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SOCIOECONOMIC BACKGROUND

COUNTRY TYPOLOGIES¹



Overview

The diversity of the region and the different stages of and prospects for development suggested grouping the countries for purposes of analysis. Three categories are presented: group 1: land-rich, low-income countries—Papua New Guinea (PNG), Solomon Islands, and Vanuatu; group 2: small, vulnerable island states—Kiribati, Republic of the Marshall Islands (RMI), Federated States of Micronesia (FSM), Nauru, and Tuvalu; and group 3: “advanced” island states—Cook Islands, Fiji Islands, Palau, Samoa, and Tonga. The countries in group 1 have low social and economic indexes, but positive agricultural potential. The vulnerable island states, group 2, face severe economic constraints, few economic prospects, and issues of sustainability. Countries in group 3 have relatively good prospects from tourism, remittances from abroad, and emigration.

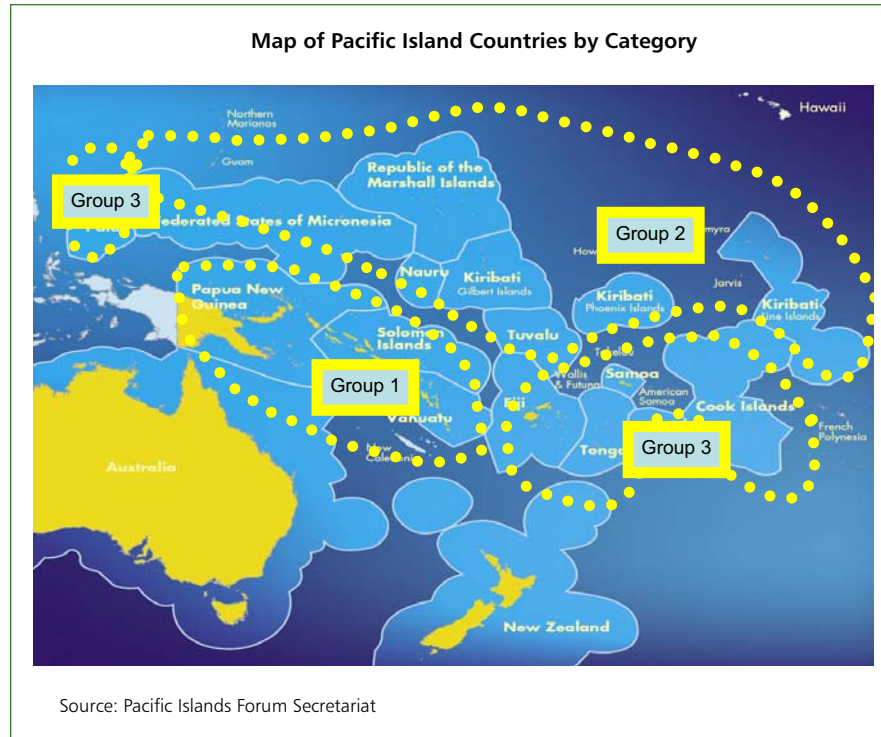
Introduction

The Pacific island region covers a third of the earth’s surface and has more than 550 inhabited islands. The 13 countries in the study—here termed as Pacific island countries (PICs)—support an immense biodiversity and a substantial base of natural resources. This resource base includes fish, timber, agricultural products, and minerals, as well as limited reserves of oil and gas. Many of the countries are vulnerable to natural disasters, such as cyclones (the Fiji Islands and Samoa), flooding (the Fiji Islands), earthquakes (Solomon Islands and Vanuatu), and volcanic eruptions (PNG and Vanuatu). The effects of rising sea level concern low-lying atoll states such as Tuvalu. Coastal areas of all Pacific countries, and especially atolls, are at risk from tsunamis.

