economics Division Working Papers

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93/3

Research School of Pacific Studies ANU

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Published by the National Centre for Development Studies

Printed in Australia by Better Printing Service, 1 Foster Street, Queanbeyan, NSW, 2620.

ISBN 0 7315 1684 2

Key to symbols used in tables

n.a.	Not applicable
..	Not available
-	Zero
.	Insignificant

Richard P.C. Brown is a Senior Lecturer in the Department of Economics, University of Queensland and ***John Connell*** is an Associate Professor in the Department of Geography at the University of Sydney. The authors are currently engaged in an ILO-funded research project on the magnitudes, forms, uses and policy implications of remittance flows to Pacific island economies.

The survey reported in this paper was undertaken by the authors while engaged in fieldwork in the Kingdom of Tonga under the auspices of an ILO-funded research project on 'Remittances in the South Pacific' which is currently in progress. Although this paper is not formally a part of that study we wish to thank the ILO for the support given.

The Economics Division acknowledges the contribution made by the Australian International Development Assistance Bureau towards the publication of this working paper series.

Abstract

Some common postulates about the form and use of migrants' remittances in the South Pacific are examined and questioned in the light of a microeconomic study of one group of remittance recipients in the flea-market of Nuku'alofa, the capital of the Kingdom of Tonga. The findings of this study suggest that economic analysis and policy recommendations based on the existing macroeconomic data on officially recorded remittances and other economic aggregates should be treated with caution. The unrecorded inflows of remittances in kind and the associated spread of the domestic informal sector have important implications for the analysis of Tonga's economy. The functioning of remittance-dependent economies is more complex than existing economic analysis, focused on passive receipt of cash and consumption, suggests. The emergence of remittance recipient entrepreneurs indicates substantial investment activity and the manipulation of remittance dependence by economic agents. There is also evidence to suggest that the growth of remittance based international trade is fostering significant changes in the domestic economy.

Common postulates

Two main postulates underlie much existing macroeconomic analysis of the remittance-dependent economies of the Pacific islands. First, remittances tend to be equated with transfers from migrants to their families back home through the official banking system. These transfers are mostly recorded in banking statistics and in the receiving country's balance of payments current account as 'unrequited transfers'. Conclusions about the magnitudes and longer-term trends in remittance flows are based on such data, even though it is well known that a substantial, and possibly increasing, proportion of remittances enter these economies through other channels and in different forms (Ahlburg 1991). Second, it is commonly postulated that remittances from migrants are used exclusively for supporting the consumption needs of the recipients, and are spent primarily on imported consumer goods (Miles et al. 1992, World Bank 1991, Fairbairn 1991a and 1991b).

Together with other macroeconomic data pertaining to trends in aggregate consumption and investment expenditure, data on officially recorded flows and transactions constitute the main basis for economic analysis and policy making which address remittances as a source of foreign exchange, means of livelihood, and potential source of savings for domestic investment. It has become an increasing source of concern among policy makers, particularly those in the international donor community, that remittances have little or no direct or indirect impact on domestic investment, and thus do little to enhance the longer-term economic sustainability of these island economies (see Forsyth 1992).

In addition, there is increasing concern about the longer-term dynamics and sustainability of remittance-dependent economies, in view of both the changing external environment (the deteriorating economic conditions in the United States, New Zealand and Australia where most migrants from the South Pacific islands have moved in search of employment) and the perceived failure of remittance recipients to respond to declining levels of cash remittances. This concern has given rise to calls for the governments of these economies to

promote more savings and investment in the domestic economy through adjustment policies and programs directed at reducing consumption levels (Fairbairn 1991a and 1991b, Ahlburg 1991, World Bank 1991).

Much of this sort of policy prescription rests on inadequate macroeconomic data, and on orthodox views of the process and requirements of structural adjustment and the capacity of individual households and other economic agents to respond to changes in the external environment. Recipients of remittances are perceived to be both a cause of the 'savings–investment gap' and a potential source of significant investible funds and foreign exchange for the longer-term development of their economies. Policy prescriptions thus tend to focus on ways and means of increasing remittance flows through the official banking system and stimulating household financial savings by reducing consumption.

This paper sets out to challenge the validity of these postulates (and, implicitly, the resulting policy prescriptions) through a microeconomic analysis of remittance flows in the Kingdom of Tonga, one of the Pacific island economies most heavily dependent on migrants' remittances. It is argued that both the data on remittances and their uses, and the assumptions about the behaviour of recipients are misleading. The next section of this paper contains an overview and discussion of the literature on remittances in the Pacific islands, which is followed by a brief historical account of the role of migration and remittances in the Tongan economy. The main findings of a recent survey conducted by the authors are then presented and discussed. This survey was undertaken at the end of 1992 in Nuku'alofa, the capital of the Kingdom of Tonga, among informal sector flea-market operators engaged in the trade of goods remitted from relatives living abroad. Data from this survey are then used to estimate the total annual value of the income generated in the market by the unrecorded flows of remittances in kind. This is followed by a discussion of the main uses of the earnings from these activities and conclusions.

Alternative conceptualizations of remittance dependence

Migrants' remittances have come to constitute a major source of foreign exchange and means of livelihood for the populations of many Pacific island economies. Although the important role of remittances in these economies has been acknowledged by a number of researchers (see for example Bertram and Watters 1985, Ahlburg 1986 and 1991, Cole and Parry 1986, Bertram 1991, Shankman 1986, Brown 1992c), this area is neglected in the literature on economic development in the region (see Guest 1986, Fairbairn 1985, Browne

1989). More recently the question of migration and remittances has attracted increasing interest on the part of international and regional organizations concerned with the longer-term sustainability of the remittance-dependent Pacific island economies, such as the World Bank, the International Labor Organization (ILO), the United Nations Development Program (UNDP) and the Forum Secretariat. This has resulted in a number of recent studies that are primarily overviews of the fragmentary literature available on the topic (Ahlburg 1991, Connell 1991, Forsyth 1992).

The economic analysis contained in these studies tends to focus on the magnitudes and impact of officially recorded remittances. However, there is much evidence, largely of an anecdotal nature, to suggest that these constitute only a part of the total and that a large and growing share of remittances flows through unofficial channels and is not recorded in the official data (Connell 1980, Ahlburg 1991, Loomis 1990, Brown 1992c). Recent studies on remittances in other developing regions have emphasized the quantitative, analytical and policy relevance of unrecorded international resource flows (Brown 1992a and 1992b, Choucri 1986), but this is a neglected area in studies of economic development in the Pacific island region.

At present, there are two main perspectives on remittance dependence in the Pacific island economies. The first school of thought treats extreme remittance dependence as a 'temporary', 'undesirable' and 'unsustainable' stage in development. Within this school there are two opposing visions of where such economies should be heading. One vision contends that 'countries as small as the Pacific nations must trade to develop' (Cole and Parry 1986:1), and that economic sustainability can and must be achieved through the expansion of productive capacity in the export sector. The second vision, associated with the theoretical work of Tisdell and Fairbairn (1984, 1985), Fairbairn (1987) and Tisdell (1990), denies that the income levels of the growing populations of small, poor island economies can be sustained through the development of an export sector based either on the production of non-subsistence cash crops or on the exploitation of a non-renewable resource.

> Small subsistence economies are capable of only 'temporary' growth once the possibility of trade is available. In the long run population explosion, triggered off by the rise in real income per head, forces the economy to revert back to a subsistence non-growth equilibrium state (Tisdell and Fairbairn 1985:133).

