SUMMARY

1. The economy of Fiji has performed well since its second Trade Policy Review in 2009, based on a relatively open trade regime, sound macroeconomic policies, and structural reforms. Fiji's return to parliamentary democracy in 2014, after successful elections put an end to almost eight years of interim government, has further boosted its investment and growth prospects. Fiji's reliance on trade and tourism make it vulnerable to external shocks, while high transportation costs (poor infrastructure and remoteness), the small size of its economy, and the frequency of natural disasters also constrain its economic growth prospects. Further reforms are therefore necessary to reduce the bottlenecks in the economy, strengthen its resilience to shocks, foster competitiveness, improve the investment climate, and raise potential GDP growth. It is hoped that Fiji's first ever Trade Policy Framework 2015-2025, launched in July 2015, will help address some of these challenges. Overall, Fiji's trade policies have remained stable during the review period while the institutional framework has been strengthened.

2. After contracting 1.4% in 2009 mainly due to the global financial crisis, Fiji's real GDP growth rate averaged 3.5% annually between 2010 and 2014 (4.3% is expected for 2015) underpinned by strong private consumption and investment activity. While economic growth has been broad-based, transport and storage, financial and insurance activities, and the public administration and defence sectors have been the main drivers of GDP growth over the last few years. During the review period, Fiji has improved its human development indicators, achieving broad coverage in the provision of basic services, with declining overall poverty levels even though progress in rural areas is lagging.

3. The Reserve Bank of Fiji (RBF) conducts monetary policy focusing on the twin objectives of safeguarding foreign reserves and keeping inflation low. It "targets" the nominal exchange rate and not inflation, and the primary monetary policy goal remains preserving Fiji's vulnerable balance of payments. The annual average inflation rate in Fiji was 3.6% during 2009-14 supported by the pegged exchange rate of the Fijian dollar (F$). Nonetheless, inflation has also been kept artificially low by price controls that represent, by weight, almost half of the consumer price index basket. For 2015, an average inflation rate of 2.8% is expected, within the RBF's comfort range of around 3%. Some foreign exchange restrictions have recently been eliminated but others remain.

4. Fiji reduced its overall budget deficit from 4.1% in 2009 to 0.5% in 2013 largely due to strong tax revenue collection and despite an increase in infrastructure, health and education spending. In 2014, however, the deficit jumped to 1.9% of GDP due to an expansionary budget and the fact that privatization receipts were lower than expected. To reduce the budget deficit to sustained levels without exceptionally high donor support, further measures seem necessary such as broadening the tax base, and significantly curtailing income-tax holidays and tax incentives that have narrowed the direct tax base and added complexity to the tax system.

5. Traditionally, Fiji has had a persistent merchandise trade deficit that increased from US$628 million in 2009 to US$1,094 million in 2014, in line with movements of the real effective exchange rate during the period. The current account deficit, as a percentage of GDP, went from as low as 1.1% in 2012 to 20.7% in 2013 partly due to the purchase of aircrafts by Fiji Airways. Fiji is a net exporter of services. Despite some disruptions due mainly to floods, tourism receipts have increased regularly during the period reaching US$745 million in 2014 (18% of GDP).

6. The Fijian economy is highly dependent on international trade: the ratio of merchandise trade (exports and imports) to GDP averaged 130.6% during 2012-14. Its trade has become slightly less concentrated geographically and more diversified in terms of products. In 2014, the share of its three major export markets (Australia, the European Union, and the United States) was 32.5% of total exports (43% in 2009), while merchandise imports from Asia and Pacific economies accounted for 85.9% of the total (90.6% in 2009). In 2014, over 72.3% of Fiji's total merchandise exports (including re-exports) were fish, sugar and other primary products (75.5% in 2009). Manufactures represented 55.6% of Fiji's total merchandise imports in 2014 (51.9% in 2009).

7. Over the last few years, Fiji has taken some measures to boost FDI inflows and improve its business environment. For example, the minimum investment required for foreign investors was eliminated in 2013, and the investment registration process is being simplified through the

creation of the "single window clearance" application system available online since July 2015. Nonetheless, Fiji's FDI inflows have remained low by international standards averaging some US$336 million per year during 2010-14, largely due to investor uncertainty over political and economic stability, and exchange rate restrictions. Moreover, certain economic activities remain either reserved wholly for Fijian citizens and 100% Fijian-owned entities or restricted.

