Globalisation of the garment industry: implications for Fiji's economy

Paresh Narayan, Department of Economics, Monash University

Introduction

Economic globalisation is a historical process, the result of human innovation and technological progress. It refers to the increasing integration of economies around the world, particularly through trade and financial flows. 'Globalisation is essentially the process of integration of national and local markets into a single global market' (Goto and Barker 1999:195). Here the market means goods and services markets, capital and technology markets and the labour market. Local markets have increasingly integrated into the global market with the rapid development of transportation, communications and information technology. 'It is the increased transnational activity of enterprises (not only through direct investments, but also through strategic alliances, licensing arrangements, different forms of subcontracting, etc.) which leads to greater economic integration' (ILO 1996:1). This integration has emerged and spread rapidly in highly mobile services such as garment production.

Only a few years ago the garment industry throughout the world was made up of relatively independent sectors and markets. The globalisation of the industry has been marked by more and more production centres being linked together by arrangements within companies which move their operations from one country to another according to changes in comparative advantages and marketing demands. In the process, over the past two to three decades the garment industry has become very competitive. Many developing countries have entered the world market, competing with the industrialised countries. Rapid entry into the world market has resulted in heavy regulation of the industry via the Multifibre Agreement (MFA).

Reasons for and responses to globalisation

The garment industry, originally concentrated in industrialised countries, spread in successive waves to other countries, particularly to developing countries, to become a worldwide industry. Two principal factors explain this globalisation.

First, developing countries were attractive to foreign investors because they had relatively cheap labour. In 1991, wages were as low as US$0.39 per hour in Sri Lanka and US$0.24 per hour in China, compared with US$14.81 per hour in West Germany and US$7.99 per hour in the United Kingdom. Furthermore, garment industry wage rates in other Asian developing countries such as Thailand, Malaysia, the Philippines and Indonesia were extremely low – less than US$0.70 per hour in 1991.

Second, developing countries were able to create an investment climate which provided generous incentives for investors via the introduction of export processing zones also known as tax-free factory (TFF) zone schemes (TFZ schemes). Investors who exported a certain level of their output often received incentives, such as no tax on exports and profits, and import duty concessions on raw materials.

Enterprises in the industrialised countries responded to these incentives in developing countries by restructuring at the internal and external levels. At the internal level, new and modern technologies were introduced to improve productivity by gradually abandoning mass production in favour of more targeted products of higher quality to meet the demands of fashion. To confront increased competition from developing countries, developed country producers adopted cost-cutting and quality-enhancing innovations in technology and work organisation. 'As part of cost-cutting effort – but in some cases also to achieve quicker response – many enterprises have increasingly reduced in-plant production and relied more on peripheral production contracted out to micro-enterprises and homeworkers in both the formal and informal sectors' (ILO 1995:19–20). At the same time, external strategies for the relocation of certain highly labour-intensive activities (such as the assembly of clothing) were launched through direct investment in low-wage countries or by recourse to international out-sourcing (ILO 1995:7).

Industrialised countries were also protected from competition generated by the developing countries through the 1974 MFA. The MFA authorised industrialised countries to impose quotas on garment imports from developing countries.

The Fijian garment industry

Fiji's garment industry is essentially a cut–make–trim (CMT) industry, with almost no design or marketing of its own (Grynberg 1997:46). The industry employs almost 18,000 workers (FTIB 1999:73); it produces mostly low-value but quality garments.

Fiji's quest for a garment industry was boosted by the introduction of the TFF scheme in 1988 and the Kalabo TFZ in 1997 as part of the post-1987 economic reforms to encourage exports via the export-oriented industrialisation strategy. The TFF/TFZ scheme initially offered tax-free benefits to those exporting at least 95 per cent of their output. From January 1991, the government reduced the required level of exports from 95 per cent to 80 per cent of production. This export requirement was further reduced, and manufacturers exporting at least 70 per cent of their annual production were granted a corporate tax holiday for 13 years and duty-free imports of goods used for export production (FTIB 1997:14). Other incentives reported by the FTIB (1999:32) for garment manufacturers operating within the TFF/TFZ boundary included:

- total waiver of licensing for import of capital goods and other production materials;
- exemption from customs duty on imported capital goods and equipment, raw materials, spares and packaging materials and other items purchased to set up a TFF (for example building materials, furniture, office equipment);
- exemption from excise duty on products manufactured within the TFZ;
- no withholding tax on interest, dividends and royalties paid abroad, provided such interest, dividend and/or loyalty payments are not subjected to tax under the law of the country of the shareholder;
- a final dividend tax of 15 per cent on dividends paid to resident shareholders; and
- carry-forward of losses.

The incentives available under the TFF/TFZ schemes were well supported by trade agreements such as the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), MFA and the Import Credit Scheme (ICS). SPARTECA allows garment manufacturers in Fiji preferential but non-reciprocal access to the markets of Australia and New Zealand in the form of duty-free and unrestricted access or concessional access. The ICS is a partnership entitlement scheme that allows Australian textiles to be exported to Fiji and provides import credits to Australian exporters, thereby reducing the tariffs they pay for their imports. The ICS also allows Australian fabric to be shipped to Fiji at a competitive price. In addition, there is the MFA between the governments of Fiji and the United States. 'The United States provides garment export quotas which are then allocated to successful garment manufacturers by the Fiji government. Currently, the export quota is limited to 1,535,326 dozens of which 1,279,470 dozens are sensitive garments' (Narayan and Dhar 2000:5). The sensitive garments include knitted clothes. Overall, the US market demands cotton and synthetic knit tops from Fiji garment manufacturers.

The TFF/TFZ scheme was abolished on 1 January 2001, but the trade arrangements remained intact. The TFF/TFZ schemes and the various trade arrangements (those discussed) were largely responsible for the emergence of the garment industry in Fiji, hence making Fiji a global player.

