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Ron Duncan & Carmen Voigt-Graf
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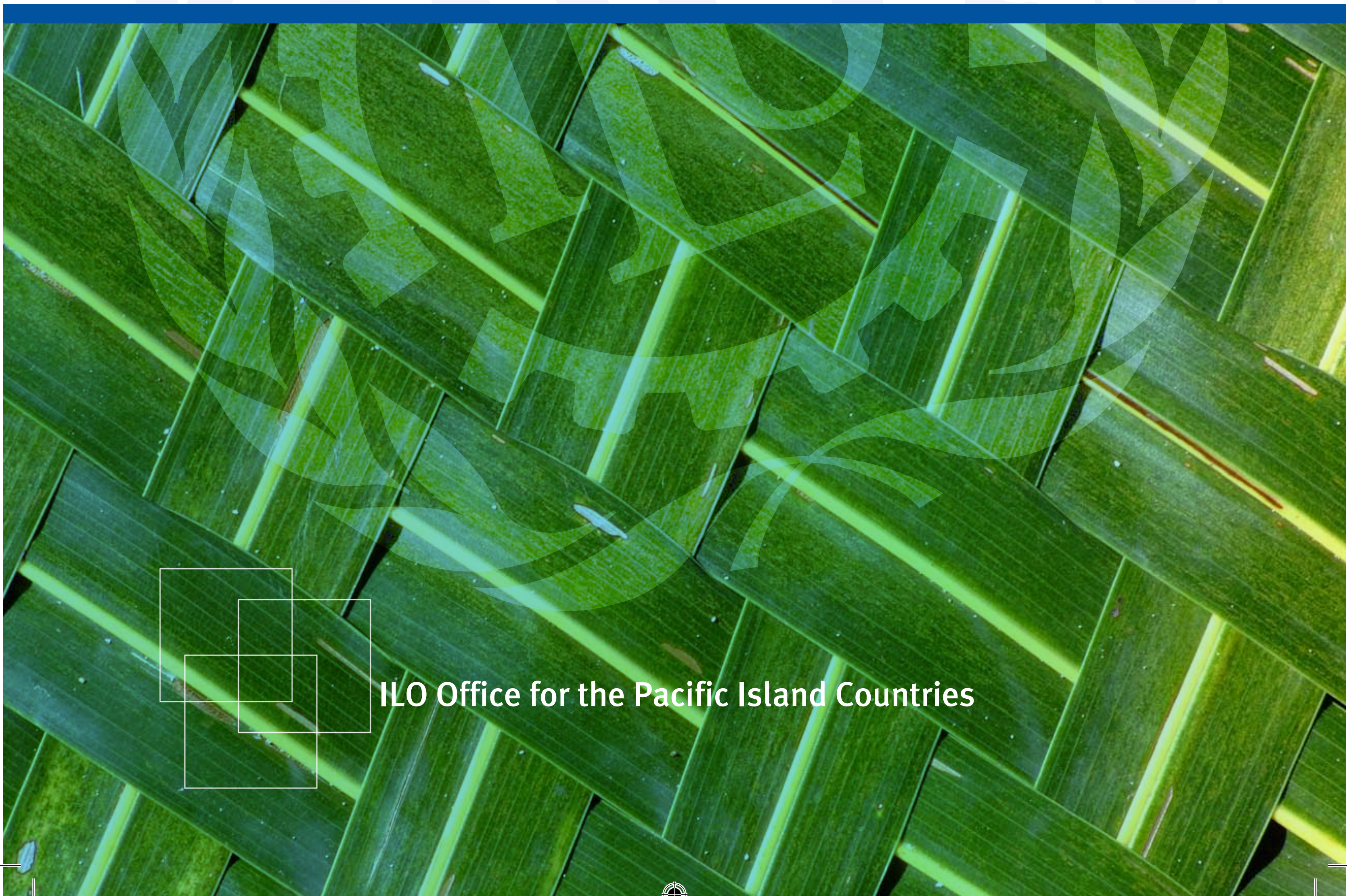
PACIFIC LABOUR MARKET SCENARIOS

ECONOMIC CRISIS, CLIMATE CHANGE & DECENT WORK



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Executive Summary

Eight ILO Member States are located in the Pacific region. Due to their geographic isolation, small populations and domestic markets, and vulnerability to external shocks, these countries face a number of socio-economic challenges. Against this context, as well as the Global Financial and Economic Crisis (GFEC) and climate change, this report examines possible labour market scenarios and discusses relevant policy responses.

The economic situation in Pacific Island Member States has worsened in recent years. The sharp increases in food and fuel prices in 2007 and 2008 – with their negative impacts on government budgets, public debt, foreign reserves, real incomes, and employment – left Pacific Island Countries (PICs) less able to cope with the adverse effects of the subsequent GFEC.

While the GFEC relieved pressure on fuel prices, Pacific countries saw a decline in the demand and prices of their commodity exports. As well, remittances fell because of reduced output and increased unemployment in the developed countries on which overseas Pacific workers rely. Tourism, which has rapidly become the most important source of economic growth in several Pacific economies, also suffered due to the losses in income and wealth in source countries. The sharp decline in equity markets also reduced the value and income-earning power of Pacific trust funds held off-shore.

As a result of the GFEC, real GDP growth rates in 2008 were lower than earlier estimates and projected growth rates for 2009 and beyond were revised downwards for Pacific countries, substantially so in some cases. On the positive side, there has been some economic recovery in developed economies hardest hit by the economic crisis. In some cases, such as Australia, the downturn was not as dramatic as feared. As a result, Pacific tourism has improved and the values of off-shore investment funds have increased.

Pacific populations are growing rapidly in those countries that do not have relatively easy emigration access. In those countries—mainly the Melanesian countries, Papua New Guinea, Solomon Islands, and Vanuatu—labour forces are growing strongly. However, on the basis of available information, the growth of formal employment opportunities has generally not kept pace. Papua New Guinea, which has had the benefit of several years of high prices for its primary commodity exports, appears to be an exception.

A number of factors present obstacles to and opportunities for growth in the private sector and formal employment. Monopoly SOEs ‘crowd out’ opportunities for private enterprise. Regulations and processes for setting up and operating private businesses are often costly and arduous. Skill shortages are pervasive, often as a result of the emigration of skilled Pacific islanders, and are particularly evident in areas such as the hospitality and construction sectors.

Development of export markets, which is essential for economic growth through the realisation of economies of scale, is limited by remoteness from major markets and thus high transport and insurance costs. The small Pacific countries face significant challenges in competing with larger countries in the production and export of low value-added goods.

There is increasing unemployment and underemployment, especially among youth. Due to high fertility rates, large numbers of youths have been entering the labour force each year, outpacing formal employment creation. However, fertility rates have been declining and the 'youth bulge' is now moving into older age cohorts. Given this demographic shift and that few young workers have formal job experience, the enhancement of skills training and employment prospects are critical issues
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In most Pacific economies there exists a large subsistence sector and growing informal economy, which is characterized by a lack of job, income and social security, and harsh working conditions. The stress on the subsistence sector from the growing populations has led to high rural-urban migration, resulting in rapidly growing squatter settlements, with their accompanying challenges, including the creation of income-generating opportunities.

Overseas employment and remittance transfers have long been important factors in the economies of some PICs. Being able to take advantage of the opportunities for overseas employment has depended heavily on having the necessary education and training. With the increasing populations of the PICs and the lack of local employment opportunities, reliance on overseas employment is likely to increase.

Women account for less than one-third of the total number of formally employed. In rural and remote areas, women often carry the greater burden in providing subsistence livelihoods. Moreover, women and other vulnerable groups, such as the elderly and disable, are rarely able to take advantage of opportunities for labour emigration.

The basic challenge for the PICs is to create an enabling environment for sustainable enterprises in the face of the short-term and long-term difficulties, while simultaneously taking steps to minimise hardship and vulnerability. Pacific governments may be assisted in this process through the application of the *Global Jobs Pact* in domestic policy and legislation. This report canvasses the actions that could be taken by the Pacific Member States to address that challenge and the interventions that the ILO, together with other development partners, could take to assist in this endeavour.

Introduction

Eight ILO Member States are located in the Pacific region (Fiji, Kiribati, Papua New Guinea, Republic of the Marshall Islands, Samoa, Solomon Islands, Tuvalu, and Vanuatu). Except for Papua New Guinea, these nations can be defined as small islands countries, having populations of less than one million. Due to their scattered location across the Pacific Ocean, small populations, and small domestic markets, the countries face important economic challenges, resulting in significant social problems. Economic growth drivers are limited, adversely affecting prospects for formal employment. Pacific Island Countries (PICs) are highly dependent on a few exporting sectors (most notably those relying on agricultural and marine resources), remittances, and tourism, resulting in heavy dependency on the international economy and vulnerability to external shocks. Downturns in economic growth elsewhere, such as the global financial and economic crisis (GFEC) of 2008 and 2009, have had severe impacts on almost all the economies of the Pacific region.

While some of the countries are rich in natural resources (Fiji, Papua New Guinea, and Solomon Islands), others (Kiribati and Tuvalu) have infertile soils without subterranean treasures, limiting economic possibilities even further. For most PICs (especially Cook Islands, Fiji, Samoa, and Vanuatu), tourism is an increasingly important sector. However, political instability, including in Fiji, Solomon Islands and Tonga, and natural disasters, such as the recent tsunami that hit Samoa and Tonga, have damaged the sector severely.

This report discusses labour market scenarios and policy responses in PICs in the context of the GFEC and climate change. Part I begins with a discussion of recent trends in Pacific Island economies, including a review of economic outputs, macro-economic and micro-economic impacts of the GFEC and other adverse events, as well as the economic policy responses to these events. It argues that while the GFEC led to relief from the very high fuel prices, it magnified the economic difficulties already being experienced as a result of the sharp increase in food and fuel prices in 2007 and 2008. Part I also provides projections of economic, demographic, and employment changes and discusses the critical constraints to economic growth, job creation, and poverty reduction. It also discusses the actions that could be taken to minimize these constraints.

The difficult external environment of the past three years has generally made economic activities less attractive for the majority of the PICs and therefore formal employment growth has been poor and poverty has often increased. A comparison of two sets of projections of Gross Domestic Product (GDP) for the ILO’s Pacific Member States—one made before the start of the GFEC and the other afterwards—shows how perceptions of the economic growth prospects of the PICs have changed over the past two years as a result of the significant global and domestic events that have taken place. However, several of the PICs have undertaken economic reforms that have provided encouragement for businesses to invest and generate job opportunities, in spite of the poor economic environment.

As far as population growth is concerned, the ILO Pacific Member States split into two groups. There are those whose population is increasing very slowly at around 0.5 per cent (Fiji, Samoa, and Tuvalu) and those where the population is increasing very rapidly—at

2.0 per cent per year and higher (Kiribati, Papua New Guinea, Solomon Islands, and Vanuatu). The slow-growing countries have high rates of emigration and somewhat lower fertility rates. The countries with high population growth rates have higher fertility rates and have had much less opportunity for emigration for overseas employment. Generally poor economic growth prospects lead to a bleak outlook for formal employment in the countries where population and labour force growth is high.

Based on the analysis of the impact of the GFEC in Part I, Part II discusses how the Pacific Member States could promote sustainable economic development. The chapter highlights the Global Jobs Pact (GJP), agreed at the International Labour Conference in 2009, and its relevance to the Forum Island Countries' policy response to the GFEC. Issues discussed include promoting sustainable enterprise and inclusive growth through regulatory reforms; effective tripartism; the strengthening of social protection systems to allow workers to adjust flexibly to labour market changes;, skills training to underpin productivity growth;, and effective structural adjustments that will facilitate movement towards a more sustainable development path.

Part II also discusses the implementation of strengthened industrial relation systems, labour legislation compliant with International Labour Standards, and improved social protection mechanisms as means to promote sustainable enterprise and economic growth. In discussing skills development, the report pays particular attention to the needs of businesses and young people. The challenges posed to Member States by climate change and the opportunities presented by the promotion of 'green' jobs are also discussed.

The concluding section brings together the main findings and proposes some actions in the form of technical support, capacity building, and regional cooperation to address the challenges identified.

I. Recent Trends and Future Projections: Crisis, Constraints, and Opportunities

This part of the report discusses the recent economic trends in the ILO Member States, particularly the impacts of the high food and fuel prices in 2007 and 2008 and the GFEC impacts in 2008 and 2009. Sectoral trends are also canvassed, with an emphasis on positive developments in some sectors as the result of implementing supportive policies. Recent demographic trends, particularly with respect to population and labour force growth are also reviewed. Analysis of these trends focuses on the difficulties presented by the rapid population growth resulting from still high fertility rates, the continuing growth in the 'youth bulge', and the challenges these factors present for investment and employment policies. The report presents projections of economic output and demographic changes to highlight the challenges faced.

A. Recent and projected economic performance

This section discusses the economy-wide and sectoral impacts of the recent external shocks affecting the ILO Member States, the changes in GDP projections as a result of the GFEC, potential growth areas for economic activities, and the critical constraints to economic growth. It also discusses population and labour force projections, employment and unemployment trends, trends in poverty, and migration and remittances.

(i) The impact of the global financial and economic crisis on economic output

The GFEC of the second half of 2008 and 2009 has been seen by many as the most severe economic crisis since the Great Depression. PICs suffered decreasing demand for their exports, declining tourism, falling remittances, and reduced overseas investment incomes, resulting in reductions in GDP.

According to the World Bank and the International Monetary Fund (IMF), the global economy has undergone the deepest recession since the Second World War. The GFEC led to falling demand, declines in income and wealth, lower output, sharply declining trade volumes and values, and rising unemployment rates. The IMF forecast the real GDP of the developed economies to contract by 3.8 per cent in 2009. The GDP of the emerging and developing countries is still forecast to increase by 1.5 per cent, but this is significantly slower than the growth rates of 8.3 per cent in 2007 and 6.0 per cent in 2008 (IMF 2009c). However, excluding China and India, which are expected to experience sound GDP growth rates in 2009 of around 7.5 and 5.4 per cent, respectively, the output of developing countries is projected to decline by 1.6 per cent.

Advanced countries such as Australia, New Zealand, the US, Japan, and some European countries such as the UK and Germany, are major economic partners of the PICs. With the exception of Australia, they are also among those hardest hit by the GFEC. For example, the US economy is forecast to decline by around 2.6 per cent in 2009. Germany and Japan, highly export-oriented countries, are forecast to contract in 2009 by 6.2 and 6.0 per cent, respectively. Therefore, it is not surprising that the volume of world trade is forecast to fall by 12.2 per cent—the largest setback to global trade in the past 25 years. This decline in trade has been largely triggered by the fall in demand and lower commodity prices, leading to lower output and increased unemployment. Thus, developing countries highly dependent on trade such as China, Hong Kong SAR, Singapore, and many others in the Asia-Pacific region are being adversely affected by the GFEC.

