

Reconceptualising Labour Markets in the South Pacific

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Introduction

Throughout the Pacific Islands economies are attempting to undergo transition from 'primitive' subsistence agriculture to participation in the modern cash economy. Such a transition necessarily involves the creation of opportunities for earning cash, whether through the creation of jobs as employees or through the creation of opportunities for self employment. However, most developing Pacific Island countries (PICs) are struggling to manage this transition and are failing to meet their economic development goals. In many countries GDP per capita is decreasing, external debt is increasing and individual citizens, at least outside of urban areas, have not experienced any great modernisation of their circumstances.

This stagnation is becoming of more urgent concern because it now seems that a law and order problem fuelled by unemployment and/or lack of opportunity to access the cash economy has arisen. The June 2000 coup of Solomon Islands, coups in Fiji in 1987 and Fiji's attempted coup of May 2000 have, in part, economic roots.^[1] The crime problem in Papua New Guinea (PNG) is such that victimisation rates in its cities are considerably higher than in other cities notorious for law and order problems such as Johannesburg and Rio De Janeiro.^[2] As Standish says, "high unemployment and lack of economic opportunity are seen as the prime cause of crime."^[3]

However, throughout the region there is very little discussion of the operation of the labour market beyond statements about a lack of reliable information making it very difficult to comment on the nature of the labour force and unemployment. Instead, reactive measures to improve 'governance' are the prime focus of government and aid donor policy. Expansion of labour demand appears to be largely conceptualised along the lines that an improvement in 'governance' (here used synonymously with political stability, transparency and strengthening of the rule of law) will attract direct foreign investment (DFI), which will in turn create employment opportunities within the formal private sector. Development of human capital is focussed upon formal (western) education that will, it is hoped, make people useful employees within these DFI funded enterprises.

It is my argument that such a conceptualisation of labour markets within the Pacific does not reflect their actual nature. Whilst 'good governance' is important and the attraction of DFI will help PICs, in itself it will not provide sufficient opportunities for access to the cash economy. Instead more careful examination of the nature of labour supply and of labour demand in these countries is required, in order to more accurately conceptualise their labour markets, and thereby provide a better model on which policies and interventions can be based.

The South Pacific Region

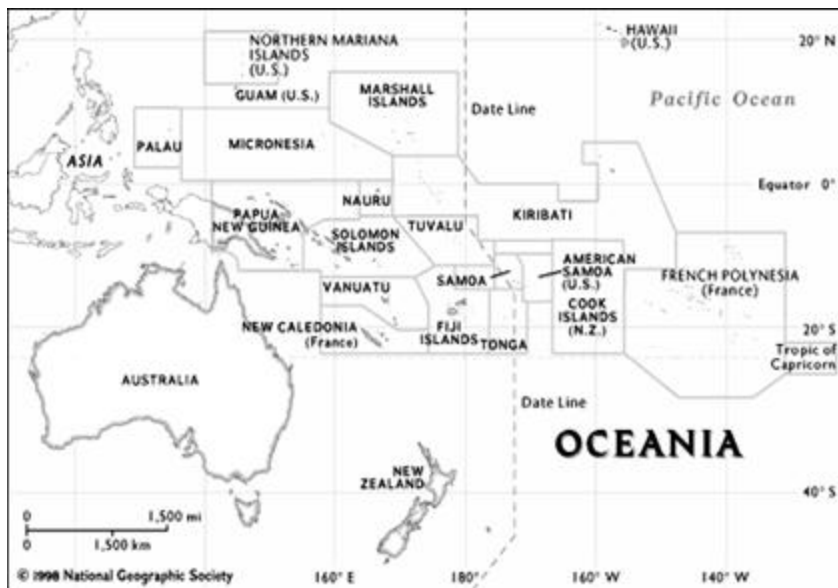


Figure 1: Oceania map

The South Pacific Island region comprises of 22 countries, some of which are independent, some of which are still colonised and some of which are in free association with other countries. When we talk of the South Pacific Island region as a homogeneity, just as when we talk about ‘Africa’ or ‘Europe’, a generalised or imagined conceptualisation results. Features of countries in this imagined region include that:

- they are geographically isolated
- they are comprised of internally dispersed land masses and populations
- they have small populations
- they have young, rapidly growing populations
- they are developing economies
- subsistence agriculture is significant
- they have strong traditional cultures
- governance is the major factor hindering development

These generalisations, whilst they may be appropriate for some purposes, do not provide an accurate basis for making policy decisions. For instance, looking at the size of countries and their populations, the region contains Tokelau, with a land mass of 10 sq km and a population 1,445, Tuvalu, with a land mass of 26 sq km and a population of 10,000, Solomon Islands, with a land mass of 27,510 sq km and a population of 480,000 and Papua New Guinea with a land mass of 452,860 sq km and a population of 5 million.^[4]

Of the PICs listed in the 2001 Human Development Report, human development index (HDI) rankings range from 67 for Fiji to 122 for Papua New Guinea.^[5] It should be noted that only 5 PICs have been listed in human development reports – Fiji, PNG, Samoa, Vanuatu and Solomon Islands, and in 2001 only Fiji, PNG and Samoa were included. The remaining PICs are, presumably, too small to be considered or, maybe, to be fitted comfortably into the HDI conceptualisation of countries.

