

New Caledonia: problems and promises—a survey

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This survey points to the heavy dependence of New Caledonia on French aid and nickel mining and processing. The main challenges are the diversification of production while minimising disruptions to traditional ways of life, reduction of the role of government, and improvement in the labour market and international competitiveness more generally.

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Discovered in 1774 by Captain James Cook, the archipelago of New Caledonia was officially taken over by France in 1853. From 1864 to 1897, it was a penal colony whose history was marked by revolts by the Melanesian (Kanak) population and by the discovery of nickel ore deposits by Jules Garnier. Nickel production was to play an important role in the New Caledonian economy, notably after 1960.

The period after the Second World War, when the main island was a base for 50,000 US troops, saw the accession of the indigenous population to full political rights and the development of a strong pro-independence movement that gave rise to serious civil strife in the 1980s. Until 1945, the Kanaks were subjected to an 'indigenous status' that excluded them from political life and restricted them to reserves. That status was abolished in 1945 and in 1946, New Caledonia ceased to be a colony and became

a French Overseas Territory, with local government and representation in the French Parliament. The Territorial Assembly voted in 1958 to maintain the *status quo*.

Following increasingly serious and violent confrontations between Kanaks and French police, an agreement—the Matignon Accord—was reached in June 1988 between the main pro-independence party, the FLNKS, the main 'loyalist' party, the RPCR, and France on devolution and a self-determination referendum within 10 years. The innovative feature of the Matignon Accord stemmed from the recognition that Melanesians represented less than 45 per cent of the total population with the overwhelming majority in the north of the mainland and in the Loyalty Isles (see Box 1). Accordingly, the Accord created three provinces—North, South and the Loyalty Isles—with their own local government, while maintaining the Territorial Assembly,

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renamed Congress. At the same time, economic measures, mainly ‘development contracts’,² were intended to achieve a better balance, in terms of living standards, between the three provinces. Land redistribution, which had long been a source of conflict between the Kanak and European populations, became the responsibility of the Agency for Rural Development and Land Use (ADRAF), which can acquire land holdings and transfer them to indigenous individuals or groups.³

The Matignon Accord ushered in a period of reduced political tensions and of preparation for further devolution of power by France. The latter led to a new agreement between the signatories of the Matignon Accord on 5 May 1998—the Noumea Accord—which required a revision of the French Constitution and was approved by 72 per cent of the population participating in the referendum promised at Matignon.

The Accord provides for a unique and original status for New Caledonia and further devolution of authority by France by 1 January 2000, for the most part, to New Caledonia and to its three provinces, which gain greater autonomy. It recognises a New Caledonian citizenship defined by the right to vote in provincial elections, the possibility for New Caledonia to enter into international agreements in the Pacific region, and the right of the Congress to adopt ‘local laws’ applicable to New Caledonia. The French State retains its authority in some areas, notably justice, defence and public order, foreign affairs and currency, and New Caledonia continues to be represented in the French National Assembly and Senate. After 2014, and by 2019 at the latest, those who had resided in New Caledonia for at least 20 years will be consulted on the territory’s accession to full sovereignty.

New Caledonia’s institutions include the Congress, consisting of about two-thirds

of the members of the provincial assemblies; a government of 5–11 members elected by the Congress under a proportional representation system; and two consultative bodies—the Economic and Social Council and the Custom Senate—which must be consulted on bills pertaining to custom civil status and custom land issues. The local governments are the three provinces and the 33 municipalities.⁴

As a sweetener for the signature of the Noumea Accord, France transferred to the North and South provinces, through the Caledonian Company for Industrial Participation (STCPI), 8 per cent of the capital of ERAMET, a French public holding company, and 30 per cent of the capital of SLN, the main nickel producer; instigated an exchange of nickel-mining sites between SLN and the Societe Miniere du Pacifique Sud (SMSP) owned by the North province; agreed to expand its financial assistance through the established channel of ‘development contracts’; and continued to promote land redistribution and a more balanced economic development among the three provinces. In 2000, the transfers to New Caledonia from the French budget exceeded 5 billion French francs.