According to the Asian Development Bank's *Asian Development Outlook (ADO) 2009 Update* (ADB 2009), the real GDP growth of Pacific island countries (PICs) in 2009 is expected to average only 2.8 per cent (see Table 1). The two columns in Table 1 for 2009 illustrate the impact of the GFEC by comparing the forecast for 2009 GDP in *ADO 2008* and the forecast in *ADO 2009*. The major downward growth revisions are for Cook Islands (2.9 per cent to -0.1 per cent), Fiji Islands (1.4 per cent to -1.0 per cent), Palau (2.2 per cent to -3.0 per cent), Samoa (2.5 per cent to -0.8 per cent), Solomon Islands (4.0 per cent to zero), and Tonga (2.0 per cent to -0.5 per cent). The adverse impact of the GFEC on the PICs is being transmitted through declining demand for their exports, declining tourism, falling remittances, reduced overseas investment, and reduced incomes from trust funds held off-shore.

In recent years, enjoying strong demand and prices for their exports, **Papua New Guinea** (which exports mainly oil, gold, copper, coffee, cocoa, and palm oil) and **Solomon Islands** (which exports mainly logs, palm oil, and cocoa) were the fastest growing economies in the Pacific region. These two countries recorded growth rates comparable to fast-growing countries in the Asian developing world. In 2008, Papua New Guinea's real GDP grew by 7.2 per cent—up from 6.5 per cent in 2007. Solomon Islands' output fell to 6.4 per cent in 2008, from 10.3 per cent in 2007. According to the *ADO 2009 Update*, the decline since late 2008 in most primary commodity prices negatively affected both economies. But, as global commodity prices for minerals and petroleum products have risen since March 2009, Papua New Guinea's expected 2009 GDP growth has been revised upwards from earlier in the year and is now forecast to be 4.5 per cent. However, Solomon Islands has suffered significantly reduced log exports as demand from China plunged as a result of it cutting back on raw materials imports. The Solomon Islands is now expected to experience zero GDP growth in 2009.

Of the other Pacific economies, only **Vanuatu** is expected to continue to do reasonably well. In 2008 Vanuatu's real GDP increased by 6.3 per cent, slightly lower than the 6.8 per cent growth achieved in 2007. For 2009 the economy is forecast to expand by 4.0 per cent, as compared to the forecast of a year earlier of 2.9 per cent. The continuing good performance of Vanuatu is attributed to the reform of its international air transport sector and more recently its telecommunications sector, which, in turn, has led to solid tourism growth from both fly-in tourists and visits by cruise liners. Part of this tourism growth may also be due to the political volatility in Fiji and to the depreciation of the Vanuatu vatu relative to the Fiji dollar prior to the April 2009 devaluation of the Fiji currency.

In addition to the impact of the GFEC being felt by all PICs, **Fiji** has experienced declining preferential EU sugar prices, highly unfavourable weather conditions (severe flooding in early 2009 and cyclone in late 2009), and reduced investor confidence since December 2006. The economy grew by only 1.2 per cent in 2008, after contracting by 6.6 per cent in 2007. According to the *ADO 2009 Update* the Fijian economy is forecast to contract by 1.0 per cent in 2009.

Samoa experienced a devastating tsunami in September 2009, which is reported to have affected about 20 per cent of its population. Estimates of the total economic damage to the country remain to be assessed; however, disasters of this magnitude can reduce GDP by upwards of 10 per cent in the year following. It will take considerable time for the economic damage to be repaired, particularly that suffered by the agricultural and tourism sectors.

Cook Islands, Palau, and Tonga are forecast to experience declines in real GDP in 2009, largely as a result of the GFEC's impact on tourism and remittances. Cook Islands depends heavily on New Zealand for tourists; and the NZ economy was hit hard by the GFEC. Tonga depends heavily on New Zealand for both tourism and remittances. The unemployment rate in New Zealand is expected to increase to nearly 8.0 per cent by mid-2010, which will continue to hurt both remittances and tourism—especially as Tongans living overseas comprise a substantial component of tourist arrivals (categorised as 'visiting friends and relatives', VFRs). Tonga also depends heavily on the US for remittances. With the US unemployment rate reaching 10 per cent in December 2009, remittances from the US are likely to remain under pressure for a considerable time.

Tonga was also affected by the tsunami that hit **American Samoa and Samoa**. The damage was to one of the outer islands, which means that the costs of rehabilitation will be isolated but expensive. Aid has been promised for the rehabilitation of the island. However, recovery from the damage to economic activities will take time and therefore the 2009 and 2010 GDP forecasts are likely to be optimistic.

The economies **of Kiribati and Tuvalu** have been adversely affected by a decline in seafaring opportunities as a result of the GFEC and the associated decline in remittances, as well as lower earnings from their Trust Funds invested overseas.

(ii) The impact of the GFEC was made worse by the preceding food and fuel crisis

When the GFEC began to affect their economies in late 2008, the PICs were still coming to grips with the effects of the sharp increases in the prices of petroleum products and food, particularly rice, which took place from 2006 to late 2008. While the global economic recession led to relief from the very high fuel prices, it magnified the macro-economic difficulties already being experienced.

Imported petroleum products play a significant role in the PICs (except for Papua New Guinea), particularly as a source of base-load power. Rice is an important component of diets in the PICs and for the most part they are dependent on imports of rice. Therefore, sharp increases in the prices of these imports can have adverse macro-economic impacts in various areas: on the terms of trade and balance of payments, on government budgets and government debt, on production costs, on inflation, on economic growth, and on real incomes.

As the demand for petroleum products for power (electricity, transport, and industry) and cooking is price inelastic, the increase in crude oil prices led to sharply increased import values. This placed strains on current accounts and, for those countries with independent currencies, on foreign reserves and the exchange rate. In Fiji, for example, there was a sharp deterioration in the current account balance in 2006 when the current account deficit rose to 22.6 per cent of GDP. The situation improved somewhat following the change in government in December 2006 and the subsequent restrictions on capital outflows and imports to prevent a run on foreign reserves and a devaluation of the exchange rate. However, the sharp increase in the value of imports of mineral fuels meant that other imports had to be heavily restrained in order to try to conserve foreign reserves.

The sharply higher costs of imported fuel were also reflected in adverse government budget outcomes, as reductions in economic activity led to a decrease in tax revenue. Recurrent government expenditure increased due to subsidies for businesses and consumers and the subsidization of state-owned electricity producers. These adverse impacts may be reflected in increases in public debt to fund fiscal deficits. In Kiribati, a country highly dependent on petroleum imports and where the state-owned electricity generator has been accruing losses and debt, it had further implications. As with most of the other SOEs in Kiribati, the government has had to pay off these debts through withdrawals from the Kiribati Revenue Equalisation Reserve Fund, which has run down the value of this Fund at a time when its value was reducing because of the GFEC.

Because of the PICs' dependency on petroleum products, their prices affect significantly the costs of production and inflation, and, consequently, economic growth and real incomes. In Fiji, for example, between 2005 and 2008 CPI rose by 14.4 per cent, with almost half of this increase in 2008. The heating and lighting and transport components of the CPI reflect the variable costs of these activities, so they should reflect more the costs of imported fuel than the CPI itself. These components of the CPI rose by 16.5 per cent and 10.3 per cent, respectively. Therefore, there appears to have been a significant impact on production costs of business activities and on the real incomes of households from the increase in imported fuel prices.

Increased costs of production in the form of higher costs of petroleum products and higher heating, lighting, and transport costs make business activity less profitable, in turn negatively affecting economic growth, employment and incomes. Due to the heavy dependence of PIC economies on petroleum products, these cost increases are felt across the whole economy. Even in remote rural or outlying island areas, where subsistence production still has a large role in peoples' livelihoods, earning of cash for school fees, health costs, transport, and social expenses is dependent on imported fuels—both for production and for bringing goods to market.

As well as the adverse impact of increases in production costs on economic growth, incomes, and employment, there is also the inflationary impact on household incomes.

The real value of consumers' incomes falls when prices increase, in this case reflecting the heightened costs of production. For all of these reasons, the still relatively high prices of petroleum products have likely increased the number of poor in the PICs and made it more difficult to achieve the Millennium Development Goals (MDGs) set for 2015. While the subsistence livelihoods of many of the Pacific peoples may provide some form of 'safety net', it cannot provide the education and health services that people need to achieve the education, health, and gender goals of the MDGs.

The run-up in petroleum and food prices also had macroeconomic consequences. The inflationary impact can be seen in most Member States in Table 2, particularly in 2008. This was not the case for all Member States, as mineral fuel producer Papua New Guinea received large revenue inflows from exports of these commodities. However, Papua New Guinea experienced a sharp increase in inflation in 2008, which was the result of poor monetary policy management of the resources boom.

While the average inflation rate for 2009 for the PICs is expected to decline from the 2008 average of 9.5 per cent, it is still relatively high at the projected 6.1 per cent in 2009 and 5.2 per cent in 2010. These relatively high inflation rates reflect the competitive devaluation policies that many PICs have taken in response to the adverse impacts of the GFEC, as well as the fiscal stimulus that some have undertaken, and the fact that petroleum prices are increasing again. Inflation at recent rates, given the poor prospects for income growth, is having very adverse impacts on real wages and incomes.

The impact of these recent adverse events on the current account of some of the Member States is shown in Table 3. The current account is the net outcome of merchandise exports and imports, services trade, and remittances.

Fiji has had a consistently high current account deficit since at least 2006; and the deficit is expected to continue at this high level through at least 2010. This high current account deficit reflects the continuing high level of imports of consumption and capital goods and the poor performance of the export sector. The decline in remittances is making it more difficult to contain the deficit. Thus, Fiji has had to rely heavily on foreign investment to avoid a blow-out in the balance of payments and a run-down in the foreign reserves that protect the exchange rate. But with foreign investment drying up, the April 2009 devaluation of the Fijian dollar by 20 per cent was directed at protecting foreign reserves. Recently, the government has also sought support for foreign reserves from the IMF.

As seen from Table 3, the current account balance in **Papua New Guinea** is expected to shift from an 8.7 per cent surplus in 2008 to a 6.0 per cent deficit in 2009 and 2010. This switch is predicated mainly on the decline in export revenues because of the reduction in primary commodity prices.

In **Vanuatu**, the current account deficit of recent years is expected to almost double in 2009 and 2010. Lower primary commodity exports, higher import values (mainly because of the higher crude oil prices), and lower foreign investment will pressure the current account and the balance of payments. But the public debt has been halved over recent years to the equivalent of 18.4 per cent of GDP and foreign reserves are fairly high at the equivalent of five months of merchandise imports (in June 2009). So there is plenty of room for fiscal stimulus if economic prospects worsen.

(iii) Economic growth projections

Generally, growth projections among ILO Member States have been downgraded. Where they have not – Solomon Islands and Vanuatu – there is nevertheless continued basis for caution.

Table 4 presents the most recent real GDP growth projections for all Member States to 2011 and for some to 2013. Also shown in the table (in parentheses) are the real GDP projections reported in the Duncan and Voigt-Graf (2008) report prepared for the 2007 Tripartite Technical Meeting in Nadi. These were the projections available when that report was prepared in mid-2007. A comparison of the two sets of projections shows how perceptions about the economic growth prospects of the PICs have changed over the past two years as a result of the significant global and domestic events that have taken place. Individual country growth projections are discussed below.

In mid-2007, following the changing political landscape in December 2006, it was projected that **Fiji's** 2007 GDP would decline by 3.1 per cent. As it transpired, GDP declined by 6.6 per cent. Since 2007, projections for the economy have been revised downwards and the current projections are for rates of growth below 2 per cent for the next two years. This downwards revision may be attributed to various factors stemming from continued political uncertainty as well as the adverse impacts of the sharp run-up in food and fuel prices and the GFEC. If the projected growth rates eventuate, there will be very limited job opportunities and average real per capita incomes will decline—particularly given the high levels of inflation expected over the next two years (see Table 2).

Earlier projections for **Kiribati** are unavailable. However, the GDP projections recently prepared by the IMF (2009b) for the Kiribati economy indicate GDP growth at 1.1 per cent over the next four years. This is well below the population growth rate and points to continuing decline in average per capita incomes. The lack of any robust drivers of growth, the recent poor performance of the Kiribati Revenue Equalisation Reserve Fund as a result of the GFEC, the continuing poor returns from tuna fishing, and the poor outlook for remittances all suggest that the outlook for GDP growth and employment is bleak.

The projections of GDP growth for **Marshall Islands** have been downgraded quite substantially over the past two years. This most likely reflects the impact of the GFEC on the US, which is the main destination for emigration for overseas work. With GDP forecasts of 0.5 per cent in 2009 and 0.8 per cent in 2010, the prospects for formal employment are poor.

Papua New Guinea fared much better in 2008 than was expected in 2007, with real GDP growth of 7.2 per cent. However, growth projections for the period 2009-2011 have been revised downwards and the lower growth is expected to continue in 2012 and 2013. The relatively low projections of growth rates of 3.7 per cent in 2010, 3.3 per cent in 2011, 3.0 per cent in 2012, and 2.4 per cent in 2013 are surprising, especially given the considerable construction activity that will be associated with the Liquefied Natural Gas (LNG) project planned to come on-stream in 2013. Moreover, the PNG Government has set aside in trust funds a significant amount of money accumulated during the commodity boom of recent years. These funds are to be expended on infrastructure refurbishment that should stimulate construction activity and build a more productive economy for the future. Formal employment has increased significantly in recent years as a result of the commodity boom. If the expected GDP growth rates eventuate, employment growth will be more modest in future.

The GDP growth rate projections for **Samoa** have been significantly downgraded. Two years ago growth rates of 3.5 percent were projected out to 2011. Negative rates are forecast for the next two years and growth of only 1.1 per cent is expected for 2011/12. These projections follow the estimated GDP decline of 4.9 per cent in 2008/09. Presumably, these revisions have been made as a result of the global economic crisis, given Samoa’s heavy dependence on tourism and remittances. The September tsunami occurred after the GDP revisions were made and hence GDP prospects can be expected to be even poorer than the revised projections.

The changes in the GDP growth projections for **Solomon Islands** are very different to those for Samoa. Solomon Islands performed much better than expected in 2007 and 2008 and the latest projections for economic growth for 2009 to 2011 are significantly higher than two years earlier. The reason for this change in the projections is unclear given the expected downturn in demand for log exports as a result of the GFEC. The Solomon Islands government, together with its development partners, are urgently looking at possibilities for alternate economic activities in place of logging.

Vanuatu also did much better than expected in 2007 and 2008, with the good growth in tourism continuing to stimulate activity across much of the formal economy. Two years ago, GDP growth was projected to continue but at the slower rate of 3.0 per cent. The expected rate of growth has been revised upwards slightly, presumably because of the continuing strong performance of the economy. Perhaps the economy will continue to surprise, particularly if further economic reforms are implemented. The reported level of formal employment in Vanuatu is very small. Given the strong economic growth throughout this decade, it may reasonably be expected that the available statistics on formal employment do not reflect what has actually been taking place.