8. Important political and legislative developments have occurred since Fiji's Review in 2009. A new Constitution was enacted in September 2013, while ministerial and departmental reshuffles occurred. Fiji has also enacted some new trade-related laws in areas such as competition, government procurement, foreign investment, SPS measures, standards, agriculture, and shipping, while amending others, including on intellectual property rights.

9. Responsibility for formulating and implementing Fiji's external trade policy lies with the Ministry for Industry, Trade, and Tourism (MITT). It is also responsible for: investment policies through Investment Fiji; internal trade and commerce; small business development; consumer protection; and for all trade negotiations. MITT consults with other ministries and trade-related agencies mainly through semi-regular meetings of the Cabinet-mandated inter-ministerial Trade and Development Committee. The private sector and civil society continue to interact formally and informally with the Government.

10. The National Export Strategy (NES) is being implemented to achieve sustainable growth by encouraging exports, competitiveness, value adding, and export diversification in six priority areas: agro-business; forestry; marine products; mineral water; information and communication technologies (ICT); and audiovisual services. The NES is administered and implemented by the MITT which also assists micro, small and mediumsized enterprises within the prioritized sectors on a cost-sharing basis with an emphasis on addressing supply-side constraints (e.g. product development, packaging, infrastructure, marketing and training).

11. Fiji is strongly committed to the multilateral trading system. To foster its participation in the WTO, it opened a Permanent Mission in Geneva in June 2014. Fiji is an original Member of the WTO, and grants at least MFN treatment to all its trading partners. It is neither a party to the Information Technology Agreement (ITA) nor to the Agreements on Government Procurement (GPA) and Trade in Civil Aircraft. In the WTO negotiations, Fiji is part of the Small, Vulnerable Economies (SVEs) group and is one of the so-called "W52" sponsors. It has not been involved in any formal disputes, but has been a third party in three cases related to sugar. At the end of 2014, Fiji had 54 outstanding notifications (70 in 2009).

12. Fiji has four regional trade agreements (RTAs) in force encompassing 41 partners (some of them are non-WTO Members). Fiji has notified its RTAs to the WTO either under the Enabling Clause or under GATT Article XXIV. These four RTAs are overlapping, increasing risks of raising business costs by creating complex trade regimes that may result in more trade (and investment) diversion than creation.

13. At the end of November 2015, Fiji was yet to make its notification of Category A commitments under the Agreement on Trade Facilitation. Fiji is moving towards the single customs window concept in three stages. The first stage includes the full automation of the customs clearance process in all border regulatory agencies. Recently, Customs launched ASYCUDA World, which for the moment is operational only in the capital Suva, but is planned to roll out to other ports later. The other two stages will be the port single window and the national single window.

14. Goods imported into Fiji are subject to customs tariffs, VAT, and excise duties. Nearly all applied tariff lines have *ad valorem* rates, thereby contributing to the tariff's transparency. Non-*ad valorem* rates (4.5% of total lines, same as in 2009) consist of alternate (mixed) duties levied on 177 lines (down from 181 in 2009) and specific tariffs on 92 lines (up from 80 in 2009). Tariff rates range from zero to 32% without *ad valorem* equivalents (AVEs), while the highest rate including AVEs (based on 2013 import data) is 1,257% on certain beverages, spirits and tobacco. Fiji does not maintain any tariff quotas, and there are no seasonal tariffs.

15. Fiji has bound 49.5% of tariff lines. There remains a significant difference between the overall bound average of 40.2% and Fiji's applied MFN tariff of 11.2% in 2015 (11.3% in 2009). Fiji bound its tariff lines on agricultural products (WTO definition) at a final simple average rate of

40.6% (compared with a simple average applied MFN rate of 12.5%); the final simple average bound tariff rate for non-agricultural products is 40% (simple average applied MFN rate of 11%). For some 42 lines, mostly alcoholic beverages, MFN applied tariff rates exceed bound rates when using AVEs.

