Economic Integration and Labour Mobility: Are Australia and New Zealand Short-Changing Pacific Forum Island Countries?\(^1\)

Biman C. Prasad\(^2\)
School of Economics
The University of the South Pacific
Suva, Fiji Islands

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\(^2\) Professor and Head of School of Economics, The University of the South Pacific, Suva, Fiji Islands. Currently visiting scholar at the Department of Economics, University of Otago under the Ratu Sir Kamisese Mara Fellowship
1. Introduction

It is my pleasure to speak to you on a subject that is very topical and one that is likely to continue to attract attention in future. Before I go on to the substance of my presentation this afternoon, let me thank the University of Otago for establishing the Ratu Mara Fellowship in honour of one of Pacific’s leading political figures. Ratu Mara stayed in Dunedin and studied medicine for 3 years and remembered his stay at 253 York Place. Later he went on to study history and economics at Oxford University. For many years he was responsible for economic planning and policies in Fiji and had a profound impact on other Pacific Islands’ economic policies. He was a keen sportsman, playing rugby cricket, billiards and snooker, and was highly regarded amongst his peers at the University. He was a great lover of music. At Otago he sang island songs and also learnt some great Maori songs.

Ratu Sir Kamisese Mara, former Prime Minister and President of Fiji, was instrumental in setting up of the Pacific Islands Forum, which includes Australia and New Zealand. Ratu Sir Kamisese was asked by the then Prime Minister, Mata’afa of Western Samoa, Prime Minister Prince Tu’ipelehake of Tonga, Premier Albert Henry of the Cook Islands and President Hammer de Robert of Nauru in 1971 to organize a meeting of self-governing and independent states in the Pacific. It was Ratu Sir Kamisese who argued that Australia and New Zealand should be included in the forum as opposed to some others who did not want the two countries. Ratu Mara argued that Forum Island Countries (FICs) needed them for economic development and political support. He stated the following:

“We debated late into the night and at first I was alone in arguing that Australia and New Zealand should join. Even at the first meeting it had not been clear whether they would become members. However, I argued forcibly for their inclusion on the grounds that the islands wanted to retain close relations with the two and hoped that better relations would be maintained in the future. The islands looked to Australia and New Zealand for leadership and help in finding solutions to their problems, political independence was meaningless without economic independence, and the islands needed

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3 See Chapter 18, in “The Pacific Way: A Memoir” The Right Honourable Ratu Sir Kamisese Mara,
cooperation from Australia and New Zealand. Happily this view prevailed, and Australia and New Zealand became members” (Ratu Mara, 1997; pp.171-172).

The first meeting of the forum was held in New Zealand and again Ratu Mara was instrumental in asking the then New Zealand Prime Minister Sir Keith Holyoake to host the meeting. Some of the countries which opposed Australia and New Zealand’s membership at that time asked what sort of leadership these two countries would provide and whether they would be bullies in pushing their own agenda. I guess some are still raising these questions, and both Australia and New Zealand have to navigate their way through these issues. The diplomatic rows between New Zealand and Fiji and between Australia and Fiji after the December 2006 coup and Australia’s diplomatic standoff with between Papua New Guinea and the Solomon Islands are just some recent examples of the suspicion and doubts about their roles in the Pacific Islands.

Ratu Sir Kamisese Mara was an influential figure in the forum and unity amongst the island leaders. Ratu Mara was for example instrumental in developing a pre forum meeting of island leaders to thrash out issues before the full meeting including Australia and New Zealand. As he put later,

‘in my opinion we tended to become more easily divided. Prime Minister Tupuola Tamasese Efi of Western Samoa succeeded in breaking up our pre-forum meting held in Nauru, and when we were holding our meeting in one of the houses, Efi invited Muldoon to come and sit inside while we were talking on the Verandah. Halfway through the discussion he said, “Muldoon is listening and hearing everything we are saying. Why don’t you invite him to join us?” From that moment the pre-forum, islands only meetings came to an end” (Ratu Mara, 1997; pp.174).

The Pacific Islands Forum is the major political organization in the region bringing leaders of the 16 forum countries together annually. It is a vehicle for promoting cooperation amongst the countries. The sustained poor economic performance of the Forum Island Countries (FICs) has been a serious concern and there have been many
explanations provided by economic commentators and international organizations. These include institutional failures, misuse of foreign aid and remittances, corruption and mismanagement of public funds and lack of openness of the economies. These criticisms, however, do not always take into account the unique characteristics of the FICs and their lack of capacity to reap the benefits of global and regional economic integration. I am therefore going to provide a brief overview of the characteristics of FICs, and then talk about the extent of economic integration and what it means for them. I will also cover the Pacific Plan and labour mobility. Finally, I will make some observations about the role of Australia and New Zealand and the impact of their trade, economic and immigration policies on the FICs economies, and why these are at times sources of discontent amongst the people in the Pacific Islands.

FICs are uniquely imperiled with a number of problems. These include vulnerability to natural disasters, economic challenges faced by increasing global economic integration, bad governance and corruption and lack of institutional efficiency in relation to most sectors of the economy. Small island countries face significant challenges associated mainly with their small size, remoteness and vulnerability when trading and competing in the global market. Smallness combined with insularity has been synonymous with small domestic markets, and lack of scale economies, human capital and entrepreneurship. Recent empirical studies also show that small islands are in a disadvantaged position in doing business in the global market as a result of their inherent cost associated with smallness. For example, the cost disadvantage for (micro) islands in the manufacturing sector (clothing and electronic assembly) is 36% higher compared to a median-sized country, and 58% higher for tourism industry (Winters and Martins, 2004).

Economic challenges facing the FICs are daunting, to say the least. Many of them are facing economic decline as they grapple with the changing international trading environment. The global economic integration and the increasing move towards freer trade under the rules of the World Trade Organisation (WTO) for those who are members

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4 See for example ADB (2006), (Chand 2001, 2003), (Duncan 2005a), (Hughes 2003), Gosarevski, Hughes and Windybank 2004)
has placed new pressures on the economies of these countries. Apart from erosion of preferential treatment of their exports, the FICs face declining customs revenue, widening current account deficits and worsening levels of poverty. While the broader regional agenda set by Pacific leaders is a noble step forward in recognizing the region’s social and economic problems, it could be many more years before sustainable progress is made. FICs generally face similar problems even though there is considerable diversity in terms of culture, history, resource endowment, environmental vulnerability and levels of economic growth and other social and economic indicators.

2. Key Characteristics of FICs

While FICs differ in some cultural and economic aspects, they also share several features which affect their development in similar ways. The World Bank (2005) calls this ‘exogenous factors’ or “givens” that affect their development strategy. The exogenous factors include remoteness and isolation. Majority of the FICs have large exclusive economic zones and the many islands that constitute one country are widely dispersed. Kiribati, for example, has a population of about 100,000 that is spread over 33 islands that cover 4,000 km from east to west, and 2,000 km from north to south, while the 200,000 inhabitants of Vanuatu are spread over 80 islands in an 800-km chain. Because of their remoteness and isolation, many of the FICs are far away from the major centres of their trading partners such as the EU, Japan and the US. Even Australia and New Zealand for many of them are far and present special challenges for communication.