They argue instead for achieving a sustainable, self-reliant path of development by 'preserving or fostering subsistence sectors in economic development' (Tisdell

and Fairbairn 1984:240). Forsyth (1992) calls this solution the 'retrenchment option'.

The second school of thought presents a more unorthodox perspective on sustainable development, and is associated with the work of Bertram and Watters (1985, 1986) and Bertram (1986, 1991). What distinguishes this work from the more orthodox treatments of structural adjustment in developing countries is that phenomena such as international migration, remittances, foreign aid, and the expansion of the state bureaucracy are regarded neither as secondary sources of livelihood for the mass of their populations, nor as temporary aberrations from some 'ideal' or 'equilibrium' path of development, as posited by Forsyth (1992). They argue that a number of small Pacific island economies have evolved into 'rentier economies' in which international migration and the flow of remittances, increased reliance on foreign aid, and the spread of state bureaucracy have become the dominant forces in shaping their economic systems. Bertram and Watters use the acronym MIRAB as shorthand for 'Migration–Remittances–Aid–Bureaucracy', the combined effect of which, they contend, '*determines* the evolution of the system' (1985:497). Domestic social and economic changes are treated as exogenously determined. The stagnation or decline of domestic production, it is argued, has to be understood in the wider context of the structural shifts which occur as these economies adjust to a changing external environment.

It has been further suggested, somewhat paradoxically, that in spite of the declining levels of production and domestic self-sufficiency and the increasing external dependence of these rentier economies, they have become 'durable and persistent' and 'capable of self-reproduction' to the extent that their dependent economic structures are 'both sustainable, and preferable to a drive for self-reliance' (Bertram and Watters 1986:809). Government and donor proposals for revitalization and expansion of domestic production through structural adjustment programs, as part of a drive towards domestic self-reliance, are dismissed as being incongruent with the actual economic structures. 'National' rather than 'domestic' income is argued to be the key economic aggregate. Bertram goes even further suggesting that

> if...island governments and their populations take seriously the plans' pronouncements in favour of self-reliance, then consequences can be severe. Not only are expectations of rising self-reliance in this sense likely to be disappointed, but the pursuit of unattainable goals can involve the squandering of resources, degradation of local environments. and subversion of local cultures (Bertram 1991:2–3).

Within this school of thought, the conceptualization of 'sustainability' shifts from fostering domestic productive capacity to assessing the 'durability of existing and future sources of rent income' from abroad, primarily in the form of inflows of aid and migrants' remittances. From an economic policy angle the focus shifts from questions of generating internal surpluses for investment and foreign exchange earnings by promoting exports, to one of mobilizing existing external rents for domestic consumption (Brown 1992c). In this way, rentier activities have, for some economists, come to constitute the main determinants of these economies' capacity to sustain their populations. As Connell has argued in relation to the Pacific island economies,

> the much vaunted comparative advantage of [Pacific island economies] lies not in the conventional economic spheres of cheap labour, copra production etc. but in the ability to attract aid and other concessionary finance (which includes remittances from international migration) (1988:86).

It is from this perspective that it has been postulated that 'the processes of social and economic change...have to be understood in terms of local adjustment to external forces, *rather than as endogenously-driven development*' [our emphasis] (Bertram and Watters 1985:501).

This conclusion requires closer scrutiny, however, because it contains two important and closely related postulates: first, that the structure (and evolution) of the rentier economy has little or no internal dynamic of its own; and, second, that the durability (or 'sustainability') of the rentier economy can be analysed and assessed almost exclusively in terms of the sustainability of its main external sources of rent: remittances and aid. These postulates emerge clearly in Bertram's work when he states that

> The future sustainability of above-subsistence living standards, and the prospects for future increases in those living standards, hinge upon the durability of existing and future sources of rent income [and] the development problem for planners and policymakers, is not so much the production of modern, capitalist, tradable-goods-producing sectors within the island economies, as the question of how rent incomes should (a) be made more secure and predictable, and (b) be allocated among members of the island society (Bertram 1986:810).

The main problem with this argument lies in the rather mechanistic and static understanding of the relationship between the external and internal dimensions of the development process: internal structures are seen to be conditioned almost exclusively by external factors. The implicit assumption, which is shared by much other work on developing remittance-dependent economies, is that migrants' remittances are used exclusively for supporting recipients' consumption needs, and make little or no contribution to domestic

investment. This dependency, it has been suggested, feeds on itself in the sense that it increases the need for further migration. Reichert (1981), in his work on Mexico, conceptualizes this in terms of the 'migrant syndrome', in which remittances come to constitute the household's principal source of income, but none of it is invested in the local economy. Mines, also working on remittance dependence in Mexico, has argued that

> the village has, in effect, become a rest, recreation and retirement center for successful migrants, and a reproduction center for future migrants. Although many individuals gain by this process, *the village economy remains frozen in its traditional low-productivity system* [our emphasis] (Mines 1981:59).

Bertram and Watters' conceptualization of the remittance and aid dependent MIRAB economy similarly postulates an essentially 'frozen' domestic economic structure.

Although it is correct to stress the importance of externally generated financial flows to the functioning of the domestic economy, there is also a need to take account of internal economic forces in understanding the process of structural change within such economies. Endogenous economic processes, although associated with and in some instances directly induced by externally mobilized resource flows, also have an internal dynamic of their own. These too need to be analysed and incorporated into any assessment of the sustainability of the rentier economy.

Indeed, a major limitation of much macroeconomic analysis of adjustment processes and problems in developing economies has been its failure to address the important question of how individual economic agents or 'actors', operating at the microeconomic level, have had to adjust their economic behaviour in response to the deteriorating socioeconomic environment in which they need to survive. Independently of whether government has succeeded or failed in introducing appropriate policy adjustments, there has been substantial spontaneous adjustment by individual economic agents, including farmers, wage earners, householders, civil servants, traders and investors among others.

The forms of spontaneous adjustments that have been occurring in developing countries vary among countries and among socioeconomic groups within a country, as individuals, responding to declining real incomes and worsening socioeconomic conditions, have adjusted their behaviour in search of alternative means of livelihood (Brown 1992b). Such adjustments can become necessary either because previous options are blocked, such as employment at an adequate rate of pay in the formal (predominantly public) sector, or because new opportunities arise outside the formal economy, typically including parallel market and rent-seeking activities associated with the scarcities and

administrative controls characteristic of many developing countries. Two of the most prevalent and closely interconnected modes of individual response which have been witnessed in many developing countries in recent years are international migration and the spread of parallel or 'informal' economies.

The economic activities and transactions associated with such processes fall outside the scope of the formal economy and are therefore not included in the official, recorded national accounts and balance of payments estimates. They often remain hidden from economic analysts working with official macroeconomic data. Macroeconomic analysis based on such data consequently fails to identify significant ongoing structural adjustments which could have far-reaching implications for analysis and diagnosis of the (mal)functioning of these economies as well as for policy prescription.

Such micro level, unrecorded adjustments need to be properly assessed and incorporated into macroeconomic accounts and analyses if policy prescriptions are to be relevant to the economic environments in which they are implemented. However, there is a paucity of reliable microeconomic studies of informal markets and other hidden economic activities; the required data are often difficult to come by, especially in the South Pacific. This study of Tonga's informal sector flea-market is a step in this direction and an illustration of the need to complement macroeconomic analysis with micro level studies.