The above discussion illustrates how the food and fuel crisis and the GFEC have affected the economic prospects for several of the ILO Member States. Despite implementing successful reforms and achieving robust economic growth for several years, Samoa has been so badly affected by recent external events, including the loss of remittances and the loss of jobs due to redundancies from the Yazuka factory—although it is reported that the

Yazuka factory is putting on more staff as a result of the improved economic performance in Australia. The September tsunami has damaged economic growth prospects even further, as well as causing considerable personal grief.

The economic outlook for **Kiribati** and **Marshall Islands** has also been adversely affected by the GFEC because of their dependence on remittances and on trust funds invested off-shore. For these countries and Samoa, the prospects for formal employment opportunities look bleak. The current reasonably optimistic economic projections for **Solomon Islands** are difficult to reconcile with external market factors, so there must also be doubt about the prospects for formal employment growth in that economy.

The economies of **Papua New Guinea** and **Vanuatu** have performed extremely well and are expected to continue to generate reasonably good growth rates. Papua New Guinea has had the benefit of a commodity boom lasting several years and good macro-economic management of the boom. It has also made substantial economic reforms in the past two years that should lead to substantial growth in economic activities. After many years of very poor growth in formal employment, formal employment has increased significantly in recent years and there appear to be good prospects for further strong growth providing there continues to be sound macro-economic management and further economic reform. Obviously, those making the economic forecasts reported above have some doubts that the good economic management will continue.

The **Vanuatu** economy has been performing extremely well, primarily as a result of good macro-economic management and micro-economic reform. The good performance should be sustained, despite the somewhat adverse external circumstances. Because of the lack of statistics on employment, it is difficult to assess how formal employment has been faring. Efforts have been made in recent years to improve the estimation of GDP. Hopefully, this effort can be extended to similar improvements in the collection and analysis of labour market statistics.

(iv) Sectoral trends in economic output

Across the region, there is a slow shift away from agriculture towards industry and services as the drivers of economic output and employment growth. Further economic reforms could encourage this trend, promote private investment, and ensure that sufficient diversification is achieved to better protect PICs from global economic shocks.

Available information for the ILO Member Pacific States on recent trends in the major economic sectors is shown in Table 5. Some of the changes that have been occurring in these economies in recent years are indicated by the sectoral changes in shares of value added. However, the increase in the share of the services sector in Kiribati reflects the even larger role being played by the public sector, which has been funded by government deficits and drawdowns from the public trust fund (Kiribati Revenue Equalisation Reserve Fund). In the Solomon Islands, the increased share of services also reflects the growth of the public sector; in this case largely funded by RAMSI (Regional Assistance Mission to the Solomon Islands) expenditures.

Over most of the past decade, economic activity has increased in all sectors in **Papua New Guinea**; however, the manufacturing sector has seen the largest increases—which has been positive for formal employment. Samoa and Vanuatu have both had good growth in tourism in recent years. This shows up in the increased value-added share of services in Samoa; but surprisingly it does not show up in the services share for Vanuatu.

The declining preferential price paid by the EU for **Fiji's** sugar exports has added to the difficulties that have been experienced by this once-leading industry. Production, exports, and employment in the Fiji garment industry have also been badly affected by the cancellation of the Multi-fibre Agreement, which had provided the Fiji industry with shares of the markets of the developed countries, particularly the US.

In **Papua New Guinea**, the primary commodity boom (in both hard and soft commodities), which lasted from 2003 to 2008, increased incomes in both rural and urban areas and greatly increased government revenues. With economic recovery underway in most countries, the international prices of most primary commodities have increased and Papua New Guinea has good prospects for continued strong earnings from its exports, particularly from 2013 with the expected export of LNG. However, the extent to which the bulk of the population will benefit, will depend upon how well the government spends the revenues on improving infrastructure, education, and health facilities.

Tourism is growing strongly

Over the past five years, tourism has become one of the most important income-generating sectors in the PICs. The recent growth in visitor numbers and revenue earnings from tourism has supported economic growth in several PICs: Cook Islands, Fiji, Samoa, Solomon Islands, Tonga, and Vanuatu (for the changes in tourist numbers between 2004 and 2009 see Table 6).

Despite the changing domestic political climate in recent years and the severe flooding in January 2009, the tourism sector has been doing well in **Fiji** and is now the leading economic sector. Arrivals fell in 2007, but there was a good recovery in 2008. Tourism earnings in 2008 were a record FJ$853 million, as compared to FJ$784 million in 2007.

Tourist arrivals from Australia—Fiji's most important source of tourists—declined around 25 per cent in the first quarter 2009. However, the GFEC did not have as adverse an impact in Australia as it did in the other important source countries and therefore the reduction in tourist numbers from Australia was likely mostly due to the sharp appreciation of the Fijian dollar against the Australian dollar. The trend was reversed by the government-led devaluation in April 2009, which appears to have had the desired effect **–** in the third quarter 2009 resort hotels in Fiji reported 80-90 per cent occupancy, with increased arrivals from Australia.

The liberalization of international airline services and domestic political changes in Fiji seem to be playing a part in the increases in tourist arrivals in the other Pacific countries. This has encouraged the development of resort hotels and related services for tourists. The Samoan tourism industry held up reasonably well in 2008 and in the first half of 2009. The restructuring of Polynesian Airlines has also had a positive impact. When the joint venture airline between the Samoan Government and Virgin Blue, Polynesian Blue, began operations, the airfares from Australia and New Zealand to Samoa were nearly halved. This led to a substantial increase in visitor arrivals from these two countries in 2006 and 2007. However, the September tsunami damaged some resort facilities and no doubt upset plans for tourists in the latter half of the year, so that visitor numbers will likely fall.

In Vanuatu, tourist arrivals rose by more than 32 per cent from 49,400 in the first quarter 2008 to 65,630 in the first quarter 2009, continuing the good performance of this sector since 2004 when the country opened its international airline services. The positive results from the aviation market reforms of Samoa and Vanuatu provided good examples for other PICs such as Solomon Islands and Papua New Guinea. In 2008, Papua New Guinea partly opened its international airline services by allowing a code-sharing arrangement between a small existing airline, Airlines PNG, and Pacific Blue for flights between Australia (Brisbane and Cairns) and Port Moresby. This arrangement provides competition with the existing code-share arrangement between Air Niugini and Qantas. In 2009 all airlines reduced fares on these routes to comparable levels. For the Brisbane and Cairns to Port Moresby routes, the fares have been cut by almost 65 per cent. These fare reductions are good news for the tourism industry in Papua New Guinea, which has shown surprisingly good growth (from a very low base) in recent years. If airline services to other tourist source countries, especially in Asia, are opened and domestic airline services are liberalized, there could be very significant resort and tourism development in Papua New Guinea. Solomon Islands has very recently opened its international airline services by allowing the entry of Fiji's Air Pacific.

Overall, the development and expansion of tourism has helped the PICs to sustain economic growth. However, the increasing dependence on visitors and revenue earnings from tourism increases their vulnerability to global economic shocks. Therefore, the ever-present challenge for the PICs is to increase the diversification of their economies. Further economic reforms can create opportunities for diversification.

Mobile phone competition has created opportunities for businesses

The benefits from the liberalization of international air services by the island states point to the potential growth from the opening up of other areas of economic activity. An area where the gains to Pacific countries from opening up markets under monopoly control look to be particularly promising is telecommunications. The availability of much less expensive telecommunication services holds the potential to partly release these countries from their geographic isolation from major markets. Liberalising telecommunications can also introduce efficiencies into existing business areas such as tourism and agriculture and lead to new activities such as call centres.

In all five countries that have liberalized their mobile phone services recently—Fiji, Papua New Guinea, Samoa, Tonga, and Vanuatu—call charges plummeted after the introduction of competition, and mobile phone coverage and the number of subscribers have exploded. In Papua New Guinea in July 2007, prior to the entrance of the Digicel mobile phone company, the number of mobile phone subscribers was estimated at 130-140,000. Telikom (the government-owned company) and Digicel now claim to have over 500,000 customers each. In the first year of the open mobile phone market, 2008, it is estimated to have added almost one percentage point to GDP growth in 2008. Average peak and off-peak billing rates have fallen by 11 per cent and 51 per cent, respectively. Average peak and off-peak international billing rates for both carriers have fallen by 40 per cent and 38 per cent, respectively. The Digicel company claims to have invested in excess of 450 million kina in the mobile telecommunications market in Papua New Guinea.

B. Critical constraints to economic growth and development

Recently, development agencies have given considerable attention to the study of the constraints to economic growth in the Pacific island countries. The ADB, the World Bank and AusAID have studies underway examining the impact of leadership and 'champions' on the success of economic reforms, on 'drivers of change', and more generally on the political economy of reform (see Duncan 2009, Sugden 2008, AusAID 2007). To a large extent, these studies focus on identifying the critical (or 'binding') constraints to economic growth (Hausmann *et al* 2004). That is, what are the fundamental constraints that have to be overcome before other constraints need to be tackled? Thus, it is largely an exercise in identifying priorities for development programmes.

In some cases the binding constraint may be purely economic in nature. However, in other cases, while the binding constraint may appear to be economic, there may be an underlying political or cultural reason for the economic constraint. Thus, an in-depth understanding of the economic, political, and cultural circumstances of the country is necessary in order to identify correctly the binding constraint(s). But unless this understanding is developed, attempts to bring about reform may prove fruitless.

For instance, it may be argued that investment is not taking place because people cannot get access to credit. However, commercial borrowing requires effective collateral and most people in the Pacific do not have individually identified assets to offer as security, particularly land. Therefore, unless individual titles to land can be secured, access to credit will remain limited. But creating individual title to land in the Pacific, where most land is communally-owned, is problematic. Therefore, considerable attention has been given to this issue within PICs and through the Pacific Leaders and Forum Economic Ministers Meetings. Already significant progress has been made towards this goal in Papua New Guinea by the recent passing of amended land legislation. Solomon Islands is also taking steps in this direction. Vanuatu is working on improving its existing legal and regulatory environment for long-term leasing of native land, which has already played an important part in the development of its tourism sector.

Preliminary research has pointed to the introduction of competition in international airline services in Cook Islands, Samoa, and Vanuatu as relaxing an important constraint on the development of the tourism market in these countries (see Duncan and Nakagawa 2007). The introduction of competition, accompanied by lower fares and more frequent flights, appears to have stimulated interest in investing in resorts and increasing pressure for more secure, long-term leases for land. In this case, the constraints on entry to the international airline services market were inhibiting the development of tourism. Other constraints may be binding on other industries; or there may be economy-wide constraints that inhibit investment.

Development of the necessary understanding to identify binding constraints in the PICs is in its infancy. Therefore, at this stage, pointing to critical constraints to improve economic and employment growth is difficult. Furthermore, after constraints are identified, relevant responses must be designed and implemented through full consultation with stakeholders.

C. Population projections

High fertility and a lack of emigration opportunities is driving rapid population growth in some countries.

(i) Current population size, growth rates, and age distribution

Table 8 presents the 2008 statistics on population size, population growth, and distribution of the population for the ILO Member States as reported by the Asian Development Bank's *Key Indicators 2009*. As far as population growth is concerned, the ILO Member States split into two groups. There are those whose population is increasing very slowly at around 0.5 per cent (Fiji, Samoa, and Tuvalu) and those where the population is increasing very rapidly—at 2.0 per cent per year and higher (Kiribati, Papua New Guinea, Solomon Islands, and Vanuatu). The slow-growing countries have high rates of emigration and somewhat lower fertility rates. Samoa and Tuvalu have had long experience with emigration, which has been primarily concerned with finding overseas employment. Fiji's rapid migration is more recent—in large part driven by the coups that took place in 1987, 2000, and 2006.

The countries with high population growth rates have slightly higher fertility rates and have had much less opportunity to emigrate for overseas employment. I-Kiribati sailors have worked overseas for many years in the merchant fleets of foreign countries, mainly Germany. However, the numbers involved are relatively small (as shown in Table 7 overseas remittances contributed 6.4 per cent of Kiribati's GDP in 2008). The Melanesian countries—Papua New Guinea, Solomon Islands, and Vanuatu—have had almost no opportunities for unskilled and lower-skilled workers to find overseas employment, although opportunities for workers from Vanuatu have recently opened up with the inclusion of Vanuatu in the seasonal agricultural labour schemes of New Zealand and Australia. Marshall Islands, a US Compact country with emigration access to the US, has a relatively low population growth rate of 1.1 per cent—the net outcome of a high fertility rate and a high emigration rate.

Most of the PICs have high to very high (greater than 35 per cent) proportions of the population in the 0-14 years age group (note for comparison that the figure for Australia and New Zealand is around 20 per cent). The percentage of Fiji's population in this age group is lower than the others, due mainly to the fact that the Indo-Fijian population has a much lower fertility rate than does the indigenous part of the population.

The differences in emigration history and in life expectancy show up in a comparison of Papua New Guinea and Samoa. Samoans have had fairly easy emigration access to New Zealand, Australia and the US over many years, while Papua New Guineans have had very little in the way of such access. Papua New Guinea—along with other Melanesian countries—has lower life expectancy than Samoa. These two factors show up in the higher share of the working-age population (15-64 years) in Papua New Guinea than in Samoa, and the lower share of the population in the older (65+) age groups.

(ii) Projections of population, by age cohorts

Projections indicate an increase in the working-age population of those ages 15-64.

The projections of populations for the ILO Member States by 2020 are shown in Table 9. These are taken from the UN's latest population forecasts. The populations of Fiji and Samoa are projected to increase quite slowly—at less than 0.5 per cent per year. The assumption mainly causing this slow projected growth is that emigration rates will continue at present levels. Projected growth rates in the Melanesian countries are still around 2.0 per cent per year, but slowing slightly. The declining fertility rates underlying this slowing population growth show up in the decline in the share of the population in the 0-14 year age group. At the same time there is an increase in the share of the population in the 15-64 year age group. This reduction in the dependency ratio would be good news if adequate employment opportunities are available for people of working age.

D. Labour force, employment and unemployment

(i) Labour force projections

The labour force in the region is slowly ageing while the majority of workers are engaged in the informal economy.

Projections of the labour force for ILO Member States by 2020, by gender and age cohorts, are presented in Table 10. Comparisons with estimates for 2008 are also provided in the table. The reductions in population growth mentioned earlier show up in the slower growth of the 15-24 year age group and in the larger share of the labour force in the 25-54 year age group. Very high growth rates are projected for the cohort of 55+ years. Most of the people in this older age group would not usually be considered as being part of the labour force. However, their inclusion in Pacific countries in a sense reflects the reality of these countries, in that all people capable of working have to make a contribution to the household income. But the rapid growth of this cohort also points to the ageing of the population and the increasing dependency ratios.

Given the relatively small number of people employed in the formal sector in all of these countries, with the exception of Fiji, a majority of the labour force is employed in the informal economy on subsistence activities, and possibly also earning some additional cash income from produce in excess of that needed for consumption. For example, in Fiji, where the proportion of informal activity appears to be relatively low, only 69 per cent of those employed were engaged in the formal sector, either as employees, self-employed, or a combination of the two. The remainder were employed in informal activities. Rates of participation in the informal economy in other countries are believed to be higher.