16. Fiji applies excise duties to 545 tariff lines (9.1% of the total) at rates of 15% (mostly alcoholic and non-alcoholic beverages), 10% (e.g. on trunks, suitcases, and other cases), and 5% (mainly on new motor vehicles). While called excise duties they do not apply to domestically produced items and thus are akin to tariffs. According to the authorities, the rationale for their introduction, in 2006, was to protect government revenue, dampen domestic demand, and stimulate domestic industries in the medium term. Fiji also applies specific excise taxes to domestically made "sin" products, i.e. alcoholic beverages and tobacco products.

17. Fiji has substantial tariff concessions in the form of partial and full exemptions and remissions. Total customs revenue forgone from all concessions went from F$66.2 million in 2009 to F$252.4 million in 2014. A larger number of import prohibitions, restrictions, and licensing requirements for health, security, and moral reasons remain in place. Fiji has few standards and technical regulations, mostly adopted from Australia and New Zealand. It has taken no anti-dumping or countervailing action during the review period, and has no safeguards legislation.

18. Exports are controlled by an extensive export licensing system. To promote domestic downstream processing and thus value-added, export duties of 3% apply to sugar, molasses, and other gold and silver manufacturing products. There are administrative difficulties, including delays, in the provision of VAT refunds on inputs used in exports. Fiji continues to have various export incentive schemes.

19. Incentives are also seen as an integral part of Fiji's industrial policy, and a wide range of investment incentives are offered to both domestic and foreign investors. Some apply more generally to businesses while incentives that are more generous target specific activities or sectors. Moreover, some investment incentives are sometimes subject to minimum local-content or export requirements.

20. In 2010, Fiji introduced a new comprehensive competition law that addresses competition affairs, consumer protection, and price controls. It established the Fiji Commerce Commission (FCC) as an independent statutory body. In general, the new law prohibits restrictive business practices, misuse of dominant market position, bid rigging, exclusive dealing, resale price maintenance, and price discrimination. Fiji continues to have extensive price controls on basic food items and services such as milk, butter, sugar, fish, rice, pharmaceutical products, electricity, water, and telecommunications. An evaluation as to whether price control continues to be the most effective approach in relation to particular markets would be desirable.

21. Recognizing the significant impact of procurement policies and practices on the efficiency and accountability of public expenditure, Fiji has recently modernized its procurement system in order to align it with international best practices. Important progress was made both in the legal and institutional frameworks. Value for money is the fundamental goal pursued in government procurement in Fiji and the system does not generally discriminate against foreign products and suppliers.

22. Since 2009, important amendments were made to the intellectual property right regime in Fiji, particularly on trademarks. Nonetheless, Fiji has yet to accept the Protocol Amending the WTO TRIPS Agreement that establishes a new pathway for the export of generic medicines. Under the WTO TRIPS Council, Fiji has various outstanding review questions.

23. Agriculture continues to play a key role in the Fijian economy, with subsistence farming accounting for about a third of output and agricultural products, predominately sugar, for 45% of goods exports. Nevertheless, Fiji remains a net importer of food products. Some of the challenges facing Fijian agriculture are low productivity, high input costs, and land lease insecurity. Revitalizing agriculture and promoting food security are key government objectives. Support policies include extension services, marketing assistance, concessionary loans, and relatively high tariffs on some foodstuffs. Fiji made no domestic support reduction commitments in the WTO; all

its support measures have been notified under the "Green Box"; it does not provide export subsidies.

24. Commercial farming is dominated by sugarcane. Processing and importation of unrefined sugar are the monopoly of the government-owned Fiji Sugar Corporation (FSC). Over the review period, the sugar industry was affected by milling inefficiencies, lack of investment, the phasing-out of market preferences and declining world prices. The FSC had to be bailed out by the Government in 2010. Reforms implemented since then have led to management improvements and increased production.

25. Fisheries account for some 13% of merchandise exports, consisting mainly of tuna. Offshore tuna fishing is done by longline vessels, which must be licensed and land their catch in Fiji. A new decree and regulations were issued during the review period to ensure sustainable management of fisheries. According to the authorities, Fiji is in the process of "domesticating" its fishing fleet and licences are to be granted only to Fiji-flagged vessels; however, the foreign-flagged vessels that already have a licence will be allowed to continue fishing. Foreign investment in fisheries-related businesses is capped at 70% of equity. In addition to tax concessions, the Government assists the fishing industry through relatively high import tariffs for fresh (15%) and processed fish (32%).