The FICs can be divided easily into three groups. First the large Melanesian countries which include Fiji, Papua New Guinea, Solomon Islands and Vanuatu are endowed with better natural resources and have relatively large and growing populations. In addition, Melanesian countries like Fiji and Solomon Islands have had a much bigger problem of

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5 Tonga, Papua New Guinea, Fiji and the Solomon Islands are members of the WTO
political instability and ethnic tensions. Fiji, for example, has had four coups in 20 years, with the recent one being on 5 December, 2006. Solomon Islands had a terrible civil strife and is currently undergoing a political transition with the help of the Australian government. Fiji has experienced ethnic tension for some years and its economic performance has been severely affected since 1987. The average growth rate for Fiji over the last twenty years has just been around 2 percent. Solomon Islands economy has significantly been affected by the civil strife and it is likely to take sometime before the country is back on its feet. Papua New Guinea continues to be stable although crime rate in the country has affected its economic potential in a significant manner.

The second group includes the two large Polynesian countries of Tonga and Samoa. These two are relatively well endowed with natural resources and have been relatively stable politically. Tonga, however, broke from the ranks and experienced political instability recently. The rioting in Nukualofa in Tonga was a result of a long suppressed demand for political liberalisation. Tonga has been a constitutional monarchy and participation in the political process and governing of the country was largely decided by the King of Tonga. After the death of the King Toupu IV, it is expected that Tonga will move towards political reform and embrace liberal democracy. Samoa on the other hand is a well functioning democracy and a socially cohesive society. Its economic performance has also generally been very good.

The third group includes the very small Micronesian and Polynesian countries with very little resource endowments. These small countries tend to be resource-poor, thereby posing some different development opportunities and challenges. The countries in this group are Tuvalu, Niue, Cook Islands, Tokelau, Marshall Islands, Kiribati and the Federated States of Micronesia. Table 1 shows some of the indicators for the three groups of countries.
### Table 1: Pacific Island Countries – Selected Key Indicators

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Cook Is.</td>
<td>19</td>
<td>2,651</td>
<td>62</td>
<td>NA</td>
<td>490.0</td>
<td>NA</td>
</tr>
<tr>
<td>Fiji</td>
<td>840</td>
<td>2,195</td>
<td>90</td>
<td>9</td>
<td>61.0</td>
<td>3.9</td>
</tr>
<tr>
<td>FSM</td>
<td>114</td>
<td>2,211</td>
<td>NA</td>
<td>NA</td>
<td>923.0</td>
<td>NA</td>
</tr>
<tr>
<td>Kiribati</td>
<td>90</td>
<td>751</td>
<td>129</td>
<td>NA</td>
<td>191.0</td>
<td>22.5</td>
</tr>
<tr>
<td>Palau</td>
<td>20</td>
<td>6,482</td>
<td>NA</td>
<td>NA</td>
<td>1295.0</td>
<td>NA</td>
</tr>
<tr>
<td>PNG</td>
<td>5,600</td>
<td>714</td>
<td>139</td>
<td>31</td>
<td>40.0</td>
<td>12.8</td>
</tr>
<tr>
<td>Marshall Is.</td>
<td>58</td>
<td>2,559</td>
<td>NA</td>
<td>NA</td>
<td>991.0</td>
<td>NA</td>
</tr>
<tr>
<td>Samoa</td>
<td>181</td>
<td>1,672</td>
<td>75</td>
<td>20</td>
<td>186.0</td>
<td>42.6</td>
</tr>
<tr>
<td>Solomon Is.</td>
<td>471</td>
<td>550</td>
<td>129</td>
<td>11</td>
<td>132.0</td>
<td>21.7</td>
</tr>
<tr>
<td>Tonga</td>
<td>101</td>
<td>1,629</td>
<td>55</td>
<td>3</td>
<td>270.0</td>
<td>26.3</td>
</tr>
<tr>
<td>Tuvalu</td>
<td>11</td>
<td>345</td>
<td>118</td>
<td>NA</td>
<td>260.0</td>
<td>47.2</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>215</td>
<td>1,493</td>
<td>119</td>
<td>1</td>
<td>154.0</td>
<td>33.0</td>
</tr>
</tbody>
</table>


FICs political systems are the colonial legacies of countries such as Australia, Britain, France, Germany, Japan, New Zealand, Spain, and the United States. While the colonial experience left behind constitutional and democratic systems of government, many are still struggling to define themselves in a truly democratic manner. The link between democracy, constitutionality, property rights and economic performance is an important consideration for many of the FICs. Recent economic literature attributes many of the economic difficulties to inefficient and corrupt governments in many developing countries. The lack of democratic values and respect for rule of law has been one of the major factors in explaining poor economic performance in Fiji and the Solomon Islands.

The issue of land and property rights has caused many disputes in the bigger Melanesian countries and the solutions to these are not yet in sight for these countries. Resource
ownership conflicts in the Melanesian countries are also common and the communal nature of the property rights causes problems for both economic development and the environment as well. Ownership of natural resources is important for identification of family, clan, and lineage, and this plays a significant role in the governance structures in many of the FICs. Close kinship ties and small communities sometimes make it difficult to bring about efficiency in the civil service and reduce corruption. FICs are also very susceptible to natural disasters. Many of them experience regular extreme weather events. The economic and social negative impact of these events is rising and is likely to cause serious hardship in the future. Climate change is increasingly becoming a nightmare for the smaller countries such as Kiribati, Tuvalu and the Marshall Islands. In these countries inundation due to storm surges could increase significantly, leading to loss of assets and salinization of groundwater sources. Climate change is also likely to cause more cyclones and droughts, reduce agricultural output and affect food security in the future.7

In addition to the above challenges, economic growth has been low and as a result unemployment and poverty is on the rise in most of the FICs except Cooks Islands. In others more than 20 percent of the populations are below basic needs poverty line. In Kiribati it is 50 percent, in Fiji 34 percent, Vanuatu 40 percent and 37 percent in Papua New Guinea with similar figures expected in the Solomon Islands (see table 2).

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Table 2: Incidence of Poverty in Pacific Island States

<table>
<thead>
<tr>
<th>Country</th>
<th>National</th>
<th>Urban</th>
<th>Rural</th>
<th>Data Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cook Islands</td>
<td>12.0</td>
<td>na</td>
<td>na</td>
<td>1998 HIES</td>
</tr>
<tr>
<td>Fiji</td>
<td>25.5</td>
<td>27.6</td>
<td>22.4</td>
<td>1990/91 HIES</td>
</tr>
<tr>
<td>Fiji (provisional)</td>
<td>34.4</td>
<td>31.8</td>
<td>38.1</td>
<td>2002/03 HIES</td>
</tr>
<tr>
<td>Kiribati</td>
<td>50.0</td>
<td>51.0</td>
<td>50.0</td>
<td>1996 HIES</td>
</tr>
<tr>
<td>Marshall Islands</td>
<td>20.0</td>
<td>na</td>
<td>na</td>
<td>1999 Census</td>
</tr>
<tr>
<td>Nauru</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td></td>
</tr>
<tr>
<td>Niue</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td></td>
</tr>
<tr>
<td>FSM</td>
<td>27.9</td>
<td>29.5</td>
<td>32.9</td>
<td>1998 HIES</td>
</tr>
<tr>
<td>Palau</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td></td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>37.5</td>
<td>na</td>
<td>na</td>
<td>1996 HIES</td>
</tr>
<tr>
<td>Samoa</td>
<td>20.3</td>
<td>23.3</td>
<td>17.9</td>
<td>2002 HIES</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td></td>
</tr>
<tr>
<td>Timor-Leste</td>
<td>39.7</td>
<td>25.0</td>
<td>44.0</td>
<td>2001 TLSS</td>
</tr>
<tr>
<td>Tokelau</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td></td>
</tr>
<tr>
<td>Tonga</td>
<td>22.3</td>
<td>23.6</td>
<td>22.8</td>
<td>2002 HIES</td>
</tr>
<tr>
<td>Tuvalu</td>
<td>29.3</td>
<td>23.7</td>
<td>23.4</td>
<td>1994 HIES</td>
</tr>
<tr>
<td>Tuvalu (provisional)</td>
<td>34.8</td>
<td>44.6</td>
<td>22.2</td>
<td>2005 HIES</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>40.0</td>
<td>na</td>
<td>na</td>
<td>1998 HIES</td>
</tr>
</tbody>
</table>

(SOURCE: Adapted from Flore-Smerekwa, forthcoming)

Other characteristics include heavy aid dependence, large public sectors, high debt levels, poor infrastructure and poor delivery of public services. All these characteristics present special challenges for development in the FICs. Aid flows to the Pacific region have declined by 50% in the last two decades. However, aid flows as a % of GNI compared to other regions, it is still considered to be high (see figures 1 and 2).
Figure 1: Aid Flows to Pacific Islands.