The projected increases in the labour force in the Melanesian countries—Papua New Guinea, Solomon Islands, and Vanuatu—are very high, at around 3 per cent per year. These high growth rates illustrate starkly the challenges facing these countries in providing livelihoods leading to improved welfare. Of interest are the projections of the 25-54 age cohorts increasing at much faster rates than the 15-24 age group in Fiji, Solomon Islands, Tonga, and Vanuatu. Can this be interpreted as the 'youth bulge' moving into the older age group? If so, this could have implications for training as well as social issues. Pressures on training people in the 15-24 age group could be lessening; but there might be even more difficult issues arising for training of the older cohorts, given the limited formal employment opportunities and the fact that many will have had little formal training to date.

(ii) Employment and unemployment

With limited data on employment and unemployment, best estimates indicate that growth of employment in the formal sector may have stalled and overall employment levels may have regressed.

Table 11 presents data from the ILO's 2009 Key Indicators of the Labour Market (KILM) database for the labour force, labour force participation rates, employment, and unemployment (including youth unemployment) in the ILO Member States. The labour force participation rate is the percentage of the population regarded as being in the labour force who are employed formally or informally or without employment but actively looking for work. These include cash or formal workers, those working in the informal sector, including subsistence economy and the unemployed. The definition excludes those involved in home duties and those who are inactive for reasons of age, disability, etc.

There are large data gaps and many of the statistics shown are dated. As well, there are significant differences between countries that point to differences in the definitions used and therefore cross-country comparisons cannot be made. For example, the demographic, labour force, and employment structures of the Melanesian countries, Papua New Guinea, Solomon Islands, and Vanuatu, are very similar and one would expect the labour force participation and youth unemployment rates would be much the same. However, while the labour force participation rate for Papua New Guinea is 72.4 per cent and for Vanuatu is 83.5 per cent, the rate for Solomon Islands is 36.4 percent. In all three countries the bulk of the population derives their livelihoods in the rural sector from largely subsistence activities. Similarly, the youth unemployment rate for Papua New Guinea is 5.3 per cent, while for Solomon Islands it is 45.9 per cent. Both countries have similar proportions of youth and have experienced considerable migration of youth to urban areas. There is little data shown on employment but here again the statistics are difficult to reconcile. For example, the figure for employment in Papua New Guinea of 2.3 million must obviously include those employed both formally and informally; while the employment statistics for Kiribati and Marshall Islands would appear to only include those employed in the formal sectors.

There are also considerable difficulties in interpreting the unemployment statistics. There are no unemployment insurance schemes in the Pacific and little in the way of government assistance to help people find work. Therefore, there is little incentive to register as looking for work. Moreover, because there are no government unemployment benefits, people without formal employment have to be engaged in informal activities or rely on their families for sustenance. Hence, unemployment rates, defined in terms of those without work and actively looking for work, should be very low. The Samoan rate of 1.3 per cent, shown in Table 10, is probably close to the mark. The Marshall Islands figure of 30.9 per cent may not be distinguishing between those working in the informal economy with unemployment as usually defined. Again, it is difficult to reconcile the unemployment rate of 31.9 per cent for Solomon Islands with the rate for Papua New Guinea of 2.8 per cent.

Given the unreliable nature and different definitions used for the various labour statistics including labour force participation rates and unemployment rates, these statistics cannot be used to compare performance in the ILO Member States. Therefore, we discuss below recent trends in employment statistics in Member States where other sources are available.

According to the most recent Census in **Fiji** (FIBoS 2009), in 2007 the total economically active population was 326,988, representing a labour force participation rate of 55 per cent. Within this labour force, 298,974 were employed and 28,014 were unemployed (an 8.6 per cent unemployment rate).[1] The total number of employed increased from 286,646 in 1996, reflecting an average annual growth rate of 0.4 per cent. Of the employed, only 64.3 per cent (192,232) were solely wage and salary earners not reliant on self-employment or subsistence activities. On the other hand, a sizeable 30.7 per cent of the employed were engaged in at least some form of subsistence work.

The most recent *Quarterly Economic Review* of the Reserve Bank of Fiji (RBF) reported that in the first half of 2009 there were 3,100 employees registered as new taxpayers with

[1] The publication noted that the 8.6 per cent unemployment rate was derived using the standard definition of unemployment; while if the unemployment rate were derived using the ILO's 'availability criterion', which takes more account of people involved in subsistence activities, it would have been 11.9 per cent.

the Fiji Islands Revenue and Customs Authority. This was a substantial reduction from the 6,400 new taxpayers registered in the same period in 2008. This statistic implies that the rate of employment growth has slowed down; although the fact that the government has raised the tax threshold from F$8,840 to F$15,000—as a measure of relief to lower-income earners in the current harsh economic climate—would reduce the number of new employees paying taxes.

As far as recent employment conditions were concerned, the RBF noted that all sectors of the economy had registered declines—apart from a slight increase in the mining and quarrying sector due to the reopening of a gold mine. Also, the RBF's March 2009 Fiji Employers' Federation Expectations Survey indicated weak employment prospects and that expectations of wage increments had fallen across all wage and salary ranges. These responses were thought to be due to the weakness of domestic demand and increases in business costs due to the April devaluation.

The strong and broadly-based economic growth in **Papua New Guinea** in recent years due to the commodity boom has led to record increases in formal employment levels, as recorded by the Central Bank of PNG's formal employment index, which is based on its quarterly survey of firms in the private sector. In 2007 and 2008 non-mineral sector employment is estimated to have grown by 10.2 per cent and 8.3 per cent, respectively, with growth spread across the retail, agriculture, forestry and fisheries, manufacturing, and construction industries. Mineral sector employment also grew strongly, increasing in the year to the June quarter 2008 by 12.6 per cent. However, this level of employment growth was not repeated in 2009 due to the slowdown in economic activity. From June 2008 to June 2009 the Bank's survey reported an increase of 3.7 per cent across the economic regions. Increases in other regions were offset by declines in the Southern region and the Highlands region. The slower GDP growth projected for 2010 is also likely to moderate formal employment growth.

According to the **Samoa** Ministry of Finance (2009)—drawing on statistics from the National Provident Fund on active formal paid employment—employment as at March 2009 had declined by 8.0 per cent (1,768) from the figure at the same time in 2008. This decline in formal employment from 22,094 to 20,326 was primarily due to the decline in secondary industry employment (1,324) due to redundancies of workers from the Yakazi automotive factory. There was also a decline of 544 in the services sector (which does not include government employees). In fact, public administration numbers increased slightly over this period. The decline in employment because of the redundancies from the Yakazi factory meant that total employment in December 2008 was lower than in December 2006 and December 2007. Services sector employment as measured in this way is also shown as falling; which is surprising given that the tourism sector and related activities have been performing well over recent years in terms of GDP growth. The Yakazi factory is reported to be hiring again as a result of the economic recovery in Australia.

In its *Quarterly Review,* the Central Bank of **Solomon Islands** reports what it calls 'proxy' employment figures, which are statistics on membership supplied by the National Superannuation Fund. These show total employment of 88,941 (63,719 males and 25,222 women) as at end-March 2009. The largest share of female employment (14 per cent) is in the education sector; while the largest share of male employment (17 per cent) is in the logging sector. However, looking back through past issues of the *Quarterly Review* it can be seen that the ‘proxy’ figure for employment leapt by 52 per cent between the March and June quarters of 2008. This large increase drew no comment from the Bank but it casts doubt on the validity of the superannuation fund membership numbers as a useful measure of formal employment.

From the **Vanuatu** National Provident Fund (VNPF), total membership in 2006 was 16,406, of which 10,193 were males and 6,213 were women. According to this information there has been a decline in formal employment since 2003 when the VNPF membership figure stood at 17,222. This trend is very hard to reconcile with the fact that the Vanuatu economy has grown very robustly since 2002. Moreover, the driving force of economic growth has been the tourism industry, which is a reasonably labour-intensive industry.

Several conclusions can be drawn from this overview of labour markets in the PICs. First, one of the greatest concerns is the absence of reliable information about trends in labour markets. This lack of data makes it extremely difficult to accurately assess labour market trends and design relevant policies and programmes. Second, from the information that is available it appears that formal labour markets have been stagnant in recent years and that, with the exception of Papua New Guinea, formal employment appears to have regressed as a result of the global economic crisis. However, the continuing strong economic growth in Vanuatu appears to challenge the accuracy of available data and give rise to the assumption that formal employment and employment opportunities have in fact been improving. Third, populations and numbers in the total labour force are growing strongly in several of the PICs, particularly in the Melanesian countries. Given the stagnant formal employment conditions, this does not bode well for finding work for the growing labour force.

E. Poverty

Poverty in the region appears to be increasing. Government responses to address hardship in response to crises have in some cases been well targeted.

With the exception of Fiji, there is an absence of accurate information on the extent of poverty in the Pacific and its trends. However, indirect indications of poverty appear to reveal increasing levels of poverty in the region. The joint report commissioned by the Australian and New Zealand Governments for the 2009 Pacific Islands Forum Meeting, “*Surviving the Global Recession: Strengthening economic growth and resilience in the Pacific”*, presented data showing that in four of the eight ILO Member States real GDP per person had declined over the period 1998 to 2008 (Kiribati, Papua New Guinea, Solomon Islands, and Vanuatu). In these circumstances there is little doubt that the level and extent of poverty would have increased.

Even in Fiji, where per capita real GDP is estimated to have increased from US$2,000 (in constant 2000 prices) to US$2,215 over this ten-year period, poverty is most likely to have increased recently. Narsey (2008) shows convincingly that basic needs poverty was slightly worse as estimated from the 2002-03 Household Income and Expenditure Survey (HIES) data than the estimates made from the 1990-91 HIES data. Since 2002-03, Fiji's real GDP has hardly grown; in fact it declined by 6.6 per cent in 2007 following the December 2006 coup, followed by near zero growth in 2008.

Another indication of rising poverty and stress in the Pacific is the increasing incidence of urban and peri-urban squatter settlements, particularly in Port Moresby, Honiara, South Tarawa (Kiribati), Suva, and Port Vila. This development is an outcome of the still rapid growth in populations in some countries and the resulting rapid rural-urban migration that is to a large extent due to the stress on the subsistence economy in the rural areas and the search for incomes in the urban areas. In Kiribati, the rapid migration to the main island, South Tarawa, has led to slum-like conditions in some areas. According to AusAID (2009), Kiribati's real GDP per capita declined from US$533 in 1998 to US$482 in 2008—by far the lowest per capita income level in the Pacific. Under these circumstances poverty is likely widespread and increasing.

The economic difficulties of 2008 and 2009, with high food and fuel prices and reductions in remittances, will have increased the poverty levels. The poor GDP growth and the relatively high inflation rates during these two years will have reduced living standards considerably. Given the extent to which poor families depend upon remittances from family members working overseas, the impact of the GFEC on remittances will also have made life more difficult.

The reduction in government revenues as a result of the economic difficulties has made the delivery of public services more difficult (FEMM 2009). The reductions in public services such as the provision of education, health, water and sanitation, and infrastructure will all have reduced living standards for those at the lower end of the income scale.

The fiscal stimulus packages adopted by some governments have attempted to offset some of these difficulties. However, it is difficult to target benefits through infrastructure developments to people who are largely outside the formal economic structure. However, fiscal measures such as subsidies on fuel and transport and reductions in customs duties on basic food items such as rice and tinned fish are reasonable well targeted.

F. Emigration and remittances

(i) Emigration

Several ILO Pacific Member States have experienced out-migration for employment purposes on a considerable scale over many years and under different conditions and schemes. Many Samoans, Tongans, Marshallese, and Fijians have emigrated permanently to Pacific Rim countries, and Kiribati and Tuvalu have sent trained seafarers to work on foreign vessels. Being able to take advantage of such overseas work opportunities has largely been possible because of the education and training that people have attained. Without education and training the opportunities for overseas employment have been scarce. However, seasonal work opportunities in the agricultural sectors in Australia and New Zealand have recently opened up for unskilled Tuvaluans, I-Kiribati, Ni-Vanuatu, Samoans, Tongans, and Papua New Guineans.

The duration of overseas employment, the destination countries, and the skill levels of migrant workers all have an effect on employment in the Pacific sending countries. For instance, some migrants return with additional work experience and enhanced skills. They are likely to find employment, to contribute positively to the economy, and pass on their newly acquired skills to other workers, thereby positively affecting employment. On the other hand, if a skilled worker migrates permanently, Pacific sending countries not only lose the skills embodied in the migrant worker but the overall effect on employment is likely to be negative because every skilled worker creates employment opportunities for low-skilled workers in ancillary services (such as cleaning). Hence, the overseas employment of Pacific Islanders has considerable effects on employment levels in PICs that vary from country to country and by the type of migrant worker.

(ii) Remittances

Private inflows in the form of remittances are often seen as a more robust source of income for developing countries than other financial flows such as foreign direct investment (FDI) and can thereby smooth cyclical downturns in foreign investment flows (ADB 2008c). As these remittances mostly originate in developed countries, the economic downturn and rising unemployment in developed countries is having a negative impact on private remittances flows to developing countries in 2009 and most likely beyond.

Similar to tourism, in recent years remittances from abroad have become a major source of income in PICs. Table 7 provides data on private inflows in terms of percentages of GDP for the years 2000 to 2008. Remittances vary hugely in importance among the countries in terms of the share of GDP: from 0.1 per cent in Papua New Guinea in 2008 to 35.8 per cent in Tonga.

In 2009 the impact of the GFEC on remittance flows to the PICs has been mixed. Australia, New Zealand, and the US are the main labour markets for workers from the Pacific. Prospects for migrant workers in New Zealand and the US weakened in 2008 and 2009 as these economies felt the impact of the GFEC. Australia's economy has not been as badly affected but unemployment rose and depressed prospects for migrant workers. The unemployment rate in the US is already 10 per cent and could go even higher. The New Zealand unemployment rate could go to around 8 per cent by mid-2010. Australia's unemployment rate may have peaked at close to 6 per cent.

Samoa and **Tonga**, with the ratio of remittance inflows to GDP of 25.2 and 35.8 per cent, respectively, are particularly exposed to falling remittances.

Tuvalu, **Kiribati**, and **Fiji** are less reliant on remittances, although they are still important. Remittances to Samoa continued to grow in the first two quarters of 2009. Compared to fiscal year 2007/08, when private inflows amounted to 344.4 million Tala, in 2008/09 there was a 6 per cent increase to 365.2 million Tala. In the aftermath of the September tsunami, it is likely that there will be a considerable increase in funds sent home to families from Samoans temporarily or permanently working overseas.

In the case of **Tuvalu** and **Kiribati**, remittances depend heavily on seafarers' employment in merchant shipping. The sharp downturn in global trade flows has likely adversely affected their employment prospects.