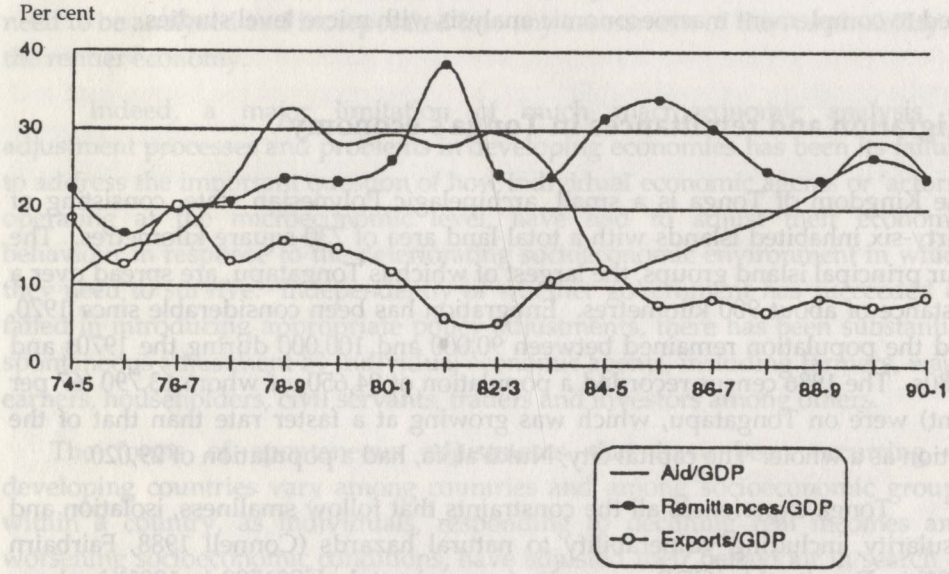
Migration and remittances in Tonga's economy

The Kingdom of Tonga is a small, archipelagic Polynesian state, consisting of thirty-six inhabited islands with a total land area of 730 square kilometres. The four principal island groups, the largest of which is Tongatapu, are spread over a distance of about 900 kilometres. Emigration has been considerable since 1970, and the population remained between 90,000 and 100,000 during the 1970s and 1980s. The 1986 census recorded a population of 94,650, of whom 63,790 (67 per cent) were on Tongatapu, which was growing at a faster rate than that of the nation as a whole. The capital city, Nuku'alofa, had a population of 29,020.

Tonga experiences all the constraints that follow smallness, isolation and insularity, including vulnerability to natural hazards (Connell 1988, Fairbairn 1991b). Despite this, GDP per capita (approximately US$1500 in 1991) is above that of some other island states, basic infrastructure is relatively well developed, and education and health services are generally adequate. Literacy rates and life expectancy are also higher than in many other small island states.

The Tongan domestic economy is characterized by agricultural production, with subsistence agriculture of continued importance and agricultural exports higher than from many other island micro states. During the 1980s there was a transition from copra (which in 1970 represented 70 per cent of all export earnings) and banana exports, to vanilla and squash exports. The remarkable growth of squash exports enabled the economy to emerge from recession in the early 1990s, and by 1991 squash exports were valued at between one and one-and-a-half times the combined total of Tonga's other exports (Sturton 1992:1–2). Other agricultural goods, fish and manufactured products were valued at about 25 per cent of exports between 1989 and 1991. Tourism makes a small contribution to the economy, and its performance has been no more than modest. The current *Sixth Five-Year Development Plan, 1991–95* placed a special emphasis on generating economic growth and employment opportunities (Tonga 1991). Although the plan emphasizes agricultural and manufacturing production, alongside the growth of tourism, domestic growth or the lack of it, is likely to be primarily dependent on agricultural performance.

Figure 1 Ratios of exports, aid, and migrants' remittances to GDP



Source: M. Sturton, *Tonga: development through agricultural exports*, Economic Report No. 4, Pacific Island Development Program, East-West Center, Honolulu, 1992:3.

During the 1970s and 1980s the economy became increasingly characterized by the rise in importance of overseas aid and remittances, and the consolidation of a trade deficit that began in the 1960s. Development assistance rose from around 10 per cent of GDP at the start of the 1970s, to over 20 per cent by the end of the 1980s. Migrants' remittances rose to 25 per cent of GDP, whilst the value of export commodities fell from 20 to 10 per cent over the same period (Campbell 1992, Sturton 1992: Figure 1).

Thus, over a brief period the Tongan economy became highly dependent on external resources. At the same time, moreover,

> the high level of domestic demand supported by foreign transfers, currently 50 per cent of GDP, has encouraged investment in activities oriented toward the home market (non-traded goods) and discouraged production for exports (tradables). The Tongan economy displays all the characteristic markings of the 'Dutch disease', where a dominant export activity attracts a disproportionate command over resources, pushes up domestic production costs, and reduces international competitiveness. In the Tongan case the 'booming' sector has become development assistance and migrants remittances (Sturton 1992:3).

Out-migration from Tonga effectively began in the early 1970s, in conjunction with declining commodity prices, more relaxed immigration restrictions in New Zealand, an emerging perception of high incomes in the United States, the expansion of the Mormon Church and the greater availability of education scholarships (Connell 1983:34–5). The motivation was broadly economic, a response to the comparative development levels of Tonga and the metropolitan states, and accentuated by land shortages and social change (Cowling 1990). Migration remained at a high level over the next two decades, to the extent that at the start of the 1990s about 40,000 Tongans (some 30 per cent of all Tongans) lived overseas, mainly in the United States, New Zealand or, to a lesser extent, Australia.

As out-migration increased remittances rose sharply. In the 1970s they contributed around a third of Tonga's earned income, but by the first half of the 1980s receipts were double those of the previous five years (Connell 1983:49–50, Campbell 1992:71). In 1984, a national income and expenditure survey revealed that 90 per cent of households were remittance recipients and that remittances constituted an average of 28 per cent of household income (Ahlburg 1991). Thus, at both the national and household levels, remittances in Tonga reached some of the highest levels recorded anywhere in the world. A smaller household survey undertaken during the 1984–85 period revealed that remittances contributed about 40 per cent of household income (Hardaker et al. 1987:81). By the mid-

1980s remittances had grown to over 40 per cent of GDP (Table 1, p.12). Since then they have declined each year as a percentage of GDP and by 1989 had fallen to 28 per cent. There is a growing concern about this apparent remittance 'decay factor', and its implications for the longer-term sustainability of living standards in remittance dependent countries such as Tonga (Forsyth 1992).

As foreign transfers have become more dominant, the lack of investment in productive activities has become more pronounced. Tonga has become to a significant extent a remittance dependent economy. Conventional wisdom on the remittance dependent Pacific island economy stresses the role of remittances in family maintenance. The majority of studies of remittances in Tonga, as discussed earlier, are based mostly on the fragmentary literature available and assert that remittances are primarily used for consumption, with the remainder being used for house construction, debt repayment and the financing of future migration. This position is exemplified by a recent ILO/UNDP study on employment in Tonga in which it is asserted that

> the unrequited transfers [remittances]...have unfortunately, not helped to bring about a more rapid economic growth of the Tongan economy...The reason is that a major share of private remittances from overseas have been used to enhance the living standard of the average Tongan through imports of consumer goods...[and] no schemes have been in place to promote a larger share to be invested in productive activities (Miles et al. 1992:11).