(Source: Adapted from Flore-Smerekznia, forthcoming)

Figure 2: Regional Allocation of Aid as % of GNI

(Source: Adapted from Flore-Smerekznia, forthcoming)
Many of the PICs are still off track on a number of Millennium Development Goal targets (see figure 3). In terms of Goal 4, which deals reduced child mortality, Kiribati, Marshall Islands, Papua New Guinea, Solomon Islands and Tuvalu are not only off track but there is strong negative trend.

**Figure 3: Progress in Achieving MGDs**

<table>
<thead>
<tr>
<th>Goal 1</th>
<th>Goal 2</th>
<th>Goal 3</th>
<th>Goal 4</th>
<th>Goal 5</th>
<th>Goal 6</th>
<th>Goal 7</th>
<th>Unlikely to achieve</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cook Islands</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fiji</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2 goals</td>
</tr>
<tr>
<td>Kiribati</td>
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<td></td>
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<tr>
<td>Marshall Islands</td>
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<tr>
<td>Micronesia</td>
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<tr>
<td>Nauru</td>
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<tr>
<td>Niue</td>
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<tr>
<td>Palau</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>8 goals</td>
</tr>
<tr>
<td>Samoa</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>X</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3 goals</td>
</tr>
<tr>
<td>Tokelau</td>
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<td></td>
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<tr>
<td>Tonga</td>
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<td>Tuvalu</td>
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<tr>
<td>Vanuatu</td>
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</table>

(Source: UNSTATS Millennium Indicators Database and OECD DAC Online Database, accessed 23 July 2006)

3. Economic Policy Changes in the FICs since the 1980s

Like many developing economies around the world, FICs were also undergoing fundamental economic policy changes. The drive towards export oriented growth strategies were a result of the deepening economic crises such as widening current account deficits, balance of payment problems and inability to service debts in many developing countries. Led by developed countries such as US and Britain, and supported worldwide by the International Monetary Fund and the World Bank, the structural adjustment policies were designed to move these failing economies towards more
outward looking policies. The main thrust of the new policies were to reduce government expenditure, promote private sector investment and privatization, remove high tariff rates and provide support to industries which produced for export. The experiences of some of the Asian countries such as Singapore, Hong Kong, South Korea and Taiwan were produced as evidence that open economies with an emphasis on exports would achieve high levels of economic growth in these countries. The benefits of international trade has been actively promoted throughout the 1980s, 1990s and continues with much zeal in the 2000s. The role of the WTO in this has been particularly important. The current development in the multilateral trade negotiations have presented serious problems as the negotiations on the Doha Development Agenda have been stalled after the 6th Ministerial Meeting in Hong Kong in December, 2005.

FICs have continued to grapple with the rapidly changing global economic environment and have attempted to change their own economic policies to benefit from the global developments in economic integration. Tonga, Fiji, Solomon Islands and Papua New Guinea are already members of the WTO while Vanuatu and Samoa are in the process of acceding to WTO. The membership of the WTO requires certain commitments from the members, in particular reducing and removing trade barriers such as tariffs, quotas and other non-tariff barriers. Many of the commentators who have argued against uncontrolled opening of trade regimes point out that small developing countries will always lose out as they would not be able to compete in the international market with large countries. They therefore argue that these countries need special provisions to allow them to be treated differently from the large and developed countries. Despite these views most of the governments in the FICs supported by developed country trade partners and international organizations have continued to push for economic integration in the region. This is evident from their support to the Pacific Plan which supports economic integration and regional trade. The adoption of the Pacific Islands Countries Trade Agreement (PICTA) and the Pacific Agreement on Closer Economic Relationship (PACER) further indicates that trade openness is going to be the corner stone of economic policies in the region.
Thus many FICs are trying to align their economic policies towards reaping the benefits of trade. Macroeconomic stabilization policies include reigning in on large government deficits, controlling the debt levels and maintaining adequate levels of foreign exchange reserves. On the trade side, attempts are being made to promote the exports of goods and services in which these countries have comparative advantage. For bigger Melanesian countries, agricultural and primary exports such as sugar, beef, and gold, copper are the main exports, with Fiji and Papua New Guinea having some manufactured exports such as garments and food. Other small countries depend mainly on fish exports. The comparative advantage for many goods is restricted due to high costs of production. The export of services of which tourism is the main one, presents real opportunities for many of the Pacific Island Countries to improve their economic growth performances.

Most of the FICs apart from the few very small one such as Nauru, Tuvalu, Kiribati and Niue, have the potential for increasing tourism as a major sector of the economy. Fiji is already a leader in attracting tourists with a well-developed tourism infrastructure. Other countries such as Papua New Guinea, Solomon Islands, Vanuatu, Samoa and Tonga are also taking advantage of the growth of the tourism industry in the region. Perhaps, one of the failures of the South Pacific Forum and indeed failure of Australia and New Zealand to support the economic reform in the 1980s when they themselves were undergoing some of the major structural reforms. If it was started then, the reform in some of the PICs could have been gradual and it would have created less adjustment pains then what many of them find today.

4. Economic Integration and Regionalism

Several studies on economic integration have provided analysis of costs and benefits of regional economic integration. Generally all of them point that Australia and New Zealand need to pay more attention to the costs and benefits and finds ways to improve the trade balances with the FICs (see for example, Fry, 2005; Grynberg, 2005; Jayaraman, 2005; Scollay 1998, 2005). Economic integration has been pursued as an agenda with some sense of urgency since the 1990s. Australia and New Zealand started major economic reforms in their own economies from as early as 1980s and put in
policies and agreements to integrate the two economies. The closer economic relations agreement between Australia and New Zealand has done much to integrate the two economies. In this respect, it would not be too far fetched to say that Australia and New Zealand failed to provide the leadership in the forum to move the FICs in the same direction even if the pace and speed of reforms would have been slower. In fact, one can say that Australia and New Zealand did not pay much attention until the Pacific leaders themselves began to realize that global economic conditions were changing much faster than anticipated and they needed to understand this and reform their economies accordingly. In this context the Pacific Plan is a good step forward and a timely response to speed up the process of economic integration. However economic integration comes only after certain industrial capacity has been developed. The question that needs to be addressed is do the Pacific countries have sufficient manufacturing or industrial development. Australia and New Zealand only integrated once their industrial capacity was strengthened and their agriculture became competitive. Support in developing the appropriate infrastructure for this in some of the bigger countries would be an area that Australia and New Zealand can help.