For its sharp increase in remittances since 2003, **Fiji** depended on overseas employment as nurses, caregivers, teachers, and in the security services, including employment as UN peacekeepers. Given the rapid ageing of populations in the developed countries, the long-term employment prospects for nurses and caregivers seems assured; although because of the GFEC the short-term prospects may not be so bright. Overseas employment in the security services, both private and official, is more uncertain. In response to recent political instability, the UN recently announced a suspension on the employment of Fijian military forces in its peacekeeping operations. Although the process by which this decision is to be implemented remain unclear, losses in overseas earnings could be significant. Employment of Fijians as private security agents, particularly in the Middle East, depends heavily on the US and its allies remaining committed to their present goals in the region. If these goals are changed and the current flow of aid is reduced, these employment opportunities will suffer.

In 2007 New Zealand launched a Recognised Seasonal Employer (RSE) scheme for temporary employment of migrant workers in seasonal activities, particularly fruit picking. A limit of 5,000 visas was set for each year. All Pacific countries were to be eligible, with the exception of Fiji because of the nature of its interim government. However, the initial focus was on five countries: Kiribati, Samoa, Tonga, Tuvalu, and Vanuatu. Overall, the scheme has worked well and the workers have returned home with relatively large amounts of savings. The scheme is continuing and, while limited, is providing benefits in terms of household and village-level savings and the acquisition of skills and work ethic.

In August 2008, Australia announced a similar Pacific Seasonal Worker Pilot, involving temporary migrants from Kiribati, Papua New Guinea, Samoa, Tonga, and Vanuatu. An annual visa quota of 2,500 was announced. The pilot programme is to be evaluated at the end of 2009. The evaluation will determine whether the scheme will be renewed and/or expanded beyond the four island countries and Papua New Guinea.

This is the first time that unskilled and lowly-skilled workers from Papua New Guinea and Vanuatu have had a chance to work overseas. While the numbers are small relative to population size, particularly in Papua New Guinea's case, the impacts from the returning workers could be important; for example, with respect to work ethic and expectations about public services. It is unfortunate for the success of these schemes that their implementation has coincided with the GFEC and the downturn in work opportunities in Australia and New Zealand.

G. Summary

The GFEC of 2008 and 2009 added to the economic difficulties already being faced by the governments and peoples of the Pacific as a result of the food and fuel crisis of 2007 and 2008. As a result, GDP and formal employment growth has been poor and poverty has very likely increased. The high inflation rates of recent years have also reduced real incomes.

Economic reforms have been undertaken in international airline services and in telecommunications in some countries, stimulating economic activity. However, further economic reform is necessary to stimulate private investment and employment.

Rapid population growth in some countries (mainly the Melanesian countries), coupled with the lack of emigration opportunities, is creating extra demand for formal employment opportunities and placing additional stress on the subsistence sector.

The challenges facing economic and social development in the ILO Member States are reflected in their labour market opportunities. Although country differences occur, there are labour market challenges that can be generalized for all countries:

1) Formal employment opportunities are limited by small domestic markets, small and weak private sectors, and an undiversified economic base. Development of export markets, which is essential for realisation of economies of scale, is limited by remoteness from major markets and thus high transport and insurance costs. This makes competition in the production and export of low value added goods, between small Pacific countries and larger countries difficult. Therefore, high value-adding goods and services have to be developed for niche export markets. This objective places priority on entrepreneurship and innovation;

2) There is increasing unemployment and underemployment, especially among youth. Due to high fertility rates, large numbers of youths have been entering the labour force each year, outpacing formal employment creation. However, fertility rates have been declining and the ‘youth bulge’ is moving into older age cohorts. Given that most of the labour force that is, or will soon be, in their twenties has not experienced a formal job, this demographic fact raises serious questions about how to move them into the workforce;

3) In most Pacific economies there exists a large subsistence sector and growing informal economy, which is characterized by a lack of job, income and social security, and harsh working conditions. The stress on the subsistence sector from the growing populations has led to high rural-urban migration. In some cases this has lead to growing squatter settlements, with the potential accompanying challenges including the need to create income-earning opportunities;

5) There is substantial emigration, resulting in increased remittances but also in declining human resources (‘brain-drain’). But in view of the lack of employment opportunities in the home country, for most Pacific economies emigration for work has to remain or become an important part of their future. This means that education and training has to

cater for increasing levels of migration as well as for improving investment opportunities at home;

6) Women account for less than one-third of the total number formally employed; yet in rural and remote areas it is often the case that women carry the greater share of the burden of providing subsistence livelihoods. Moreover, with migration for work largely concentrated among males, the young, and the better educated, women, elderly, and the disabled in rural areas will find increased stress on living standards.

7) The absence of reliable employment and unemployment statistics makes it difficult to draw firm conclusions about trends in the labour market and to develop evidence-based policies.

Part II. Preparing for the Future: Policies, Labour Institutions, Social Protection, and 'Green' Jobs

Part I reviewed the economic difficulties that ILO Member States in the Pacific have faced in recent years. These countries have inherently difficult challenges in achieving robust and sustained economic growth due to their small domestic markets, remoteness from major markets, and the shocks experienced from natural disasters. External economic shocks such as those seen over the past two years only make management for development even more difficult. It is within these local and external parameters that policy makers must work to manage physical and economic risks and provide the best environment possible for recovery and strong and sustainable development.

Part II of the report focuses on recent policy responses and actions that governments may consider in the short- and the medium-terms. The chapter starts with highlighting the Global Job Pact (GJP), agreed at the International Labour Conference in 2009, and its relevance to supporting the implementation of the Forum Island Countries' policy response to the GFEC. The subsequent sections consider microeconomic policies, labour law reforms, gaps in social protection, needs for better labour market information, other policy issues related to young women and men, people with disabilities, climate change and 'Green Jobs'.

A. Recovering from the crisis: Using the Global Jobs Pact to support the Forum Island Countries' policy response

The Global Jobs Pact contains a range of crisis response and recovery measures that cover all four strategic objectives of the ILO. It is not a one-size-fits-all solution, but a portfolio of tried and tested policy options that countries can adapt to their specific needs and situation. It is a framework for action and a roadmap to design employment, social protection and labour standard compliance measures and policies, as well as promoting social dialogue processes, based on the Decent Work Agenda, that can shorten the time lag between economic recovery and employment recovery and mitigate the effects of the crisis on workers and enterprises.

The Pact itself has filled an important gap and is the only internationally recognized instrument with an integrated set of crisis response and recovery promotion policies. The Pact has been embraced by the UN ECOSOC as well as the G20. At the Pittsburgh Summit in September 2009, the G20 incorporated employment and social protection issues strongly in the Leaders' statements. The Framework for Strong, Sustainable and Balanced Growth agreed to by the G20 Leaders, and the apparent new international shift towards more balanced and sustainable policies is a validation of long-held ILO values and policy approaches, and also an opportunity to place these values and approaches more firmly in the international agenda in topics like the need for more job-rich growth, a fair globalization, a basic social protection floor, sustainable enterprises, skills development and appropriate macroeconomic and financial frameworks.

While many countries have put in place crisis response measures, increased awareness and use of the Pact would be desirable and could help to promote recovery and shape post-crisis policies which are more integrated and balanced than those prior to the crisis.

Moreover, the use of the Pact could help the implementation of the Forum Island Countries' policy response to the GFEC, which was supported by the Forum Economic Ministers' Meeting in October 2009. The Forum Economic Ministers agreed on a broad set of economic policy guidelines for coping with the crisis:

- promoting and safeguarding macroeconomic stability;
- strengthening public financial management to protect core services and the most vulnerable;
- improving competitiveness through the implementation of economic and financial reform; and
- working in a coordinated way with development partners to give the region its best opportunity to weather future shocks and provide a platform for sustainable growth.

These four 'pillars' of policy response to the GFEC for the Forum Island Countries were first set out in the joint Australia and New Zealand report, "*Surviving the Global Recession: Strengthening Economic Growth and Resilience in the Pacific",* presented at the Forum Leaders Meeting in Cairns in August 2009.

The four FEMM pillars are consistent with the policy actions set out in the Global Jobs Pact. Pillar one is essential for providing an enabling environment for investment and sustainable growth, as is pillar three. Pillar two is important for the maintenance of social protection. Pillar four on development partner coordination is critical for the success of Decent Work Country Programmes in the Pacific.

In the discussion that follows, the forms of action suggested draw on the policy options outlined in the Global Jobs Pact and are supportive of the Four Pillars adopted by the Forum Island Countries.

Government policies, growth, and employment creation

As a general principle underlying economic policy, economies should specialise in those activities that are consistent with their relative factor endowments (resources). For example, countries such as the Melanesian PICs, which have large endowments of arable land and unskilled labour relative to physical and human capital, should specialise in activities that use mostly land and labour and little capital. Countries such as Kiribati and Tuvalu, with only unskilled labour and marine resources in abundance relative to land and capital, should specialize, as they do, on labour-intensive utilisation of their marine resources.

Countries such as Papua New Guinea, which are rich in mineral resources, native forests, arable land, and unskilled labour, can develop diversified economies that utilise the resources that are relatively abundant. However, there are interactions between these economic activities that raise difficult policy issues, as seen in Papua New Guinea. The extraction of mineral resources can give rise to large foreign exchange earnings from exports, which can lead to appreciation of the exchange rate. The exchange rate appreciation reduces the returns on exports of agricultural industries and makes its more difficult for other local industries to compete with imports—the so-called 'Dutch disease' effect. The government can ignore these impacts from mining at the risk of reducing opportunities for employment in other exporting and import-substituting industries. Or it can do what Indonesia did following the oil boom of the 1970s and 1980s, which was to spend a large part of the revenues that it received from crude oil exports on investments in the rural sector to achieve universal primary education and expand transport infrastructure, so that farmers could get their produce to market more easily. In this way the government offset the disadvantage arising from the exchange rate appreciation.

Papua New Guinea has had two large mining booms over the past two decades but has been unable to replicate the Indonesian policies and results. Consequently, the PNG agricultural sector has not achieved equivalent development in its employment opportunities and income-earning potential. A similar situation exists in the Solomon Islands where logging revenue was not effectively utilised for the development of the country's agricultural sector.

While mineral resource developments can have strong impacts on economic growth, the employment and income impacts of these 'enclave' industries are not widespread, unless special measures are taken, as in the case of Indonesia mentioned above. Moreover, mining revenues are highly variable, which can result in highly variable economic growth unless special measures are taken with the government's management of the revenues, as in the case of Botswana. Botswana holds the revenues from diamond exports in off-shore accounts and the returns on these off-shore investments are fed into government revenue in a stable stream, which makes fiscal management easier and stabilizes growth.

In addition to fiscal and monetary policies, trade and industrial policies also have profound impacts on employment and growth. Many PICs have attempted to foster investment and employment through the application of import restrictions to protect local industries, usually manufacturing industries. But this policy has exactly the opposite effects. It leads to capital-intensive industries that employ little labour, which is often counterproductive in countries that have relatively little capital and abundant labour.

The Fiji sugar industry illustrates how employment can be generated through a labour-intensive industry. Around 26,000 smallholder cane farmers were employed at the peak of this industry and it has been estimated that the livelihoods of around 200,000 people in Fiji depended on the various activities generated by the sugar industry. Tourism also appears to be a labour-intensive industry that well utilises natural resources, although available data to support this conclusion are limited.

B. Microeconomic policies

(i) The business environment

Economic and regulatory reform is required to stimulate private enterprise.

Most PIC economies are dominated by a relatively large public sector that comprises government and state-owned enterprises (SOEs). For instance, in Kiribati and Tuvalu most formal employees are employed by the government or by SOEs. There are very few private sector enterprises. As a result of its predominance, the public sector often effectively sets the standards for wages and salaries in the private sector. Moreover, as it is difficult to set public sector wages and salaries in line with productivity levels and as public sector wages and salaries are often in excess of actual productivity, the private sector can only be viable if it receives government support of some kind (for example, tariff protection, income tax exemptions). Private enterprises will also face costly competition from public enterprises if they attempt to move into those areas, as the SOEs often receive subsidies of some form to cover their losses.

Public sector restructuring is underway in several ILO Member States (for example, Fiji, Papua New Guinea, Samoa, and Vanuatu), which includes downsizing of the public service and the privatizing of SOEs such as in the telecommunications sector. However, these downsizing exercises may lead only to public service job cuts rather than private sector job creation if conducive conditions are not in place for private sector growth (such as secure access to land and credit) and related job creation. These are development conditions that require creative effort on the part of both governments and development partners.

It has to be recognised that development of the private sector and private sector employment is very difficult in this environment. Because of their remoteness from possible competitors, private businesses selling primarily in the domestic market have the ‘natural’ advantage of the high transportation costs of importing. However, they will only grow at the rate allowed by the growth in population and incomes of the country. But if they wish to sell on global markets they have to develop market niches that deliver a premium price that more than covers their high costs of exporting. They cannot expect to be competitive in products or services that are of standard quality and are sold in large volumes by large producers. Tourism is possibly the ultimate niche market, as all countries can find some way in which to differentiate their tourist product. In the region, tourism has been strong where countries have provided competitive conditions for international airline services, domestic transport services, and secure, long-term access to land for resorts.

As noted earlier, the business regulatory environment is another factor that constrains private investment and employment growth in Pacific countries. Business regulations and processes are often very costly, in terms of time and money, and thus inhibit development of the sector. Political uncertainty and the resulting uncertainty and instability of policies can also make investors, both domestic and international, very wary. As a result, investors may only be willing to invest if the government offsets the risks through direct assistance or through partnership with the investor and thereby underwriting the risks; or if there is otherwise a very high return on the investment, as may be the case with the extraction of natural resources. Inefficient and costly public utilities also make business costs very high in the Pacific. More needs to be done to reform and modernize these enterprises, as has been promised by some governments but with little action to date.

The difficult external environment of the past three years has generally made economic activities less attractive for the majority of the PICs and therefore formal employment growth has been poor. However, several of the PICs have undertaken economic reforms that have provided encouragement for businesses to invest and provide job opportunities in spite of the poor economic environment. As noted earlier, several Pacific countries (Cook Islands, Samoa, Tonga, and Vanuatu) have opened up their international airline services to international competition. The resulting lower fares stimulated the tourism sectors in these countries and the construction of international and locally-owned tourism facilities. These developments were very positive for local employment. In 2008, Papua New Guinea also opened its international air services to competition, resulting in large reductions in airfares (by up to 65 per cent) and there is the prospect of similar developments to those seen in other Pacific countries in tourism and employment in PNG's services sector.

More recently, five of the PICs (Fiji, Papua New Guinea, Samoa, Tonga, and Vanuatu) have opened their telecommunications sectors to international competition, also resulting in lower prices, wider accessibility of services, and better quality of services. This development should benefit all businesses that use telecommunications services (mobile phones and internet); as well as providing considerable social benefits, particularly to families with members working overseas.