The start-up of the new institutional arrangements has been generally satisfactory. France is now playing the role of a referee rather than that of a sovereign. Inevitably, there is continued confrontation between the representatives of the RPCR and FLNKS within the Congress and the government where the RPCR has a majority. The FLNKS has complained that the government is not functioning as a collegial institution. The RPCR, by contrast, holds the view that the majority rule is consistent with democratic principles. This problem does not arise to the same extent in the provinces where pro-independence and ‘loyalist’ parties have an overwhelming majority.

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Recent economic developments**Production**

Notwithstanding the importance of nickel in mining, industry and exports, the commerce and government sectors together represented almost half of GDP in 1997 and services another 20 per cent (Box 1). Agriculture and fisheries had a weight of less than 2 per cent in GDP, despite their importance for the indigenous population and the development in recent years of meat production, tuna fishing and exports, and aquaculture (prawns). Exports of fish and seafood more than doubled between 1995 and 2000 to FCFP 2.7 billion. Japan and France were the two main markets (ITSEE 2001).

Production and export of nickel ore and nickel products in 1999 and 2000 benefited from a strong recovery of nickel prices, which doubled between end 1998 and end 1999, but weakened thereafter. Nickel ore extraction increased by 13 per cent in 2000 and ore exports increased by 77 per cent in value. Production of treated nickel products increased for the eighth year to 59,000 tonnes, in spite of a labour conflict that reduced production during the first quarter of 2000. The value of nickel product exports rose by 42 per cent.

House-building activity was adversely affected in 2000 by the reduction in the tax incentives introduced at the end of 1997 and by the effect of a strike at a cement producer. Nevertheless, the whole construction sector managed to expand in terms of increases in sales of cement and employment. Tourism, which had experienced a reduction in the number of visitors in 1999, mainly on account of Japan, recovered in 2000. The estimated number of tourists reached a record 110,000, an increase of 10 per cent. Nevertheless, the occupation rate in Noumea hotels continued to decline due to the increase in capacity.

Altogether, although provisional national accounts were not yet available at

the time of writing, it appears that the New Caledonian economy continued to expand in 2000, following an increase in real GDP of 2 per cent in 1999. This is confirmed by the results of employment, foreign trade and electricity production.

Employment, wages and prices

Salaried employment increased by 4 per cent between June 1999 and June 2000, but this was not sufficient to reduce the number of unemployed, which averaged 9,400 during 2000. This is equivalent to an unemployment rate of 18 per cent according to international criteria. The monthly minimum wage increased little from December 1999 to December 2000. A large increase is expected in 2001, however (see below). Inflation has remained subdued. Consumer prices rose by 2.3 per cent during 2000, following an increase of only 0.2 per cent on average in 1998–99.

Money and credit

The New Caledonian banking sector consists of the Institut d'Emission d'Outremer (IEOM), which acts like a central bank, four commercial banks, one savings bank, and four local credit institutions. In addition, there are a few French credit institutions such as the postal giro. Then there is the Treasury, the National Savings Fund, and the SOFOTOM, a guarantee fund, the capital of which is allocated between the IEOM and the credit institutions in New Caledonia, French Polynesia, and Wallis and Futuna. The resources of the SOFOTOM come from public funds and a fee on rediscounted credits.

Credit terms tend to follow the same evolution as in metropolitan France, as most credit institutions tend to invest their excess liquidities and to refinance themselves there. At the end of 2000, the total amount of outstanding credits reached FCFP 389

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billion, an increase of 6 per cent from end 1999. Half of that total was granted by non-local institutions, and 39 per cent was for housing. The money supply (M3) increased by a modest 2.2 per cent during 2000. The deficit of the net external position of the local banking sector, which represents a counterpart of the money supply, increased by 18 per cent to FCFP 43.2 billion during 2000, as local banks relied more heavily on their metropolitan parents for their financial resources.

Public finance

Expenditure of the French government in New Caledonia exceeded FCFP 100 billion in 2000, an increase of FCFP 18.3 billion, or

more than 22 per cent, over the previous year.⁵ Transfers to the provinces jumped by more than FCFP 24 billion, due to payments by the French Development Agency to enable the three provinces to buy part of the capital of ERAMET and SLN, and to a shift of some transfers from New Caledonia to the provinces following the transfer of responsibilities in education and health from the former to the latter. Payments of salaries and pensions represent nearly 50 per cent of the total transfers by France and showed a 2 per cent increase. The changes in the structure of France's expenditures in New Caledonia, and the fact that all taxes are collected by New Caledonia for its own budget and those of provinces and

Box 1

New Caledonia: basic facts

Located 1,500 kilometres from the east coast of Australia, New Caledonia is an archipelago comprising a large island, the 'mainland', 400 kilometres long and about 50 kilometres wide, the four Loyalty Isles and other smaller islands, totalling 18,575 square kilometres. The mainland is divided by a central mountain range that runs north-south and reaches 1,600 metres. Only 10 per cent of the total area is suitable for farming.