The Pacific Plan was mooted by the Forum Eminent Persons Group in 2004 and the actual plan was endorsed by the forum leaders in October 2005. As a ‘living document’, it will form the basis of ongoing strengthening of regional cooperation and integration for the benefit of the people of the Pacific. The plan provides a regional strategy to deal with the changing global political and economic environment. It identifies further regional economic integration as the way forward to achieving economic successes in the FICs. The serious challenges facing the countries of the Pacific are to be met through sharing scarce resources and aligning policies to strengthen national capacities to support their people.

Part of the reason why the Pacific Plan as a strategy has been adopted is to do with the failure in the past to deal with the changing economic environment. Traditionally the forum has been concerned about regional cooperation and this occurred at various levels. The plan includes cooperation between civil society organizations such as trade unions, regional cooperation in sports, religion and arts. Political dialogues and cooperation has
also been one of the major activities of the forum since its inception. The concerns about political instability in Fiji since 1987 led to the adoption of the Biketawa declaration. In addition to the regional cooperation the attempt has also been made to develop regional organizations to provide services at a regional level to achieve economies of scale as some of the countries are too small to provide services on their own. The establishment of the University of the South Pacific, strongly supported by New Zealand, has provided higher quality education for about four decades. Another example of success is the Forum Fisheries Agency (FFA) and the Pacific Forum Line (PFL). The FFA provides a regional attempt to manage fisheries resources especially tuna and PFL provides a regional shipping services. Air Pacific was formed to provide regional airline services but this did not succeed and Air Pacific today is wholly owned by Fiji.

The main objective of the Pacific Plan is to ensure that FICs are not left out by the fast changing global economic environment and those adopted and propagated by New Zealand and Australia. The way in which Australia and New Zealand propose to deal with this is already proving to be controversial. The FICs have adopted two agreements amongst themselves which deal with the issues of import taxes and quarantine issues. The 1993 Melanesian Spearhead Group Trade Agreement (MSGTA) between Fiji, Papua New Guinea, Vanuatu and Solomon Islands has already provided mechanisms for reduction in tariff. In addition to this, the Pacific Island Countries Trade Agreement (PICTA) which came into effect in 2006 also provides a phased reduction in tariff rates. The benefit of trade, however, even amongst the FICs, is often controversial (Narsey, 2004). This is understandable as the gains and losses are based on a number of factors. In the case of the MSG for example, Papua New Guinea and Fiji built up trade surpluses with Vanuatu and Solomon Islands and this led to both of them suspending free trade and imposed trade restrictions.

The specific timetable for reduction of tariff with Australia and New Zealand has been included in the Pacific Agreement on Closer Economic Relations (PACER) and that with the European Union is provided for in the Pacific Regional Economic Partnership Agreement (REPA). The fear amongst many of the Pacific Island countries with respect to trade agreements with Australia, New Zealand and European Union is that a reciprocal
trade agreement is unlikely to benefit them and that it would be a one-way agreement. For example, there is now fear that if REPA is concluded with the EU then it will trigger PACER and FICs are likely to lose significantly as a result of this.\(^8\) Narsey (2004) argues that PACER negotiations have much greater potential for addressing FICs problems. This view, however, is not shared by many trade negotiators and least of all the Forum Secretariat. They believe that PICTA provides a good stepping stone for PACER. Some examples of trade war between Australia and New Zealand like ban of imports of New Zealand apple does not inspire confidence. These instances of trade conflict also keep the idea of currency union off the agenda and there are real questions about the motives of both Australia and New Zealand in creating true regional integration based on equal partnership. While these fears may be misplaced given that FICs could have access to bigger and better markets, the real issue would be whether FICs can develop the capacity to increase their exports to Australia and New Zealand and the EU.\(^9\)

At present, the capacity to raise exports through efficiency and productivity gains are limited in many of the FICs. The infrastructure for raising productivity in agriculture, fisheries and forestry industries are limited and unfortunately both Australia and New Zealand have in the last two decades moved away from providing support to develop better infrastructure. This gap is to some extent now being filled by countries like China and possibly India in future. The problem of connectivity within these countries is further deteriorating as countries cannot develop better roads, water supply and health infrastructure. Aid funding for good governance, training and capacity building on its own can be meaningless to the poor who are struggling to connect themselves to markets, educational and health facilities. Investment in better port and customs facilities would enhance border control and trade facilitation. It would also prevent some of the undesirables such as drug trafficking. There is concern that Fiji and other Pacific Island

\(^8\) See for example Kelsey, (2004, 2005) who argues that FICs should delay the negotiation with EU and therefore avoid triggering PACER or even withdraw from PACER. Also see Narsey, (2003a, 2003b) for a discussion on the inclusion of Alcohol and Tobacco and trade liberalization and fiscal reforms and its implications on the EPA with the EU.

\(^9\) The EU is asking Pacific states to sign an interim market access agreement by the end of the year and it is likely that most PICs would sign this. The fear, however, remains that other issues such as services, and development agenda would be compromised.
countries are being used as a transit point for hard drugs like cocaine, heroin and amphetamines destined for Australia and New Zealand (Fijilive, 14 September, 2007).

There are still serious issues facing the FICs in terms of gaining access to Australian and New Zealand markets. Many studies show that FICs may have cost advantages in tourism and exploitation of their resources such as fisheries, forestry and in the development of agricultural products for exports. As world demand for food increases and as countries like New Zealand export more of their food and agricultural products, the demand and price for fruits and vegetables and other agricultural products in New Zealand and Australia are likely to increase. Larger FICs could raise their level of exports in these areas. Fiji already exports agricultural food products to Australia and New Zealand. However, the potential is limited due to two reasons. The first is the inability of the FICs to raise productivity and improve quality. But even when they have achieved this, both Australia and New Zealand have in some cases prohibitive quarantine rules which restricts the entry of agricultural and food products. If Australia and New Zealand are to help FICs improve their growth performances, they ought to take realistic look at their quarantine rules and perhaps direct some of their aid support to developing infrastructure for quality agricultural and food products in the FICs which then could find better markets in their countries.10

True regional cooperation between FICs and Australia and New Zealand cannot be only based on trade liberalization; it must include joint identification of policies and identification of sources of growth through structural change in FICs, including macroeconomic, financial, infrastructure and industrial policies. FICs would need specific and much more active support to developing appropriate public policy and improving trade logistics, improving transport and energy infrastructure and better coordination of monetary and industrial policies.

---

10 It is time Australia and New Zealand set up a Forum Infrastructure Fund so that their aid is increased and is better focused towards addressing the binding constraints.
5. Migration and Labour Mobility

International migration and movement of people in search of work and better opportunities are not new. It can be traced back to the early 19th century when the technological revolution in transport began to take place. The benefits of migration are aptly summarized by economist John Galbraith when he states “Migration is the oldest action against poverty. It selects those who most want help. It is good for the country to which they go; it helps break the equilibrium of poverty in the country from which they come. What is the perversity in the human soul that causes people to resist so obvious a good? (Galbraith, 1979). While the implications drawn from this may be simplistic, it does suggest the positive role of migration against poverty alleviation in poor countries.

Thus push by Pacific Island countries to have Australia and New Zealand accept more of their workers on a temporary basis. However, resolution of this rests on a much better understanding of the benefits that it could bring to both FICs and to Australia and New Zealand. The push is also in recognition of the fact that trade liberalization and economic reform will not necessarily be enough to provide for the adjustment that may be needed in the next decade or so to transform Pacific Island countries into sustainable economies.\textsuperscript{11} Hence FICs are not asking for permanent migration of workers. Their focus is on the temporary movement of unskilled and low-skilled labour. Temporary labour movement is seen as a movement of labour across national borders that involves two elements: (1) out-movement of labour from one country for a period that is not life-long; and (2) in-movement of labour from another country that is not life-long.