But there is still considerable scope for reform of other state-owned enterprises that are providing poor, high-cost and unreliable services and thereby inhibiting the development of private enterprises. Moreover, other PICs can follow the lead of countries such as Fiji, Papua New Guinea, Samoa, Tonga, and Vanuatu in opening up international air services and telecommunications in order to develop tourism and other economic activities. Most PICs have public monopolies in water and electricity supply as well as in port and inter-island shipping services. Where these services are provided by public and semi-public monopolies, government support for maintenance and investment is often necessary to compensate for poor standards and high costs. This is true even for PICs with relatively good recent growth records such as Samoa and Vanuatu; although Samoa has taken considerable steps forward in the reform of its public sector and Vanuatu is making an effort to reform its high-cost port services.

In addition to the expensive and unreliable public utilities, the poor legislative and regulatory investment environment is a handicap facing those starting businesses and therefore discourages private investment. Two often used measures of the effectiveness of the investment and business environment are the number of days it takes to start a business and the costs of enforcing contracts (i.e. collecting an outstanding debt through the courts as a percentage of the value of the debt). While PICs are by no means the worst performers in terms of these measures they clearly have plenty of room for improvement. In particular, contract enforcement is very time consuming and in some countries can take more than a year to collect an outstanding debt through the courts. It is also very expensive, particularly in Papua New Guinea, where the cost of debt recovery on average is higher than the value of the debt itself.

In recent years, there has been some improvement in these areas in Samoa. The country's new Company Act simplifies the business start-up process, reducing it by four procedures, 26 days, and more than 75 per cent of the costs. Furthermore, the new law also removes the minimum capital requirement and simplifies various other procedures. Besides this improvement by Samoa, the only other improvement was by Kiribati.

A recent study (Batten *et al* 2009) evaluated the potential benefits of reducing the costs of enforcing contracts and thereby improving the ease of doing business in Papua New Guinea. The study examined a hypothetical situation wherein the number of procedures for enforcing a contract was reduced from the present 43 to 36, the time taken to enforce a contract was reduced from the current average of 591 days to an average of 531 days, and the costs of enforcing a contract were reduced from the existing 110 per cent of per capita income to 52 per cent of per capita income. The estimated benefits of these relatively easy-to-implement processes would raise per capita income in the country to almost three times its current level.

Making new businesses easier to start and reducing the costs of enforcing contracts are critical steps towards creating an enabling environment for sustainable enterprises in the medium-term. The 2007 International Labour Conference (ILC) set out the principles upon which such a conducive environment can be established, as follows (ILO 2007:2):

> *"Promoting sustainable enterprises is about strengthening the rule of law, the institutions and governance systems which nurture enterprises, and encouraging them to operate in a sustainable manner. Central to this is an enabling environment which encourages investment, entrepreneurship, workers' rights and the creation, growth and maintenance of sustainable enterprises by balancing the needs and interests of enterprise with the aspiration of society for a path of development that respects the values and principles of decent work, human dignity and environmental sustainability.*

(ii) Regional economic integration

The improved sustainability of economic growth and employment in the face of external shocks due to the economic reforms undertaken was noted above in the case of Vanuatu. The upcoming negotiations of PACER Plus (Pacific Agreement on Closer Economic Relations with Australia and New Zealand) between the PICs and Australia and New Zealand offers the possibility of the PICs being able to undertake desirable economic reforms with assistance from their developed partners.

The increasing importance of tourism in the Pacific was directly due to the liberalisation of international airline services, which in turn resulted in expansion of domestic and foreign investment in tourist resorts. Five of the PICs have now opened their telecommunications markets, leading to lower prices, wider coverage, and improved services, and in turn to new economic activities such as call centres (as in Fiji, where several thousand jobs are expected to be created). However, expanded mobile phone use will have applications in many different kinds of private enterprises as well as in public services such as agricultural extension and health. There is scope for further such micro-economic reform in many other activities presently being undertaken by some government-run businesses, with sub-optimal results.

The PACER Plus negotiations should cover liberalisation of trade and investment, as well as reform of SOEs. There is no doubt that existing trade protection through barriers against imports leads to more capital-intensive industries and lower employment than would otherwise be the case. In some sectors, SOEs crowd out private enterprises that would likely be more efficient and reduce business costs.

However, there may be short-run adjustment costs to removing these barriers to freer trade. These adjustment costs can be reduced through good policies, as demonstrated in Samoa in its reforms to eliminate loss-making SOEs. Australia and New Zealand might assist by helping to design policies that will minimize adjustment costs as well as by providing financial assistance for adjustment policies, such as re-training. The PICs should look to take full advantage of such assistance, which, in the longer run, will increase employment opportunities.

Similarly, ageing populations in Australia and New Zealand present a potential need for increasing numbers of young job seekers from the Pacific. In these circumstances, PICs could seek to utilise PACER Plus negotiations to maximize opportunities for future migration-for-work opportunities.

(iii) Competition policy

With the reform of SOEs and the expansion of the private sector, one of a government's primary roles is to ensure that there is effective competition within the private sector and between the private sector and government enterprises, where these continue to operate. This means that effective regulatory processes have to be put in place to protect consumers against collusive practices that can lead to higher prices for goods and services, restricted choice, and inferior quality.

Ensuring effective regulation of trade practices is a demanding role for governments in the Pacific with limited capacity. There is a role for regional organisations to undertake these activities on behalf of all or some of the PICs. The Forum Leaders are considering such action as part of the Pacific Plan, as for example with respect to the regulation of the telecommunications market.

C. Labour law reform and labour institutions

Good labour market governance is an essential part of the enabling environment for sustainable enterprises and for ensuring decent work for their employees. Labour legislation that is appropriate and effective within the context of each PIC lies at the heart of such good governance. Currently the majority of PICs have only basic labour legislation, covering a mix of issues including conditions of work, minimum wages, employment injury benefits, provident funds and trade unions. In few cases would this legislation adequately implement the ILO's *Fundamental Principles and Rights at Work*[2], which by virtue of their membership ILO Member States are required to do. However, as ratification of ILO Conventions is a relatively new initiative for most PIC member states,[3] the extent to which existing labour laws conform with core International Labour Standards[4] remains to be fully determined.

Further, in certain PICs the labour legislation was enacted during the decolonisation period and has not been reformed or adapted to the major changes in society since that time. In Papua New Guinea, for instance, both the Employment Act 1978 and the Industrial Relations Act 1962 were prepared and implemented by Australia as the administering power. This legislation fails to provide appropriate labour market regulation for an independent state and does not adequately provide opportunities for decent work. The process of reviewing and amending the Papua New Guinean labour legislation has been underway for over ten years and has been closely followed by ILO supervisory bodies.

The ILO provides ongoing technical assistance to PICs in the review and revision of their domestic labour legislation consistent with International Labour Standards. The ILO consistently encourages active tripartite involvement in this process and where necessary provides capacity building to social partners to facilitate such involvement. The ILO also provides training to tripartite constituents in labour and employment law implementation. Among other areas this may involve training in employment relations, conditions of work, minimum wage fixing and collective employment relations.

Capacity building of social partners has not, however, been limited by the ILO to the facilitation of labour law reform and implementation. Rather, the strengthening of tripartite institutions has been considered central to ensuring good labour market governance in PICs generally. In Pacific Member States where labour issues have not consistently been resolved through tripartite processes, the ILO has assisted in upgrading the skills of staff of employer organisations, unions, and the labour administration to engage in effective collective bargaining and dispute resolution. To further support this capacity building process, all Pacific Member States have been encouraged to ratify the Tripartite Consultation (International Labour Standards) Convention, 1976 (C.144).

Across the Pacific the position of Labour Ministries within the wider government could be enhanced through resources and capacity building, so as to ensure wider influence on policy development and reform. Likewise, some tripartite institutions require strengthening and tripartite partners require information on how tripartite structures work elsewhere. The ILO has provided technical assistance and training to upgrade the skills of tripartite constituents and improve the quality of tripartite institutions. These steps will be

[2] These include rights to: freedom of association; collective bargaining; freedom from forced labour; freedom from child labour; and non-discrimination in the workplace.

[3] For example, Fiji, the oldest Pacific Member Country, registered its first batch of 'technical' Conventions since 1974 on 28 May 2008: Labour Inspection Convention, 1947 (No. 81); Nursing Personnel Convention, 1977 (No. 149); Occupational Safety and Health Convention, 1981 (No. 155); Working Conditions (Hotels and Restaurants) Convention, 1991 (No. 172); Labour Inspection (Seafarers) Convention, 1996 (No. 178); Safety and Health in Agriculture Convention, 2001 (No. 184).

[4] The core conventions cover the rights set out in the Fundamental Principles and Rights at Work.

critical to empowering Labour Ministries and tripartite institutions to undertake effective labour market governance reforms in the future.

D. Social protection

A technical cooperation project, 'Social Security in Pacific Island Countries', was funded by the Netherlands between 2004 and 2006. The aim of the project was to conduct baseline social security studies to determine necessary productivity improvements as well as areas for possible extension of coverage, of provident fund institutions and to undertake feasibility studies on extending social security. It was found that in most PICs, pension schemes, unemployment benefits, and health insurance schemes were insufficient. In most countries, the only social security scheme was run by the National Provident Fund.

In Fiji, for instance, the study showed that workers saw a compulsory health insurance as the greatest priority. Retirement income support and a compulsory unemployment insurance scheme were seen as other priorities. Social security reform aims at providing social assistance for the working-aged population and income security for the elderly and disabled.

Currently social protection through legislation, policies, and access to employment and training services for disabled people remains lacking in most countries. However, it is hoped that with the Pacific Island Forum Ministerial endorsement of the 'Pacific Regional Strategy on Disability 2010 to 2015' in 2009, that social protection for persons living with disability will be improved.

Another area requiring attention in the Pacific concerns working conditions and the welfare of maritime workers and port workers. Due to the involvement of a considerable number of workers in foreign flag ships and the fishing industry, all PICs are committed to promoting better working conditions and welfare of workers in the maritime industry. The ILO is committed to increasing the protection of individual seafarers and to supporting the maritime industry as a whole in the Pacific region in order to maintain its competitiveness against other seafaring nations.

E. Improved Labour Market Information and Analysis

Timely and accurate labour market information and analysis (LMIA) is necessary for the formulation of employment and labour policies and the promotion of decent and productive employment. It is essential for the design, implementation, and monitoring of Decent Work Country Programmes (DWCPs) and progress towards the targets on decent employment in the Millennium Development Goals (FEMM 2009). Furthermore, it is a necessary tool for monitoring the effectiveness of employment programmes.

The eight ILO Member Countries in the Pacific region face severe constraints in the production of LMIA. While difficulties in this regard are generally country-specific, the eight ILO Member Countries in the Pacific face one or more of the following issues:

(1) Lack of a data collection instruments designed to produce labour market information;

(2) Underdeveloped capacity in collection, processing, and maintenance of relevant,

accurate, and internationally accepted labour market indicators, leading to issues of accuracy, relevance, timeliness, and frequency in the conduct of surveys and in the publication of survey results;

(3) Lack of a centralised database for storage of labour market data;

(4) Underdeveloped capacity in performing labour market analysis and a lack of appropriate mechanisms through which labour statistics are transformed into policy-informing analysis;

(5) Weak linkages between users and producers of LMIA and a lack of regional harmonization in labour market statistics and analysis.

The lack of good statistical information that would allow the development of evidence-based policy has recently been receiving increased attention by Forum Island Country (FIC) governments. At their 2009 meeting, the Forum Economic Ministers concluded that 'statistical services within most FICs are very limited and poor' (FEMM 2009). They agreed that national statistical agencies would be better resourced and also endorsed the proposal that the statistical programmes conducted by the Secretariat of the Pacific Community (SPC) and the Pacific Financial Technical Assistance Centre (PFTAC) be expanded; and for SPC and PFTAC to jointly coordinated the expansion. The Ministers called upon development partners to assist with the additional resources needed.

Stakeholders in improved LMIA, including the ILO's tripartite constituents, should be consulted and engaged in the process, in order to ensure the relevance and utility of future LMIA tools and products.

F. Youth employment and training

(i) Youth employment and unemployment

As discussed in Part I, there has been a rapid increase in the youth population (15-24 years of age) in the Pacific. Although statistics are scarce, the data collected reveals systematically higher open unemployment rates among young people than adults aged over 25. The rapidly growing young population, the 'youth bulge', and un- and under-employment among youth have become some of the most pressing political and social issues in the region. This issue is compounded by inter-related factors that go beyond population increases, poor economic growth, and limited private sector development. They include low levels of entrepreneurship, social and cultural pressures, rural-to-urban migration by young people, HIV/AIDS and other sexually transmitted infections (STIs), and persistent gender inequality.

Young people face certain disadvantages in the labour market, which often include a lack of labour market information, a lack of employment experience, and constraints on self-employment. Current education policies in many PICs are not responding to the skills required in the job market. The creation of employment opportunities for youth tends to be accorded lower priority compared with providing jobs for older workers. There is also a lack of a coherent policy framework within which appropriate services are planned and delivered to young people.

Because of the high population growth rates in most PICs (that is, except for those with relatively easy emigration access), the informal economy will have to provide income opportunities for the rapidly growing number of Pacific islanders. This is where most future school leavers will have to find employment. However, employment and income growth in the informal economy is currently impeded by the lack of commercialisation of economic activities; in particular, lack of secure individual land tenure and the resulting difficulty in accessing loans from commercial sources, lack of business skills, and lack of innovative business ideas. Some of these obstacles may be overcome by targeted political and legislative changes, such as new legislation in Papua New Guinea to assist in the mobilisation of customary land for development. Except for Papua New Guinea, none of the PICs have any regulatory framework attempting to provide an improved business environment for the informal economy.

Policies and programmes to promote decent work for young people vary according to national circumstances. Depending on the causes and the extent of the problems, there are four major areas to consider. First, it is critical to move children out of work and into education. When children attend school, they can obtain the education and skills needed to compete in the job market as young adults. Second, education and training policies need to ensure that the supply of young people in terms of skills, knowledge, and attitudes meets the demands of businesses. Third, high and sustained economic growth is a necessary condition for employment generation, including quality employment for young people. Fourth, depending on the most critical issues facing youth in a country, improved information about the job market, job-search assistance, apprenticeship programmes, and other measures would ease the transition from school to work.

(ii) Skills development/TVET

Skill shortages are widespread among workers in the formal and informal economies across the PICs, as reported in ADB's *Skilling the Pacific* (ADB 2008a). Three main factors are responsible. First, growth in the mining sector in Papua New Guinea and tourism in Fiji, Vanuatu, Samoa, Cook Islands, and Tonga has created an increasing demand for skilled labour, especially in hospitality and construction-related occupations. These countries lack sufficient people with the skills in management/supervision and trades occupations capable of working to international standards. Second, emigration has exacerbated skill shortages, as many with skills leave for better paid jobs elsewhere. Third, the supply chain of Technical and Vocational Education and Training (TVET) is insufficient in key fields, and the performance of TVET graduates often falls below expectations in the workplace.