The population, at 1 January 2001, was 212,700, of which 39 per cent lived in the capital and 60 per cent in Greater Noumea. Based on the 1996 Census, Melanesians represented 44 per cent of the total; Europeans, 34 per cent; Polynesians, 12 per cent; and others, 10 per cent. Between 1989 and 1996, the population grew by 2.4 per cent per annum. Forty-seven per cent of the population is under 20 years of age. Ninety-eight per cent of the population has French nationality. The Melanesians are divided into more than 300 tribes, speaking 29 different vernacular languages. The labour force totalled 64,377, according to the 1996 Census, of which 7.2 per cent is engaged in agriculture, 23.4 per cent in industry and construction, and 69.4 per cent in services. GDP per capita in 1997 was FCFP 1,739, higher than New Zealand's.⁶ The school population in 2000 exceeded 67,000, of which 58 per cent is in the primary system.

Total imports in 2000 amounted to FCFP 120 billion. France was the main supplier with a share of 39 per cent. Exports amounted to FCFP 76 billion, of which nickel and nickel products represented 70 billion.

Source: Institut Territorial de la Statistique et des Etudes Economiques, 2001a. *New Caledonia in Brief 01*, ITSEE, Noumea.

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Table 1 **New Caledonia: structure of production, 1997**

	Million FCFP	Per cent of GDP
Agriculture	6,439	1.8
Industry	38,766	11.1
Mining	13,307	3.8
Energy, transport, communications	36,785	10.5
Construction	17,447	5.0
Commerce	80,054	22.9
Services	76,543	21.9
Government	87,919	25.2
Total GDP	349,260	100.0

Source: Based on the 1997 national accounts.

municipalities, are reflected in the accounts of the territory and the provinces. In particular, transfers from France linked to the participation of the three provinces in the capital of ERAMET and SLN are included in investment receipts, and their transfer to STCPI in investment expenditure. These changes make comparison with previous years exceptionally difficult.

The debt burden on the finances of New Caledonia and the provinces is small: interest charges represent less than 2 per cent of current expenditures. Not included in the above figures are the amounts of the development contracts signed in 2000 between France and New Caledonia, each of the three provinces, and the four municipalities included in Greater Noumea for a total of FCFP 61.4 billion. Nor is the program of economic assistance to New Caledonia from the European Development Fund (FED), signed in September 1999 and totalling 15.8 million euro, included.

Balance of payments

At the time of writing, the balance of payments figures for 2000 were not available. However, it is the structure of the balance of payments that is of interest for the purpose

of this survey and this is unlikely to have changed much in 2000.

New Caledonia runs a large trade deficit, the size of which depends in part on the fortunes of nickel exports. The services balance is also in deficit. Together, the balance on goods and services recorded a deficit of FCFP 75 billion in 1999 (FCFP 71 billion in 1998), which was largely offset by net receipts on account of factor income and current transfers. The former represents mainly salaries paid by France to civil servants working in New Caledonia; the latter is financial assistance from France to New Caledonia and its local governments, and social benefits. The sum of these operations, that is, the current account balance, was a small deficit in 1999 (and a small surplus in 1998).

The capital and financial accounts are also broadly in balance, although the gross inflows and outflows are larger than for the current account. Direct investment is relatively small, compared with the other categories, and represents, for more than 95 per cent, investments coming from France or going there. By contrast, the portfolio investment account is large, though both inflows and outflows diminished by about half in 1999, leaving the net balance roughly

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Table 2 **New Caledonia: budgets, 2000** (FCFP billion)

	New Caledonia	South Province	North Province
Current budget: receipts	72.8	23.8	13.0
Taxes	63.3	-	-
Transfers from France	1.1	1.0	2.0
Transfers from New Caledonia	n.a.	16.7	10.3
Other receipts	8.4	6.0	0.7
Current budget: expenditures	69.7	21.8	11.2
Transfers to provinces	36.1	n.a.	n.a.
Transfers to municipalities	10.7	-	-
Subsidies and 'interventions'	9.2	10.9	5.5
Other expenditures	13.7	10.9	5.7
Investment budget: receipts (of which)	1.7	10.8	9.4
Transfers from France	-	8.4	8.4
Transfers from New Caledonia	n.a.	1.0	1.0
Investment budget: expenditures	5.6	14.0	11.1

Source: ITSEE, provisional data.

