Is the potential of labour's contribution to development acknowledged in the Pacific island countries?

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This paper provides a critical review of labour market performance in the Pacific region and argues that Pacific island governments need to be aspirational and committed to ensuring that their labour markets achieve efficiency, within their limits, through appropriate policies and institutions.

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A country's labour force is one of its most valuable resources, if not its most valuable. Developing countries that have been able to lift their people out of poverty and its associated ill effects have done this largely on the basis of effective utilisation of their labour resources, assisted by appropriate injections of capital and complementary policies (Felipe 2004). This cannot be said of the Pacific island countries.

This paper provides a critical analysis of labour markets in the region and discusses current and labour market policies of the Pacific island countries in relation to their endeavours to achieve economic development. The premise of the paper is that unless Pacific island governments acknowledge the significance of the labour force and formulate policies to efficiently and effectively manage their labour force, there is little reason to be confident that they will achieve robust development

The paper approaches the discussion by first looking at the state of Pacific island country labour markets. Next, it examines inherent labour market challenges faced by governments. This section is followed by a discussion of issues involving the various parts of the labour markets. Fourth, labour market initiatives that have been taken by governments are analysed, followed by sections examining the implementation of labour market restructuring, the potential for Pacific island countries to achieve labour market efficiency and, finally, conclusions. Many different issues can be taken up in a paper on labour markets, however, the focus of this paper is on the examination of labour market policies and institutions and their role in assisting labour markets to achieve efficiency.

The status of Pacific island country labour markets

On the whole, labour markets in the Pacific region can be characterised as inefficient. This is because the policy and institutional basis for the efficient operation of labour markets is missing in most Pacific island countries. Pacific island country labour markets share common characteristics: dualism, physical isolation, rapidly growing youth population and relatively large public sectors. These issues are intrinsically intertwined with the socioeconomic, demographic and political make-up of each Pacific island country. Most importantly, there is the combination of a highly protected formal labour market sector with an unprotected and frequently disadvantaged informal sector, which prevents the easy movement of labour to take up job opportunities, as well as constraining productivity growth. Although the relationship between labour productivity and the structure of labour markets is complex, the current structure has likely contributed to the poor productivity outcomes witnessed in the region. The strong formal–informal sector split also contributes to socially unjust outcomes.

The general picture of the region is of a stagnating labour market and an ever-increasing population. In the past decade, annual formal employment growth has averaged about 1.5 per cent while average population growth has been much faster, particularly in Papua New Guinea (3 per cent) and Solomon Islands (3.1 per cent). Generally, the dismal employment growth is also reflected in the poor growth record of gross domestic product (GDP); for example, only three countries—Cook Islands (6.5 per cent), Samoa (3.1 per cent) and Papua New Guinea (3 per cent)—had reasonably significant economic growth in recent years (Duncan and Gilling 2005).

One other glaring observation is the static nature of Pacific island country labour markets. Labour markets are static in two senses: first, there has been little change in the structure of formal employment; second, because of the dominance of the public sector, there is little emphasis on sectors that drive growth in the economy. The allocation of labour is tallied across some broadly defined sectors within the Pacific island economies (Table 1). Several points can be noted

- the public sector provides the largest proportion of formal employment, except in Fiji
- manufacturing and construction provide only a small fraction of formal employment except in the two largest economies, Papua New Guinea and Fiji
- Tonga, Vanuatu and Palau have a manufacturing base that has a large informal component, reflecting economic dualism
- the largest share of agricultural employment is in Papua New Guinea, followed by Solomon Islands and Samoa
- the services sector generally employs more workers than the manufacturing sector. Fiji is a stand-out in this regard as a result of its large tourism sector.

Table 1 **The sectoral distribution of employment in Pacific island country labour markets**

Country	Agriculture	Manufacturing and construction	Services	Public sector
Cook Islands	519	306	2,506	3,868
Federated States of Micronesia	700	..	..	4,200
Fiji[a]	1,563	38,274	102,428	53,495
Kiribati	..	..	2,916	6,284
Nauru	18	587	418	930
Niue	..	..	210	432
Palau	..	1,200	3,457	3,388
Papua New Guinea	43,050	43,830	53,638	60,523
Solomon Islands	7,426	5,535	2,702	18,011
Tonga	410	1,590	3,593	6,831
Tuvalu	105	60	277	1,046
Vanuatu	975	3,120	5,850	6,240
Samoa	3,000	5,155	3,000	17,000

[a] Figures taken from employment forecasts cited in Voigt-Graf, C., 2006. *Analysis of skilled employment demand and opportunities in the Pacific labour market*, USPSE Working Paper Series, (11), University of the South Pacific.