Assertions of this sort tend to reinforce the view of the 'migrant syndrome' and the 'frozen' domestic economy discussed earlier. Others, however, have pointed to the fact that remittances are primarily used to attain specific goals, such as the purchase of outboard motors or construction materials, rather than to buy luxury goods such as video receivers (Gailey 1992b:343). Remittances have also enabled basic needs to be met on outer islands, especially where income earning opportunities are otherwise few (Connell 1983:51–2). Tongan householders rarely perceive their use of remittances as either unproductive or as an example of conspicuous consumption; indeed 'nothing is more productive than to be able to provide for their daily subsistence and to have the economic power to fulfil their family and social responsibilities' (Tongamoa 1990:14).

The underlying economic rationale of migration is reflected in the household organization of migration (see Stark 1991 and 1992). In many respects, families operate on a world stage, so that the 'international scale of family operations, still tied to kin at home...would equal or exceed in value the Tongan national product' (Marcus 1981:60). Developing this notion, Bertram has suggested that Tongan (and other similar) households are characterized 'by remittance transfers among various component parts of the "transnational

corporations of kin" which direct the allocation of each island's family labour around the regional economy' (1986:82). Similarly, 'families deliberate carefully about which members would be most likely to do well overseas and be reliable in sending remittances' (Gailey 1992b:465, see also Cowling 1990, Watters 1990), although the migrants undergo, seemingly paradoxically, an accompanying shift away from family responsibility to individualism as their time away increases (James 1991).

The significance of remittances at household and national levels has led to concern over the possibility of a future decline which might be affected by changing migration rates, recession in metropolitan states or other factors (Miles et al. 1992:66, Marcus 1993:29, James 1991, Campbell 1992). While macro-economic data suggest that remittances have not led to increased inter-household income inequality within Tonga (Ahlburg 1982), village level studies have demonstrated considerable income inequality (Hardaker et al. 1985) and suggested that this is partly a result of remittance flows (Gailey 1992a). Marcus suggests that 'the capacity to call on international resources has become a crucial factor in influencing a family's local economic conditions. The lowest stratum in contemporary Tonga are those totally dependent on the nation–state framework, and the limited resources it embodies, without any overseas options at all' (Marcus 1993:29–30).

Whatever the impact, remittances are of considerable significance in Tonga. Tonga's economy is extremely dependent on external savings (Table 1). Throughout the period 1983/84–1988/89 gross domestic capital formation was maintained at a relatively high level, representing over one-third of GDP. This investment was financed exclusively from externally mobilized sources, the most important of which were workers' remittances, which, together with net factor flows ranged from 31.5 to 45.5 per cent of GDP during the same period. The other important source of investible funds was foreign aid which ranged from 5 to over 12 per cent of GDP during this period. Domestic savings on the other hand were negative throughout the 1980s, ranging from -9.2 per cent of GDP in 1983/84 to -19.9 per cent in 1987/88. Private capital inflows were negligible.

For most observers this investment–domestic savings gap is seen as a cause for concern; it is a symptom of excessive public and private consumption, and indicative of the need for demand restraint and a tightening of fiscal and monetary policies (Fairbairn 1991b). High levels of private consumption and of imports are often associated with remittances. There are two problems with this reasoning. First, the low level of domestic savings is not in itself a problem given the particular structural characteristics of this economy. Because such a large

proportion of the country's population earns income abroad, the relevant concept should be the *national* economy, and hence the level of *national* rather than domestic savings. World Bank data show that the level of gross national savings for Tonga ranged between 13 and 22 per cent between 1983 and 1985 (World Bank 1991). It is difficult to understand why inadequate savings have been identified as a major constraint to economic growth in Tonga.

Table 1 Tonga: investment, savings, and resource gaps, per cent of GDP, 1983/84–1988/89

	1983/4	1984/5	1985/6	1986/7	1987/8	1988/9
Gross capital formation	37.3	35.1	36.0	32.9	32.7	33.0
Investment	36.8	31.4	34.0	33.3	32.0	32.9
Private	25.6	22.2	23.6	21.3	21.5	20.6
Dwellings	8.2	6.9	8.4	8.0	8.7	8.3
Production	17.4	15.3	15.2	13.2	12.8	12.4
Public	11.2	9.2	10.4	12.0	10.4	12.2
Stocks	0.5	3.7	2.0	-0.4	0.7	0.1
Domestic savings	-9.2	-14.0	-16.2	-11.7	-19.9	-10.5
Resource gap	46.6	49.1	52.1	44.6	52.6	43.5
Net factor incomes	5.7	5.4	5.2	6.4	8.0	3.4
Remittances	29.0	36.5	40.3	36.3	29.3	28.1
Aid	12.4	5.8	5.3	10.3	7.8	11.3
Capital flows	7.9	3.4	0.2	-	6.6	1.4
Residual movements[a]	8.4	1.8	-1.2	8.4	-0.8	0.7

[a] Includes movement in net foreign assets, and errors and omissions.

Sources: Reproduced from M. Sturton, *Tonga: development through agricultural exports*, Economic Report No. 4, Pacific Island Development Program, East-West Center, Honolulu, 1992; National Accounts of Tonga 1982/83–1988/89, unpublished estimates; National Reserve Bank of Tonga, *Quarterly Bulletin* 2(2).

Second, almost all observers have noted that most data on remittances refer only to official figures and that the actual amount of remittances is substantially greater than that recorded in the national income and balance of payments statistics (e.g. Connell 1983:49–50, Ahlburg 1991:26–9). Those concerned about the 'remittance decay factor', evidenced by the downturn in recorded remittances, ignore the point that this trend concerns only those remittances which pass through official banking channels. The decay factor

theory rests largely on the assumption that remittances are driven by 'pure altruism' and that this motive weakens as the time away from home lengthens. This analysis ignores the possibility that remittances in kind account for an increasing share of total remittances, and that remittances are motivated not only by altruism but also by 'self interest' and the migrants' longer-term investment interests in the home economy (Stark 1991 and 1992). Unrecorded remittances in kind might be offsetting the so-called 'decay' of recorded remittances, and until further studies and primary data collection have been undertaken, the validity of this hypothesis cannot be tested empirically.

The Nuku'alofa flea-market

Remittances in kind in Tonga are not new, but it was not until the mid-1980s that a sufficient quantity of goods of a particular kind was transferred to lead to the resale of these goods through the market system. by the late 1980s the central Nuku'alofa fruit and vegetable market at Talamahu was surrounded by an untidy collection of vendors selling, almost exclusively, secondhand clothes. In 1990 an area of land not far from the vegetable market was set aside as a 'temporary' site for the flea-market. No facilities were provided; vendors were expected to (and did) construct their own stalls; and they were charged T$5 (US$3.75) for a quarterly hawker's licence. Almost all the vendors of imported goods moved to the new market site, which was adjacent to some long established handicraft stalls aimed at the tourist market and close to the commercial centre of Nuku'alofa.

This flea-market, 'The Fair', has been well described as it existed at the end of the 1980s:

> stalls, which operate six days a week and sometimes number over 100 on weekends, sell a wide variety of secondhand goods including clothing, furniture, books, cassettes, machinery and even the kitchen sink. Many of the items sold enter Tonga without paying duty, and therefore have an edge in competition with local traders (James 1991:7).

The number of stalls has subsequently increased slightly and at the end of 1992 the flea-market contained more than 120 stalls, with room for more. Some vendors, uncertain about their future presence in the market, had not constructed stalls. Most stalls were made of timber off-cuts and covered against rain. Two or three of the larger vendors along the central pathway, had constructed stores in which goods could remain overnight. Otherwise, traders brought their goods to the market by car, taxi or bus, on a daily basis, which set something of an upper limit on the volume of goods that could be sold.