Table 3 **New Caledonia: balance of payments, 1999** (transactions basis—FCFP billion)

	Inflows	Outflows	Balance
Current account (of which)	182	186	-4
Goods	47	110	63
Services	38	50	-12
Factor income	44	12	32
Current transfers	52	13	39
Capital and financial account (of which)	298	290	8
Direct investment	23	21	2
Portfolio investment	56	53	3
Other investments	219	215	4
Errors and omissions	-	4	-4

Sources: Institut d'Emission d'Outre-Mer (IEOM), 1998. Rapports Annuels, *La Nouvelle-Calédonie en 1998*, IEOM, Paris; Institut d'Emission d'Outre-Mer (IEOM), 1999. Rapports Annuels, *La Nouvelle Calédonie en 1999*, IEOM, Paris.

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unchanged. The bulk of the account 'other investments' represents changes in the net external position of the banking sector, and public and private transactions going through the 'operations account' of the IEOM. There is no account for changes in international reserve assets as the IEOM does not hold gold or SDRs.

Strategic development issues

Designing a strategy for the economic development of New Caledonia would be a complex task in any circumstances given the geography of the territory, the diversity of the population and their uneven distribution over the archipelago, the political uncertainties, and the volatile social climate. It also has to deal with issues specific to New Caledonia: the weight of the public sector, the importance of nickel mining and manufacturing, the imbalances in the labour market and the role of custom.

The weight of the public sector

In 1996, the last year for which detailed national accounts are available, total expenditures of the government sector, including salaries, purchases of goods and services, and transfers to enterprises and households, amounted to FCFP 166 billion, compared with a GDP of FCFP 335 billion.⁷ In terms of employment, public and semi-public services accounted for 22 per cent of salaried employment. About half of these employees were paid directly by the French government.

The weight of the public sector manifests itself through another feature of the New Caledonian economy: the level of intervention by the French, New Caledonian and local governments in the economy. Prices may be controlled or monitored. Imports may be subject to quantitative restrictions or tariff surcharges. In agriculture, the Board for the Regulation of Agricultural Prices (ERPA),

with a budget in 1999 of almost FCFP 1 billion—of which three-quarters came from the New Caledonian budget—spent more than half of its resources to subsidise prices of farm and fisheries products, including exports. Another 22 per cent was spent on disposal of excess production. The Office of Distribution and Refrigerated Stocking (OCEF) has the monopoly for the supply of meat to most of Greater Noumea. In mining, the Fund for Support to the Mining Sector (FCSCM) and the Mine Restructuring Committee have operated since 1998 and 1999 respectively to help mines facing difficulties, especially in terms of export prices. The largest metal, electricity and air transport companies, SLN, ENERCAL and Air Caledonie respectively, are semi-public corporations.

The financing of investment projects is dominated by the French and EU development agencies. As already mentioned, the French government can also grant tax rebates to metropolitan residents for investments in New Caledonia. At the local level, provinces and the local social security system (CAFAT) may provide financial assistance and loans under certain conditions.

France, before the Noumea Accord, and now New Caledonia can also grant foreign investors tax holidays. Some are included in the Tax Code, and apply to certain municipalities or types of investments (for example, tourism, urban apartment building). Others can be decided on a case-by-case basis. For example, a recent local law voted by the Congress granted tax exemptions for new projects in the nickel sector.

New Caledonia has a development agency, ADECAL, which is financed by France, New Caledonia and the three provinces to promote foreign investment and to develop exports of goods and services. It provides mainly advice and assistance in meeting necessary administrative requirements and seeking local financial assistance.