Notes: Note that the employment figures are estimates only, and in some cases are forecasts. There is an absence of data for some sectors for several countries, typifying the challenge of pooling labour market information in the Pacific island countries for research and policy formulation purposes.

Sources: Chand, G., 2006. *The labour market and labour laws in Fiji*, USPE Working Paper No.12, University of the South Pacific; Mellor, C., 2004. *Tuvalu labour market review*, USPSE Working Paper No.1, University of the South Pacific; Toatu, T., 2004. *A multi-pronged strategy for combating corruption in the Pacific—the 'National Integrity System' approach*, PIAS-DG Governance Program Working Papers, University of the South Pacific, Suva; Chand, A., 2004a. *Employment, the labour market, and industrial relations in Vanuatu*, PIAS in Development and Governance, Employment and Labour Market Studies Working Paper No.5, University of the South Pacific; Chand, A., 2004b. *Employment, the labour market, and industrial relations in Samoa*, USPSE Working Paper No.8, University of the South Pacific; Jowitt, A., 2004. *Review of labour laws in Vanuatu*, USPSE Working Paper, University of the South Pacific; Imbun, B.Y., 2005a. *Review of Labour Laws in Papua New Guinea*, Employment and Labour Market Studies Program, PIASDG, University of the South Pacific; Imbun, B.Y., 2005b. *Review of Labour Laws in Solomon Islands*, Employment and Labour Market Studies Program, PIASDG, University of the South Pacific; Voigt-Graf, C., 2006. *Analysis of skilled employment demand and opportunities in the Pacific labour market*, USPSE Working Paper Series, (11), University of the South Pacific.

Inherent labour market challenges in the Pacific island countries

Efficient labour markets are essential for economic and social development as they facilitate the movement of labour to increasingly more valuable uses. In Pacific island countries, however, the mediocre performance of the labour market could be evidence of the challenges faced on a daily basis. Several examples highlight the inherent challenges Pacific island labour markets are facing.

Labour market legislation

First, a well-functioning labour market needs legislation regulating the relationships between employers and workers—for example, protecting workers from unfair labour practices and promoting a safe workplace environment. In most of the Pacific island countries, there is appropriate labour legislation in place. It centres on the following core areas of the labour market: employment, wages, trade unions, dispute settlement, tripartism, occupational health and safety (OHS), pensions, the public service and expatriate workers. These are discussed subsequently (Table 2). Not all Pacific island countries, however, have the necessary legislation, as indicated in the discussion.

Several generalisations of the labour laws as they take on the challenge to regulate labour markets in the Pacific island countries can be noted

- most of the labour market legislation was established by colonial administrations and has become obsolete
- enforcement is restricted to the formal sector, which comprises in some cases one-tenth or less of the labour force
- where there are laws for the informal sector, they are the weakest in enforcement and workers are most vulnerable
- trade unions are generally active in the region
- the constitution, statutes, common law and government policies seem to supplement labour market legislation or act as substitutes in the absence of an appropriate law—for example, Tonga's regulatory framework is not yet in place and it therefore relies on common law and other workplace arrangements
- compliance with labour legislation standards differs across countries, however, the weakest compliers are small employers
- some issues (for example, wages and expatriate employment) are contentious in some countries but not in others
- issues of regulation and the inspection of workplaces differ significantly.

The range of labour legislation tends to be influenced by a number of factors, including economics, trade union activities, politics and demographics. The larger Pacific island countries, such as Papua New Guinea, Fiji and Solomon Islands, tend to have more comprehensive labour legislation than the smaller states.

Tripartite arrangements

In order for labour markets to function effectively, tripartite arrangements are necessary. Several Pacific island countries have tripartite arrangements in place that take the form of appropriate government departments, employer organisations and trade unions, overseeing the shaping and implementation of labour market policies. These bodies regulate the labour market in various areas, ranging from wages and superannuation to apprenticeships and training and dispute settlement, and they also act as advocates of economic development policy. The development of tripartism, however, faces several inherent

Table 2 **Areas of labour market regulation, selected Pacific island countires.**