The structure of TVET in most PICs includes school-based vocational education, institution-based training (vocational training centres and post-secondary technical training institutes) and enterprise-based training (e.g. apprenticeships). Almost all countries attempt to provide some pre-vocational courses at the secondary level. TVET is typically administered by different organizations, which can lead to challenges in coordination. For example, Fiji has three separately administered sub-systems of TVET—vocational centres attached to secondary schools operated by the Ministry of Education, trade training for those out of school run by the Training and Productivity Authority of Fiji (TPAF), and the tertiary Fiji Institute of Technology (FIT). Several countries have national training councils. Apprenticeship training is strong in the larger countries. Maritime training is an important specialization in the region, with 13 training institutions established.

Generally, employer involvement is essential to steer training supply in the right direction, but employers are not consulted sufficiently (ADB 2008a). Lack of information about labour market demands means that most Pacific training systems are operating in the dark. Training systems in PICs have had difficulties in making their programmes sufficiently flexible, up to date, and responsive to changing demands. TVET systems usually fail to monitor or evaluate the quality outcomes of training in terms of competencies achieved.

Most PICs have limited jobs in the formal economy for their expanding populations. This means that most new entrants will have to work in the informal economy. The informal economy in the Pacific is largely limited to the minor processing and merchandising of primary produce, the provision of services such as carpentry and mechanical repair, transport and small scale vending, and the production and sale of handicrafts and sewn materials. Skill gaps occur in all of these activities and there is a lack of training targeting informal economy workers.

In most PICs, targeted labour market and tracer studies are needed to identify in more detail existing skill gaps in particular industries, as well as the reasons behind the skill gaps. In view of the importance of human resources for overall development and employment in PICs, skills development through technical and vocational education and training has to gain a more prominent place in national development strategies and programmes. The ILO can assist in this process by raising awareness of the importance of technical and vocational education and training, which needs to be tailored to the particular and specific needs of women and men among its tripartite constituents.

(iii) Child labour

There are no official statistics available on the scale of child labour in the Pacific. However, given the seemingly large numbers of children who are not attending school on a daily basis, it is likely that the problem is significant. There is an emerging problem of child labour linked to tourism. Preliminary research undertaken by the ILO’s International Programme on the Elimination of Child labour (IPEC) has shown some evidence of children working as domestic servants, in the markets, in hotels, in subsistence agriculture, in coffee and tea plantations, and in commercial sexual exploitation. Estimates by the ILO suggest that child workers make up 19 per cent of the labour force in Papua New Guinea and 14 per cent in the Solomon Islands. Extensive surveys and studies are needed to gain a more definitive picture.

The US Department of Labor (2006) report on the worst forms of child labour showed that in Fiji, Papua New Guinea, and Samoa children were working in agriculture, in the informal economy, in family businesses, and on the streets. In Fiji, Papua New Guinea, and Solomon Islands, children were also sexually exploited through prostitution. The main issue identified in Kiribati and Tonga was commercial sexual exploitation of young girls by crew members from foreign vessels.

The links between youth employment and child labour illustrate the importance of a life-cycle approach—identifying the key stages of life when young people are vulnerable to poverty and exploitation. Child labour tends to exacerbate the problem of youth employment in so far as it prevents children from acquiring the necessary education and skills to compete in the labour market as young adults. Child labour and youth un- and underemployment exist side-by-side. While there is a demand for certain types of labour that is met by children, who should not be working, there is a supply of labour from young people that is un- or under-utilized. Further, disadvantaged youth above the minimum working age and below 18 years are vulnerable to the worst forms of child labour.

G. Disability and gender mainstreaming

An economy that places obstacles in the way of full participation by women and the disabled is not taking full advantage of its human resources and will therefore not develop to its full potential. To fully participate in society, people with disabilities need vocational training, employment, and self-employment services, and should have access to mainstream services wherever possible. Such services must include business development, credit, and marketing assistance for those who are self-employed.

Overall, ILO’s activities on disability aim at increasing the number of people with disabilities who have access to formal and informal training and skills development and at increasing the number of people with disabilities who enter formal sector employment or self-employment.

Fiji recently ratified the *Vocational Rehabilitation and Employment (Disabled Persons) Convention*, 1983 (C.159), and is the only country in the Pacific to have done so. It also has one of the strongest organizations for persons with disabilities in the region, the Fiji Disabled Persons Association (FDPA), as well as an interagency coordinating body in the Fiji National Council of Disabled Persons (FNCDP).

All Pacific Member Countries of ILO except Tuvalu are signatories to the UN ESCAP *Proclamation on the Full Participation and Equality of People with Disabilities in Asia and the Pacific*. Thus they endorse a human rights approach to disability and the training and employment targets and actions that include ratification of C.159, requiring the development and implementation of a national policy on vocational rehabilitation and mainstreaming of vocational training programmes. However, legislation, policies, and access to employment and training services are lacking in most countries. Pacific Member States vary with regard to the existence of data upon which to develop policies and programmes.

In the Pacific, ILO has in the past provided assistance in the form of policy advice on the mainstreaming of people with disabilities, the drafting of industrial relations legislation to include provisions relating to disabled persons, and methods of including disabled persons in policies and strategic planning documents. ILO has also provided assistance to Member Countries with the ratification of C.159, as well as its implementation in Fiji. ILO’s approach is to mainstream people with disabilities in its social protection, labour, training, and employment projects in the PICs. For example, the Walking Out of Poverty Programme in Fiji has set aside 10 per cent of its training slots for disabled persons. The mainstreaming of people with disabilities in all its projects is a crucial step towards ensuring that the benefits of development reach people with disabilities.

All DWCPs in Pacific Member States are consistent with the requirements of the 2008 *Declaration on Social Justice for a Fair Globalization* which states: ‘Gender equality and non-discrimination must be considered to be cross-cutting issues in the…strategic objectives', and accordingly, wherever possible, the outcomes, indicators, targets, and strategies refer to women and men separately. Generally, ILO aims to promote gender equality through the ratification of Fundamental Conventions, especially the *Equal Remuneration Convention* (No. 100) and the *Discrimination (Employment and Occupation) Convention* (No. 111). Marshall Islands, Solomon Islands and Tuvalu have not ratified any of these Conventions. Some existing ILO projects also address gender issues such as the 'Men as Partners in Reproductive Health' funded by UNFPA, which aims to build the capacity of workers' and employers' organisations in the areas of HIV/AIDS prevention, domestic violence, gender issues, and reproductive health in Fiji, PNG, Solomon Islands, and Vanuatu.

Several regional strategic frameworks have included gender equality as a priority. The Pacific Plan, adopted in 2005 by Pacific leaders, includes improved gender equality as Priority 8. Goal 3 of the MDGs, adopted in 2000 by all countries, to be achieved by 2015, refers to the promotion of gender equality and empowerment of women. The UNDAF, 2008-2012, for the Pacific Region includes the interrelated Principle 2, which refers to gender equality and the elimination of discrimination on the basis of sex. In order to include gender equality in DWCPs and in ILO's activities, it is necessary to disaggregate statistics by sex wherever possible, which will be advanced by improved LMIA in the region.

H. Vulnerability to climate change and 'green' jobs

(i) The impact of climate change on Pacific economies

The major threats to the PICs posed by climate change are expected to be from rising sea temperatures and sea levels, increased frequency and intensity of storms, and greater fluctuations in land temperatures and rainfall, leading to more intense droughts and flooding. As well, rising sea levels could be expected to adversely affect the fresh water 'lenses' that are the main source of fresh water on the low-lying atoll and coral islands of the Pacific. Due to their low elevations, the atoll and coral islands of the Pacific are expected to be some of the first countries to experience the changes caused by climate change such as intrusion of sea water into agricultural areas and erosion and be forced to adapt or abandon their habitats. Moreover, because of their increasing populations and habitation of areas of land more exposed to rising sea levels and other natural disasters, PICs are becoming more vulnerable in the sense that more of their population is exposed to these threats.

Most of the activities of people in the PICs are centred on the coastal zones. Much of the population depends on the sea for their subsistence, particularly those living on the low-lying islands that have very limited soils suitable for agricultural purposes. Inshore and ocean fisheries play an important role in formal and informal employment. Seaside resorts have recently become a more important component of their economies and their income depends heavily on activities associated with corals reefs, which could be adversely affected by climate change.

Fisheries and aquaculture are expected to be at risk from climate change due to alterations in sea temperatures and currents, as well as oxygen sources and food sources.

These changes can be expected to affect the food chain that supports tuna stocks and other fisheries. Most PICs depend to a greater or lesser extent on revenues from fishing licences granted to distant water fishing nations for access to the tuna stocks.

These expected effects from climate change are likely to result in socio-economic costs beyond the capacity of most PICs to bear and in the end may threaten the very existence of some. Kiribati is in the most vulnerable situation, with its low-lying islands, rapid population growth, heavy dependence on inshore and ocean fisheries, and lack of emigration access to metropolitan countries. Others are affected by these factors to various degrees. For Kiribati and others in a similar situation, gaining better migration access and improved education to take advantage of increasing migration opportunities, appears critical to long-term national climate change adaptation strategies. This situation highlights the importance of improved provision of TVET.

The recent tsunami that caused devastation in American Samoa, Samoa, and Tonga illustrates the increasing vulnerability of Pacific societies. In the wake of the tsunami and the destruction of villages on the coast, the Prime Minister of Samoa has urged villagers to rebuild their villages further back from the seashore to reduce their vulnerability. However, such adaptation will likely require careful consideration of sensitive issues such as access to customary land. It will also mean greater difficulty in accessing coastal fisheries.

(ii) Green jobs

Efforts to tackle climate change could result in the creation of millions of new 'Green Jobs' in the coming decades, according to the report *Green Jobs: Towards Decent Work in a Sustainable, Low-Carbon World* from the United Nations on the impact of the emerging global green economy, released in September 2008. Green Jobs could reduce the environmental impact of enterprises and economic sectors to levels that are sustainable. Changing patterns of employment and investment resulting from efforts to reduce climate change and its effects are already generating new jobs in many sectors and economies and could create millions more in both developed and developing countries.

The global concern to reduce emissions that lead to climate change is creating the possibility for 'Green Job' opportunities in the PICs in several areas, including eco-tourism, organic agriculture, and renewable energy. Eco-tourism provides one of the most realistic opportunities for investment and employment in the PICs, while at the same time helping to reduce the damage from tourism activities to their natural resources. The outflow of waste from tourist resorts that damages coral reefs and fishing areas is a major concern for all PICs, as tourist activities depend heavily on the attractions provided by the coral reefs and adjacent sea areas. Subsistence and local commercial activities also depend on these resources.

Increasing consumer demand for organically-produced food products is also creating opportunities for 'Green Jobs' in agriculture in PICs. One of the difficulties facing the PICs in developing these kinds of products for the world market is identifying and developing niche markets that will pay sufficiently high premium prices that will more than cover the high international trade costs that face these small producers located so far from major world markets.

Other difficulties facing the PICs in developing overseas markets for organic products are gaining the necessary certification for the products and overcoming quarantine barriers to entry. These are both costly processes that require scientific input. In both of these areas, development partners can provide very valuable assistance. PICs also need assistance in marketing and distribution in potential overseas markets, once these are identified. One way in which PICs can move into organic markets is to first produce for the local tourist markets. In doing this, producers will learn how to meet international consumer standards and supply chain requirements, as tourists coming to the PICs expect international standards in the supply and quality of what they consume.

While the PICs' consumption of fossil fuels is trivial in the context of global use and the impacts on the environment, for the good of the health of their citizenry reductions of such pollutants would have large social benefits. It has been suggested that the PICs should move towards reducing or eliminating their dependence on fossil fuels. However, for most, this is easier said than done. Fiji is the only PIC in which there is the strong possibility that base-load power for the main grid can be supplied by hydro generation. For other countries and for rural and remote areas of Fiji, moving away from fossil fuels remains a challenge.

For most of the PICs, hydro power has only minor potential, and for the low-lying islands holds no potential. Wind generation is only a possibility for those island countries more than 10 degrees north and south of the equator, due to the lack of wind at equatorial latitudes. Even for those countries in potential areas, wind generation holds little possibility for generating base-load power. In this regard, solar power also offers no potential for base-load power and only limited potential for household use in remote areas.

Production of bio-fuels, which may hold the most promise for 'green' jobs, is yet to be proven in the Pacific. Production of diesel substitutes from sugar cane, cassava, coconuts, and timber is a possibility in Fiji, Papua New Guinea, Solomon Islands, and Vanuatu, where there is suitable agriculture land. In Fiji, power generated from burning of timber and bagasse (a by-product of the sugar production process from cane) is being supplied to the main electricity grid. Production of ethanol from sugarcane has been proposed but the economics of this activity remains to be proven. The availability of land for large-scale bio-fuel production in other countries also remains to be proven, aside from the question of customary land being made available for the activity.

Conclusions

This paper has outlined recent developments in ILO Pacific Member States, particularly as they have been affected by the sharp increase in fuel and food prices in 2007 and 2008 and the GFEC of 2008 and 2009. As a result of the GFEC, real GDP growth rates in 2008 were lower than earlier projected and projected growth rates for 2009 and beyond were revised downwards for Pacific countries.

While Pacific populations are in general growing rapidly, formal employment in PICs is only growing slowly. The GFEC appears to have dampened formal employment growth even further with the latest real GDP projections painting a very dismal picture for future formal employment growth, with the exceptions of Papua New Guinea and Vanuatu. Vanuatu has performed exceptionally well during the present decade as a result of its good macro-economic and micro-economic policies and looks set to continue to do well—mainly from growth in its tourism sector.

With the increasing populations of the PICs and the lack of local employment opportunities, reliance on overseas employment is likely to increase. The good news is that with their ageing populations, the demand by metropolitan countries for labour will be increasing. But appropriate education and training will be needed if the PICs are to take advantage of these possibilities. The GFEC has put a dampener on this development for the moment; but the longer-term prospects are hopeful.

Factors presenting obstacles to and opportunities for growth in the private sector and formal employment have been discussed. As a result of skills shortages and remoteness from major markets small Pacific countries cannot compete with larger countries in the production and export of low value-added goods. Therefore, high value-adding goods and services have to be developed for niche export markets. This objective places a high priority on entrepreneurship and innovation.

Some countries have introduced economic reforms that have had very positive results. The opening of international airline services has stimulated tourism in Cook Islands, Samoa, and Vanuatu, and will likely do so in Papua New Guinea and Solomon Islands. Introducing competition into mobile phone markets in several Pacific countries has also had widespread benefits. These reforms point the way for the introduction of competition into other markets presently dominated by SOEs.

The expected socio-economic impacts of climate change are likely to be beyond the coping capacities of most Pacific governments. In some cases, the impacts may threaten the very existence of island communities and even countries. Considerable assistance from donors and development agencies will be needed for appropriate adaptation and mitigation policies to be implemented. The growth of ‘Green Jobs’ is one of the developments arising from the challenges presented by climate change. The most likely opportunities for ILO Pacific Member States to develop ‘Green Jobs’ appear to be in eco-tourism and organic agriculture. While the PICs have a very heavy dependence on imported petroleum products to meet their energy needs, presently there does not appear to be much scope for most of these countries to shift to renewable fuels and the jobs their production would provide.