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Each of the three provinces has its own development company (PROMOSUD, SODIL and SOFINOR) that can support investment through a wide range of instruments: grants, studies, assistance to exports or employment and participation. For example, PROMOSUD has injected FCFP 3.2 billion in more than 40 companies. Its decisions are taken by a Board of Directors comprising representatives of local banks, the Port of Noumea and some elected officials of the South province. In addition, the Caledonian Participation Institute (ICAP) supports business activity outside Greater Noumea through the purchase of minority positions in the capital of enterprises or short-term loans. France and the three provinces are the shareholders of the Institute. SOFOTOM is active, through its guarantee program, in support of local crafts and manages the FCSCM and the Mine Restructuring Committee mentioned above. Finally, the activities of the STCPI limit themselves, for the time being, to holding the participation of the provinces in the capital of ERAMET and SLN and passing on the dividends received to the provinces or their development companies.

The large weight of the public sector in the New Caledonian economy was probably an inevitable result of its history. It carries the risk, however, that interventions will respond to political considerations, especially at the local level, and it may prove too costly to maintain in the long run.

The weight of nickel in the New Caledonian economy

The mining and processing of nickel ore employed about 3,100 workers, or 6.2 per cent of total salaried employment, and accounted for more than 90 per cent of exports in 2000 (Box 2). These activities are expected to expand as a result of recent decisions by major producers.

SLN has decided to build a new electric furnace that would raise its productive capacity to 70,000 tonnes. The Canadian

nickel producer, Inco, has, after a period of testing, announced that it would proceed with the construction of a nickel-processing plant in Goro, at the southern tip of the mainland, based on the sulfuric acid leaching process. Production could start in 2004. The other large Canadian producer, Falconbridge, after long studies and bargaining with the authorities on tax incentives, is said to be close to a decision on the construction of a smelter in the North province, close to a mining site. These three projects will require a large expansion in the electricity-generating capacity of the mainland.

If these projects were to come on stream, New Caledonian nickel-production capacity could more than treble. They would provide a welcome boost in employment, estimated at about 2,000 jobs. The North province in particular is eager to have its own nickel plant. The benefits of the projects have, however, been questioned, mainly outside New Caledonia, given that they will produce no direct tax revenue and that their environmental impact may have been underestimated. They will also increase the dominance of nickel in the economy and subject it to greater volatility.

This strengthens the case for diversification of the economy. Agriculture, small industries and crafts, tourism, and 'cultural' goods and services would seem promising areas, but competitiveness, discussed in the next section, is a handicap.⁸ The failure of coffee growing, the stagnation of tourism and the large import requirements for milk and poultry can be explained in part by the high costs of domestic producers. On the other hand, fish farming and the fishing of tuna and its export to Japan have been recent success stories.

Imbalances in the labour market

Unemployment, measured by the number of job seekers registered with the Employment Agency (APE) at the end of each month, has been on a rising but decelerating trend since

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Box 2

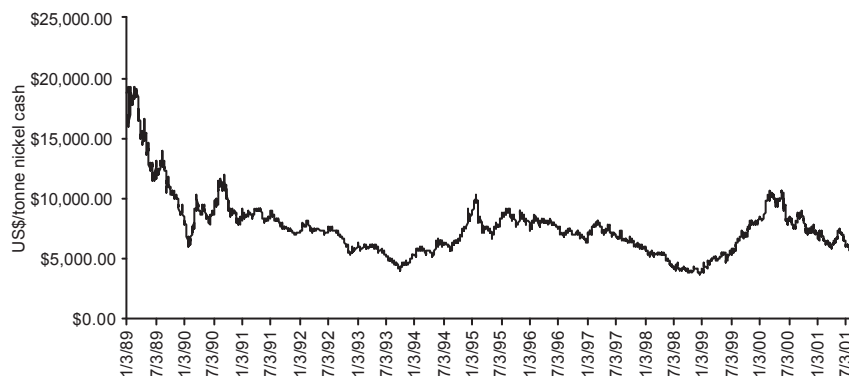
Nickel in New Caledonia

Nickel ore is found in the form of two types of oxides called, according to New Caledonian terminology, laterites and garnierites. Laterites are found close to the earth's surface and are rather common in tropical areas. They are a low-grade nickel ore (about 1.5 per cent nickel), generally associated with some cobalt. Garnierites are found between 15 and 30 metres below the surface and contain about 3 per cent nickel. Nickel can be extracted from garnierites in electric smelters: the products take the form of ferro-nickels, nickel and iron alloys that can be used in steel furnaces for the production of stainless steel and mattes, a nickel sulfite. Laterites cannot be processed in smelters; the nickel must be extracted by a leaching process. There are two main technologies used: one based on ammonia; the other on sulfuric acid under high pressure and temperature. Both processes recover nickel and cobalt. The latter is less energy intensive but very aggressive, and involves problems of storage and disposal of residue. More than 60 per cent of the nickel produced in the world is used in the production of stainless steel. The second main use is for special alloys used in the space and aeronautics industries.