Country	Employment	Wages	Trade unions	Dispute settlement	Occupational health and safety	Pensions	Public service	Workers' compensation	Expatriate workers
Cook Islands	Legislation	..	Other law	Other law		..	Other law	..	Legislation
Federated States of Micronesia	Other law	..	..	Other law	..	Second-country law	Other law	Other law	Other law
Fiji	Legislation	Legislation	Legislation	Legislation	Legislation	Legislation	Legislation	Legislation	Other law
Kiribati	Legislation	Other law	Legislation	Legislation	Other law	Other law	Legislation	Legislation	Other law
Nauru	Policy	..	..	..	..	..	Policy	Second-country law	..
Niue	Other law	Policy	..	..	..	Policy	Other law	..	..
Palau	Legislation	..	..	..	Second-country law	..	Legislation	Second-country law	Legislation
Papua New Guinea	Legislation	Other law	Legislation	Legislation	Legislation	Legislation	Legislation	Legislation	Legislation
Solomon Islands	Legislation	Other law	Legislation	Legislation	Legislation	Legislation	Legislation	Legislation	Other law
Tonga	..	Policy	Other law	..	..	Policy	..	..	Policy
Tuvalu	Legislation	Policy	Legislation	Legislation	Other law	..	Policy	Legislation	..
Vanuatu	Legislation	Legislation	Legislation	Legislation	Legislation	Legislation	Legislation	Legislation	Other law

Notes: Legislation = appropriate labour legislation (acts or ordinances) in place
Other law = another law applies in this area (for example, employment legislation also regulates wages, dispute settlement, and so on)
Policy = the constitution or administrative policy applies
Second-country law = a second-country law applies
.. = none available, however, controlled lightly and on an ad hoc basis
Source: Imbun, B. 2006, Labour market, economic development and regional economic integration: a benchmark study and way forward, Session Paper 2, Pacific Islands Forum Secretariat, Forum Economic Ministers' Meeting, Honiara, 3–5 July.

challenges. First, the issue of a 'potential overlap' was identified in an International Labour Organization report (ILO 1996) that observed that consultation about wider economic and social issues was repeated in different tripartite bodies. For example, the National Tripartite Consultative Council in Papua New Guinea and the Tripartite Forum in Fiji were bodies established to gauge civil community input into the social and economic affairs of their countries. In many respects, however, the National Development Forum in Papua New Guinea and the National Economic Summits in Fiji also took on some of the responsibilities of the tripartite bodies.

Second, the broad developmental agenda setting related to some of the tripartite arrangements—as in Fiji, Papua New Guinea and Solomon Islands—seemed to distract attention from the need for regular consultation between governments, employers and unions over more narrowly defined labour issues. Finally, there is a possibility of changes occurring in the roles of some of the tripartite bodies as a result of the prevailing social, political and economic realties. For example, there is the possibility of the bodies being engaged as 'stakeholders' in civil roles in policy formulation. Some of the challenges, such as informal sector activities targeted for policies, pertain to the labour market.

Workers' compensation

The regulation of workers' compensation poses challenges for workers in Pacific island countries. First, it seems that the capacity of workers' compensation systems to clear the backlog of claims is a concern to many workers. It is a major concern in Papua New Guinea and also a problem in Fiji. There is a multitude of factors associated with assessing, processing and settling compensation claims in most countries. Many of the countries do not have provision in their legislative acts for the establishment and appointment of management committees (or boards) to oversee the management of workers' compensation systems on behalf of government and other interested parties. Most acts are silent on enforcement pertaining to such matters as uninsured employers, failure to give notice of injury or to give notice within the prescribed time, failure to make weekly payments and to keep records of wages, and so on.

Labour market information

Fundamental to labour market participants making informed choices and politicians legislating appropriate policies is the ready availability of appropriate labour market information. Pacific island governments, however, appear to pay little attention to the critical significance that labour market information has in social and economic development. Despite the existence of statistical units in relevant government departments in many Pacific island countries, relevant labour market data are often not collected or put to good use as a result of lack of personnel. More often than not, politicians develop policies in ignorance of available labour market data. What they need to do is to first acknowledge the significance of their statistical units and, second, devote more resources to making their functions more effective in gathering and analysing data for possible policy formulation and advice.

The business community

Labour legislation also has important implications for the wider business community. It is claimed that the region has some of the most stringent employment protection laws for workers, with permanent employment contracts pertaining to working hours and paid leave that are stricter than in industrialised countries (World Bank

2004a). For example, the *Trade Dispute Acts* of Fiji, Kiribati, Solomon Islands, Tuvalu and Vanuatu give too much discretion to the minister responsible for settling disputes. Moreover, lack of continuity in the appointment of industrial tribunals, lack of rigour in these bodies, unnecessary steps and delays and ambiguous provisions are some of the concerns commentators have about dispute settlement processes in Pacific island countries (ILO 1996).