For FICs temporary movement is defined as a movement that does not involve any change in the citizenship status of the worker. In this sense, the movement retains the worker’s political rights in the source country, and grants limited constitutional rights to him/her in the host country. One example of this is the right to participate in local or national politics. Temporary migrants cannot participate directly in national policy-

\textsuperscript{11} For example Narsey (2004) points out that if FICs were to enter into an free trade agreement now under PACER then the adjustment costs could be lower in 2011. He also suggests that Australia and New Zealand as a support mechanism should relax the immigration rules for skilled labour and allow an annual intake of low or unskilled labour.
making in their host country through established political institutions like the legislature. They could, however, exercise this right in the country of their origin. This follows that the WTO GATS Mode 4 types of definition apply to temporary movement of labour.

The basic characteristics of labour markets, some of which are noted by the 2006 FEMM and Prasad (2007a and Prasad 2007b) are (see tables 3, 4 and 5):

**Table 3: Population characteristics of FICs.**

<table>
<thead>
<tr>
<th>Pacific Island Country</th>
<th>Last Census</th>
<th>Population at Census</th>
<th>Labour Force Participation Rate, male (%)</th>
<th>Labour Force Participation Rate, female (%)</th>
<th>Adult Literacy rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cook Islands</td>
<td>2001</td>
<td>14990</td>
<td>76.0</td>
<td>61.0</td>
<td>93</td>
</tr>
<tr>
<td>Fiji Islands</td>
<td>1996</td>
<td>775077</td>
<td>79.2</td>
<td>39.0</td>
<td>95</td>
</tr>
<tr>
<td>Kiribati</td>
<td>1995</td>
<td>77658</td>
<td>86.0</td>
<td>76.0</td>
<td>94</td>
</tr>
<tr>
<td>Marshall Islands</td>
<td>1999</td>
<td>50840</td>
<td>66.0</td>
<td>35.0</td>
<td>79</td>
</tr>
<tr>
<td>FSM</td>
<td>2000</td>
<td>107008</td>
<td>67.0</td>
<td>50.0</td>
<td>77</td>
</tr>
<tr>
<td>Niue</td>
<td>1997</td>
<td>2088</td>
<td>75.0</td>
<td>49.0</td>
<td>98</td>
</tr>
<tr>
<td>Palau</td>
<td>1995</td>
<td>17225</td>
<td>75.0</td>
<td>64.0</td>
<td>94</td>
</tr>
<tr>
<td>Papua New Guinea Islands</td>
<td>2000</td>
<td>5190786</td>
<td>68.0</td>
<td>67.0</td>
<td>35</td>
</tr>
<tr>
<td>Samoa</td>
<td>2001</td>
<td>176848</td>
<td>68.0</td>
<td>73.0</td>
<td>96</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>1999</td>
<td>409042</td>
<td>31.0</td>
<td>15.0</td>
<td>39</td>
</tr>
<tr>
<td>Tonga</td>
<td>1996</td>
<td>97784</td>
<td>75.0</td>
<td>53.0</td>
<td>99</td>
</tr>
<tr>
<td>Tuvalu</td>
<td>2002</td>
<td>9526</td>
<td>n.a</td>
<td>n.a</td>
<td>95</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>1999</td>
<td>193219</td>
<td>55.0</td>
<td>45.0</td>
<td>37</td>
</tr>
</tbody>
</table>

Source: UNDP, Various Years.

**Table 4: Employment and Working Age Population in Selected Pacific Island Countries.**

<table>
<thead>
<tr>
<th>Country</th>
<th>Total formal sector employment (year)</th>
<th>Population in 2004</th>
<th>Working-population (15-54) in 2004 of total (%)</th>
<th>age (%)</th>
<th>Formal Sector employment/ working-age population (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cook Islands</td>
<td>5,900 (2001)</td>
<td>14,000</td>
<td>7276 (52.0)</td>
<td>81.1</td>
<td></td>
</tr>
<tr>
<td>Fiji Islands</td>
<td>120,000 (2003)</td>
<td>836,000</td>
<td>487,450 (58.3)</td>
<td>24.6</td>
<td></td>
</tr>
<tr>
<td>FSM</td>
<td>15,137 (2003)</td>
<td>112,712</td>
<td>61,786 (54.8)</td>
<td>24.5</td>
<td></td>
</tr>
<tr>
<td>Marshall Islands</td>
<td>13,300 (2000)</td>
<td>55,370</td>
<td>29,614 (53.5)</td>
<td>34.8</td>
<td></td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>187,234 (2002)</td>
<td>5,695,300</td>
<td>3,320,217 (58.3)</td>
<td>5.6</td>
<td></td>
</tr>
</tbody>
</table>
Table 5: The Sectoral Distribution of Employment in FICs Labour Market.

<table>
<thead>
<tr>
<th>Country</th>
<th>Agriculture</th>
<th>Manufacturing and Construction</th>
<th>Services</th>
<th>Public Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cook Islands</td>
<td>519</td>
<td>306</td>
<td>2,506</td>
<td>3,868</td>
</tr>
<tr>
<td>Federated States of Micronesia</td>
<td>700</td>
<td>-</td>
<td>-</td>
<td>4,200</td>
</tr>
<tr>
<td>Fiji</td>
<td>1,563</td>
<td>38,274</td>
<td>102,428</td>
<td>53,495</td>
</tr>
<tr>
<td>Kiribati</td>
<td>-</td>
<td>-</td>
<td>2916</td>
<td>6284</td>
</tr>
<tr>
<td>Nauru</td>
<td>18</td>
<td>587</td>
<td>418</td>
<td>930</td>
</tr>
<tr>
<td>Niue</td>
<td>-</td>
<td>-</td>
<td>210</td>
<td>432</td>
</tr>
<tr>
<td>Palau</td>
<td>-</td>
<td>1,894</td>
<td>883</td>
<td>6,025</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>43,050</td>
<td>43,830</td>
<td>53,638</td>
<td>60,523</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>7,426</td>
<td>5,535</td>
<td>2,702</td>
<td>18,011</td>
</tr>
<tr>
<td>Tonga</td>
<td>410</td>
<td>1,590</td>
<td>3,593</td>
<td>6,831</td>
</tr>
<tr>
<td>Tuvalu</td>
<td>105</td>
<td>60</td>
<td>277</td>
<td>1,046</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>975</td>
<td>3,120</td>
<td>5,850</td>
<td>6,240</td>
</tr>
<tr>
<td>Samoa</td>
<td>3,000</td>
<td>5,155</td>
<td>3,000</td>
<td>17,000</td>
</tr>
</tbody>
</table>


Voigt-Graft, (2006); * Fiji figures are taken from employment forecasts by industry, Booth, Zhang, Rao, Taomia, Duncan, (2005), cited in Voigt-Graft.

(i) A large proportion of the rural labour seeks employment in the formal sector without formal education and training. This rural-urban movement has not only increased the gap between productive jobs available but also increased several urban social problems.

(ii) There has been a consistently large dropout from schools without appropriate employable skills leading to high rates of youth unemployment. This has been compounded by the slow pace of growth and investment in the FICs.
(iii) There is a huge mis-match of skills and is largely due to the net out-migration because the domestic economies fail to produce (and retain) adequate replacement workers.

(iv) There is a lack of gender balance in employment on the account of relative lack of education and empowerment of women.