To generalise about cultures in the region only makes sense if ‘traditional cultures’ are being contrasted with ‘western culture(s)’. Whilst ‘traditional culture’ is often used in this sense, ignoring the fact that western culture also is traditional and disguising implications of primitiveness in non-western cultures, it does not provide a basis for understanding cultural dimensions of PICs. Within the region there are three broad ethno-linguistic groupings – Polynesia, Melanesia and Micronesia. Polynesian countries (for instance Tonga, Samoa and the Cook Islands) are ethnically and linguistically homogeneous. This can be contrasted with the extreme heterogeneity of Melanesian countries. Vanuatu, with a population of about 200,000 has about 110 different linguistic groupings, Papua New Guinea has close to 800 linguistic groupings. Micronesian countries, whilst culturally heterogeneous, are not as extremely diverse as Melanesia.

Individual countries also have specific problems that make policy generalisations inaccurate or inapplicable. Coups in Fiji and Solomon Islands have already been mentioned as have serious law and order problems in Papua New Guinea. Low lying atoll states are at threat from global warming, with a number of countries expected to literally disappear underwater over the next century. Tuvalu has become the first country to try to evacuate because of this problem.^[6]

The first point then is that whilst generalisations about PICs may provide one with a useful place to begin to think about labour markets (or, indeed, any legal or policy interventions) in the region, these generalisations must be recognised for what they are. Given the diversity of the region a single conceptualisation of labour markets is not going to be accurate or appropriate.

Fiji, Vanuatu and Samoa

To examine labour markets it is, then, necessary to proceed by examining individual countries. The three countries I am particularly focussed on are Vanuatu, Fiji and Samoa. Fiji, despite its political problems, is the most developed of the PICs. Vanuatu and Samoa are both smaller and less developed countries, although their geographical and cultural differences make them very distinct. Whilst on a global level all are small countries, within the Pacific context all countries are sizable, so each has a recognisable labour market to examine. As labour markets are implicitly tied with economic performance we will begin our examination of these countries with an overview of their economic situations. Their geographic and demographic features also have important impacts upon labour markets, so will be briefly discussed before an overview of each country’s labour market is provided.

Economic situation

In discussing the economic situation of these countries it should first be acknowledged that fairly reliable sources such as ADB reports, UNESCAP reports, UNCTAD reports and World Bank reports all contain data discrepancies. This, in part, may be a reflection of the lack of reliability of the reports being released by the various official institutions of each country. Accepting that this data discrepancy means that the below figures can only be treated as approximations, the table does allow us to draw a general picture of economic performance in the three countries.

	Fiji	Vanuatu	Samoa
GDP per capita US\$ 1988	2210	1260	1070
Average annual growth GDP 1997 – 2000	-1.35	1.88	3.2

Balance of tradeUS\$ million 1999		- 207 (exp 568, imp 775)	-51.9 (exp 25.3, imp 77.2)	-96.7 (exp 18.1, imp 114.8)
Foreign aid % GDP 1998		2.3	18	16.7
Foreign debt as % GDP 1999		46.8	39.3	87 (1997)
GDP by Sector2000	Agriculture	16	20	15 (1999)
	Industry	30	9	24 (1999)
	Services	54	71	61 (1999)

Table 1: Fiji, Vanuatu, Samoa, Selected Macroeconomic Indicators^[7]

Fiji's average annual rate of growth of GDP has been significantly affected by the attempted coup of 2000, which led to a sizable decrease in GDP for that year. However, prior to this it has not experienced consistent strong growth, so the attempted coup cannot be blamed for all of Fiji's economic problems. Whilst it exports the most of any of the three countries it has a sizable trade deficit. As the most developed country in the region Fiji receives the least aid. In order to meet budget deficits and fund particular projects it has, instead, resorted to borrowing. All sectors were affected by the events of 2000, with tourist numbers decreasing significantly, foreign investors, particularly in the garment industry, withdrawing and the sugar cane harvest being affected.

Vanuatu's low rate of growth of GDP over the past four years cannot be attributed to a coup or similar event. Growth has generally been low (although somewhat erratic) since independence, caused in part by instances of political instability and natural disasters. Again we can see a trade deficit, Vanuatu being reliant on importing most manufactured goods.

Samoa's economic profile indicates similar trends, including a high level of debt and a sizable trade deficit. It has experienced the most consistent growth in GDP of all of the three countries in recent years.

The importance of agriculture to all three economies makes them vulnerable to natural disasters, including cyclones, earthquakes, and crop blights.^[8] Tourism, which is an important part of the services sector in all three countries, is also vulnerable to these natural disasters. The levels of debt of each country suggests that debt servicing is soon to become of more significance, reducing the capacity for governments to spend on infrastructure projects and the provision of essential services.

Geographic and demographic features and their impacts on consumer markets

As the table below shows, Samoa has the smallest population, but it is not widely dispersed amongst different islands so the central goods and services market located in the capital, Apia, is fairly readily accessible to the entire population. Vanuatu, on the other hand has a fairly small population that is widely dispersed amongst a number of islands, with the result that the central goods and services market, located in the capital, Port Vila, can only be readily accessed by a small number of people. Fiji's largest island, Viti Levu, is home to about 70% of Fiji's total population. The capital, Suva, located on Viti Levu, is readily accessible to most of this population. The second largest island, Vanuau Levu, with a population of about 130,000, is 64 kilometres to the North Est of Viti Levu, and linked by both ferries and planes. This gives Fiji a sizable fairly unified domestic consumer market, at least in relative terms.