Social security

Another labour market challenge facing Pacific island governments is their inability to provide social security for their people because of their economic circumstances. The exceptions are the Federated States of Micronesia, Republic of Marshall Islands and Palau, whose citizens are dependent on the US welfare system under existing political arrangements. Although similar arrangements exist for the people of Cook Islands and Niue, they have to migrate to New Zealand to qualify for welfare benefits. For the majority of the Pacific island countries, pension funds exist only for workers in secure jobs in the formal sector. The majority of the populations have to rely on a subsistence livelihood.

Pension funds for formal workers have, however, experienced problems; in particular, poor governance of such funds has been a widespread problem. The trust bestowed on management by contributors to invest their funds wisely has often been abused. Moreover, it is a widespread practice for governments to use superannuation funds as a means of funding government expenditure, which locks the money into investments in underperforming economies.

These various problems restrict the efficiency of labour markets in allocating the labour force across various economic activities and obstruct the progress different groups of labour can make. They also scare potential investors away and aid the emergence of very protective trade unions and public sector employers. This paves the way for complacency among politicians, bureaucrats and workers. As long as there is a lack of concerted effort towards rectifying the restrictive employment legislation, labour markets in the region will not reach their full potential and people will continue to face problems with regard to their participation in the labour market.

The impact of labour market problems on groups within the labour force

The prevailing labour market problems in the region adversely affect different groups of the labour force as they look for opportunities to advance, either through employment or business development. The various groups of people are affected differently depending on their professional and personal circumstances. Examples of such groups include skilled workers, youth, informal workers, public servants, unionised workers and expatriates.

Skilled workers

One group of workers adversely affected by the prevailing Pacific island labour market problems is skilled workers. The demand for and supply of skilled labour in the region is determined by a multitude of factors—for example, employment legislation and policies, non-labour market effects and policies such as migration, the role of government, labour force skills and gender roles. Notably, the outflow of skilled labour through migration in many Pacific island countries has created a demand for substitute labour in the domestic labour markets. The exodus of professional workers from Fiji as a result of the political crisis and the flight of similar workers, mainly from Polynesian countries with constrained labour markets, to New Zealand and Australia have left a deficit in skilled human resources in the public and private sectors. Retention of skilled labour is an acute issue for many Pacific island countries, particularly Fiji in regard to its information technology sector, accountants and, lately, nurses, some of whom have sought jobs in Britain (Voigt-Graft 2006).

The creation of more labour market opportunities in Pacific island countries is one of the major avenues for retaining skilled labour. The issue of whether departing workers can be easily replaced without a loss in output or rise in wages also needs to be investigated.

Youth

Despite the youth (15–24 years of age) composition of most Pacific island country populations being between 25 and 45 per cent, they are also the least employable group in the formal sector. Due to labour market rigidities and lack of appropriate policies, the majority of youth remain in the subsistence sector or in the informal sector in urban settings. In all Pacific island countries, unemployment among this group is the highest as a result of youth being new labour market entrants with limited skills. In Papua New Guinea, Solomon Islands and Vanuatu, in particular, youth unemployment is acute. In Papua New Guinea, some 50,000 school leavers are recorded each year, while Fiji records about 16,000; in the case of the former, however, only about 1,000 jobs are created each year (Fraser 1998; Imbun 2006).

In an attempt to redress the problem of youth unemployment, Pacific island governments have identified several strategies in the past two decades. Most notably, at the regional level and in some countries, governments have lobbied for their youth to be employed in Australia and New Zealand on a temporary seasonal worker basis in their agricultural sectors. Maclellan and Mares (2006), who have studied remittances, migration-related seasonal labour movements and developments in the Pacific, note that migration has become a way of life for many Polynesian and Micronesian countries, as well as Fiji. Maclellan and Mares (2006) and others (for example, Browne and Mineshima 2007) discuss the significance of labour migration and the consequent remittance impact on the economy of the originating Pacific island countries. The World Bank (2006), in a landmark study, studied the significance of labour mobility to the Pacific and found that although there was demand for labour in the two industrialised neighbouring countries, employment options available to Pacific islanders were biased in favour of skilled workers. The report advocates greater labour mobility to make up for the constrained labour market opportunities in the region.

