

PACIFIC INTEGRATION AND REGIONAL GOVERNANCE

Globalisation or self-inflicted wounds in the Fiji sugar and garment industries

Satish Chand

Director, Pacific Policy Project, The Australian National University

This article uses the specific cases of Fiji's sugar and garments to elucidate the challenges of, and opportunities offered by, deepening trade between the Pacific island countries, and with the rest of the world. It is shown that the distress faced within the Fiji garment and sugar sectors is mainly due to domestic rather than external factors. Recent and ongoing changes to external conditions, particularly the multilateral liberalisation of trade, have worsened the predicament of these two sectors, however. The distinction is important since it provides the opportunity for the local leadership to redress many of the problems of adjustment and to capitalise on the opportunities offered by a more liberal global trading environment.

Fiji's Prime Minister, Mr Laisenia Qarase has criticised the policies of the World Trade Organization (WTO), expressing concern at the impact of freer trade and thus globalisation on the local economy (*Fijilive*, 13 March 2005). The concerns emanate from the recent expiry of the Multi-Fibre Arrangement that provided quota access for

Fiji garments into the United States and the impending erosion of preferential prices for sugar exported to the European Union. The Leader of the Opposition, Mr Mahendra Chaudhry, who is also the Secretary of the National Farmers Union, has echoed similar concerns, claiming that the phasing out of the preferential arrangements for sugar exports to the European Union will increase poverty ('Fiji sugar price request "unrealistic"', *Fiji Times*, 4 April 2005). The Fiji Finance Minister, Ratu Jone Kubuabola, has foreshadowed an economy-wide growth slowdown over the next two years due to the loss of preferential access for garments and sugar (*Fijilive*, 5 November 2005). A vocal chorus is building within Fiji and the broader Pacific island region that is attributing many of the current economic problems in the region to WTO-sponsored multilateral trade liberalisation (Hannan 2005; Naidu 2005; Slatter 2005). This paper shows that the problems in the Fiji garments and sugar sectors are primarily due to internal factors, many of which remain within the control of policymakers.

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The preferential price paid to sugar exports by the European Union is due to be phased down from 2006 to 2007 but production has been declining since 1996. Many commentators have reasons for the fall. These include the expiring land leases on which sugarcane is grown, falling milling efficiency, and exodus of sector-specific technical and professional staff. To a large extent the garment industry was built on export incentives that were offered in the period of economic strife after the 1987 coups (Storey 2005). These incentives were to be phased out over time. The loss of preferential access may have hastened this loss rents, but the question remains as to why the economy did not adjust with all the forewarnings in the interim period.

The Multi-Fibre Arrangement expired on 1 January 2005, leading to the closure of several manufacturing enterprises in Fiji. Storey (2005) estimates that the loss of preferences directly contributed to a loss of between 6,000 and 8,000 jobs in 2005 alone. The closure of one global company that had preferential access into the United States via the Multi-Fibre Arrangement led to the loss of some 3,000 jobs (*FijiSUN*, 25 April 2005). Exports from Fiji to the United States dropped by 20 per cent in the first seven months of 2005, compared with the same period of the previous year. The decline in exports was due largely to a US\$32.5 million (equal to a 67 per cent) drop in garment exports that was a direct consequence of the expiry of the Multi-Fibre Arrangement (*Fiji Times*, 26 October 2005).

The sugar industry is also poised for a decline in export earnings as the European Union implements its plans of phased price reductions, commencing with an initial reduction of 5 per cent in the 2006/07 financial year. The loss in export revenues for Fiji would have been a lot larger had the initial planned reduction of 20 per cent in 2005/06 been implemented. The erosion of the price premiums within the European

Union has been long in coming, but little has been done in anticipation of this change. In its 1995 review of the sugar policy, the European Union had clearly stated its intention of complying with its Uruguay Round commitments of 'substantial progressive reductions in agricultural support and protection'. The impetus for the withdrawal of the EU sugar subsidies may have been hastened by a recent WTO ruling in favour of Australia, Brazil, and Thailand that resolved that the EU sugar subsidies were in excess of the levels agreed in the Uruguay Round. A national strategy to facilitate adjustment to reduced farm income and a plan to raise milling efficiency are still being finalised.