	Fiji	Vanuatu	Samoa
Land Mass (sq km)	18,333	12,190	2,935
Number of inhabited islands	100 (est)	64	4
Population estimate 2000	824,700	199,800	169,200
Population estimate 2010	945,000	267,600	179,100

Table 2: Population and Land Mass, Fiji, Samoa and Vanuatu^[9]

In terms of links to the rest of the world, Fiji is the central transport hub for flights between the South Pacific and the rest of the world, with its international airport having the capacity for large planes. It is also central to shipping routes. Samoa's international airport also has the capacity for large planes. It has direct flights to the States, New Zealand and Australia. By contrast, Vanuatu only runs a 737 between Australia, New Zealand and Fiji, and has flights between Noumea and Vanuatu in a smaller plane.

Population Growth

Vanuatu in particular has a rapidly expanding population. This is particularly the case in urban areas, due to urban migration. The 1999 census showed the annual intercensal growth rate in Port Vila to be 4.2%, compared to a national growth rate of 2.6%.^[10] As undisguised unemployment and its attendant problems is primarily an urban phenomenon this rapid population growth means that unemployment poses something of an urgent challenge for policy makers in Vanuatu.

Samoa's population has such a low growth rate because of migration to New Zealand. About 150,000 Samoans reside in New Zealand. This migration has long been recognised to be acting as a 'safety valve', ensuring that overpopulation and its attendant problems has not become too much of an issue. It should also be noted that due to the events of 2000 in Fiji it may be expected that migration from this country, particularly of its Indo-Fijian population, will increase, making population estimates for this country difficult.

Labour force

Just as economic data about these three countries is not entirely reliable, so too are statistics on the labour force somewhat unreliable. However, again the data allows for an approximate picture of the labour force to be drawn.

	Fiji	Vanuatu (1999/2000)	Samoa
Total labour force	304,700 (1998)	76,370	60,840 (1998)
Subsistence Agriculture	174,500 (1998)	51,170	39,800 (1998)
Paid employment	112,500 (1998)	23,670 (14,270 formal)	16,407 (2000)
Unemployed	17,700 (1998)	1,530	3,620 (1998 registered unemp.)
Adult functional illiteracy %	7.8	26	20.3
Primary school enrolment ratio	99 (male) 100 (female)	76 (male) 72 (female)	94 (male) 91 (female)
Secondary school enrolment ratio	64 (male) 65 (female)	23 (male) 18 (female)	59 (male) 66 (female)
Formal sector emp'ers (# business units)	7,200 (1996)	1,004	438 (2000)

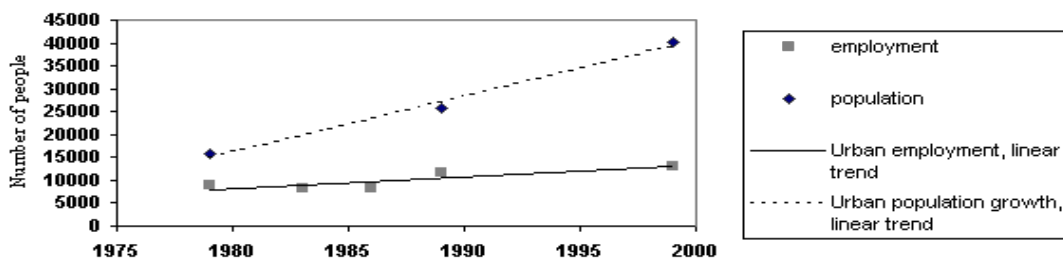
Table 3: Fiji, Vanuatu, Samoa, Labour Market statistics^[11]

All countries have a sizable subsistence sector although the number of people engaged only in the subsistence sector is, probably, overreported. The borders between the categories ‘subsistence agriculture’ and ‘paid employment’ are somewhat blurred, as a number of people engage in informal sector activities, instead of or as well as engaging in subsistence activities but are recorded in statistics as being employed in the subsistence sector. These informal sector activities include small scale cash cropping, cottage industry and work for unregistered employers, particularly in the domestic sector. Some work is also seasonal, which can distort employment figures.

Further, the category of unemployed is also difficult. This category covers people who are not engaged in work but are actively looking for work. However, a number of people who are ‘employed’ in the subsistence sector would, if possible, engage in paid labour in addition to, or instead of, engaging in subsistence activity. These ‘underemployed’ are not indicated in official labour market statistics, but are a sizable group.^[12] It would also seem that a number of ‘employed’ people only have part time work and would prefer to work for longer hours.

In Vanuatu and Samoa there does not appear to be a similar growth in demand for labour. In Samoa the number of employers in 1991 was 410, and the estimated number of people employed in the private sector was 10,688. In March 2000 the estimated private sector workforce was 10,2712. If these estimations are correct then there has been virtually no growth in private sector employment in Samoa in the last decade of the 20th century.

Vanuatu has experienced a similar lack of growth in jobs, as the graph below indicates:

Figure 2: Vanuatu, urban population and employment 1979 – 1999^[13]

Only Fiji has experienced significant growth in the number of jobs, with paid labour being 91,000 in 1991, as compared to 112,500 in 1998.^[14] Unemployment has also remained fairly constant, staying around the 5.5 – 6% mark.^[15] However, the events of 2000 saw a fairly dramatic shift in labour demand, with some manufacturing and tourism enterprises closing. It is estimated that 7000 jobs have been lost because of these closures, and the long term effects are as yet unknown.