(v) Attracting expertise from aboard is difficult due to the wage differentials as well as a wage premium that is required to account for social and political factors.

(vi) Often the workers from the FICs are less mobile due to institutional and legal constraints placed by labour recipient countries.

(vii) There is a slow pace of progress of labour market reforms because of generally poor governance, lack of capacity to design and implement effective policies and the unavailability of consistent labour market data has worsened avenues to undertake research.

While the above characteristics are creations of policies of the countries themselves, the present situation indicates that the FICs are justified in asking for movement of temporary and low skilled workers to Australia and New Zealand. According to the ILO the following is true for most FICs:

(i) Labour force participation rates differ in the FICs from as low as 21% in Tuvalu to around 43% in the RMI and Tonga and over 60% in Solomon Islands, Fiji and PNG.

(ii) Generally, the employment to population ratios is low in all the FICs, particularly in PNG and the Solomon Islands.

(iii) It is hard to get exact data on the status of employment, but majority of the FIC's population are in the informal sector. Private sector employment in general is stagnant in many FICs but there are signs of increasing employment in some sectors (for example, tourism in Fiji in normal times and the Cook Islands).
A very high proportion of population averaging around 80% in PNG, Solomon Islands, Kiribati, Tuvalu, Vanuatu and Samoa are in the informal economy. In Fiji, it is around 60%.

Urban unemployment is a major challenge in the FICs which is reported to be around 40% in PNG, Solomon Islands and Vanuatu. In Samoa, Tonga, Fiji and RMI, urban unemployment estimates are around 30%.

Although a large number of school leavers enter the labour market each year, in Fiji and PNG, graduate unemployment is rising.

Women faced with unparallel education attainments and customary obligations are also unemployed in mostly remote centres of the FICs. These trends are notable in mostly the Melanesian islands, but these are not different from those noted generally for developing counties. Reddy and Reddy (2006) provides some justifications and empirical evidences from Fiji. He claims that gender and education are some of the reasons for income disparity amongst males and females.

The integrity of published data is poor for indicators like wage and earning for most of the FICs. However, some data is available and this we utilize later in this paper to draw some tentative conclusions. Public service jobs are well paid in a number of FICs although professional jobs in finance and banking, mining, agriculture and technical areas also earn high wages. There is little data on productivity and unit labour costs but it is generally believed that public sector jobs have low productivity and high unit labour costs.

There is also an increasing level of poverty due to unemployment, underemployment, low productivity, and low wages from full-time jobs.

5.1 Supply of Labour

Most of the FICs have deficit supply of skilled labour but abundant supply of unskilled and low-skilled labour. Some of the factors affecting supply of labour in the FICs are (see table 6): ¹²

See Voiigt-Graf (2006) for an analysis of supply and demand for skilled labour in the Pacific Islands
(i) Lack of employment prospects in the informal sector and the increasing supply of semi-skilled and unskilled labour in most FICs’ urban centers. The Pacific Urban Agenda, revised in April 2007, recognises this phenomenon as major challenge for the region. More so, continued international migration to New Zealand, Australia, Canada and USA has reduced the general pool of skilled workers in the region. However, in some FICs, for example, in Kiribati and Tuvalu, the local population is trained for working overseas, especially on foreign ocean-going vessels.

(ii) Population growth in Melanesian and Micronesian states is high. As such, they have large pool of workers. In contrast, growth in population is much lower in the Polynesian economies, which is also due to migration of citizens.

(iii) Country reports from RMI and Kiribati indicate that students find it hard to grasp the basic academic skills because of language issues. This has implications on productivity and absorption in the labour force.

(iv) Relatively low wage rates, lack of training opportunities and rigid labour laws are also factors affecting labour supply.

(v) Pandemic diseases, such as AIDS in PNG, and increasing number of reported cases in other FICs, have implications on the potential supply of labour.

(vi) With strengthening and development of national and regional training institutions, the supply of fresh graduates is rising. However, these graduates are also the first to migrate because of political uncertainties, lack of security for land and properties, perceived higher incomes and standards of living abroad, and changes in expectations over what constitutes a satisfactory standard of living, a desirable occupation and a suitable mix of accessible services and amenities.
### Table 6: Status of Labour Market in FICs

<table>
<thead>
<tr>
<th>Countries</th>
<th>Working age pop (000's)</th>
<th>Avg. expected growth in labour force (%)</th>
<th>Growth of output (%)</th>
<th>Growth of capital (%)</th>
<th>Required growth of labour force with alternative capital share (0.30)</th>
<th>Average (% Growth of Capital)</th>
<th>Labour Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cook Islands</td>
<td>7276</td>
<td>Na</td>
<td>na</td>
<td>4.00</td>
<td>9.00</td>
<td>0.14</td>
<td>Na</td>
</tr>
<tr>
<td>Fiji Islands</td>
<td>487450</td>
<td>3943</td>
<td>1.00</td>
<td>2.63</td>
<td>4.40</td>
<td>0.74</td>
<td>Surplus</td>
</tr>
<tr>
<td>FSM</td>
<td>61786</td>
<td>396</td>
<td>1.00</td>
<td>0.85</td>
<td>6.40</td>
<td>1.89</td>
<td>Surplus</td>
</tr>
<tr>
<td>Marshall Is.</td>
<td>29614</td>
<td>Na</td>
<td>na</td>
<td>1.64</td>
<td>4.40</td>
<td>0.25</td>
<td>Na</td>
</tr>
<tr>
<td>PNG</td>
<td>3320217</td>
<td>123925</td>
<td>3.20</td>
<td>2.71</td>
<td>6.70</td>
<td>0.16</td>
<td>Surplus</td>
</tr>
<tr>
<td>Samoa</td>
<td>91131</td>
<td>4214</td>
<td>3.80</td>
<td>4.07</td>
<td>4.50</td>
<td>2.14</td>
<td>Surplus</td>
</tr>
<tr>
<td>Solomon Is.</td>
<td>239362</td>
<td>12642</td>
<td>3.00</td>
<td>1.72</td>
<td>4.70</td>
<td>0.29</td>
<td>Surplus</td>
</tr>
<tr>
<td>Tonga</td>
<td>51824</td>
<td>2062</td>
<td>3.00</td>
<td>2.49</td>
<td>2.70</td>
<td>1.33</td>
<td>Surplus</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>110976</td>
<td>4442</td>
<td>3.40</td>
<td>-1.58</td>
<td>6.70</td>
<td>4.45</td>
<td>Surplus</td>
</tr>
<tr>
<td>Kiribati</td>
<td>49520</td>
<td>1935</td>
<td>3.30</td>
<td>0.50</td>
<td>3.20</td>
<td>0.87</td>
<td>Surplus</td>
</tr>
</tbody>
</table>


### 5.2 Demand for Labour

In light of low economic growth scenarios in many of the FICs, labour demand is low. Further, political and economic uncertainty and negative perceptions, in some of the large island states has led to a further stagnation in the demand for labour. Some of the characteristics of demand for labour in FICs are:
In most of the FICs, the major employer is the public sector, which accounts for around 68% of all employment in Kiribati, 66% in Tuvalu, 40% in Fiji, 48% in PNG, and 24% in Samoa. The public sector, however, is not expanding, largely on account of fiscal pressures as well as the public sector reform process adopted by many FICs.

There is, however, relatively high demand for local semi-skilled workers in Australia and New Zealand, particularly in horticulture industries. Skilled and educated workers are perceived to be easily absorbed into these countries but many unskilled and low-skilled workers, (such as those from Fiji in 1970s and 1980s) are attracted to such industries due to positive wage differentials.