The problems faced in the sugar and garment industries are more the result of inaction at home rather than the forces of globalisation. Sugarcane production peaked at 4.38 million tonnes in 1996, well before the announcement of price reductions, and has since been receding in the face of expiring land leases of tenant farmers, with many growers having being evicted from their lands. It is expected that around 3 million tonnes of cane will be harvested in the 2005 season. Some of the landowners have been induced into taking up sugarcane farming with subsidies of F\$10,000 from the government; even then, some of the farms with displaced tenants remain fallow.

Public support for adjustment to a subsidy-free environment is justified, given the large size of the two industries and the fact that they are home to the majority of the low skilled workers who are at risk of falling into poverty as the result of an adverse shock. The economic and political ramifications of a decline in either or both of the industries are likely to be significant. The sugar industry supports nearly one fifth of the total population. Some 15,000 workers, mostly women, the majority of whom are from poor socioeconomic backgrounds, are employed

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in the garment sector. Job losses in either of the two industries, in the absence of fresh employment opportunities for the displaced, will raise poverty and has the potential to create a backlash against the government. The last-mentioned concern is particularly important given the approaching national elections, and thus the concerns of the Prime Minister and the Leader of Opposition on these issues are understandable.

Self-inflicted wounds in the garment and sugar sectors

International trade of small island economies faces severe cost disadvantages (Winters and Martins 2004). Commodity exports from Pacific island economies have prospered due to the support provided by either preferential prices or resource rents. Mineral (largely gold and crude oil) exports from Papua New Guinea to Australia, for example, have been supported by resource rents. Garment exports from Fiji have benefited from preferential access into Australia and New Zealand provided by the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA) and into the United States from the now-expired Multi-Fibre Arrangement. Tax concessions provided in Fiji have boosted the rents and thus the incentives to set up factories in Fiji.

Historically, Fiji has had a small garment sector, but exports took-off after 1987 (Storey 2005). The major drivers of this change were domestic, including: the devaluation of the Fiji dollar by some 30 per cent in 1987; the offer of tax concessions and publicly subsidised infrastructure;¹ and, a wage freeze and restraints on labour-unions in the aftermath of the first coup. External conditions were favourable, including the existence of SPARTECA,² the 1991 introduction of the Australian Import Credit Scheme, the high textile, clothing and

footwear tariffs in Australia, and the Multi-Fibre Arrangement quotas provided to Fiji. What changed in 1987 were the domestic conditions; thus the growth of garment exports in 1987 and later must be attributed to these factors only.

What has changed since? On the domestic front inflation has picked up, thus diminishing the real value of the dollar; wages have risen, and the tax exemptions have expired. The Fiji dollar was devalued by further 20 per cent in 1998, but without the wage restraints of the earlier era. Another coup was executed in 2000, but this time without the export incentives offered earlier. Political instability has continued since 2000 and so has the emigration of the skilled workforce. The domestic distortions have biased local investment into acquisition of skills and qualifications for emigration, thus penalising the growth of local and internationally competitive industries. External conditions have changed in the interim. China has entered the scene with its ability to mass-produce garments at a fraction of the cost of its nearest competitors. The Multi-Fibre Arrangement expired at the end of 2004. The Australian tariffs on textiles, clothing and footwear have been falling, even though the relevant clauses of SPARTECA have been extended for another 7 years. Thus, external conditions may have conspired with the deteriorating local conditions against the growth of an internationally competitive manufacturing industry.

The consequences of the above have been growth in 'the working poor' and an industry that has been locked into producing a narrow range of products that are intensive in the use of unskilled labour for a single market. SPARTECA, with its restrictive rules of origin and the relatively high Australian (*vis-à-vis* New Zealand) tariffs, has meant that much of the production has been destined for the Australian market with the bulk of inputs (mostly textiles) sourced from

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Australia. What next? Australian tariffs will fall further under its APEC/WTO commitments. This will increase competitive pressures faced by the local industry and Fiji can do little about stalling these changes.

What could have been done or, rather, what can be done, given the changing external conditions, to assist the garment industry? Local protection is definitely not the answer, as it will only exacerbate the existing problems. Another tax-free zone will probably be of little and at best temporary relief. The tax-free zones were initiated during a period of civil strife with a view to seeding the establishment of an internationally competitive manufacturing sector. It was clear from the start that the incentives offered were temporary but rationalised on the grounds that the industry will move up the value-adding chain, possibly into more sophisticated manufacturing and potentially services, once the base had been built. Why did this not eventuate?