Labour market issues and strategies

What Vanuatu has is a situation in which the labour supply is shifting outwards rapidly, with no corresponding shift in demand. Samoa’s situation is similar, although the shift in supply is slower, thanks largely to migration. To counteract this several measures are possible, including:

1. minimising the shift in labour supply by encouraging people to remain in the subsistence sector (discouraging people from seeking paid employment),

2. trying to rechannel labour supply and shift labour demand outwards by developing local minimum capital enterprise,
3. trying to shift labour demand outwards by attracting productive DFI, [\[16\]](#) and
4. allowing movement along the demand curve by minimising regulation.

Of course a shift in labour demand will only occur if there is a corresponding shift in demand for the goods and services being produced, so any labour market policies must also take the stimulation of consumer demand into account also.

Assuming that the effects of the 2000 attempted coup in Fiji have only created a temporary ‘blip’ in its labour demand, Fiji appears to be in a slightly different situation. It has to maintain the expansion of demand that it has been experiencing, whilst ensuring that ‘livable wages’ can be earned to prevent the apparent poverty problem from worsening. The range of strategies to do this are similar to those strategies that may apply to Vanuatu and Samoa although it can be noted that it has already been fairly successful at attracting DFI, [\[17\]](#) so would be facing a situation of expanding DFI inflows, rather than generating new, previously unprecedented DFI inflows.

Current policy statements

The government policy statements of all three countries acknowledge the importance of both the second and third strategies in respect of generating employment. However, the main policy emphasis is on the third strategy. ‘Private sector led development’ is seen to be the key to economic growth, with foreign investment leading this strengthening of the private sector. Indeed, the development of microenterprise [\[18\]](#), or ‘the village economy’ is not considered to be part of ‘private sector development’.

Looking at Samoa first, the 2000-2001 Statement of Economic Strategy [\[19\]](#) (SES) aims for eight ‘strategic outcomes’, including ‘enhanced private sector growth’. Whilst this outcome could involve specific policies to develop micro enterprise, there is little discussion of this. The identified constraints to private sector growth are all linked to barriers to DFI. In turn the attraction of DFI is seen to be essential to employment:

The creation of employment opportunities through manufacturing type investment is essential for the success of the SES strategies. Increased employment has both welfare and economic growth benefits. Attracting foreign investment therefore has a high priority. Enterprises focusing on exports will be preferred. Export processing zones will be established.

There is some discussion of production within the ‘village based economy’:

The strategic direction for the village economy will be to encourage greater production in the agriculture sector and the establishment of more village-based industries and services.

Over the last 4-6 years, electricity, water, communications and tar-sealed roads have reached all but the remotest of communities. In the coming period, these remote areas, as well as more central locations, will benefit from continued efforts in road construction and improvement, water supply reticulation, communication upgrades and electrification programmes. Support will also continue to micro-level projects in areas such as education, agriculture, fisheries, youth and culture and health.

This, however, is not considered to be part of the outcome of ‘enhanced private sector growth’ but instead is seen to be part of a separate strategic outcome, that of ‘a revitalised village economy.’

Vanuatu maintains a similar position. Its Policy 2000 stresses private sector led growth through the attraction of foreign investment, in the belief that this will have a trickle down effect the 'grassroots'. Whilst the encouragement of ni-Vanuatu business is identified, this is again separated out from 'private sector led development.'^[20]

Looking to Fiji, the Budget Address of 9 Nov 2001,^[21] has similar things to say about economic recovery through the development of the private sector. Various strategies to attract investment are identified, including incentive packages in some sectors and streamlining of investment approval. It also identifies the importance of developing small enterprise, particularly in the context of rural areas, with a section of the speech devoted to 'poverty alleviation and rural development.'

Of the other two strategies that I identified to help address growing unemployment, Vanuatu, in particular, occasionally overtly espouses strategies to encourage people to remain in the subsistence sector.^[22] The development of rural infrastructure and the provision of services to rural areas also serve to meet this aim to an extent.

The fourth measure, that of ensuring labour market regulation does not unduly hinder shifts along the labour market demand curve, is not discussed in any policy statements. Indeed a shift towards greater regulation, particularly in the area of occupational safety and health (OSH) is occurring. In 1996 Fiji passed a new Health and Safety at Work Act. Samoa has similar legislation at draft stage. Such labour protection measures may seem to contradict other foreign investment attracting measures, but have not been discussed or analysed in these terms.

Expenditures

All three governments policy statements, whilst they conceptually divide private sector development from the development of local micro enterprise, do at least acknowledge that a multifaceted approach to employment creation is necessary. However, when one considers expenditure, both of the governments and of aid donors, the policy statements in respect of the importance of developing local micro enterprise do not appear to be adequately supported. Instead the emphasis is on funding various initiatives associated with attracting DFI. Development of micro enterprise requires expenditure to provide training in operating small scale business enterprise. Responsible access to credit also is required.^[23] Assistance with access to consumer markets is the third area in which expenditure may be needed. However, government budgets do not reflect a commitment to expenditure in any of these areas.