Differential sectoral growth creates differential demand for labour. Cook Islands, for example, recruits tourism industry workers from Fiji, while one finds Cook Islanders working in New Zealand. Construction workers from Fiji work in Tuvalu, while Tuvaluan workers are found on foreign ships. Fiji’s soldiers work in the Middle East, while the Solomon Island has defense and security personnel from Australia and other Pacific islands working to maintain peace in the troubled country. Fiji imports accountants, IT personnel and doctors from India and Sri Lanka, while exporting accountants and IT personnel to other countries in the region. However, these emerging trends are still not widespread across the region.

The failures to progress public sector and labour market reforms have also inherently impeded optimal opportunities for demand.

6. Should Australia and New Zealand Open their Doors to Guest Workers From the Pacific? Costs and Benefits

In an interesting article, ‘Why we need the huddled masses”, Philippe Legrain (2006) points out that the economic fears of immigration are based on three most common misconceptions. One, that there are only so many jobs going around and that every job an immigrant is able to get creates unemployment for the locals, two, immigrant workers are competing for the same jobs and three, that immigrants come to live like parasites off
the host country. The most controversial and widely resisted is the temporary and seasonal workers schemes and essentially low-skilled workers. Table 7 shows the possible costs and benefits of temporary labour movement. For the FICs, the possible

Table 7: Possible Costs and Benefits of Temporary Labour and low-skilled Movement.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Benefits</th>
<th>Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Remittances</strong></td>
<td>• Raises welfare of recipients through increased consumption.</td>
<td>• Creates a dependency culture.</td>
</tr>
<tr>
<td></td>
<td>• Increased foreign exchange earnings for the country.</td>
<td>• Distorts consumption patterns.</td>
</tr>
<tr>
<td></td>
<td>• Complements domestic savings which becomes a potential source of investment funds.</td>
<td>• Lead to inflationary pressures and Dutch disease which has implications on the economy.</td>
</tr>
<tr>
<td><strong>Health</strong></td>
<td>• Exposure to a better system of hygiene in recipient country.</td>
<td>• Potential loss of labor force in both through deaths or acute illness acquired through human contacts.</td>
</tr>
<tr>
<td><strong>Consumer Standards</strong></td>
<td>• Migrants returning with better appreciation of quality standards generate spill-over effects.</td>
<td>• Deepening of foreign consumption patterns, e.g the fast- and junk food culture in the FICs.</td>
</tr>
<tr>
<td><strong>Social Integration</strong></td>
<td>• Out-migration relieves competitive pressure on job market.</td>
<td>• In receiving country, migrants are generally seen as the source of conflict with local population.</td>
</tr>
<tr>
<td></td>
<td>• Helps to weaken political influence of the groups whose constituents are the out-migrants.</td>
<td>• Costs of putting in place institutions for preventing such conflicts.</td>
</tr>
<tr>
<td></td>
<td>• Inflow of people with different ethnic or communal identities could deflect existing socio-economic challenges such as inter-communal or inter-ethnic tensions.</td>
<td></td>
</tr>
<tr>
<td><strong>Economic</strong></td>
<td>• Has a direct effect on the size of labour force, unemployment rate, and wages in the both, receiving and sending countries.</td>
<td>• Rise in wages of skilled workers in sending country due to reduced supply of workers causing tendencies for wage-push inflationary pressures.</td>
</tr>
<tr>
<td></td>
<td>• In-migration reduces labor shortages.</td>
<td>• Fall in wage rates in receiving country thereby adversely</td>
</tr>
<tr>
<td></td>
<td>• Generates flow-on benefits by raising demand and stimulating</td>
<td></td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Economic Activity</th>
<th>Fiscal Effects</th>
<th>Skills and Technology Transfer</th>
<th>Political</th>
<th>Environmental</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creates a tendency for equalization of wages across borders.</td>
<td>In receiving countries, increased state revenue through increased incomes generated by foreign workers.</td>
<td>Out-migration is seen as a process that levels the accessibility of people to capital and modern technology.</td>
<td>If, migrants strengthened universalistic values of human rights, then it could be a benefit to sending and receiving countries, there would be positive overall gains.</td>
<td>For the sending country, the outflow of workers would reduce pressures on the environment, at the same time improve appreciation for sustainable management practices on return.</td>
</tr>
<tr>
<td>Complements skills in areas of shortage for receiving countries, while it benefits the sending countries by the inflow of increased skills and expertise of returning workers.</td>
<td>Taxes to sending countries through multiplier effects of consumption and investment.</td>
<td>Skill sets are enhanced through new methods and also appreciation of higher standards work ethics. Overtime, this should lead to productivity gains.</td>
<td>If migrants brought in anti-democratic values and norms of conduct, this would be a cost to the society, as will be the case if workers undermine human rights values.</td>
<td>For a receiving country, in-migration would place pressure on the environment – like provisions for waste management, water resources etc.</td>
</tr>
<tr>
<td>Out-movement is seen as reducing poverty - reducing the unemployed people, but also by reducing the proportion of people dependent on the employed.</td>
<td>Foreign workers place pressure on state services such as infrastructure, social services, public goods and the environment.</td>
<td>The possibility of introducing technology that may be inappropriate to the country’s needs.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

benefits outweigh some of the potentially negative consequences. Given the characteristics of labour markets described earlier, any form of temporary labour movement would be beneficial to the FICs.

There are precedents for temporary labour movement from the region. Youths from Papua New Guinea can work for two years in the United Kingdom under the Commonwealth Holiday makers’ scheme, Seamen from Tuvalu and Kiribati can work under EU quotas, nurses from Fiji work in the US, EU and also in Australia and New Zealand. Security personnel are also increasingly moving to serve in war zones such as Iraq, Afghanistan and Kuwait. According to Robertson (2007) migrants form substantial part of the labour force in Australia and New Zealand (20%) compared to 12 and 7 % in the US and EU. According to a recent World Bank study more than 75 percent of all graduates from Tonga and Samoa and 62 percent from Fiji had all emigrated to Australia and New Zealand.\textsuperscript{13} According to the report in 2000, Australia had more than 1.5 million migrants with tertiary education, more than any country except US and Canada, outnumbering 116,723 Australian tertiary graduates working outside Australia.

Compared to Australia, New Zealand has recognized the need for seasonal and unskilled labour to its shores and has adopted a much more liberal policy. For many years it has allowed open access to Cook Islanders, Niueans, and Tokelauans and has a quota for permanent migrants from Tonga and Samoa. Recently, it responded to the call of FICs leaders and adopted a seasonal workers scheme for the horticulture industries. However, one can easily argue that New Zealand could accommodate more temporary workers. Unskilled and low-skilled workers who make up the ranks of the unemployed in their countries could easily fill job vacancies in New Zealand, where it is often difficult to find locals unwilling to do cleaning and other low skilled jobs in hotels, hospitals, retirement homes etc. New Zealand still takes more than 40,000 working holiday makers from Europe and North America but excludes Pacific Islanders. Many Pacific Islanders in seasonal worker schemes at minimum pay levels in New Zealand for example would still

\textsuperscript{13} In the Caribbean, more than 89 percent of the graduates emigrate to the West for employment and higher income.
be able to send remittances to their families which could be significant for their welfare (see table 8).

