Textile factory closure devastates Fijian economy

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The April closure of the Ghim Li Apparel factory, Fiji's largest manufacturer, will have a devastating impact on the economy and dramatically heighten social and political tensions in the small Pacific state. The Governor of the Reserve Bank, Savenaca Narube, has already slashed the projected gross domestic product (GDP) growth rate for next year from 1.5 percent to 1.2 percent.

Fiji's two largest industries, garments and sugar, are in terminal crisis. On May 13, the former head of the Great Council of Chiefs, Epeli Ganilau, estimated that Fiji stands to lose about 20 percent or $US120 million of its state revenue from the slump in both industries. He said that unemployment would increase by about 21,400 people, with 5,000 job losses from the garment industry alone. Ghim Li employed over 3,000 workers. The only sector of the economy still performing well is tourism.

The immediate reason for Ghim Li Apparel's closure was the expiry of the Multi Fiber Agreement (MFA) at the beginning of the year. The MFA was established in 1974 as part of the General Agreement on Tariffs and Trade (GATT). Under the MFA, the United States negotiated quotas with developing countries that wanted to export to the US. The quota arrangements were to protect textile industries in the major industrialised countries from a flood of cheap imports but served to give countries like Fiji a guaranteed share of the market.

In 1995, the World Trade Organisation (WTO) replaced the MFA with the Agreement on Textiles and Clothing (ATC) which mandated the expiry of all quotas on textiles and clothing on January 1, 2005.

Singaporean firm Ghim Li had set up in Fiji to exploit the quota system into the US, and manufactured store-brand garments for major US retailers such as Sears Roebuck, Walmart stores and Kmart. Ghim Li's operating rationale according to its web site was to "drive high productivity and low operating costs to achieve the most competitive costs". Without the guaranteed market share that existed under the MFA, however, production sourced from Fiji is unable to compete with even lower-cost firms based in China.

The Fiji garment industry grew rapidly following the 1987 coup led by military strongman General Sitiveni Rabuka, which suppressed trade unions and drove down working class wages. The Garment Industry Wages Council in 1990 set wages in the industry at between $F0.65 and $F0.85 per hour, well below the poverty level. Rabuka also set up the Tax Free Factory Scheme (TFF), which gave a 13-year tax holiday to firms that exported over 70 percent of their production. The concessions attracted manufacturers, who moved in to exploit Fiji's cheap but relatively well-educated work force.

The industry received another boost in 1991 when the Australian Labor government set up the Import Credit Scheme (ICS), which gave a subsidy to Australian exporters of textiles, clothing and footwear. This gave Australian manufacturers an incentive to start the manufacturing process in Australia and then export to Fiji for further processing. The finished product could then be re-exported back to Australia, exploiting the South Pacific Area Regional Trade and Economic Cooperation Agreement (SPARTECA), which provided Fiji with tariff-free exports into the Australian market. Australian firms quickly dominated the Fijian garment industry with well known brands such as Yakka, Country Road, David Jones, Just Jeans, Wet Wet Wet, and Lee Jeans all manufactured in Fiji.

At its peak in 2000, the garment industry was responsible for 31 percent of Fiji's total exports and generated 11 percent of its GDP. The overseas firms made huge profits, with one study in 2001 estimating that they enjoyed a profit margin of 30 percent between 1986 and 1994.

Since 2000, however, the garment industry in Fiji has been in decline.

The trigger for the slump was the May 2000 coup and subsequent Australian trade sanctions. During the coup, armed gunmen, including members of the army's elite counter-insurgency group, took over the parliament building and held the entire cabinet of Mahendra Chaudhry, the country's first ethnic Indian prime minister, hostage for nearly two months. In order to pressure the Fijian establishment to rapidly bring the crisis to an end and protect the significant Australian investments in tourism, sugar, gold mining, garment and financial industries, the Australian government imposed limited economic sanctions.

The instability following the coup, combined with the sanctions, led to the closure of 14 garment factories and the loss of about one third of total exports. Firms manufacturing for the Australian market were particularly hard hit, with exports to Australia plummeting 50 percent in the period after the coup.