While these incentives and trade arrangements were in place (1988–98), there was a surge in investment. On average, in that period, approximately 57 per cent of TFF investment was in the garment industry. Garment investment under TFF/TFZ as a percentage of total TFF/TFZ investment was estimated at 82 per cent in 1990. Since then it has declined significantly, settling at 22 per cent in 1996. In 1998, however, it stood at a relatively high 65 per cent of total TFF/TFZ investment.

To take full advantage of the benefits available under international schemes, local firms restructured to meet the required export criteria. There was a massive inflow of foreign investors during this period. In 1998, there was approximately 53 per cent foreign ownership in the Fijian garment industry: 24 per cent Australian, 9 per cent New Zealand, 6 per cent Singaporean and Chinese, 1–2 per cent by Asian investors, and approximately 12 per cent joint venture ownership.

Export performance

Garment manufacturing accounts for the bulk of the manufacturing sector. Garment exports have grown from F$4.8 million in 1986 to over F$200 million in 1997 and over F$300 million in 1998. The garment industry has overtaken the traditional export sectors of sugar and gold to become the main export industry (Table 1).

Employment performance

The garment industry has contributed significantly to employment creation in Fiji. In 1987, for example, total paid employment in manufacturing was 13,973 people, of which the garment industry accounted for 1,547 (11 per cent). By comparison, in 1998,

Table 1 Fiji's principal exports, 1992–98

	Value (F$ million)			Percentage of total exports		
Year	Garments	Sugar	Gold	Garments	Sugar	Gold
1992	116.8	221.3	60.7	17.5	33.1	9.1
1993	128.8	230.7	66.7	18.5	33.1	9.5
1994	141.0	252.2	62.6	16.9	30.2	7.5
1995	185.0	276.1	58.6	21.1	31.5	6.7
1996	189.9	301.7	81.6	18.1	28.7	7.7
1997	200.1	213.4	74.0	23.4	25.0	8.7
1998	302.8	244.2	70.5	29.8	24.0	6.9
Average	**180.6**	**248.5**	**67.8**	**20.7**	**29.4**	**8.0**

Source: Reserve Bank of Fiji 2000.

garment industry employment had increased to 15,000, representing about 55 per cent of total manufacturing sector employment.

Operatives are the most dominant class of workers in Fiji's garment industry. 'Operatives include all employees directly involved in the production activities of the establishments. For example, operatives would include those involved in fabrication, processing or assembling, shop messengers, warehousemen and packers, etc' (Fiji Bureau of Statistics 1998:8). Currently, there are about 95 per cent of operatives in the industry.

The Fijian garment industry has demanded a relatively small, though rising, involvement of expatriate workers, largely because the industry requires simple skills and is labour-intensive. The average hourly wage rate is estimated to be F$1.20, which is slightly higher than some of the Asian developing countries but far less than developed country wage rates. The industry is female-dominated. Narayan (1999) estimated that there are approximately 79 per cent females and 21 per cent males in the industry.

Local linkages

The Fijian garment industry depends on other sectors in its production processes. These sectors include fuel, electricity, water, transport, construction, banking, insurance, postage and telephone, and auditing and advertising. Narayan's analysis of local linkages created by the garment industry between 1986 and 1994 can be summarised as follows:

- The total fuel, electricity and water used by the industry as a percentage of the total fuel, electricity and water produced in the economy increased from less than 1 per cent in 1986 to around 3 per cent in 1994.
- The garment industry's use of transport as a percentage of the total value of transportation in the economy increased from less than 1 per cent in 1986 to over 2 per cent in 1994.
- Total purchases of the industry as a percentage of the total output of those sectors with which the industry has linkages increased from 0.7 per cent in 1986 to 2.8 per cent in 1994.
- Total garment industry purchases as a percentage of real GDP also increased, from 0.3 per cent in 1986 to 1.2 per cent in 1994.

These findings indicate that, for a small economy like Fiji, the garment industry has created small but important linkages with other sectors in the economy. As a result of these linkages, output and employment have increased in associated sectors. Without the garment industry, the output and employment in all sectors with which the industry has linkages would probably have been lower and GDP would probably also have been lower. It should be noted that the analysis was restricted to 1994 data. After 1994, the industry has grown rapidly, as shown earlier by the trends in exports and employment. This means that linkages would be much higher; however, the figures remain understated because data are not available.

Conclusions

The globalisation of the garment industry has been welcomed, particularly by developing countries, because it has generated associated benefits in terms of export income, job creation and local linkages. Globalisation is due mainly to the relative abundance of cheap labour in developing countries and the incentives offered for investment in the form of export processing zones. Fiji's drive for industrialisation via the export-led industrialisation strategy in 1989 saw the emergence of the garment industry. The success of the industry has resulted from various incentives offered under the TFF/TFZ scheme and the trade agreements that assisted in promoting garment exports. Compared with those in developed countries, garment industry wage rates in Fiji are extremely low, which has further assisted the growth of the industry.

The industry has contributed significantly to Fiji's economy in terms of export income, employment creation and the creation of local linkages with the other sectors in the economy. On the basis of these findings, it is strongly recommended that the TFF/TFZ scheme, temporarily suspended, should be continued. If this is not done, Fiji is likely to lose investment in the garment industry as investors relocate to developing countries such as Malaysia and Mauritius, which have attractive incentives for investment, including the TFZ scheme.

To maintain the social and economic benefits of the industry, Fiji needs to solve its political crisis, which is a deterrent to any form of investment in the country. In the months to come, policy makers will have to work tirelessly to develop appropriate policies that will be conducive to investment, particularly in labour-intensive industries such as garment manufacturing.

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