over 30 years.

Beekeeping has for centuries been a common forest industry in many parts of the world. Until the 19th century beeswax was the main source of light. Thousands of tons of beeswax are still used for church candles and cosmetics. In parts of the central Africa forest beekeeping is still the main source of light. The village beekeepers use their traditional bark hives to produce honey and wax in a sustainable way.



The Body Shop will use one ton of honey in our Honey Stick every year.

#### THE FUTURE

The Body Shop is constantly in touch with primary producers and trade organisations to establish new Trade Not Aid projects.

Other countries with which The Body Shop may soon be trading include Albania, Ethiopia, Ghana, Malawi, Romania, Tanzania and Vietnam.

The Body Shop remains convinced that Trade Not Aid is the most effective way of alleviating suffering and poverty, while respecting the knowledge and traditions of other cultures.

For more information, please contact:

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# RED EARTH OUT TO RIVAL BODY SHOP

## *The Nation*

RED Earth Thai Ltd. has recently introduced Red Earth Australian body care products, with the opening of its first store in Thailand, in Seacon Square. Red Earth, being committed to natural ingredients, is the potential competitor of the Body Shop, which originated in the United Kingdom.

A stylish and extensive range of luxurious and beauty-enhancing body care products is to be offered based on pure natural ingredients, free from animal testing, sensibly packaged, and made in Australia.

The firm is a subsidiary of the Minor Group, the marketer and distributor of leading imported fashionwear, including Esprit, Benetton, InWear, and Matinique.

The design of the Red Earth store plays an integral part in the company's overall brand positioning.

A warm, relaxed mood has been created using subtle earthy tones and textures for all displays, which allow the vibrant colours of the products to stand out in contrast.

Posters and point-of-sales material further highlight each product line within the store, drawing attention to the properties of certain ingredients or promoting new products.

The company's community-based goodwill initiatives are marketed to the consumer as a 'value-added' incentive, allowing the stylish simplicity of the products to remain the hero in the store, rather than just the company that sells them.

"The consumer of the 90s wants assurances that the companies they deal with are socially responsible," the firm said. "They also demand quality products, at an affordable price and, particularly in the cosmetic/body care market, rely on a high level of informed personal service.

Made from combinations of essential oils, herbs, and vegetable extracts, Red Earth's products are scented with the fragrances of fruits, flowers, buds and berries such as mint, raspberry and honeysuckle.

A wide range of Red Earth's products are segmented into 12 product lines, which are: skin care, body care, mother and child care, sun care, men's hair care, bath and shower, aromatherapy, fragrance, soap, makeup and accessories. Seventy-five to eighty per cent of products are made in Australia and wherever possible ingredients and materials are sourced from local suppliers.

Prices range between Bt30 and Bt800.

Founded in 1990 by managing directors Nick and Lynne Chadwick, the first Red Earth store opened in the Melbourne Central Complex in Victoria in September 1991.

The firm currently has outlets in major cities and regional centres throughout Australia, and more recently in Asia and the United States.

In 1993, Red Earth launched an in-store recycling programme in Australia as part of the company's commitment to environmental preservation. It accepted the return of empty Red Earth containers and bottles that were not commonly recycled by local councils.

In the same year, the firm formed a joint venture with Esprit's chairman in Hong Kong to open Red Earth stores throughout Asia and in other international markets, over the next five years.

Currently, there are 30 Red Earth stores across Australia, plus 12 concept bars in Myer/Grace Brothers nationally.