New Caledonia is the third largest producer of nickel in the world and it holds about 25 per cent of the world reserves. In 2000, it mined 5.5 million tonnes of garnierites and 2 million tonnes of laterites. About half of the garnierite ore was exported to Japan and the bulk of the laterite to Australia for processing. SLN produced 57,463 tonnes of nickel products in its plant at Doniambo, near Noumea, nearly all of it for export. Ferro-nickels represent three-quarters of production. A strike in the mining sector affected production in the first quarter of 2000. The Doniambo plant has a productive capacity of 62,000 tonnes.

Nickel prices on the London Metal Exchange have fluctuated widely from a high above US\$17,000 per ton in the late 1980s to a low below US\$5,000 in 1994. The rise in the exchange rate of the dollar against the Pacific franc helped New Caledonia in 2000, but in the current year both the price of nickel and the exchange rate have moved against local producers (see chart).

Nickel prices on the London Metal Exchange, 1989–2001 (US\$/tonne)



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the beginning of the 1990s. Vacancies have also increased since 1994 but remain well below the number of job seekers.

The high level of unemployment and the presence of an unrecorded under-employment have not prevented pressures on remuneration and a number of long and sometimes violent labour conflicts. These strikes have led the authorities to seek a permanent solution that could bring back social peace. Negotiations started in 1999 with the unions on a Social Pact that would balance measures restricting the full use of the right to strike with increases in wages and reductions in social security contributions (Box 3). An agreement was signed on 20 October 2000 with a majority of the unions, but the third largest union, the USTKE, close to the French union CGT, refused to sign it. The Pact, and the negotiation process, were probably responsible in part for a reduction in the number of days lost in the private sector due

to strikes from 24,000 in 1999 to 11,000 in 2000. It did not prevent, however, a major conflict that forced the government in November 2000 to grant an increase in the monthly minimum wage from FCFP 82,000 on 1 January 2001 to FCFP 100,000 as of 1 July 2001. The Social Pact provided for that level to be reached only by 1 July 2003.

While some sectors, such as construction, had already reached that level, an estimated 10,000 workers will benefit from the revision of the scheduled increase in the minimum wage, which compares with a rate of inflation of only 1.7 per cent for the year to 1 July 2001. In New Caledonia, most wages are linked to the minimum wage, which varies by sector, through a grid of coefficients based on the qualification levels. Contributions for social security, unemployment insurance, workers compensation, housing, training and pensions paid by employers represent an additional 35–50 per cent of wages paid, up to the ceiling used for social security

Box 3

The Social Pact

The main provisions of the Social Pact of 20 October 2000 follow.

- The principle of a 'preventive dialogue' before any strike is adopted.
- In activities of vital importance for New Caledonia, notably air and sea transport, the Congress will pass legislation providing the possibility of suspending a strike for 15 days by decision of the government and requiring a minimum level of service by workers.
- The minimum wage is raised according to a schedule discussed in the text.
- Employers' social contributions for wages below 1.3 times the minimum wage are reduced by 50 per cent (75 per cent outside Greater Noumea).
- The local population is to receive priority, for the same level of qualification, for new hiring.
- The supplementary pension system is to be maintained and improved.

Source: Institut Territorial de la Statistique et des Etudes Economiques (ITSEE), 2001b. *Bilan Economique 2000*, ITSEE, Noumea.

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contributions. The hospitality industry and small businesses have expressed their concern at the loss of competitiveness associated with the new measure.

The Noumea Accord provided for continued support by France for training, especially in the context of the actions aimed at reducing the discrepancies in living standards among the provinces. Emphasis is to be placed on the training of mid and high-level Melanesian staff and priority is to be given to local staff in filling vacancies.