For instance, within the Fiji budget \$4 million FJD has been allocated to micro finance, self help projects and 'poverty alleviation projects' (not necessarily related to micro enterprise development). Additionally, through 'multi ethnic affairs' spending \$300,000 FJD has also been provided for small business equity. This can be compared with the \$2.5 million FJD provided for 'multi ethnic affairs' scholarships, \$5.5 million FJD for 'affirmative action' Fiji education fund scholarships and the 15\$ million FJD that has been allowed for the government to inject direct capital into foreign investment projects.^[24] Whilst this expenditure on formal tertiary education does assist with human development, it is focussed upon providing western style formal education to fill gaps in skilled employees available to participate in formal sector enterprise (as opposed to informal sector small enterprise), particularly in managerial occupations.

Looking at Samoa, the 2000/2001 budget estimates of total foreign aid and grant expenditure in human resources development, education and private sector development again show that expenditure is being focussed upon formal sector scholarships, with little being spent on small business development – although the small business centre, which assists the development of micro enterprise, is at least considered to be part of the private sector.

	2000/2001	1999/2000
HUMAN RESOURCE DEVELOPMENT	12,636,759	14,257,739
Long Term Training	5,144,922	5,844,223
ODA Short Term Training	334,672	334,672
Third Country Training	3,361,672	2,972,061
In Country Training	1,617,141	1,617,141
Diploma Public Sector Management	-	150,602
Staff Supplementation	-	741,636
Public Sector Commission Institutional Strengthening	2,118,412	2,397,602
Public Sector Reform	59,940	199,800
YOUTH	211,985	207,020
Employment Creation for Youth	211,985	207,020
PRIVATE SECTOR	1,087,684	1,604,420
Tourism Development	535,475	585,676
Trade Investment Promotion	-	199,800
Small Business Centre	418,340	451,807
Private Sector Support	133,869	367,136

Table 4: Samoa, foreign aid and grant expenditure estimates 1999 - 2001 [\[25\]](#)

Aid donor expenditure in each of the three countries shows a similar lack of commitment to the development of local enterprise. Human development expenditure focuses upon formal western education, as opposed to the development of skills for establishing and operating microenterprises or, more generally, ‘the capitalist spirit.’ Whilst different aid donors and multilateral lending agencies have different priorities in the area of institutional strengthening, the New Zealand overseas development agency (NZODA) budget for 2001/2002 expenditure is fairly indicative of the split in spending between ‘formal’ human resource development and small enterprise development.

Table 5: NZOD

	Fiji	Vanuatu	Samoa
	NZODA	NZODA	NZODA
Total	3 million NZD	5.25 million NZD	7.7 million NZD
Formal sector education (Scholarships)	440,000	2,435,000	2,450,000
Curriculum development		605,000	800,000
Micro enterprise development	300,000	345,000 (rural skills)	250,000

A expenditure in selected areas, 2001/2002 [\[26\]](#)

Reconceptualising labour markets

It can be seen that there is a gap between policy statements and expenditure. It may also be that policy statements lack clarity or consistency in respect of employment generation. A clearer conception of labour markets and employment creation needs is required. In rethinking labour markets and employment generation the first thing that needs to be considered is the place of small enterprise or informal sector activity in relation to 'the private sector'. A shift in thinking about the nature of the private sector leads to a reconsideration of three other areas:

1. The relative importance of attracting DFI as an employment creation strategy
2. The nature and focus of educational programmes
3. The potential of domestic goods markets

Broadening conceptions of 'the private sector'

When thinking about labour markets it should be recognised that the private sector includes small enterprise and informal sector activity. 'Private sector led development' is the current dominant approach being taken to development. It needs to be appreciated that private sector development is not solely related to the attraction of DFI and the establishment of large enterprises. McGavin argues for a 'supply led' conceptualisation of employment creation and economic development.^[27] Maybe another way of putting this is that the private sector must not be narrowly conceived and attention paid to developing only one aspect of it, that of DFI funded enterprise.

Broadening this conception of the private sector also involves recognition of the fact that small enterprise development is not only a strategy that is applicable in rural areas, but is also applicable in urban areas. That this does not seem to be clearly recognised in policy statements implies that it is a 'second best' strategy – only to be pursued in rural areas where the lack of infrastructure makes it impossible to attract DFI funded enterprise, and therefore employment opportunities. Self employment through small enterprise, whilst it may not provide the stability of income that wage employment gives, is as valid a means of accessing the cash economy as 'getting a job' and should be recognised as such.

However, it should be noted that engagement in subsistence agriculture should not be equated with employment (as opposed to economic activity). As education and exposure is changing peoples' aspirations, the idea of relying on subsistence agriculture to 'employ' youth that are entering into the labour force is both unrealistic and dangerous. Whilst the subsistence sector can expand (although land use pressure limits this expansion) and absorb more of the labour force, it is growing increasingly unlikely that people will be happy to remain in the subsistence agriculture sector, particularly in urban areas where there is greater exposure to 'westernised' lifestyles. Maybe talking about cash earning activity rather than employment, which can be a confusing term, would be appropriate.

Broadening conceptions of the private sector and the place of informal sector or small enterprise activity within the private sector involves a shift in thinking about labour markets, employment and development generally. It is not specifically prescriptive and therefore applies equally to all three countries.

The place of DFI

Broadening one's conception of the private sector complicates the question of how best to allocate resources to foster expansion of the private sector. There needs to be careful consideration of whether the attraction of DFI is a realistic goal or will have the desired outcomes. As aid donors and lending agencies stress, attracting DFI does involve improving governance, as investors are not going to put money into

unstable countries in which the rule of law is not respected. Improving governance is not, however, something that is necessarily quickly achievable, as it involves shifts in culture and attitudes. However, these countries need solutions to the unemployment problem now. Increasing cash earning opportunities through the development of local micro enterprise may be a more readily achievable path to generating employment as it can occur at the same time that the fundamental governance issues are being addressed.