Another attempt made by some Pacific island countries has been to address minimum wage legislation as a contributor to labour market rigidity in order to create opportunities for their bulging youth populations. Advocates predicted significant gains through the promotion of job creation from a reduced minimum wage but others feared the adverse effects of deregulation on the development of poverty—in absolute and relative terms. Papua New Guinea is the only country in the region that has successfully deregulated its wage policy (Imbun 2005a). Several attempts in Fiji have failed to prevent the minimum wage being implemented in the industry-based 'wage councils' as a result of stiff opposition from trade unions, which have been opposed to the restructuring of labour markets (Prasard and Snell 2003). There are some

10 wage councils in Fiji, each implementing specific minimum wages. These councils represent the main industries in Fiji, such as hotels and catering, wholesale and retail, sawmilling and logging, garments, manufacturing, road transport and mining and quarrying. Because of its entrenched industry arrangements, Fiji does not have a national minimum wage for the entire country.

Pacific island countries need to develop viable labour market strategies to absorb their youth in employment opportunities. Fiji, Samoa, Vanuatu and Palau have invested heavily in tourism and employment levels have therefore risen in this sector. Other Pacific island countries, such as Papua New Guinea and Solomon Islands, which have great social, cultural and geographical assets, are yet to realise their potential and create opportunities for their youth.

Informal workers

There is a general lack of acknowledgment of and support for the role of the informal sector in the expansion of labour market opportunities in many countries. There is an absence of appropriate legislation and policies dealing with the informal sector despite its importance. There is, however, growing acknowledgment of the dynamic role the informal sector or subsistence economy can play in the development of Pacific island economies. For example, Papua New Guinea recently introduced a law aimed at encouraging informal activities, particularly in urban areas, and in the process nullified legal and administrative constraints applicable to the sector (Imbun 2006). Such constraints in the form of municipal laws remain in many cases.

There are also other inherent challenges besieging the informal sector that restrict its potential to provide labour market opportunities for the bulk of the region's population. These challenges include the lack of balanced economic policies between the formal and informal sectors, the lack of appropriate vocational education programs, the lack of recognition of the contribution of women and little emphasis on the role of technology in the informal sector. Unless these challenges are attended to the unrealised potential of the sector to promote economic development will remain.

Public servants

There is a common perception among the population and external commentators that Pacific island country public servants (as a group) are ineffective. While much is demanded from public servants in the region, the challenges faced are not acknowledged. Some of these challenges are inherent to the labour market. Lack of adequate resources, coupled with inefficient labour and lack of direction, has led to many social services deteriorating rapidly. The problem is acute in some Pacific island countries—for example, Papua New Guinea, Solomon Islands and Fiji—where it is compounded by issues of political governance, civil dissatisfaction, generally poor economic performance and rampant unemployment and underemployment (Chand 2006; Imbun 2006). Countries with the most acute problems appear reluctant to fast-track the restructuring of their public services.

Unionised workers

Generally, the unionised workforce in the larger Pacific island countries is fraught with challenges that adversely affect the sound management of employment relations. Trade union legislation often poses problems for this group of workers. Obsolete legislation, inefficiencies, fragmentation and personalised politics tend to characterise PNG trade unions, while trade unionism in

Fiji is fragmented along racial lines. Critics of trade unions see them as failing to see the 'big picture' of their government's policies in the context of economic development (Imbun 2000; Prasard and Snell 2003). Despite trade unions' weaknesses, they have been able to influence wages and other conditions of work in several Pacific island countries. Wage increases for Samoan and Tongan public servants are recent examples.

Expatriates

The employment of expatriates and immigration are dealt with in the legislation of most Pacific island countries. In Papua New Guinea, where unemployment is a huge problem and lack of skills is also a major concern, employment of expatriates presents a dilemma for the government. The *Employment of Non-Citizens Act 1978* has been extensively debated in Parliament with regard to poor compliance with its provisions and, in particular, the pace of localisation (Imbun and Ngangan 2001). There are also serious issues in Palau, where immigrants outnumber Palauans and racial clashes, particularly over Asian labour and businesses, have erupted at various times.

One of the issues central to the employment of expatriates is wages. This occurs when a system of dual pay is part and parcel of the government's labour market policy. Nationals doing the same jobs as expatriates, particularly in higher education and mining, have continued to voice their frustration at governments for adhering to this discriminatory policy. The lack of skilled human resources is normally given as justification for maintaining this divisive policy (Imbun 2000).