The United Nations classifies all 13 countries included in this study as small island developing states, while Kiribati, Solomon Islands, Tuvalu, and Vanuatu are also classified as least-developed countries. The 13 countries in the study are extremely diverse in resources and stages of development. Indicators clearly show the diversity, including total population, population density, secondary school enrollment, per capita gross domestic product (GDP), and weight of the informal sector. For purposes of analysis, it is useful, therefore, to arrange the countries in groups with similar characteristics to understand the different challenges that each group faces.² As shown in the map, the 13 countries are grouped into the three categories given above. Appendix 1 compares and contrasts the three country groups according to various social and economic indexes.

¹ Most of this chapter is derived from the Voigt-Graf literature review (Voigt-Graf 2007b).

² The groupings are made only to facilitate analysis. They conceal the considerable variations among the countries within each group. Indeed, countries could be placed in different groups (e.g., Palau in the small, vulnerable category because of its heavy dependence on financing from the United States). The Fiji Islands could be placed in the land-rich states with agricultural potential because of its agricultural land and its expanding workforce in the informal sector. Tonga could be considered a small, vulnerable island state because of problems of youth unemployment.



Group 1: Land-rich, low-income countries with low social and economic indexes, but positive agricultural potential

The three countries in this group (PNG, Solomon Islands, and Vanuatu) account for the bulk of the population in the 13 countries. They are characterized by large land areas, low population densities, high population growth, low per capita incomes, and a high proportion of the labor force in the rural subsistence sector characterize them. Educational and health indexes are among the lowest in the region, but they are improving. The economies are dual, comprising a narrow formal, corporate-based economy and a large informal economy where subsistence farming accounts for the bulk of economic activity. Exports are mainly commodity based. A lack of management skills has hampered the development of an entrepreneurial class, at least in PNG.

Each country is different. PNG has a significant mining sector that provides substantial public revenue. Vanuatu has a successful and expanding tourism industry and attracts expatriates who wish to invest in real estate. Solomon Islands has recently suffered from political instability and has an economy that is largely dependent on logging, agriculture, and fishing. In common with other PICs, these countries face substantial

constraints on economic advancement because of high transport costs.

Only a small fraction of the labor force is involved in paid work. Skilled labor is in short supply in some trades and technical professionals.

Growth in formal sector employment in PNG depends largely on the mining sector, which generates jobs in many other sectors. Similarly, Vanuatu's growing tourist sector generates some secondary employment. While both countries have sectors that generate foreign exchange, the share of formal sector employment is small compared with those in other PICs. Moreover, population growth is expected to outstrip growth in formal employment.

Informal Sector

PNG and Solomon Islands are experiencing problems with the unplanned expansion of urban and semi-urban communities, which has led to crime, urban squalor, and public health risks, among other problems. Given the limitation of the formal sector to accommodate this burgeoning urban population, the informal sector has acted as a sponge in soaking up a significant portion of various vending activities. The majority of the population is involved in subsistence living or earning an income from agricultural activities.

As rich agricultural countries, a significant range of livestock, nuts, vegetables, fruits, and other crops are produced. Different regions, because of climate, have their specialties such as vegetable production in the Western Highlands of PNG. Timber and small-scale fishing, including aquaculture, are also important subsistence activities.

Women are important players in the informal economy in the countries of this group. Key informal sector activities are the processing and marketing of agricultural products. Processing activities include timber milling and preparing betel nuts, coffee, copra, cocoa, and palm oil (PNG). Services include carpentry. Other activities are transport, small retail outlets, open-air vendors, and kava bars (Vanuatu). Handicraft and sewing items are also produced. In PNG, these are more likely to be undertaken in urban rather than rural areas.

These nations have substantial employment potential in the subsistence and informal sector. However, the allure of urban living with close access to many services such as education and health is making rural living unattractive. Consequently, while subsistence opportunities are available, people do not usually choose them. Many people come to urban centers such as Lae, Port Moresby, and Honiara in search of a preferred lifestyle, giving rise to unemployment, specially among the youth.