Attracting DFI also places countries in a position of competing with one another to provide a favourable investment climate. A favourable investment climate involves not only stability and good governance, but competitive business cost structures. Policies affecting the costs of land, capital in the form of plant and intermediate goods, and labour as factors of production also need to be considered, therefore. Land costs are linked to customary land tenure systems, which are at the heart of cultural systems. Any modification of such land tenure systems is, therefore, intensely political and difficult. Even with the removal of tariffs, the cost of plant and machinery and intermediate goods is increased due to the transport costs associated with importation. Labour costs are not only affected by regulation but also by the nature of the labour supply, and in particular the existence of 'capitalist spirit' or orientation towards working. Whilst education is changing attitudes towards work, this change also relies upon experience of work, which employers have to pay to provide. The nature of infrastructure such as roads, internal and external shipping and flights, electricity, telephones and health care also must be examined. The improvement of infrastructure is costly. However, as local people are used to living without infrastructure, the development of local small enterprise probably requires less in the way of provision of infrastructure than DFI funded enterprise would.

Each country needs to take these matters into account. However, as each country is at a different point in terms of things such as achieving 'good governance', possessing infrastructure and possessing other variables that affect a country's ability to attract DFI, each country will probably have different answers to whether putting resources into the attraction of DFI at the expense of putting resources into the development of local small enterprise is a sensible decision, or what the best balance between expenditure in these two areas is.

Fiji has in the past been successful at attracting productive DFI. It has a comparatively large number of people who have been acculturated to work through education and experience. It has relatively well developed infrastructure, and transport issues are minimised due to its position of central importance amongst PICs. Investor confidence has been shaken by political events, which may be seen to be more related to ethnic tensions rather than poor governance in the sense of macroeconomic mismanagement. The lack of employment in Fiji is also perceived of more as a problem of poverty than of unemployment per se. Access to more opportunities for stable income, as provided by waged or salaried labour, rather than variable income arising from self employment, may better address problems of poverty.

Vanuatu, on the other hand, has generally weak infrastructure that will be both costly and time consuming to improve. It has experienced considerable political instability, and the rule of law is not firmly entrenched. People are not experienced in waged employment (although education and exposure to western media and products has begun this process). Vanuatu does, however, have thriving subsistence sector that generally seems to be able to provide for basic needs, so poverty is not perceived to be a main problem. In a situation such as this small enterprise may be able to complement subsistence activity, so can be developed whilst at the same time maintaining the 'safety net' of subsistence. In comparison, waged labour and subsistence enterprise are generally conceived of as being mutually exclusive occupations. Putting emphasis on attracting DFI may create expectations of waged labour opportunities which will encourage people to leave the subsistence sector, and thereby weaken this 'safety net.' If DFI funded enterprise fails to materialise, which is a strong possibility given problems with governance and infrastructure, serious unemployment problems will eventuate.

Samoa sits somewhere between Fiji and Vanuatu. Whilst there are infrastructure issues to address, it has

good external transport links and its physical compactness means that most parts of the country are readily accessible. It has been the most politically stable of all three countries. Because of movement of the population between New Zealand and Australia people are more acculturated to work. Although figures indicate it has been the least successful of the three countries at attracting DFI, its political and social climate would suggest that it is a stable place to invest in. It also has already developed various small enterprises and export cooperatives. Maybe Samoa is best placed to try to equally balance both the attraction of DFI and the development of small enterprise as employment creating strategies.

The nature of education

A large amount of money is currently being spent on formal tertiary education. However, the actual relevance of this education to more than a small elite must be considered. Literacy and numeracy are important for everybody, regardless of what they want to end up doing, so a basic general curriculum is required. However, education is not just to prepare one for entry into waged employment. Instead, education should take into account labour market needs (from both supply and demand perspectives). If a country decides to encourage small enterprise development along with DFI enterprise, or even to prioritise small enterprise development, approaches to education must reflect this shift in priorities. A broadened conception of education, being more than 'schooling', and being able to take place outside of narrow formal education structures, is required. [\[28\]](#)

The potential of local goods markets

Goods markets are usually thought of as being overseas. However, transport costs, the lack of economies of scale and the costs of having to import machinery and various items consumed during production make it difficult for exports from the Pacific Islands to be competitive in an international market. Small enterprises also require assistance in reaching these markets. One thing that private sector expansion strategies do not appear to look at is how goods markets can be developed through strategies aiming at substituting locally manufactured products for imported products. This is probably of more relevance to local small enterprise than DFI funded enterprise, particularly in Vanuatu, because domestic markets are relatively small. This possibly explains why they appear to be generally overlooked.

There have been some health strategies linked to the consumption of local produce. These should also be recognised as being sound economic strategies. The potential of tourism for domestic goods markets (as opposed to services markets) could also be better exploited. As primary goods provide low returns creative thinking about low capital manufacture of secondary goods is required. A simple example here is peanut butter – whilst all three countries import their peanut butter, peanuts are grown, and the plant required to turn peanuts into peanut butter is inexpensive. Samoa is the only country with a domestic chocolate industry, whereas all three countries grow cocoa. Nut oils can be extracted, on a small scale at least, fairly inexpensively. A wider range of handicrafts may result in new tourist markets being exploited. Another simple example here is utilising existing carving skills to make 'Pacific themed' toys for children – currently few products aimed at tourists are suitable for children.