In summary, the impacts of labour market institutions and policies on various labour force groups are hard to quantify, as there has not been any study of the impact of restrictive employment legislation and regulation. All of the above challenges highlight one problem and that is the inadequacy of Pacific island economies to provide adequate labour market opportunities for their populations to engage in productive economic activities.

Labour market initiatives and economic policies

Notwithstanding the structural inefficiencies, labour markets in the region are regulated in most respects. The issue, however, is how relevant and responsive have the legislation and policies been in relation to macroeconomic policies. Analysis of several key labour market policies can highlight how they have performed. First, regulation of wages is not related to the macroeconomic performance of most Pacific island countries. Therefore, the structure and scope of minimum wages have become acute issues, particularly for the larger Pacific island countries. For example, in the Melanesian countries (Papua New Guinea, Solomon Islands and Fiji), minimum wages and wages in the public service and other sectors of the economy are high relative to productivity, particularly in comparison with some Asian countries (for example, Sri Lanka, Indonesia and the Philippines). The formal sector is dominated by the public sector, where wages are high and there is a tendency for private sector wages to be linked to the public sector. Any positive gains for those receiving the high wages are, however, probably more than offset by negative impacts on employment opportunities for the poor and unskilled (Duncan and Gilling 2005:19).

Other labour market regulations also constrain economic activities in the Pacific island countries. According to one report (World Bank 2004b), major obstacles, including restrictive labour legislation, particularly their employment acts, constrain business investment in Pacific island countries. Additionally, the World Bank (2004a) database on the 'Costs of Doing Business' identifies the difficulty of hiring, the flexibility of working hours and procedural difficulties and costs of hiring as impediments to labour market flexibility and overall economic development. The evidence from the region points to the unnecessary restriction of labour market operations. The database offers interesting comparative data between regions. All Pacific island countries are located near the bottom of the range in terms of maintaining restrictive barriers in each of the elements examined by the World Bank. For instance, some Pacific island countries impose great hurdles (that is, fixed-term contracts) on employers when recruiting workers. In the context of the flexibility of working hours, most of the Pacific island countries maintain a strict eight-hour daily workload and additional hours are paid at overtime rates. They are not generally flexible, as in South Asian countries, where working days may exceed the normal five each week. As for procedural difficulties and costs of hiring, they are generally unfavourable to business, particularly for laying off workers (World Bank 2004b). Evidence from Papua New Guinea adds support to this assertion (Manning 2002).

Most Pacific island countries have industrial dispute settlement processes that cater for the accommodation and settlement of industrial issues. As noted above, however, most of the legislation and policies are obsolete and some of the provisions do not reflect the realities of changing labour market conditions such as public service restructuring and privatisation. Critics such as Hughes (2003:16) argue that 'the 1960s industrial relations club of tripartism' has become a thing of the past in Australia and New Zealand, however, 'it persists, crippling employment creation' in the Pacific. In many countries, adversarial relationships between employers and workers have given way to work arrangements based on consultation and work participation, emphasising mutual gain for both parties. This does not seem to be the case in the Pacific island countries, particularly in Papua New Guinea, Fiji and Solomon Islands. Levantis (2000) also acknowledges the dilemma in Papua New Guinea where the transplanted Australian industrial relations system seems to create a 'them' and 'us' situation that is having an adverse impact on people's perceptions of benefits, leading them to concentrate on the gains for a small group rather than the economic development needs of the country.

Many problems persist in the regulation of public services that adversely affect the economic performance of the Pacific island countries. The public service machinery is a product of colonial administration in many Pacific island countries and therefore many aspects are obsolete. Because of the ineffective delivery of services, lack of training of personnel, lack of technical skills, lack of management knowledge, corruption, lack of focus, lack of financial resources and political interference, commentators, including donors (see, for example, AusAID 2003, 2004; World Bank 2004b), have consistently argued for leaner and more efficient public services, staffed by sufficiently well-qualified personnel.