Continued political instability, the lack of personal safety, and a sense of insecurity in relation to fixed investments, particularly in the aftermath of the 2000 coup and the subsequent mutiny at the military barracks, have been the major disincentives to growth of a local and internationally competitive industry. Subsidies offered on infant-industry grounds have seldom been successful. There is substantial anecdotal evidence to suggest that the insecurity since the first coup has induced investments into mobile (human) capital that in turn has fuelled the high emigration. It is these domestic factors that need redressing if employment conditions are to be improved. The challenge is not to save the garment sector per se but of supporting investment and growth of the domestic economy.

Similarly, the problems in the sugar industry are all home grown. Several commentators have pointed out the poor efficiency in the industry (Kingi 2004; Prasad

and Narayan 2004; Lal 2005), the politicisation of the process of land leasing (Kurer 2001; Prasad 2004), and the policy choices for adjustment to a subsidy-free environment (Levantis, Jotzo and Tulpule 2003; Chand 2004). These concerns have mostly fallen on deaf ears. While the economic imperatives for reform of the sugar industry and the land tenure arrangements are extreme, the political incentives for addressing these concerns are absent. I have argued elsewhere (Chand 2004) that the erosion of preferential rents may shift the balance in favour of political action to put this industry on an internationally competitive footing. The slower than originally anticipated price reductions run the risk of reducing the urgency for such reforms, however.

What can be done to lessen the pains of adjustment? The remedies are no different to those recommended for the garment sector or for that matter any other sector. Rather than worrying about saving a particular industry and possibly one that is not viable under free market conditions, the policy challenge is to support growth of the local economy as a whole in an internationally competitive environment. This requires policy stability so that investors can plan with certainty over a long horizon, a competitive interest rate that in turn requires prudent macroeconomic management, including a low and stable inflation rate and fiscal sustainability, and security to person and property, including low costs of enforcing debt contracts.

Support for adjustment to a subsidy free environment is justified, particularly when the industry is large and the adjustment likely to create large dislocations of labour and capital. This policy is very different to trying to save, with taxpayer funds, an internationally uncompetitive industry. In this light, it is not clear that the current attempt at saving the sugar industry is a wise

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option. A more neutral regime, with the private sector given the responsibility to make these judgements, is definitely a better strategy. This principle holds just as true for the garment sector. A neutral regime with respect to growth of individual industries offers the best chances of the emergence of internationally competitive industries. Policymakers have a role to the extent that they ensure the provision of public goods, including policy stability, law and order, and supporting regulation.

Conclusions

The problems within the Fiji garment and sugar industries are due to the cumulative effects of long-standing and unattended local problems. The increased pace of liberalisation of global trade over the recent past has magnified the pressures for change. Freer global trade poses risks to individual economies, but these risks can be managed. Fiji has failed to do this. The policy challenge is one of providing a local environment that is conducive to investment by the private sector. It is the private sector that is best positioned to assess the risks and rewards of specific investments. The public sector has a role only to the extent of providing public goods and adjustment assistance where dislocation of labour and capital are likely to be large. Garment and sugar sectors qualify on the latter consideration. Trying to 'save' an industry that otherwise would collapse in the face of international competition is tantamount to throwing good taxpayer funds to waste. This issue is particularly relevant to the proposed reforms to the sugar industry funded with a loan.

There is a positive side to the fact that the problems with the garment and sugar sectors are in the main domestic and thus

can be 'fixed'. A number of the issues needing rectification are within the control of policymakers. The policymaker can, moreover, capitalise on the opportunities offered by a liberalising global market. Globalisation has risks but it also offers opportunities; it is local choices that matter in how the benefits or losses pan out for the country.

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Notes

- ¹ The Kalabo Tax Free Zone, for example, was built with an EU grant of F\$7.25 million dollars.
- ² SPARTECA is a non-reciprocal trade agreement whereby Australia and New Zealand offer duty free access to all products originating from the developing island member countries of the Forum. SPARTECA came into effect for most forum island countries from 1 January 1981, and the current list of countries includes Cook Islands, the Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Niue, Papua New Guinea, Solomon Islands, Tonga, Tuvalu, Vanuatu and Western Samoa.

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