Prospects

The principal challenge is that the wage economy cannot generate enough jobs to employ all those entering the labor market each year. Labor market entrants have no choice

but to live and work in the informal economy. The solution to employment problems in PNG, Solomon Islands, and Vanuatu can only be found in the rural economy. Therefore, the focus for employment for the bulk of the population should be on promoting productivity growth in agriculture. Fortunately, the prospects for agricultural development are favorable in these countries, but institutional changes and improved training and management systems are required.

In these three countries, a rise in agricultural skill levels can help increase agricultural productivity in both the subsistence and commercial sectors. Opportunities exist for skilled workers specializing in the production of agricultural niche products such as vanilla, ginger, nangai nuts, and honey. Modernization and diversification of agriculture creates demand for skills in horticulture, floriculture, vegetable production, and beekeeping, among others. Moreover, farmers need to be trained in business skills to run profitable farms.

Small-scale economic development in rural areas has a potential if the agricultural sector can diversify. Local markets are untapped for vegetables, poultry, pork, and other farming products, and there is potential for timber processing and the development of other natural forest products as well as ecotourism and traditional crafts. For example, in Vanuatu, the relative abundance of natural resources and a significant room for agricultural expansion provide hope for substantial opportunities for increased cash employment in rural areas. The bulk of offshore marine resources also remain to be exploited in the Solomon Islands and Vanuatu.

Aquaculture demonstrates some potential, including prawns (Solomon Islands) and freshwater fish (PNG). In addition, the tourism industry has substantial potential for expanding and generating employment, particularly in Vanuatu. Solomon Islands desperately needs skilled labor to reestablish its tourism industry. Construction activity is forecast to grow because of increased investment in transport infrastructure, especially in PNG.

Group 2: Small, vulnerable island states with severe economic constraints, few economic prospects, and issues of sustainability

Fragile island states in this group (Kiribati, RMI, FSM, Nauru, and Tuvalu) are characterized by low population (between 10,000 and 100,000), high population density in urban areas, large public sectors, relatively good education and health indicators, and high dependence on external assistance. Atolls in these countries, except the FSM, share tight constraints, including small and limited land and agricultural areas; have widely scattered and sparsely populated islands yet overcrowded main islands; are isolated from world markets and have high internal transportation costs; have atolls with low elevations; have few natural resources and extremely infertile soils; are highly dependent on imports; have

large and continuous trade imbalances (in Tuvalu equaling half GDP); have large public sectors with low productivity; have weak fiscal status; have small, underdeveloped private sectors and limited business opportunities in the domestic economy; have inadequately skilled workforce and high levels of underemployment in the labor force; and have social and cultural systems with limited experience of business concepts and practices.

Some countries such as Kiribati, FSM, and Tuvalu derive a large part of their revenues from fishing licenses and, in the case of Nauru, phosphate mining. Most formal employment opportunities are in sectors where there is little growth, such as the public sector. Subsistence agriculture and fishing are the main economic activities in Kiribati and Tuvalu. The labor force is concentrated in the services and public sectors. All states in this group tend to be dominated by a large public sector and weak private sector. In the RMI, for example, over 80% of government revenue derives from United States (US) grants. This heavy reliance on government may not be sustainable given limited budget resources³ and the vagaries of funding policies. These are mainly labor-surplus economies that lack any significant economic activity.

All these nation states are vulnerable owing to limits on generating exports. The major export product, apart from fish processing, is copra. Short-term prospects for economic activity and employment are determined by externally funded projects and subsidies. With rapid population increases, youth unemployment is likely, except for the countries with ready possibilities of emigration (i.e., the RMI and FSM). Nauru is characterized by a bottom-heavy labor market with an excess of unqualified and unskilled workers. This is the consequence of past government neglect of education and training during the years of high income from phosphate mining.