The basic challenge for the ILO Member States is to create an enabling environment for sustainable enterprises in the face of the short-term and long-term difficulties that they confront, while minimizing the hardship for their peoples. To assist in this process, a framework for policy options to aid in the recovery from the GFEC has been provided by a Resolution adopted at the 98th session of the International Labour Conference in June 2009. This framework, titled the *Global Jobs Pact*, sets out a coordinated policy response to the GFEC that is situated within the Decent Work agenda of the ILO. The Pact encourages investment and entrepreneurship, while protecting workers' rights.

The Forum Economic Ministers have also agreed on a broad set of economic policy guidelines for coping with the crisis which emphasise macroeconomic stability, strengthening of public financial management to protect core services and the most vulnerable, improving competitiveness through economic and financial reform, and effective coordination with development partners to develop ways to weather shocks and provide a platform for sustainable growth. These four 'pillars' of policy response to the global crisis are consistent with the policy options set out in the *Global Jobs Pact*.

This report canvasses the actions that could be taken by the Pacific Member States to develop an enabling environment for enterprises and the interventions that the ILO, together with other development partners, could take to assist in this endeavour. The benefits of economic reform have been strongly demonstrated through the introduction of competition into the international airlines and telecommunications markets in several Pacific countries. Other economic areas presently dominated by SOEs could benefit similarly from competition. Development partners, including the ILO, could assist in this process through the design of reform programmes and assistance with the transition process. Business regulations are imposing high costs on the development of investment and entrepreneurship. Again, development partners could assist in the reduction of these costs through help with reform of legislation and regulations.

The upcoming negotiations between the PICs and Australia and New Zealand over PACER Plus present opportunities for the PICs to adopt helpful economic reforms. Advantage should be taken of the negotiations to seek guarantees of assistance from the developed partners for any adjustment assistance that may be necessary, such as retraining. The negotiations will also provide an opportunity to discuss increased access for emigration for work.

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Table 1: Real GDP growth rates for Pacific Island Countries, 2006-2010 (%)

Countries	**2006**	**2007**	**2008**	**2009** Update 2008	**2009** Update 2009	**2010** ADO 2009	**2010** Update 2009
Fiji Islands	3.4	-6.6	1.2	1.4	-1.0	0.2	0.5
Kiribati	3.2	-0.5	3.4	0.8	1.0	0.9	0.9
Marshall Is., Rep. of	2.4	3.3	-2.0	-2.2	0.5	0.8	0.8
Papua New Guinea	2.6	6.5	7.2	5.1	4.5	3.5	3.9
Samoa	6.2	6.4	-3.4	2.5	-0.8	-0.1	-0.6
Solomon Is.	6.1	10.3	6.4	4.0	0.0	1.7	2.6
Tuvalu	1.0	2.0	1.5	1.6	1.0	0.9	1.0
Vanuatu	7.4	6.8	6.3	2.9	4.0	0.8	3.5
Pacific average	2.4	3.0	5.2	3.4	2.8	2.7	3.1

Source: ADB (2008, 2009).

Table 2: Inflation in ILO Pacific Member States, 2006-2010 (%)

Countries	**2006**	**2007**	**2008**	**2009** ADO 2009	**2009** Update	**2010** ADO 2009	**2010** Update
Fiji Islands	2.5	4.8	7.7	4.5	7.0	4.5	7.0
Kiribati	-1.5	4.2	11.0	6.5	6.6	2.0	2.9
Marshall Is., Rep. of	5.3	2.7	14.8	9.2	9.6	0.8	1.7
Papua New Guinea	2.4	0.9	10.8	7.0	7.0	6.0	5.5
Samoa	3.8	6.1	10.9	7.0	5.7	2.4	3.2
Solomon Is.	8.4	7.6	16.5	8.6	8.3	2.0	6.9
Tuvalu	3.8	2.2	5.3	3.7	3.8	2.0	2.3
Vanuatu	2.1	4.0	4.8	3.9	4.3	2.0	3.0
Pacific average	3.0	3.6	9.5	6.2	6.1	4.9	5.2

Source: ADB (2009).

Table 3: Current account balances, selected Pacific Island economies, 2006-2010 (% of GDP)

Countries	**2006**	**2007**	**2008**	**2009** ADO 2009	**2009** Update	**2010** ADO 2009	**2010** Update
Cook Islands	10.4	6.5	4.7	5.0	5.2	4.1	4.3
Fiji Islands	-22.6	-17.3	-21.0	-25.0	-25.0	-25.0	-25.0
Papua New Guinea	7.3	2.0	8.7	-7.0	-6.0	-6.0	-6.0
Solomon Is.	-6.4	-12.4	-18.7	-10.1	-10.6	-12.1	-18.6
Vanuatu	-5.7	-7.4	-7.5	-13.2	-13.2	-13.0	-13.0

Source: ADB (2009).

Table 4: Pacific Island Countries—real GDP growth projections to 2013 (%)

Countries	2006	2007	2008	2009	2010	2011	2012	2013
Fiji Islands	3.4 (3.6)	-6.6 (-3.1)	1.2 (1.9)	2.4 (2.8)	1.9 (2.9)	1.5		2.9
Kiribati	3.3	-0.5	3.4	1.5	1.1	1.1	1.1	1.1
Marshall Islands	2.4 (4.0)	3.3 (3.5)	-2.0 (3.0)	0.5 (2.5)	0.8 (2.3)	(1.8)		
Papua New Guinea	2.3 (3.7)	4.1 (4.3)	7.2 (3.7)	3.9 (4.4)	3.7 (4.7)	3.3 (4.0)	3.0	2.4
Samoa	5.4 (3.0)	1.0 (3.5)	6.4 (3.0)	-4.9 (3.5)	-0.8 (3.5)	-0.6 (3.5)	1.1 (3.5)	
Solomon Islands	6.1 (6.1)	10.3 (5.4)	7.3 (4.2)	4.0 (2.8)	3.4 (1.6)	2.5 (1.5)		
Tonga	0.8 (-3.5)	-3.2 (0.8)	1.2 (1.3)	0.4 (1.3)	0.3 (1.2)	2.3	1.7	
Vanuatu	7.4 (5.5)	6.8 (5.0)	6.6 (4.1)	3.0 (3.0)	3.5 (3.0)	4.2		

Sources: For recent projections: Fiji—Government of Fiji (2008); Kiribati—IMF (2009); Marshall Islands—ADB (2009); PNG—IMF (2008); Samoa—Government of Samoa (2009); Solomon Islands—IMF (2008); Tonga—ADB (2009), IMF (2009); Vanuatu—IMF (2009).

For earlier projections (in parentheses): Marshall Islands, Papua New Guinea, Samoa, and Solomon Islands (see IMF 2006 Article IV Consultations—Staff Reports); Fiji—Supplement to the 2007 Budget Address; Oxford Economics – Highlights and Key Issues (August 2007).

Table 5: Trends in Sectoral Output Shares for ILO Member States, 2000-2008 (%age of GDP)

Countries/ years	Agricultural value added	Industry value added	Services value added
Fiji 2000	17	22	61
2005	15	22	63
2006	13	23	64
2007	n.a.	n.a.	n.a.
2008	n.a.	n.a.	n.a.
	n.a.	n.a.	n.a.
Kiribati 2000	4	10	86
2005	4	7	89
2006	3	6	90
2007	n.a.	n.a.	n.a.
2008	n.a.	n.a.	n.a.
	n.a.	n.a.	n.a.
PNG 2000	36	41	23
2005	39	41	20
2006	36	45	19
2007	35	45	20
2008	33	48	19
Samoa 2000	17	26	57
2005	12	31	57
2006	11	30	58
2007	11	31	58
2008	11	29	60
Solomon Is. 2000	35	13	53
2005	35	8	57
2006	36	7	57
2007	33	7	60
2008	32	7	62
Vanuatu 2000	16	9	75
2005	14	9	77
2006	14	9	77
2007	14	9	77
2008	n.a.	n.a.	n.a.

Source: World Bank Indicators database.
n.a. = not available.

Table 6: Visitor arrivals, Pacific Island Countries, 2004-2009 (‘000)

Countries	2004	2005	2006	2007	2008	2009
Fiji	504.1	545.2	548.6	539.9	585.0	140.1[×]
PNG	58.0	68.0	77.7	104.1	120.1	
Samoa	98.2	101.8	115.9	122.3	121.5	71.1**
Solomon Islands	5.6	9.4	11.5	15.2	22.0	4.4*
Tonga	51.9	53.3	52.8	67.1	61.5	30.6[E#]
Vanuatu	98.5	125.6	154.1	167.1	196.7	65.6*

×: January-April
*: January-March
**: January-July
#: January-June
E: estimate
F: forecast

Note: Numbers include day visitors (e.g. cruise ships).
Sources: Fiji Island Bureau of Statistics; Papua New Guinea Tourism Promotion Authority; Samoa Ministry of Finance, *Quarterly Economic Review;* Solomon Islands National Statistics Office; Tonga Department of Statistics; Vanuatu Department of Immigration.

Table 7: Remittance inflows in Pacific Island Countries, 2000-2008 (%age of GDP)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Fiji	1.6	1.7	1.5	6.3	7.5	7.4	6.2	6.0	6.2
Kiribati	10.5	11.2	9.7	7.7	7.0	6.6	6.6	5.5	6.4
PNG	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Samoa	19.5	18.8	17.1	14.0	22.8	25.3	24.0	22.0	25.2
Solomon Islands	0.7	0.7	0.9	1.7	3.2	2.3	5.7	4.8	3.9
Tonga	30.1	39.0	44.3	32.7	33.3	30.3	30.3	38.4	35.8
Vanuatu*	14.3	22.6	1.8	1.4	1.5	1.4	1.2	1.0	1.2

* Estimates do not include regional seasonal worker inflows.
Source: World Bank staff estimates based on the International Monetary Fund's Balance of Payments Statistics Yearbook 2008.

Table 8: ILO Pacific Member States—population, population growth, and population distribution, 2008

	Population ('000)	Population Growth (%)	0-14 years (%)	15-64 years (%)	65+ years (%)
Countries	**2008**	**as of 2008**	**2007**	**2007**	**2007**
Fiji Islands	838.0	0.5	32.2	63.3	4.5
Kiribati	98.0	2.0	36.0	59.0	5.0
Marshall Is., Rep. of	53.9	1.1	38.0	58.0	4.0
Papua New Guinea	6,458.0	2.5	40.0	57.6	2.4
Samoa	180.8	0.5	40.1	55.3	4.6
Solomon Islands	524.0	2.7	39.7	57.3	3.0
Tuvalu	9.9	0.5	34.0	58.0	8.0
Vanuatu	235.4	2.6	38.8	57.9	3.3

Source: Asian Development Bank, *Key Indicators 2009.*

Table 9: ILO Pacific Member States—population projections and growth rates to 2020, and age cohorts by shares

Country	Total (2020) ('000)	Growth rate 2010-2015 (%)	Growth rate 2015-2020 (%)	0-14 Years ('000)	Share of total (%)	15-64 Years ('000)	Share of total (%)	65+ Years ('000)	Share of total (%)
Fiji Islands	888	0.46	0.31	239	26.9	586	66.0	63	7.1
Kiribati	115	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Marshall Islands	75	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Papua New Guinea	8,468	2.17	1.96	2,984	35.2	5,212	61.5	272	3.2
Samoa	184	0.25	0.3	57	30.7	117	63.7	10	5.5
Solomon Islands	662	2.22	2.01	225	34.0	412	62.3	24	3.6
Tuvala	10	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Vanuatu	307	2.35	2.13	106	34.5	189	61.4	13	4.1

Source: UN, *World Population Prospects 2008 Revision Database.*
Notes: n.a.=not available.

Table 10: ILO Member States—labour force in 2008 and projections to 2020 (by gender and age cohorts) ('000)

Countries		Total 2008	15-24 Years	25-54 years	15+ years	Total 2020	15-24 years	25-54 years	15+ years
Fiji Islands	Total	339.5	73.0	221.0	45.6	379.8	72.4	241.2	66.2
	Male	228.5	48.6	150.1	29.8	254.7	48.0	163.9	42.8
	Female	111.1	24.4	70.9	15.8	125.0	24.4	77.3	23.4
Papua New Guinea	Total	2,853.1	745.0	1,824.2	283.9	3,991.8	1,047.3	2,460.7	483.7
	Male	1,458.6	373.8	935.1	149.8	2,041.8	528.5	1,272.2	241.1
	Female	1,394.5	371.2	889.1	134.2	1,950.0	518.8	1,188.5	242.6
Samoa	Total	62.1	15.2	41.4	5.5	73.6	18.0	47.0	8.6
	Male	42.7	10.4	28.0	4.3	49.6	11.6	31.4	6.5
	Female	19.5	4.8	13.4	1.2	24.0	6.3	15.6	2.1
Solomon Islands	Total	112.7	31.2	75.1	6.3	164.3	44.6	109.8	10.0
	Male	77.3	19.8	53.0	4.6	113.6	28.0	78.5	7.1
	Female	35.3	11.4	22.2	1.8	50.7	16.5	31.3	2.8
Vanuatu	Total	119.2	36.8	67.9	14.4	169.3	46.1	99.5	23.8
	Male	63.6	19.8	35.8	7.9	90.3	24.7	53.3	12.4
	Female	55.6	17.0	32.1	6.5	79.0	21.4	46.2	11.4

Sources: ILO, Economically Active Population Estimates and Projections (5th Edition) revision 2009.

Table 11: ILO Pacific Member States—labour force participation, employment, and unemployment (including youth unemployment)

	Labour Force (2008)	**Labour Force (% of Popn.)**	**Employment**	**Unemployment Rate (Total)**	**Youth Unemployment Rate**
Countries	(‘000)	(%)	(‘000)	(%)	(%)
Fiji Islands	339.5	59.0	n.a.	4.6 (2005)	13.1 (1996)
Kiribati	n.a.	n.a.	9.2 (2000)	n.a.	n.a.
Marshall Islands	n.a.	n.a.	10.1 (1999)	30.9 (1999)	63.4 (1999)
Papua New Guinea	2,853.1	72.4	2,344.7 (2000)	2.8 (2000)	5.3 (2000)
Samoa	62.1	57.9	n.a.	5.0 (2001)	12.2 (2001)
Solomon Islands	112.7	36.4	n.a.	31.9 (1999)	45.9 (1999)
Tuvalu	n.a.	n.a.	n.a.	16.3 (2004)	n.a.
Vanuatu	119.2	83.5	n.a.	1.6 (1999)	n.a.

Source: ILO, *Key Indicators of the Labour Market,* 6th Edition, Geneva, 2009.
Notes: The labour force is defined as those of 15+ years. The unemployment rate is defined as the percentage of the labour force that does not have a job but is available and actively looking for work.
n.a. = not available.