All in all, analysis of each area of labour market legislation across the region in the past decade suggests difficulties for many groups and organisations in most areas, including those relating to employment relationships, minimum wages, dispute settlement, health and safety, the public service, workers' compensation, expatriate employment and tripartite bodies (Imbun 2006). The kinds of difficulties experienced differ between the different types of legislation and between Pacific island countries for the various groups (that is, formal workers, informal workers, expatriates and trade unions), but in general problems spring from

- the lack of policy and/or legislation pertaining to one of the above issues
- legislation focusing on one of the desired labour market outcomes to the neglect of others—for example, in Papua New Guinea, Solomon Islands and Fiji, wage decisions are fixed, largely taking social conditions rather than productivity factors into consideration
- overly ambitious legislation in relation to resources—for example, OHS regulation across the region generally appears too ambitious, given the human and financial resources available for enforcement
- legislation leaving too much leeway for discretion, as in the *Trade Dispute Act*s of Fiji, Kiribati, Solomon Islands, Tuvalu and Vanuatu; this can lead to a lack of accountability and a reduction in the effectiveness of the legislation
- the ability for enforcement is restricted to the formal sector
- the weakest enforcement of laws is in the most vulnerable, informal sector
- trade unions are generally active in the region.

Implementation of labour market policies in the region

In order to improve their economies, most Pacific island countries have embraced labour market restructuring. The restructuring program has often featured as an element of structural adjustment programs. It has generally taken place with a view to promoting greater efficiency. Policy change has taken place mainly in the areas of minimum wages (particularly in Papua New Guinea), collective bargaining arrangements (mostly in Fiji and Papua New Guinea) and the restructuring of public services. The last-mentioned has been pursued the most widely, although the extent to which it has been achieved has varied. Vanuatu and Samoa have perhaps made the most progress in this area. It has been argued that excessive government intervention in labour markets through public sector wage and employment policies, minimum wage fixing and employment security rules is a serious impediment to labour market adjustment and should therefore be removed or relaxed. This reasoning has motivated Pacific island countries to implement substantial deregulation of their labour markets. The labour market restructuring process has, however, at times been challenging and conflict ridden for many Pacific island countries. Issues have emerged at the outset as well as in the implementation phase, triggered by various stakeholders.

Regulation of wages

The regulation of wages has been a hotly contested issue in Pacific island countries. The urgency to deregulate their once-centralised wage policies has been felt particularly by the larger Pacific island countries. This is because there has been little or no benefit in terms of employment opportunities for the poor and unskilled as a result of higher wages paid to the already well paid in the formal sector (Duncan and Gilling 2005:19). Equally critical was the attachment to the existing and cherished wage fixation system, which mostly took into consideration social conditions rather than productivity. As a result, trade unions with the support of youth, women and church groups have been vocal in arguing to retain the *status quo*; however, to date, only Papua New Guinea has successfully deregulated its minimum wage fixation system. Several attempts in Fiji have failed to remove minimum wages, as a result of stiff opposition from trade unions, which have been opposed to attempts to restructure the labour market since they began in the 1990s (Prasard and Snell 2003; ADB and Commonwealth Secretariat 2005).

Regulating trade unions

The restructuring of the labour market has already seen changes in workplaces. One shift has been in the power balance between organised labour and employers. Before the advent of labour market restructuring, trade unions enjoyed power as legislation specified their rights to collective bargaining and strike action as representing workers' interests. With the introduction of pro-flexibility labour market legislation and policies, however, trade unions have generally been seen as contributing to labour market rigidities and changes have been made to trade union acts to remove some of their rights. These developments have occurred in Fiji, where trade unions seem to have lost out to employers after numerous battles. Fijian governments have adopted a wide range of labour market policies, which were carried through numerous decrees and notices that led to the amendment of the *Employment Act*. Amendments were also made to the *Industrial Association Act*, the *Trade Union Recognition Act*, the *Trade Union Act*, trade union regulations and the *Trade Dispute Act*. The amendments were aimed at curtailing the rights of the trade unions in order for flexibility in the labour market to take shape. Some have claimed that the amendments are harsh and oppressive (Chand 1998), however, Fiji now has a new Employment Relations Bill 2006, which is comprehensive and covers the wide domain of employer–employee relationships. It is, however, yet to come into force after final refinements and endorsement by the Fijian Parliament.

Prasard and Snell (2003) observed that labour market deregulation was responsible for the decline in trade union density. The erosion of jobs in the public sector has also led to a decline in trade union power. The deregulation of the labour market has led to establishment of in-house consultative negotiation arrangements or enterprise unions to sort out terms and conditions of work. The PNG case emanates from the 1992 labour market deregulation in which the concept of enterprise bargaining was introduced, with any wage increase above the minimum wage to be determined on the basis of sharing productivity gains between workers and employers. To date, however, trade unions have not utilised this undertaking due to a host of factors, including reluctance in regard to information disclosure on productivity gains by employers (Imbun and Ngangan 2001).