The number of actual vendors in the market fluctuated from one day to the next. Stalls at a distance from the central pathway were more makeshift and less likely to be permanently occupied. The number of occupied stalls increased on Fridays and Saturdays, the main market days that coincide with pay-days, and also increased in the pre-Christmas period, when there is a peak in both remittance flows and temporary return migration of Tongan expatriates. By contrast, during the post-Christmas months there is reduced market activity, and the number of occupied stalls then may be as few as thirty with turnover correspondingly low.

In mid-December 1992 we conducted a survey using a sample of 29 randomly selected stalls operating in the flea-market on that day.[1] The data obtained from the survey are summarized in the Appendix, Table A1. At the time of the survey, which was conducted on one of the quieter mid-week market days, there were approximately 60 occupied stalls which accounted for about 50 per cent of the total stalls that had been erected. Some mobile activities, including an ice-cream van and a sandwich vendor, provided services to both sellers and purchasers in the market. These were not included in the sample.

The nature of the flea-market's operations

Data from the survey (and casual observations made then and on other days), demonstrate the links between migration, remittances and the emergence of a new form of retail marketing in Tonga, which, in a number of instances has become a significant source of income for investment in other spheres of the economy, including the agricultural export sector. In this survey, 89.7 per cent of the sample were engaged in the sale of goods they had received from relatives living abroad (Table A1: Part (i)). Many of the vendors had been involved in the market for several years, and in some instances had started out at the previous site before the market was moved. From the 26 surveyed stall operators dealing in remitted goods, 23 completed questionnaires were obtained (Table A1). The remaining three stall operators were unable or unwilling to provide sufficient information to be included for purposes of data analysis. The data from the respondents were then used to compile Tables A1 and A2.

With two exceptions, one of which was operated on behalf of a group of women involved in a sewing circle, the stalls were owned and operated by individual households (91.3 per cent of the final respondents). The stalls were operated principally by women (91.3 per cent); and only two of the vendors (8.7

[1]The authors are indebted to F. Wolfgramme and S. Penisani for their assistance in conducting the flea-market survey.

per cent) were men. Most of the women selling in the market had been engaged in part-time domestic work, rather than full-time wage or salary earning, and continued to be involved in this and in the production of handicrafts. Women were more easily able to shift or expand occupation to market vendor, especially in the urban area, and sometimes preferred market trade to the monotony of domestic work. Sellers in the Saturday market, however, were reported to include full-time wage and salary earners who were supplementing their regular incomes. Most of the stall operators came from urban Nuku'alofa (69.6 per cent) rather than from rural Tongatapu (or from other islands in the Kingdom), because of ease of access to the market.

Most market households had access to some other source of income. At least six respondents (26.1 per cent) indicated that previously they had received cash remittances, but only one continued to receive both cash and goods. At least eight respondents (34.8 per cent) said that their household included wage or salary earners and four owned small stores elsewhere in Tongatapu. Only four (17.4 per cent) stated that they had no other source of income than their market stall. In almost all cases the flea-market provided the largest source of income.

The most commonly traded category of goods in every stall surveyed was clothing and footwear. In almost all cases (95.6 per cent), the respondents were dealing in secondhand goods, particularly secondhand clothing. However, in most instances (60.9 per cent) a combination of secondhand and new goods were involved, and only 4.3 per cent of the respondents traded exclusively in new goods. Approximately half of the stalls sold only clothing. Larger traders tended to be more diverse, although some had concentrated on areas such as clothing and cosmetics where turnover was particularly good. Recent entrants into the flea-market system were the most likely to be involved in selling clothing. About half sold 'whatever relatives send' and this tended to be clothing. The more established sellers were more likely to request that particular kinds of goods be sent.

As the flea-market has become more established, the range of goods sold in the market has diversified away from a concentration of secondhand clothes. Between a third and a half of all goods sold in the market are now new, and many of these are clothes, which continue to be the most dominant category of goods. Clothes range from seemingly improbable items (fur coats, old uniforms, etc.), through large quantities of secondhand trousers, shirts, dresses, blouses and shoes, to brand-new goods, particularly children's clothes and tee-shirts. A significant proportion of the new clothes on sale are made up or screen printed within Tonga from cloth or tee-shirts sent from overseas; in at least three cases market vendors were finishing off clothing as they sat at their stalls.

An enormous range of goods complemented the clothing. Most stall holders traded in more than one type of good, with toiletries constituting the second most common category (43.5 per cent). Other imported goods, including children's toys, household utensils, ornaments and hardware were to be found in over half of the stalls (52.2 per cent). In the pre-Christmas period this included toys and balloons, Christmas cards, plastic Christmas trees and decorations. Otherwise, household goods, especially cutlery, crockery and glassware, but also such items as wool, blankets, soap powder, clothes pegs, buckets, pictures, dusters, etc., were particularly prominent. Cheap jewellery (ear-rings, brooches, rings, combs and also sun glasses) were very popular as were bags of various kinds and cosmetics. There were also tools (spades, hammers, etc.), paint, vacuum cleaners, hose-pipes, fishing-rods and a very small quantity of magazines (such as *New Idea*) and paperback novels. Many of the goods constituted job lots, usually from the United States, such as 25 University of Hawaii tee-shirts, 40 University of Washington cigarette lighters and large numbers of tennis balls and lipsticks.

Almost all vendors in the market (91.3 per cent) were engaged exclusively in the sale of goods that had been sent to them as remittances. Few stalls had any goods of Tongan origin. One small stall in the sample sold only clothes wholly made in Tonga from cloth sent from overseas, and several other stalls included clothes, pillow slips and mats that had been made in Tonga from imported materials. Two stalls (not in the sample) specialized wholly in cassette tapes of Tongan music recorded and copied locally. Another included shells, another locally printed Christmas cards and a third had some locally cooked food (mainly corn) for sale.

Most market sellers had moved away from receipt of cash remittances alone to either a combination of cash and goods or, in most cases, goods alone. This was primarily a result of the recognition, by both migrants abroad and recipients, that selling goods could produce a greater income than was possible from the cash alone; moreover, some of the goods could also be used by the recipient household. Most vendors had therefore moved into the flea-market specifically to earn a higher income than cash remittances produced. One vendor started selling clothes intended to be used to make a profit for a charity after the Red Cross took over this role. One Nuku'alofa woman had set up a stall, that was now dependent on a monthly box of goods from the United States, because she 'had no room to keep all the goods at home and decided that it would be better to earn an income by selling most of them'. More often it was the migrant living overseas who had encouraged the transition from cash to goods. Most goods came from close relatives of the stall operators, usually children, but also brothers, sisters and husbands. A few stalls received goods

from several relatives but never, apparently, from relatives in different countries, though families were often spread out in this way.

Although the goods came from the same relatives who had previously sent (or continued to send) cash remittances, they were always sent with the intention that they be sold. This seems to apply irrespective of the country where the remitter lived. Most goods came from the same sources as cash remittance flows, the United States (65.2 per cent), Australia (30.4 per cent) and New Zealand (13.0 per cent), though, relative to migration and remittance flows, there appeared to be an excess of goods from the United States (in most instances, Hawaii). The reason for this was not clear. Although vendors were not always sure exactly where their relatives overseas had purchased the goods, most emphasized that only rarely had they paid the full retail price overseas. The vast majority of the goods came from secondhand stores (such as those run by organizations like the St Vincent de Paul Society in Australia), garage sales and jumble sales and from other flea-markets, especially in the United States.