It seems to be the case that bodies that assist with export development, including various domestic government departments and the South Pacific Trade Commission, seek successful small scale domestic enterprise and assist in developing niche export markets. The development of small domestic enterprise can be viewed as a testing ground, where skills and products are developed, before being entered into a more competitive environment. As such it is not an 'inward looking' strategy at all, but can be seen as a strategy to develop local human capital and goods to a point where viable products for export are available. Current international strategies to develop co-operatives seem to recognise the potential of this approach, and the idea that exports do not have to come from a country specialising in producing only one or two goods for export.

The potential of each country's domestic goods markets will vary. Each country should not overlook these markets as being too small (for small enterprise output needs not have a large market to sell in).^[29] Instead close and creative thought should be given to identifying goods that can be produced locally through low capital enterprise and can be marketed domestically, either as substitutes for imports or in currently underexploited niches.

Conclusion

Theories of development are subject to fashion. The current trend, that private sector led development through the attraction of DFI is the best path to economic development, does not appear to offer Fiji, Vanuatu and Samoa a total solution to growing problems of unemployment, however. My argument that Fiji, Vanuatu and Samoa need to reconceptualise the 'private sector' to include small enterprise, and to recognise the potential of small enterprise in urban as well as rural areas is, perhaps, returning to a vision of development that was more fashionable in the sixties and seventies, when these countries were gaining their independence.^[30]

My argument is not, however, prompted by reactionary anti-globalisation views, but by more pragmatic concerns arising from growing unemployment. Arguing for a broadened conception of the private sector does not imply any particular outcome, but instead suggests that these countries need to re examine their real potential to develop through the attraction of DFI – a competitive exercise in which not all countries will be able to succeed. Rather than simply following development fashions, which appears to be happening as these three disparate countries are all pursuing economic development in the same way, each country needs to more carefully consider to what extent the current fashion suits it, and to try to develop its own uniquely appropriate approach to development. Broadening the conception of the private sector provides an avenue to begin this process of re examination.

Such a reconceptualisation has implications for policy makers and law reformers. How would or should the laws governing the employment relationship operate in such an environment? To what extent should the law regulate micro-enterprise? To what extent can the law practically regulate micro-enterprise? Does the tax regime need adjustment to take account of 'informal sector' earnings? And, most problematically, how should countries prioritise long term 'good governance' reforms, when short to medium term solutions to unemployment are needed?

[1] Kabutaulaka, T. (2001) "Beyond Ethnicity: The political economy of the Guadalcanal Crisis in Solomon Islands" SSGM Working Paper 01/1 ANU: Canberra; Chand, G. (1997) "Ethnic Identity, Income Inequity and Growth in Independent Fiji" SSGM Discussion Paper 97/6 ANU: Canberra.

[2] Levantis, T. (2000) *Papua New Guinea, Employment Wages and Economic Development* Asia Pacific: Canberra at p 14.

[3] O'Collins, M. (2000) "Law and Order in Papua New Guinea: Perceptions and Management Strategies" SSGM Working Papers 00/1 ANU: Canberra at p 3.

[4] *CIA World Factbook 2001* <http://www.cia.gov/cia/publications/factbook/index.html> (Accessed 10/12/01)

[5] *Human Development Report 2001* <http://www.undp.org/hdro/> (Accessed 10/12/01)

[6] Brown, L. (2001) "Rising Sea Level Forcing Evacuation of Island Country" <http://www.earth-policy.org/Updates/Update2.htm> (Accessed 10/12/01)

[7] *CIA World Factbook 2001* <http://www.cia.gov/cia/publications/factbook/index.html> (Accessed 10/12/01); *Human Development Report 2001* <http://www.undp.org/hdro/> (Accessed 10/12/01); UNESCAP (2001) *Economic and Social Survey of Asia and the Pacific, 2001* <http://www.unescap.org/drrpad/publication/survey2001/> (Accessed 10/12/01) World Bank (2000) *World Development Indicators 2000* <http://devdata.worldbank.org/data-query/> (Accessed 10/12/01) UNCTAD Least Developed Countries Statistical Profiles <http://www.unctad.org/lacs/> (Accessed 10/12/01).

[8] These countries nearby developed neighbours, in contrast, are not as dependent on agriculture, despite large agricultural sectors. Agriculture has a 8% share of New Zealand's GDP and a 3% share of Australia's GDP.

[9] *CIA World Factbook 2001* <http://www.cia.gov/cia/publications/factbook/index.html> (Accessed 10/12/01); Secretariat of the Pacific Community (2000) *Oceania Population* http://www.spc.org.nc/demog/pop_data2000.html (Accessed 10/12/01)

[10] National Statistics Office 1999 *Vanuatu National Population and Housing Census main report* Port Vila, 2000 at p 39.