26. Manufacturing makes up 14% of GDP and 23% of merchandise exports. Besides sugar, other main manufacturing industries are fish processing, garments, chemicals, wood products, and more recently, mineral water and confectionary. To promote diversification and value addition, the Government grants tax incentives (some linked to local content) and concessionary credit to manufacturing. Despite stiff competition from low-cost countries, Fiji's garment industry has managed to grow and increase exports in the past few years, due to more flexible preferential access to its major market, Australia, and government support in the form of marketing grants. The average applied tariff on clothing is 30.6%.

27. Fiji relies heavily on imported fuels to meet its energy requirements, so reducing energy imports is one of the Government's policy objectives. Tax incentives are granted to promote development of renewable energy resources, which already account for half of power generation. The state-owned Fiji Electricity Authority (FEA) is both the regulator and major power supplier. The Government is considering options for a partial divestment of FEA and for the transfer of its regulatory functions to a multisector regulator. The Fiji Commerce Commission reviews retail tariffs proposed by FEA; subsidies are granted to small domestic consumers and schools.

28. The services sector remains the main contributor to GDP; it is a net foreign exchange earner and accounts for 51% of total exports. Fiji's commitments under the GATS cover only hotels and other tourist accommodation and restaurants. State involvement in services activities continues to be significant, especially in telecommunications and transport.

29. Fiji's telecommunications market, mainly mobile telephony and broadband services, expanded significantly during the review period. In 2008, the sector was liberalized and a new regulator established. Since then, regulatory and policy changes, including a National Broadband Plan (2011), technology upgrades, and the FCC's control over interconnection rates have made mobile telecoms more affordable and accessible to the population. Nevertheless, the state maintains a substantial presence in the market; it owns the sole provider of fixed-line services and its mobile operator holds 75% of the market, while another of its companies has significant market power in the international gateway. Hence, continuous regulatory oversight is critical to ensure competitive conditions and maximize the benefits of the sector's liberalization.

30. Road is the main inland transport mode in Fiji. Poor road conditions and lack of maintenance result in high transport costs and delays, but efforts have been undertaken to address these shortcomings including the introduction of a road levy to fund maintenance (2009) and the establishment of a new authority to manage the road network (2013).

31. Fiji is a maritime transhipment hub for the Pacific Islands region. A new maritime transport regulator was established in 2011 and legislation was passed in 2013. Under new regulations, coastal/inter-island shipping is licensed only to Fiji citizens or a company incorporated under Fijian laws in which Fiji citizens own at least 50% of the shares, and the ship must be registered in Fiji. Cabotage is prohibited, but may be permitted if no domestic equivalent service is available. The

state-owned Fiji Ports Corporation Ltd. has jurisdiction over all ports; however, in 2013 a foreign private company was granted a concession to handle cargo operations at the two main ports, previously in the hands of a state-owned stevedoring monopoly. The FCC reviews port rates.

32. The air transport sector is poised to grow driven by the expansion of tourism. Measures to modernize the aviation industry include upgrading airport infrastructure, plans to divest shares in the state enterprise that manages airports, and revamping the national carrier. Fiji has 28 air services agreements, none of which is "open skies", and it is not a party to the Pacific Islands Air Services Agreement. The state-owned Airport Fiji Ltd. owns and operates Fiji's two international airports. Air Terminal Services is the sole provider of ground-handling services at the Nadi airport.

33. Fiji has a stable financial sector, which is overseen by the Reserve Bank of Fiji (RBF). Since the last review, the RBF has strengthened the regulatory and supervisory framework for the sector to align it with international best practices. Foreign banks and insurance companies can operate in Fiji through branches or subsidiaries, and there are no limits on foreign ownership of equity shares. Licensing requirements are the same for local and foreign institutions. Offshore placement of insurance is prohibited unless approved by the RBF. No restrictions apply on contracting reinsurance abroad. The domestic capital market remains small and underdeveloped; it was placed under the supervision of the RBF in 2009.

34. Tourism is the largest single contributor to GDP and foreign exchange earnings, and a major source of jobs. The number of tourist arrivals, mostly from Australia and New Zealand, increased during the review period, boosted by more regular air services. Considered as a priority sector, tourism benefits from a range of investment incentives and tax concessions. Fiji seeks to diversify its source markets and tourism products, and cater for high-end tourism to enable continued and sustainable growth. A new development plan for the sector is currently being developed.