Goods had three advantages over cash remittances: first, they could be sold over a period of time, hence the income was spread over a longer period; second, there was greater certainty that goods would be received in Tonga (especially in comparison with banknotes entrusted to the postal system); and, third, the income obtained from selling goods in the market was substantially greater than the cost of those goods to the senders. This was emphasized by most vendors, who stressed that either they themselves had preferred this form of remittance or their relatives had encouraged them to set up this market system (which may also have reduced demands on overseas relatives for cash remittances). Beginning as recipients of cash remittances, these market vendors had become small scale entrepreneurs. The different phases in the evolution of the remittance based flea-market trade are examined in more detail in a later section of this paper.

It is clear that stall operators were closely linked to relatives overseas in a social organization through which remittances circulated. Although the goods in most stalls had been sent from a single country, they had more complex and diverse origins, because of the global flea-market structure. Many items originated in Asia, some in Europe and others from places like Jamaica. None came from elsewhere in the South Pacific. In short, in the content and origin of its goods, the Tongan flea-market is a small component of a global informal trading system, linked by the processes of international labour migration and remittances.

Estimating the flea-market's turnover

The amounts of goods obtained from relatives overseas were variable. The volume of goods in the stalls fluctuated seasonally and also in response to the arrival of cargo ships from overseas. Most goods came in large sea-freighted packages in containers, although the goods in the smaller stalls were more likely to have been sent in suitcases, packing cases or cardboard boxes, some by air-freight and others brought by Tongans returning from overseas. The largest stall owners received more than one full container of goods per year. The respondents received a consignment of goods on average 4.4 times per year. Only a few stall holders received goods regularly; most received goods when their relatives had collected enough to send. Since this was dependent on the relatives' ability to earn income and then purchase goods, interviews with the respondents suggested that these transfers were less regular than those of cash remittances, but the resultant income could then be spread out.

The periodicity of participation in the flea-market was variable though most of the sellers in the mid-week (Wednesday) market participated with considerable regularity. A majority of respondents (52.2 per cent) were running their stores six days a week, but several stressed that they would reduce their participation to once or twice a week after the Christmas period. The average for this group of respondents was 4.6 days per week. In most instances where households did not operate their stalls on a daily basis, they had access to regular wage or salary income.

Because of the diverse and unknown sources of many of the goods, and the variable costs involved in importing the goods into Tonga, the profitability (as opposed to total turnover) of the stalls was difficult to estimate. Since the bulk of the goods were secondhand clothes they could be, and indeed were, relatively easily imported into Tonga as personal effects and thus did not incur import duty. Other goods were formally subject to import duty but, in most cases, this was not applied rigorously and sometimes could be avoided 'depending on who was the customs agent at the time'. Freight costs were generally paid by the remitter and only sometimes by the recipient. In most cases these additional costs do not seem to have added much to the cost of the goods themselves. The available evidence suggests that the profitability of the market stalls was considerable. In view of the low costs involved from the recipients' point of view, profitability could be equated with total turnover. When asked about their pricing decisions, vendors suggested that they set their prices according to other market sellers' prices, the cost of similar goods in the formal stores and the cost of goods at their point of origin. In those cases where

vendors were able (or willing) to estimate their mark-up, or where comparisons with the stores could be made, the mark-up was approximately 100 per cent. Where imported cloth and tee-shirts had local value added, the mark-up was probably greater (even after including labour costs). The mark-up on secondhand clothes was still greater.

The total annual turnover of the remittance-based flea-market was estimated from the survey data (Table A2). However, because the survey was conducted in mid-week, and during the busy shopping period just before Christmas, the data need to be treated with caution when extrapolating to estimate the total annual turnover on remittances in kind passing through the Nuku'alofa flea-market. For this reason it is conservatively assumed, when estimating total turnover, that (i) the stalls that were not operative on the mid-week survey day, operated on average only 50 per cent of the survey average; and (ii) the average stall holder was effectively inactive for six weeks of the year.

The reliability of these assumptions needs to be checked in follow-up surveys. In the meantime the estimate should be interpreted as an order of magnitude only. Although none of the respondents maintained formal records of their operations, they all had a very clear idea of their average daily turnovers. These were noted and where a range of values was given, the mid-value of the band was used. The average daily turnover was T$118.3 (Table A2: line 1). The respondents who indicated the three lowest estimates said: 'just enough'; T$20 to T$30; and T$20 to T$50 per day. By contrast, the three highest estimates were: 'over T$200, on a good day'; 'T$100 to T$300, dependent on what clothes were on the stall', and 'T$300'. Most other estimates ranged around T$100 per day. The Morris Hedstrom stall (see p.20), where prices were the same as in the supermarket and a 'bargain' was less likely to be found, had achieved a turnover of T$38, about half-way through the market day, suggesting that stall operators' estimates of their turnover were probably reasonably accurate. Stall operators also noted that their income was volatile; it was higher after they had received goods (when they had a greater quantity and quality), on Saturdays when the market was busier, and in the pre-Christmas period.

The weekly turnover of the 'average stall' (operating on the survey day) was then calculated by finding the weighted average turnover of the sample; that is, the respondent's daily turnover weighted by the number of days per week of operation. This yields an average turnover per week of T$544 (Table A2: line 3). To estimate the total turnover of the remittance-based stalls in operation on the survey day the average weekly turnover is multiplied by the proportion of the total stalls found to be trading in remitted goods (54 out of the 60 that were

operating on the survey day), yielding a total weekly turnover of T$29,090. This accounts for only half of all the erected stalls in the flea-market. Another 60 stalls were in place but not operating on the mid-week survey day. When the market was visited on the Saturday prior to the survey, every one of the stalls was occupied. With no other source of information to go by it is assumed, conservatively, that these stalls operate only half as often as those surveyed; that is, 2.3 days per week (Table A2:line 10). Assuming that these stalls have the same average turnover as the surveyed stalls, again, a conservative assumption in view of the higher than average turnover reported on the two main market days (Friday and Saturday), and that the same proportion of them are engaged in trade in remitted goods (line 9), a total weekly turnover of T$14,693 can be estimated (line 11). Adding the two totals together (line 12) and multiplying by the assumed average number of weeks each stall operates per annum (line 13), an estimated total annual turnover from the sale of remitted goods in the Nuku'alofa flea-market of just over T$2 million is derived (line 14). Even allowing for over-estimation errors of 20 per cent or more, this is not an insignificant 'hidden' flow of funds. It is substantial in relation both to the total value of recorded remittances to the whole of Tonga, which in 1992 was recorded as T$29 million, and to the total value of consumer good imports which in 1991–92 was T$27 million (National Reserve Bank 1992).

There is further evidence suggesting that Nuku'alofa's flea-market has become something more than a mere 'side-show' in relation to the formal retail sector. The volume of sales for particular types of goods has been so substantial that it has eroded the market in the formal retail sector which now finds itself unable to compete in certain lines of goods. Formal sector stores must pay import duty and transport costs (both local and international), and other overhead costs including wages, electricity and company and sales taxes. None of these costs apply to the flea-market traders.

There have been three main forms of response by the large retail traders. First, some of the formal stores have discontinued certain uncompetitive lines including some processed foods (primarily confectionery), and some clothing and toiletries. Second, there has been an element of 'if you can't beat them, join them'. Morris Hedstrom, one of the two major retail chains in the Pacific island region, and owner of one of the two large supermarkets in Nuku'alofa, has both introduced secondhand clothes into the store and taken up its own stall, anonymously, in the market, selling clothes, toys and household utensils. Third, interviews with government officials revealed that some larger retailers had initiated moves to close down or at least tighten-up controls over the activities of

the flea-market. More generally, the operations of the flea-market have caused concern within the formal retail sector as a whole (represented by the Chamber of Commerce), reduced the profitability of the largest stores in the country and provoked calls for government to tighten-up on levying import duties on goods destined for the flea-market and introduce taxes on flea-market earnings.

