

CHAPTER 1 : INTRODUCTION

1.1 International Fishery Trade

Fish and fishery products are the most widely traded food items in the world, with about 200 countries having exported part of their production and some 180 countries having imported fish and fishery products of varying amounts in 1996. Between 35 to 40 percent of fisheries production is traded annually and, in 1996, the export sector earned US\$52.5 billion, representing 11 percent of the value of agricultural exports and about 1 percent of total merchandise trade. In value terms, fishery exports are almost entirely (95 percent) composed of food products, although in terms of volume, fishmeal and fish oil account for a much greater share.

In tandem with the increase in production, world trade in fish and fishery products has continued to grow, and at an accelerating rate in recent years. A large part of this growth is real in that it is linked to the expansion of the world's economies and also reflects the increased availability owing mainly to aquaculture production. The share of trade in fish and fishery products in all agricultural trade has increased somewhat over the last decade.

More than half of the fisheries export trade originates in developing economies and consists largely of imports into developed economies. In 1996, developing countries derived a net fishery trade surplus of about US\$17 billion. Thailand and Indonesia are among the top 10 exporters of fishery products in the world. Japan,

the leading importer, absorbs about 30 percent of the world's fishery imports while the United States absorbs some 10 percent. These two countries and the European Union import about three-quarter of the world's fishery trade.

Export of fishery products from members of the Association of South East Asian Nations (ASEAN) totalled US\$4.8 billion in 1997 and this accounted for about 10 percent of internationally traded fishery products. In the same year, its fishery imports was US\$1.7 billion, thus deriving a trade surplus of about US\$3.1 billion for the region.

Japan imported about 3 million tonnes of fishery products valued at US\$13.3 billion in 1998 and five countries in ASEAN, i.e. Indonesia, Thailand, the Philippines, Vietnam and Malaysia, were among its top 20 suppliers. Export of fishery products to Japan from these five countries amounted to US\$2.7 billion in 1998 and this constituted about 20 percent of the fishery products traded in the Japanese market.

1.2 Liberalisation of Fishery Trade

Globalisation of markets and further liberalisation of trade (including international fish trade) has become a major theme on the international agenda. Participation in international trade was an important feature of many of the fishery and aquaculture economies of the world particularly the developing countries. Many developing countries have benefited and expect to continue to benefit from

the liberalisation of fishery trade. These benefits include improved quality and better access for their fishery products to markets in other countries within and outside of the region, increased export earnings, better exchange of technology, increased productivity and efficiency, and better supply of fishery products for local populations through liberalisation of fishery imports. These benefits can only be realised if appropriate policies and measures are introduced to properly manage, conserve and rehabilitate fisheries resources and the coastal environment. Otherwise, trade liberalisation might encourage the over-exploitation of natural resources, cause damage to the coastal environment and lead to social conflicts. One of the negative effects of liberalisation is the increased competition faced by the small-scale domestic fisheries sector, due to import of low-priced fish products. Unless supports are extended to this sector otherwise it will not be able to withstand the increased pressure of competition arising from liberalisation.

The liberalisation of trade in ASEAN will further accelerate in the next few years with the implementation of the ASEAN Free Trade Area's Common Effective Preferential Tariff (AFTA-CEPT) scheme. The CEPT scheme is a cooperative arrangement among ASEAN Member States that would reduce intra-regional tariffs and remove non-tariff barriers over a 10-year period commencing 1 January 1993. The goal of the scheme is to set tariffs at zero or a maximum of five percent on all manufactured and almost all tradable goods by the year 2003 for the original six member states, that is Brunei, Indonesia, Malaysia, the

Philippines, Singapore and Thailand. It was estimated that almost 80 percent of trade liberalisation under the CEPT would be accomplished by the year 2000. With lower tariffs, removal of quotas and the ongoing Most Favoured Nation (MFN) tariff liberalisation, intra-regional trade in fisheries is expected to increase and this will intensify competition among the fisheries industries in ASEAN. The increased competition will invigorate industries with comparative advantage but will force inefficient industries to shrink and adjust.

Coupled with the fact that countries in the ASEAN region are suppliers of fishery products in the world market, trade with countries outside the region is also likely to grow. Far East Asian countries, especially Japan, serve as important seafood markets for the region. However, with many major importing countries starting to impose strict rules and regulations on the quality standards of fish and fishery products, the direction of fishery trade, especially for developing economies, is still very much governed by such international rules and regulations. The liberalisation of trade presents both challenges and opportunities for the Malaysian fishery industry.

1.3 Malaysian Fishery Trade

Malaysia is a net importer of fish in terms of volume but a net exporter in value terms due to the exports of high-value fish and fishery products. The import of fish and fishery products increased from 200,700 tonnes valued at US\$134.8 million in 1990 to 230,000 tonnes valued at US\$300.3 million in 1995. For the

same period, exports increased from 145,400 tonnes valued at US\$224.6 million to 185,200 tonnes valued at US\$318 million. Malaysian fishery exports were 144,540 tonnes valued at US\$324.2 million in 1998 while imports were 249,856 tonnes valued at US\$238.9 million, giving a trade surplus of US\$85.3 million for the country. Japan, which is Malaysia's leading market, absorbed about 23 percent of the country's total fishery export value in 1998. Malaysia's top fishery export is frozen shrimp, which accounted for some 37 percent of the total fishery export value in 1998. The main market for Malaysian frozen shrimp is Japan, which annual imports form about 30 percent of the total Malaysian shrimp export value.

1.4 Objectives and Scope of the Study

The objective of the study is to examine the performance and competitiveness of Malaysia's frozen shrimp exports to Japan. This study is undertaken within the context of comparison between Malaysia and a few selected ASEAN countries, which are major producers of shrimp in the region. Thus, the study analyses the export performance and competitiveness of Malaysian frozen shrimp against three other ASEAN countries, that is Indonesia, the Philippines and Thailand, to Japan. The Japanese market is chosen for the study because it is the most significant developed market for Malaysia's fishery exports and also for the fishery products of the other three ASEAN countries. The study aims to measure how effective each country was in increasing exports to Japan between 1989 to 1998 compared to the effectiveness of the other ASEAN countries over the same period. The

study will also evaluate to what extent the export experiences of these countries differed and determine the sources of these differences.

The export performance of these countries and the degree of competition among them for the export of frozen shrimp are examined by using four different methods, which are constant-market-share analysis, shift-share analysis, revealed comparative advantage indices and price competitiveness indices. Besides analysing the export performance of these countries, the study also examines production efficiency by looking at the costs of production in these countries. This study also attempts to identify new issues and challenges faced by the Malaysian shrimp industry in the wake of an increasingly competitive global trading environment and to assess its future prospects.