Informal Sector

The informal sector in fragile island states comprises subsistence agriculture/gardening, small-scale fishing, processing of products, handicraft, building/artisan activities, transport, and sales. With infertile soils, there are limits to agricultural production in atoll societies, resulting in a restricted range of products being grown. Subsistence agriculture consists generally of cultivating coconuts; collecting coconuts and toddy; breeding pigs, chickens, and ducks; and growing a range of garden crops, which generally include varieties of taro and sweet potato, and vegetables such as cabbage, pumpkin, tomato, and cucumber. People grow a narrow range of fruits, mainly papaya, bananas, pandanus, breadfruit, and *Morinda citrifolia* (for noni juice). Fishing usually involves catching

³ The migration, remittances, aid, and bureaucracy (MIRAB) model, summarized in Voigt-Graf (2007b, II.4), views island economies not as resource-based economies, but as rent-based, where income is generated not from productive activity, but from remittances and fund flows. MIRAB countries depend on migration, which stimulates substantial remittances, and significant fund flows. External financing that leaves no residual debt is a key to the economic performance of small islands.

wild populations by using small craft such as outriggers, but can also include a level of aquaculture. For example, in Nauru, small fish are caught in the sea and then reared in a lagoon's brackish water. In Kiritimati (Kiribati), seaweeds are cultivated in the lagoon.

Processed products include kamaimai, a syrup; toddy, an alcoholic beverage from a coconut's flower sap; noni juice; and preserved fish and preserved fruits, such as pandanus. Copra, an important cash crop, is produced from husked coconuts. Handicrafts generally include mats, bags, and ornaments using local materials but can also include some sewn products. A key artisan activity is house building, often with local materials. Another is small motor repair (e.g., outboards). Products derived are then offered for sale in small markets.

A breakdown of participation in informal sector activities in Tuvalu provides an overview of the importance of different activities of subsistence living in atoll societies. In a survey of households, 36% were found to be involved in agriculture; 66% in fishing; in raising hogs, 80%, chickens, 52%, ducks, 18%; and 38% in handicrafts.

Prospects

As with group 1, economic growth falls far short of generating sufficient new jobs for labor market entrants each year. For example, Kiribati produces an estimated 2,000 school-leavers for the labor market each year, competing for about 500 job openings in the formal sector. However, unlike group 1, agriculture generally is not an option—except in the FSM—because of limited land, poor soil, and restricted land ownership. Instead, commercial fisheries and tourism have been identified as crucial sectors for the long-term development of small island economies.

Given the small size of these countries, their geographic remoteness, and fragmentation (except in Nauru), the fisheries sector is one of the few sectors offering realistic growth potential. As many as 45,000 Pacific Islanders may be involved in commercial fishing, excluding processing. In countries with commercial fish processing, the increase in fisheries-related employment is remarkable. The fisheries industry requires monitoring of fishing and shipping activities and experts in fisheries management and sustainable management strategies to maintain international competitiveness. Expatriates currently provide much of this specialized labor.

Growth in tourism—the only other potential means for income generation—is not guaranteed, given the intense competition from established tourist destinations, especially in terms of travel costs.

Some islands in this group have an escape valve against the pressures of growing unemployment—emigration. Citizens of the RMI and the FSM have ready access to the US labor market in Guam, Hawaii, and mainland US. However, emigration does not seem to benefit the sending countries in terms of remittances, unlike the island states

in group 3. Dependence on external foreign funding makes the countries in the group vulnerable to fluctuations in policy. A major goal is to develop the private sector to allow workers to have alternative sources of employment, and to sustain development in view of reductions in US support that are scheduled to start in the RMI and the FSM in 2009. In Kiribati and Tuvalu, the challenge is to counter diseconomies of scale in providing essential services to the population, including remote populations in the outer islands. Seafarers contribute a significant share of GDP in Kiribati and Tuvalu. Several small island states also have trust funds that contribute to their economies such as Kiribati, RMI, FSM, Nauru, and Tuvalu.