The uses of flea-market surpluses

The survey also obtained data on the use of income earned from the sale of remitted goods (Table A1: Part (v)).[2] The majority of households (60.9 per cent) used the remittances exclusively for living expenses and social functions. The most important categories of expenditure from remittances were stated to include, as a priority, food purchases, and electricity, water and telephone bills. The second most important use was for social functions, especially church donations. After that, housing was a major cost, followed by travel costs and school fees. One vendor used her small profits for living costs and her continued cash remittances for church donations. One of the most interesting findings to emerge from the study, however, concerns the savings and reinvestment undertaken from flea-market proceeds. More than one-quarter of the respondents (26.1 per cent) said that they used their flea-market income exclusively for savings or reinvestment purposes. Another 13 per cent replied that their income was partly saved. No attempt has been made to gauge the actual magnitude of savings, but these data suggest that almost 40 per cent of the respondents were able to save all or part of their earnings.

There was a noticeable diversity of stall holder 'types' suggesting a much more complex and dynamic structure of economic relationships than posited by proponents of the 'migrant syndrome' and 'frozen' domestic economy perspectives for whom family maintenance constitutes the only purpose of remittances. For a number of the remittance recipients in the flea-market there has been a shift away from the use of remittances for immediate consumption, towards investment in various forms of entrepreneurial activity. For these households the flow of goods from overseas has become an important source of investment capital, a situation that demonstrates that remittances are not merely

[2]It needs to be noted that the issue of fungibility arises here, in that flea-market income is perfectly substitutable for income from other sources making it impossible to identify the particular use of a particular unit of income once it all enters the same pot. However, all respondents had a very clear idea of what their flea-market income enabled them to pay for, and what they would have to go without in the absence of it. That this, in most cases, constituted an addition to the household's regular income, and given that the stall holders were mainly women who would most probably exercise more control over the uses of this as opposed to other parts of the household's income, would account for their ability to ascribe specific uses to their flea-market income.

used for consumption by passive recipients. Remittances have become central elements in small business development and the diversification and expansion of income sources.

The flea-market survey revealed that in a number of cases at least part of the income was being used for reinvestment, not only in real estate and housing and in other productive spheres of economic activity. For most owners the flea-market provided the single largest source of family income, and enabled them to demonstrate entrepreneurial skills. Indeed, in the view of one consultant 'the people of the fair are getting on-the-job training in how to run a business thus helping to develop much needed entrepreneurial skills' (cited in James 1991:7). In some instances a part of the profits was remitted back to the migrant abroad to cover the costs of purchase and/or transport and to ensure that further goods followed. Many recipients also sent Tongan goods to the senders. These findings are consistent with the view of James who notes that

> it has been argued that remittances take away the motivation of locals to produce, but the facts of local entrepreneurship seem to contradict this since large consignments of local products...are sent to relatives overseas for sale among the Polynesian population (James 1991:21).

Most of these goods were traditional Tongan goods such as mats and cooked foods, but also included locally produced agricultural goods such as taro, cassava and fish, which could be sold in the metropolitan states. Exporting such goods is one way in which recipients can reciprocate for the goods sent to them by migrant relatives. In other instances it has evolved into a more business-type relationship where the migrant relative becomes the Tongan producer's 'export agent' in the metropolitan economy. Indeed, in a few cases, the flea-market operators and their extended families living abroad had become part of a small-scale international import–export system, with linkages to domestic productive sectors. Where opportunities arise remittances are used for investment.

Remittance use: four phases

The wide diversity of flea-market operators also suggests an evolution in the use and the motive for sending remittances. Market vendors, most of whom were once recipients of cash remittances, have become recipients of remittances in kind, to the extent that, for this group at least, cash remittances are now virtually non-existent. Increasingly, goods are becoming not merely useful in themselves for personal consumption and as a source of family maintenance, but important sources of profit income for investment purposes and means of entrepreneurial enterprise. Migrants begin to remit goods, not purely out of altruistic concern for the livelihood of their family, but are increasingly motivated by the income

generating potential such goods possess in the home economy. This is consistent with what Stark terms the 'tempered altruism or enlightened self-interest' he identified in the context of Botswana, India and the Philippines (Stark 1991 and 1992), in which 'considerations such as an aspiration to inherit, maintenance of rural investments, and the intentions to return mean that the migrant retains a vested interest in his original home beyond altruism' (1992:40). Helweg, reporting on the uses of remittances in a Punjabi village, describes a similar evolution of remittance use to what he terms the 'business investment stage' (1983:440–1). Even in the much smaller island economy of Tonga a similar transition has occurred.

It is therefore worth examining some of the survey cases from the Nuku'alofa flea-market in more detail. The four cases have been selected to illustrate the different 'phases' in the evolution of the receipt and use of remittances in kind, from the 'family maintenance' to the 'business investment' phase. Naturally, it should not be assumed that this is a smooth process of evolution through which all stall holders necessarily progress. The different phases will certainly coexist and some recipients may never move beyond the first phases to become entrepreneurs. There will also be some overlap between the phases.

Phase one In phase one the goods are remitted for the purpose of family maintenance. In addition to the usual cash remittances the migrant remits some goods, such as secondhand clothing obtained very cheaply in the flea-markets of the metropolitan cities. These are intended purely for family use, and are remitted primarily out of altruistic concern for the family's well-being. The recipient is not always able to find sufficient use for the large volumes of clothing being sent and therefore decides to sell some to earn extra cash. This phase is illustrated well by case *A*:

> *A* received clothes at regular intervals from her son-in-law in the United States, and found she had so many at home that she needed to sell some. The sale of surplus clothing from home then evolved into running a regular market stall several days per week, with a turnover of T$50 per day. In this phase the income is entirely used for living expenses, supplementing her husband's wages (as an air-conditioning engineer) and the rental income earned on a second house. The success of this enterprise prompted her son-in-law to begin sending clothes and other goods on a more regular basis. Her range now includes leather goods, such as handbags.

Phase two In phase two the migrant sends goods instead of cash. The main purpose in sending the goods is so that the recipient may sell them in the market to earn income. This occurs both because of the deteriorating economic environment in the metropolitan countries (particularly New Zealand and Australia in recent years) and because of a growing realization that it makes better economic sense to send goods instead of cash. The recipient is now committed to operating the flea-market stall, but the income earned is still used primarily for family maintenance. This phase is illustrated by case *B*:

> *B* is a seventy-year-old woman who began her stall early in 1992 because her son and daughter-in-law in Sydney decided it would be better to buy clothing from a nearby secondhand store than to continue to remit A$200 monthly. Her stall, operating daily in the pre-Christmas season, was dominated by clothes, mainly secondhand, but some she made from cloth also sent from Sydney. The stall had a turnover of about T$100 per day, suggesting a very high rate of return on her son's outlay. The income was divided between her family's maintenance, contributions to the church, and payments to her son in Sydney to cover part of his freight and other costs.