[11] Vanuatu National Statistics Office (2000) *Vanuatu 2000 Labour Market Survey Report* Government Printer: Port Vila; (1999) *1999 Vanuatu National Population and Housing Census main report* Government Printer: Port Vila; Samoa Department of Labour (2000) *Employment Section, Monthly Activities Summary Report Jan – March 2000*; Samoa Department of Labour (1991) *Employment Section, Monthly Activities Summary Report April – June 1991*; Samoa Department of Statistics (1999) *Annual Statistical Abstract 1998*; UNESCAP (2001) *Economic and Social Survey of Asia and the Pacific, 2001* <http://www.unescap.org/drrpad/publication/survey2001/> (Accessed 10/12/01) World Bank (2000) *World Development Indicators 2000* <http://devdata.worldbank.org/data-query/> (Accessed 10/12/01); Fiji Islands Statistics Bureau <http://www.statsfiji.gov.fj/> (Accessed 10/12/01)

[12] Analysis of data from various statistical reports in Vanuatu estimates the number of 'underemployed' to be 22,000. Jowitt, A. (2001) Unemployment in Vanuatu *Development Bulletin* Vol 56

[13] Jowitt, A. (2001) Unemployment in Vanuatu *Development Bulletin* Vol 56

[14] Chand, G. (2001) *Global Policy Network global labour market database, Fiji* <http://globalpolicynetwork.org> (Accessed 10/12/01)

[15] Chand, G. (2001) *Global Policy Network global labour market database, Fiji* <http://globalpolicynetwork.org> (Accessed 10/12/01)

[16] Although Vanuatu's DFI flows were 1996: US\$ 33 million; 1997: US\$ 30 million; 1998 US\$ 20 million; 1999 US\$ 20 million, this has been more related to Vanuatu's tax haven statutes than to any productive use of investment. Samoa, on the other hand, attracts low levels of DFI: 1996 US\$ 4 million; 1997 US\$ 4 million; 1998 US\$ 3 million; 1999 US\$ 2 million. (World Bank (2000) *World Development Indicators 2000* <http://devdata.worldbank.org/data-query/> (Accessed 10/12/01))

[17] DFI I 1996 was US\$ 2.4 million; 1997 US\$ 16 million; 1998 US\$ 107 million; 1999 US\$ - 33 million. It would appear that the figures for 1999 actually reflect the 99/2000. During this period a large amount of DFI was withdrawn from Fiji due to the political situation. (World Bank (2000) *World Development Indicators 2000* <http://devdata.worldbank.org/data-query/> (Accessed 10/12/01))

[18] Microenterprise or small enterprise is thought of, in this paper, as enterprise that requires only small

amounts of capital, may not have any employees in a formal sense and may not have a formal structure.

[19] http://www.treasury.gov.ws/publications/ses/ses_00-01.htm (Accessed 27/11/01)

[20] Vanuatu Government (2000) *Policy 2000* Vanuatu Weekly Hebdominaire 8 Jan 2000 & 15 Jan 2000.

[21] http://www.fiji.gov.fj/speeches_features/S2001_11/Budget.pdf (Accessed 10/12/01)

[22] This can be seen, for instance, in the recent Decentralisation Review Committee report.

[23] By responsible access to credit it is meant that the levels of credit provided should be managed by the credit providers in such a way as to ensure that the debt does not become unmanageable. Credit should also not be provided for unworkable enterprise ideas. Much like the conditionality attached to international loans from multilateral agencies, so too can credit providers take more responsibility for assisting credit receivers to manage this credit to the best advantage.

[24] Kubuabola, J (2001) *Budget Address of 9 Nov 2001* http://www.fiji.gov.fj/speeches_features/S2001_11/Budget.pdf (Accessed 10/12/01). Note that the budget address does not provide full details of planned expenditure, so these figures may be inaccurate.

[25] Samoa Treasury Department (2000) *Budget Estimates 2000/01* http://www.treasury.gov.ws/publications/budget_estimates/est_00-01.htm (Accessed 10/12/01)

[26] New Zealand Ministry of Foreign Affairs and Trade *New Zealand Official Development Assistance Programmes* <http://www.mft.govt.nz/nzoda/programmes.html> (Accessed 10/12/01) Australian aid spending follows similar patterns. [See Throsby, C.D. & Maglen, L.R. 1990 “Australian Aid for Education in the Pacific” in Gannicott, K.G. (ed) *Education for Economic Development in the South Pacific* NCDS, ANU: Canberra.

[27] McGavin, P. (1997) *Labour Resource Utilisation in Melanesia* Australian National University: Canberra

[28] For discussion on education policy, including the matter of the extent to which changing schooling can change attitudes (or develop ‘the capitalist spirit’) and the limitations of simply vocationalising formal schooling see Gannicott, K.G. (ed) 1990. Above, n 26.

[29] The export oriented bias in development policies is reflected in statements such as “In combination these circumstances [the smallness and isolation of Pacific Island countries] imply that the growth and development prospects of these economies depend heavily upon their export performance.” (Falvey, R. 1986. *Trade Problems and Policies of Pacific Island Economies*. At p 111); “It is widely agreed that the only feasible development strategy in small countries with limited natural resources lies in creating export oriented industries or services” Bennell, P. & Oxenham, J. (1983) “Skills and Qualifications for Small Island States” *Labour and Society* 8:1 pp 13 – 37, at p 15. Bennell and Oxenham do recognise that small enterprise has a role as a fallback if export oriented industry does not develop, but do not suggest that there is a need to encourage its development as a safety net, or suggest that output from small enterprise may be exportable.

[30] See, for example, the New Hebrides Transitional Development Plan 1978 – 1980, made by the New Hebrides Council of Ministers, an indigenous parliament set up as part of Vanuatu’s transition to independence.

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