Group 3: “Advanced” island states with relatively good prospects from tourism, remittances from abroad, and emigration

The “advanced” island states—i.e., Cook Islands, Fiji Islands, Palau, Samoa, and Tonga—are solidly at the middle-income level. They are characterized by relatively high per capita incomes, strong private sectors, well-developed commercial agriculture, and extensively developed tourist industries. Tourist arrivals in 2003 were about 430,000 for the Fiji Islands and between 40,000 and 92,000 in the other countries. Tourism employs a relatively high proportion of the labor force, from 10% in the Fiji Islands to about 20% in the other countries. These countries have the highest proportion of working people in formal sector employment. Compared with other PICs, they engage a higher share of employees in manufacturing and smaller shares in public and community services. Agricultural exports account for a large proportion of total exports.

Rates of labor emigration are also relatively high, creating significant job vacancies in many of the countries. Skilled labor shortages are typical of this group. Remittances from emigrants abroad can account for substantial income, for example, 30% of Samoa’s national income in 2005. An important factor hindering economic growth in the Cook Islands and the Fiji Islands is the persistent shortage of skilled middle- and high-level human resources at the going rate of remuneration in the labor market. Importation of skilled labor is common.

The countries in this group are relatively well-off in terms of per capita income. Population growth rates are relatively low and even negative in the Cook Islands. The combination of these two factors means that the wage economy is likely to generate enough new jobs to accommodate growth in the labor force in the Cook Islands and Samoa, but not in the Fiji Islands and Tonga where increases are expected in informal sector employment or unemployment.

Informal Sector

All states in group 3 have significant shares of the population engaged in agricultural

and fishing work. However, the informal sector is not as well developed as in the other two groups. Data are limited, but suggest that informal sector workers in the Fiji Islands constitute 36% of the economically active population.

Informal sector work for urban areas is predominantly for transport and street vendors. Like other countries, informal work in rural areas is concentrated in home-based products such as food processing. The rural areas of the Fiji Islands also have carpentry, electrical, and automotive mechanic services, among others. A survey of small ventures in Samoa showed that 63% were involved in transport, 24% fisheries, 9% in the retail trade, and 4% in other activities.⁴

The informal sector in the “advanced” island states is important for the processing and marketing of agricultural products. In urban areas, the informal sector is largely a marginal activity that links poorly with the modern sector.

Prospects

Opportunities in the commercial agricultural sector are growing and the demand for skilled agricultural labor is high. In Samoa, agriculture remains the primary area of employment. In the Fiji Islands, the restructuring of the sugar industry requires sugarcane farmers to be trained in alternate livelihoods including greenhouse production, floriculture, and horticulture. Commercial agriculture has the potential to expand by forging closer links with the tourism industry and supplying tourist resorts with vegetables and fruits that are currently imported. To take advantage of this potential, farmers need to be trained in modern production techniques; agricultural extension services need to become more effective; and the demand for managers who can help build the linkages between agriculture and tourism should be met.

Aquaculture—the world’s fastest-growing food production sector—is also experiencing increasing labor demand. Its key commodities include black pearls (Cook Islands and the Fiji Islands) and prawns (Fiji Islands). Most skilled workers in these industries are expatriates, but there is considerable scope for localization of this labor, provided the skills are available.

Tourism is an important industry in these five countries. Yet, there is shortage of people able to work in higher positions—particularly managerial—and of high-quality chefs, cooks, bar people, waiters, and even housekeepers. This has gone so far that in the Cook Islands, a growing proportion of foreign workers are hired for lower-skilled positions such as housekeeping, as tourism’s expanding labor requirements cannot be met by locals.

4 Samoa Ministry of Commerce, Industry, and Labor. 2001.

The biggest challenge in this country group is the quality of skills, which often need to be raised to international standards. International migration may have payoffs in reduced rates of domestic unemployment and remittances from abroad, but it also entails losses—skill losses for the economies and financial losses for the government in the form of lost investments in education, training, and health. The cost-benefit analysis of migration is different in each case and depends on the skill level of migrants and the duration of migration.

Chapter 2 examines skill requirements and shortages in greater depth across Pacific island economies.