Phase three In phase three goods are no longer remitted purely for altruistic reasons and for purposes of family maintenance, but begin to become the means of further accumulation and a source of income for investment in the domestic economy. The migrant and recipient become, in effect, partners in a business arrangement. This phase was illustrated well by case *C*:

> *C* is a young woman from Nuku'alofa who is a qualified nurse, and married to an engineering consultant. She no longer works as a nurse because she can earn substantially more income from her stall, which she operates four days per week. She sells clothing, mainly new 'board-shorts' and tee-shirts sent by relatives in Hawaii. Their outlay on these goods is approximately T$3000 per annum, and she estimates her earnings at around T$300 per day. (She had earned T$1000 during the previous week.) The income from her stall is used exclusively for reinvestment purposes. She and her husband are constructing a new building which they intend to use as a workshop for her husband's business. They already own a second house which they rent to an expatriate representative of a major multilateral organization.

Phase four Finally, in phase four the proceeds from the remitted goods are reinvested in the domestic economy in order to produce export goods which are then sent to the migrant relatives for sale in the metropolitan markets. The proceeds are then used to buy more goods to be sent back to Tonga; both investment goods for use in other business activities, and consumer goods for sale in the local market. The circular flow of goods and cash forms part of a mutually supportive exchange and production relationship; the migrant–recipient relationship has effectively evolved into a 'transnational corporation of kin'. Among the survey respondents there was one clear instance of this phase as illustrated by case *D*:

> *D* is a man in mid-forties, from a rural village on the main island of Tongatapu. There he has a farm and an agricultural equipment leasing business. He has a stall in the market which he operates two days per week depending on supplies of goods to sell. The goods on sale consist almost entirely of secondhand clothing (apart from a few toiletry items) which are sent by his relatives (his parents and seven brothers and sisters) in Sydney. They send him container loads of agricultural equipment and secondhand clothing for his leasing business and market stall. He returns the containers to Sydney, filled with cassava for the metropolitan market. Over the last year he had earned T$100,000 from his cassava exports. When asked what he did with the profits from these enterprises, he indicated that he was in the process of building a shopping centre in Nuku'alofa.

This study has shown that while it is no doubt true that remittances are used mainly for consumption and household maintenance, remittance use may evolve and contribute to other areas of economic activity, including agricultural development, handicraft production, and commercial expansion and diversification. These processes have the potential to foster the much needed boost to domestic economic growth and employment in Tonga. Whilst the goods in the flea-market (purchased, and often paid for, with remittance income) are visible indications that remittances and consumption expenditure on imported goods are closely related, they disguise situations where the use of remittances has not only evolved from pure family maintenance to become a business investment activity, but has also begun to impact on both commerce and other sectors of Tonga's domestic economy. Paradoxically, this evolution has been induced by international trade in an extraordinary range of mainly secondhand commodities that has assured Tonga's place on the periphery of the global flea-market: an unusual component of the world trading system.

Conclusions

This study of Nuku'alofa's flea-market demonstrates how the remittance dependent economy cannot be understood simply in terms of a 'frozen', 'rest and recreation' centre supported by an altruistically motivated flow of externally generated income to be used exclusively for family maintenance. It has shown that at least amongst a small group of households, remittances in kind have come to provide the basis for the development of a thriving small business sector. Though the actual number of market participants represents only a small proportion of all remittance recipients (which demonstrates that not all can or do become entrepreneurs) their successful presence is significant for other reasons.

First, it demonstrates the ability of remittance recipients to respond to a changing external environment and effectively transform their economic situation within Tonga's domestic economy. But, it should be borne in mind that in many instances, the flea-market stall holders were in relatively better paid positions before this transition. There were no instances among the sample of poorer, rural folk from the outer islands having become successful stall operators in the capital city. It is therefore possible that this process will give rise to new forms of socioeconomic inequality among Tonga's population. It is also important to recognize that the transition to small operator was not one which all stall holders had initiated themselves; it often resulted from and was influenced by the remittance senders abroad.

Second, although the flea-market may appear to be small in terms of overall retail trade in the Tongan economy, its existence and the emergence of a small group of very dynamic entrepreneurs have had a significant impact on the formal sector market. The larger retailers who have traditionally monopolized Tonga's retail trade have been forced to respond to the emergence of this new and growing domestic economic activity. Remittances are thus having an impact on the Tongan economy well beyond their well known role in shifting patterns of consumption among recipient households. They have become a significant agent of change in the domestic market structure and are influencing the behaviour of the main actors within it.

Third, this study also suggests that within this group of remittance recipients, some have evolved into fully-fledged business operations linked not only to the international economy through their migrant-based 'transnational corporations of kin', but also to other sectors of the domestic economy, including agriculture. James (1991:7) has already noted that Tongans overseas receive a greater value of handicrafts than is recorded in the official trade statistics. This is consistent with the view that substantial volumes of agricultural produce are

traded in the same way. Remittances and the investment activities they have fostered could therefore play a significant role in stimulating export demand and the growth of Tonga's productive sectors. The actual extent of, and potential for, such growth clearly require further investigation and would have significant policy relevance.

Finally, the various ways in which migrants and the recipients of their remittances have responded to the changing environment in which they operate and to the new opportunities that these changes unleash support the view that in many developing countries there is a very real ongoing process of 'structural adjustment' occurring: a spontaneous adjustment process that is essentially independent of governmental schemes or policy interventions. The remittance dependent economy of Tonga is far from being merely passive. However, because of the essentially informal nature of these activities, such adjustment processes and the resulting structural changes in the domestic economy will not be captured by macroeconomic analysis based on official national accounts data and recorded economic transactions alone. It is only through more detailed microeconomic studies and primary data collection that the ongoing adjustment processes and the structural changes they induce can be adequately analysed and understood.

Appendix

Table A1 Nuku'alofa flea-market survey, December 1992

		Number	
Part (i): The sample			
Total stalls erected	approx.	120	
Total stalls in operation	approx.	60	
Sample surveyed		29	
Sellers of remitted goods		26	(89.7 per cent of sample)
of which			
- incomplete response		3	(11.5 per cent of 26)
- final respondents		23	(88.5 per cent of 26)

	Number	Per cent of final respondents
Part (ii): Characteristics of respondents		
Own stall	21	91.3
Women	21	91.3
Men	2	8.7
Residence		
Nuku'alofa	16	69.6
Rural	7	30.4
Part (iii): Types of goods		
Category		
Clothing and footwear	23	100.0
Toiletries, perfumes, etc.	10	43.5
Other	12	52.2
Old/new		
New only	1	4.3
Secondhand only	8	30.4
Both new and secondhand	14	60.9
Part (iv): Source of goods		
Exclusively relatives	21	91.3
Relatives and others	2	8.7
Country from which sent		
United States	15	65.2
Australia	8	30.4
New Zealand	3	13.0
Part (v): Use of market income		
Consumption only	14	60.9
Savings/investment only	6	26.1
Consumption and saving	31	3.0

Table A2 Total annual turnover on remitted goods (estimates)

Per respondent				
(1)	Average turnover/day		T$118.3	
(2)	Average business days/week		4.6	
(3)	Average turnover/week			T$540.5
Stalls in operation				
(4)	Stalls in operation on survey day		60	
(5)	Per cent sample trading in remitted goods		89.7	
(6)	Stalls trading in remitted goods	[(4) x (5)]	54	
(7)	Turnover/week	[(3) x (6)]		T$29,090
Other stalls				
(8)	Stalls not operating on survey day		60	
(9)	Stalls trading in remitted goods	[(5) x (8)]	54	
(10)	Business days/week	[(2) x 0.5]	2.3	
(11)	Turnover/week	[(1) x (10) x (9)]		T$14,693
(12)	Total turnover/week	[(7) + (11)]		T$43,783
(13)	Weeks trading/annum		46	
(14)	Total turnov er/annum	[(12) x (13)]		T$2,014,018

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