Public service restructuring

Public service restructuring has arguably been the most prolonged and largely problematic labour market issue most of the Pacific island countries have had to deal with in the past two decades. Achievements have been varied. For some (Vanuatu and Samoa), restructuring has been completed, while for others (Papua New Guinea, Fiji, Solomon Islands and Tonga), it has either stalled or has been characterised by how each country has prioritised its policy. The popular perception of the public service in these and other developing countries is that it is not very productive and employees receive wages above their marginal rate of return, and are thus bidding up the wage structure.

Toatu (2004) describes public sector restructuring in the Pacific island countries as a process that involves the instilling of meritocracy and adequate pay in public administration; the establishment of ethical codes of behaviour; clarifying governance structures; enhancing predictability; transparency and accountability in fiscal management; improved procurement procedures; and improved policy and program rationalisation (cited in Koe 2005:7). These are some of the ideals the Pacific island countries have attempted to restructure their public service machinery around. Their experiences with restructuring vary, reflecting some problems unique to each country, but also several characteristics that have inhibited progress across the region. These include: most bureaucratic organisations are products of colonialism, they are bloated, inefficient and ineffective, prone to political cronyism and interference, lack professionalism, are reluctant to change and absorb significant resources with minimal outcomes.

It should, however, be noted that these changes to labour regulations have not (yet) led to significant improvements in economic or social outcomes. While Papua New Guinea's wage deregulation and Samoa and Vanuatu's public sector restructuring appear to have succeeded in increasing labour market flexibility, it is unclear to what extent they have succeeded in their wider aims. For example, in Vanuatu, the public sector wage bill has not fallen as many of the workers made redundant through 'right-sizing' were later rehired on short-term contracts. Similarly, increased productivity and increased (formal) employment are not apparent, although it is recognised that results could become apparent in the medium term. Perhaps the most interesting evidence is the increase in Samoa's growth rate, which followed its public service restructuring. This restructuring, however, was accompanied by a number of other reform policies, and other significant factors were in play, such as access to overseas labour markets.

Overall, the experience within the region with reforming labour market policies and legislation points to two lessons. First, reform is not easy to achieve. There are many groups who might oppose reforms, particularly workers, and reforms need to be put together carefully to consider the impacts on all those who might be affected. Wide consultation with a government's tripartite partners is necessary to instill ownership of the reform agenda. Second, while important and necessary, simply reforming labour legislation is not sufficient to ensure improved labour market outcomes. Many other factors have an impact on whether labour policy changes will have their intended effect. These include population dynamics such as birth, death and migration rates; education policies; the domestic investment climate; the impact of globalisation; and attitudes towards gender roles. These factors impact on the supply of and/or demand for labour in the region, and thus affect labour market outcomes.

Potential for Pacific island countries to achieve labour market efficiency

While there is scope for more labour absorption in the formal sectors of the Pacific island countries, recent assessments of labour markets show suppressed economic growth (ILO 2007). There is, however, huge scope for the improved use of labour in the furtherance and growth of informal employment in Pacific island countries. The bulk of the population of Pacific island countries resides in the informal sector, where they have ready access to the two significant resources of labour and land, although those countries poorly endowed with arable land, such as the coral islands and atolls, have only their labour to put to productive use. If land and labour are utilised efficiently in the informal sector, there is huge potential for Pacific island countries to achieve elusive economic development. Recent research (Felipe 2004) indicates that developing countries that recognise the importance of the informal sector have made huge steps towards achieving economic growth, particularly in Southeast Asia.

Conclusion

Pacific island countries appear to hold a dim attitude towards acknowledgment of labour as one of the key components of economic and social development. The analysis highlights several policy issues that require serious attention in order to substantially improve labour market outcomes, and thus promote economic growth and well-being. One way of assisting Pacific island countries to incorporate consideration of these issues into labour market policies and broader development planning is to compile region-specific labour market principles to guide policymaking at the national level. The principles proposed here are based on the discussion of the experiences of the Pacific island countries, plus consideration of international best practice

- tripartite partners must be brought into labour market policymaking
- improving the effectiveness of institutions and programs focused on the labour market should be a priority
- the dynamic role of labour in development must be harnessed
- the informal sector must be systematically integrated into the mainstream economy
- pragmatism should be at the core of policymaking
- there must be an integrated approach to labour market policy planning.

It is imperative for all Pacific island governments to view labour in a new light in order to utilise labour efficiently and effectively in their quest for more employment opportunities, and indeed to achieve economic growth and improved welfare for their people.

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