The Australian sanctions were dropped in December 2000 following the installation of Laisenia Qarase as the country's prime minister by the courts and the Fijian military. Qarase won elections held in September 2001 and continues to head a government based on the chauvinist perspective of providing preferential treatment for indigenous Fijian businesses and excluding Indo-Fijians from holding high political office—even though they comprise nearly half the population.

The end of Australian sanctions, however, did not draw back garment manufacturers. Fiji is simply no longer attractive to international capital. An Oxfam report published in August 2004, *The Fiji Garment Industry*, explained: "Redundancies have continued, as a result of the coupling of decreased confidence in Fiji's stability with increased manufacturing capacity elsewhere, particularly in Asia." A study published in 2003 estimated that the cost of labour in Fiji ($US0.71 per hour) was not competitive with countries such as Bangladesh ($US0.16 per hour) and China ($US0.25 per hour).

Another factor driving the decline of the industry is the systematic reduction of Australian tariffs on imported garments. In the past, Fijian-produced garments had a competitive advantage in the Australian market as they did not incur the tariffs that were levied on garments manufactured elsewhere. By 2010, however, all Australian tariffs on garments will have been stopped, eliminating any advantage for the Fijian garment industry and forcing it to compete on an equal footing against manufacturers employing far cheaper labour.

The announced closure of Ghim Li Apparel and further dire economic news has seriously destabilised Qarase's government. Last year Qarase predicted that Fiji could achieve a growth rate of eight percent but the government has had to severely slash its growth estimate in the intervening period. Westpac Bank estimated in March that Fiji faces tough times, with low economic growth and inflationary pressures due to the increasing cost of fuel. Westpac treasurer Robert Burns said that a period of stagflation should be expected.

Qarase has been reduced to desperately begging Australia to extend the SPARTECA arrangement for 10 years in the hope it will convince some manufacturers to maintain production in Fiji. Qarase told the May issue of *Pacific Magazine* that "unless Australia gives some meaningful concessions, the (garment) industry is likely to collapse. Discussions are taking place at the official level. We are keeping our fingers crossed."

At home, Qarase is under pressure to impose the cost of the economic crisis on the working class by further slashing jobs and living standards. On April 24, Reserve Bank Governor Narube emphasized the need for "reforms" and particularly indicated that the civil service should be slashed, the sugar industry restructured and public enterprises privatised. This process is already underway with the announcement that Fiji Telecom will slash its 1500 workforce by one third.

Fiji is already a deeply polarised society with the top 10 percent of households receiving 35 percent of all income, while the bottom 10 percent receives just 1.8 percent. The 2004 Oxfam report described garment employees as "the working poor". The industry is notorious for employing workers at wages well below the poverty rate. A study published in 2000 estimated that 80 percent of employees were paid less than the poverty line rate of $US77 per week. The Fijian media has published numerous reports of women having to subsidise their income through prostitution and on the use of child labour in the industry.

The Fiji Garment Industry report concluded nevertheless that "any collapse (of the garment industry) would create a crisis which would be both human and economic. Though low even by local standards, garment wages are a critical factor in supporting the urban poor." The urban unemployment rate is 14.1 percent; so the Ghim Li workers have little prospect of finding any future employment.

Urban poverty has also increased substantially due to an influx of people from rural areas into the shanty towns on the outskirts of the main cities. The rural exodus has been caused by the expiry of sugar plantation leases, which has forced many rural labourers to seek work elsewhere.

On May 1 the *Fiji Times* estimated that the shanty town population had grown by 83 percent or 70,000 people in the seven-year period between 1996 and 2003, with about 60 percent living well below the poverty line. The article quoted the findings of an unpublished *Save the Children* research paper that reported increasing unemployment, poverty, suicides, prostitution and abuse of children.

The worsening inequality, rising unemployment and demands for the further restructuring of the Fijian economy set the stage for conflict between the government and the working class.