The weight of 'custom'

Custom is often regarded either as an obstacle to development, found only in 'primitive' societies, or as something authentic, harking back to the halcyon days of the pre-colonial, pre-capitalist era, when humans and nature lived in harmony (France, Assemblée-Nationale 2001; Burt and Clerk 1997). All agree, however, that brutal disruption of indigenous societies is unacceptable.

The Matignon and Noumea Accords make special reference to custom, the Kanak identity and the legality of custom traditions in areas such as property rights. The Noumea Accord spoke of the Melanesian population as 'traumatised by colonisation' and the loss of land, and provided for a 'Custom Senate' that must be consulted on all government decisions affecting the rights of the Kanak population. Kanak languages are recognised, as is French, as languages of education and culture. The decisions taken at Matignon in 1988 to redistribute land, recognise community landholding and redress the economic imbalance between the main population groups were confirmed in the Noumea Accord. Transfers from France through 'development contracts' have, accordingly, gone mainly to the North and Loyalty Isles provinces. Yet, the results have so far been disappointing. Those two provinces remain far behind the South province in terms of per capita income, and land holdings by Melanesians have increased

only from 10 per cent of usable land in 1978 to 16 per cent in 1995 (France, Assemblée-Nationale 1998). The place of Kanak languages in education has remained limited.

Some analysts have criticised the approach of the 'development contracts' for being largely a paternalistic 'top-down' approach and recommended a 'bottom-up' approach more in tune with Melanesian custom (Burt and Clerk 1997). They want to place emphasis on the production of 'cultural goods and services' that strengthen the Kanak society instead of weakening it, and protect the environment. There is certainly merit in encouraging the development of activities that fit well with Kanak tradition, such as crafts and eco-tourism. One may question, however, if this would be enough to provide the resources needed to accommodate the pressures of demography. It is also inevitable that, unless they are cordoned off, traditional societies will be disrupted by contacts with Western societies through television and travel. Young Melanesians, in particular, are no longer satisfied with the traditional way of life.

Conclusions

New Caledonia is unique among Pacific islands for its level of income and its political institutions. It is also an original experiment in coexistence between two large ethnic groups of roughly the same size. At the same time, it is also a rather artificial construct, supported by France and largely dependent on nickel mining and processing.

The main challenges for the future are the diversification of production, reduction of the role of government in the economy, the improvement in the workings of the labour market and in the competitiveness of local products and services, and the development of activities in the two provinces where Melanesians have an overwhelming majority of activities that avoid further disruptions to their traditional way of life.

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Whether New Caledonia will evolve like New Zealand rather than Vanuatu will depend on the stability of the non-Melanesian population. At present, Noumea is hardly distinguishable from towns of the same size in metropolitan France, but it will remain so only if the economy and/or transfers from France provide its population with an income roughly comparable with what it could attain in Europe. For the next 13 years, at least, the present arrangements are capable of ensuring the peaceful coexistence of Kanaks and Europeans, which is a precondition for economic development. A major challenge will be to ensure that political stability and economic viability persist after New Caledonia attains full sovereignty.

Notes

- ¹ The author thanks Messrs Bob Hawkins and Ewen Waterman of Access Economics for giving him the opportunity of visiting New Caledonia in March 2001.
- ² Development contracts are agreements between the French Development Agency (AFD) and the provinces or municipalities for investment in projects contributing to economic, social or cultural development.
- ³ These activities do not concern the Loyalty Isles, which make up an indigenous reserve.
- ⁴ As in all Melanesian societies, 'custom' is a set of traditions that play an important role in the life of indigenous populations, including the use of land. More than 80,000 New Caledonians are registered under a specific civil status, the custom status, which recognises certain customary practices for family structure, land rights and transfer of assets.
- ⁵ These figures do not include the amount of tax rebates granted to French residents for employment-creating investments in New Caledonia (Loi Pons).
- ⁶ The exchange rate of the Pacific franc (FCFP) has remained fixed at 1 French franc = 18.18 FCFP since 1959, equivalent to 0.51 euro (A\$0.96, based on exchange rates at 21 September 2001).
- ⁷ The only government expenditures counted

as part of GDP are salaries (including social security contributions). See Box 1.

- ⁸ For a definition of cultural goods, see Lal and Young (2001).

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