Table 8: A Restrictive Micro Analysis of Temporary Movement of Labour Based on Wage Differentials

<table>
<thead>
<tr>
<th>Sector</th>
<th>Estimated Relative Benefits of Temporary Employment in New Zealand for a period of six months (in NZ, unless stated)</th>
<th>Estimated Relative Costs of Temporary Employment in New Zealand for a period of six months (in NZ, unless stated)</th>
<th>Net Benefits</th>
</tr>
</thead>
</table>
| **Agriculture Fruit Picking and Packing** | Estimated weekly earnings in horticulture = $540  
Gross Earnings for six months = $12960 | Living costs in NZ = $3754  
Travel costs (ret) = $674  
Contingency = $1200  
Family support = $2205  
Family Contingencies = $1200  
Income loss (in Fiji) = $2000  
Total Costs = $11033  
Savings on Return = $1927  
Possible Remittances to Fiji in 6 months\(^{14}\) (including family support and contingencies) = $5332 | Yes |
| **Services and Transport**     | Weekly Earnings in non-agriculture sector $826  
Gross Earnings for six month = $19824 | Living costs in NZ = $3754  
Travel costs (ret) = $674  
Contingency = $1200  
Family support = $2205  
Family Contingencies = $1200  
Income loss (in Fiji) = $2413  
Total Costs = $11446  
Savings on Return = $8378  
Possible Remittances to Fiji in 6 months (including family support and contingencies) = $11783 | Yes |
| **Building and Construction Activities** | Earnings in manufacturing sector $720  
Gross Earnings for six month = $17280 | Living costs in NZ = $3754  
Travel costs (ret) = $674  
Contingency = $1200  
Family support = $2205  
Family Contingencies = $1200  
Income loss (in Fiji) = $2835  
Total Costs = $11868  
Savings on Return = $5412  
Possible Remittances to Fiji in 6 months | Yes |

\(^{14}\) Including family support and family contingency remittances.
(Source: Prasad, 2007) see appendix 1 for explanation

While Australia claims its immigration policies are non-discriminatory for permanent migrants, it continues to have a scheme for temporary migrants but this is restricted to only those from the EU and the US. Australia’s resistance to seasonal workers from the FICs is based on some erroneous assumptions, which are rooted in its past labour practices and the experiences. If it can get about 150,000 seasonal workers from affluent regions such as the EU and US, surely it can get some from the improvised FICs. Australia’s rigid and uncompromising stand on this issue has led many to conclude that Australia pays only lip service to its publicly stated support for economic integration by restricting seasonal workers from the Pacific Islands.

The FICs developed country partners cannot ignore the fact that many low-skilled services cannot be readily mechanized or imported, old people cannot be cared by a robot imported from the US. For some of these low-skilled services, temporary labour will be needed. If these two countries, really mean business when dealing with the FICs they should seriously consider engaging and integrating through this important opportunity of letting people in from the Pacific Islands to work in their country. Many of the concerns raised about temporary and seasonal workers can be avoided through the development of appropriate schemes.

Australia’s outright rejection of the scheme has further tarnished its image among Pacific Islands leaders and peoples. Already there was a perception that Australia was proposing and getting Forum Island countries to adopt trade and other policies from which it stood to gain the most in terms of tariff and duty free access.

Australia makes much about the amount of aid that it gives to FICs but there is resentment that a significant proportion of this ends up in the pockets of Australian consultants due to the “boomerang” effect as shown by studies. There have also been
accusations that aid has been used as a lever by Australia to get its own way with FICs, interfere in their domestic issues and compromise their sovereignty.

It would not be an exaggeration to say that Australia is seen to be self-serving and hypocritical over the labour scheme issue in that it has no qualms about cherry picking and taking away the cream of the human resources in FICs while denying access to the poor who are in most need.

The Pacific provides doctors, nurses, educators, IT experts, sports people and professionals in various fields to help prop up institutions in Australia, add to the quality of life and contribute to economic growth. Yet it denies entry to a small number of unskilled labourer’s despite a clear demand for such labour.

One of the immediate benefits of allowing unskilled and low-skilled workers is the flow of remittances to FICs. Globally, remittances have become an important source of external income for many countries amounting to about US$167 billion- about 3 times the level of development aid.

A recent World Bank report (Ozden and Schiff, 2006) argues that remittances should be regarded as important instrument for development. While it is understood that economies cannot be built on remittances alone, in the short to medium term it helps island economies reduce poverty, and improve the availability of education and health services.

In Fiji, it is estimated that remittances flowing to Fiji annually amount to about US$300 million accounting for about 6 % of GDP. In Tonga, remittances account for about 40 percent of its GDP, Samoa about 15%, Kiribati about 13%, Tuvalu, 35%, Vanuatu about 3% with Papua New Guinea, Solomon Islands receiving almost nothing in remittances. However, this could change with seasonal workers now being allowed to New Zealand and already workers from Solomon Islands and Vanuatu are working in New Zealand and remitting money back to their countries. However, even those who are settled permanently and want to send remittances find that the fees charged by Australia and
New Zealand on remittances to Pacific island states are exorbitantly high compared to international practices, according to a senior economist at the World Bank (Fiji Times, 14 September). According to the World Bank the fees for remittances is between the range of 15-50% when the international best practice is 1-5%.

By relaxing its temporary labour laws, Australia can do a lot of good. It can change many lives for the better by assisting a good number of families in FICs escape the poverty cycle. This is something that ordinary Australians would very much support, even if the government is reticent.

Also, Australia can improve its relations, and reduce suspicion and hostility with its neighbours, which appear to be at an all time high. It can increase its influence in the region. There is bound to be more cooperation from FICs in areas that are of strategic interest to Australia, such as drug trafficking and terrorism, just to name a few.

So aside from the moral obligation of helping out its much-improvised neighbours, it also makes good strategic and economic sense for Australia to relax its stand on temporary labourer’s from the FICs. Australia is the major source of goods and services for many Pacific Island countries and demand for these will increase with the increases in disposable incomes due to remittances.

At a time when China is aggressively courting FICs and asserting its influence in the region (Chinese nationals have just been granted visa-free entry into Fiji), it makes good sense for Australia to forge even closer links with the region.

In addition, to not allowing temporary and seasonal workers, both Australia and New Zealand have unreasonably strict and demanding visa requirements, be it for normal visitors visa, or business visa. Economic integration is much more easily facilitated if people can travel from one country to another with reciprocal ease. Majority of the

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15 For further details on issues relating to labour mobility see Luthria, M., Duncan, R., Brown, R., Mares, P., and Maclellan, N. (2006)
Pacific Island countries do not require any sort of visa for Australian and New Zealand citizens yet many of the FICs citizens have to go through painstaking and some times embarrassing documentation to get a simple visitors visa. It is time Australia and New Zealand demonstrated much more flexibility and understanding if they want to influence policies in FICs.

7. Concluding Comments

When the Pacific Islands forum was formed, it was Ratu Sir Kamisese Mara who argued that the inclusion of Australia and New Zealand would be important for the progress of Pacific Islands States in the future. It was envisaged that Australia and New Zealand would play significant leadership roles in steering the development of the Forum member countries. If we were to take a stock take today of what has been achieved and what not since 1971 when the forum was first formed, the verdict is likely to be a mixed one. While some of the members have progressed in terms of their development, many have gone backwards and are likely to be in the doldrums for a while. There is more political instability since 1971 in Fiji, the Solomon Islands, PNG, Vanuatu and more recently in Tonga. The economic growth in the forum island countries has been low and is not commensurate with the increasing number of people in the labour market looking for employment.

Much of the explanations for the poor economic performance are rooted in the internal conditions of these countries and this has been often the focus of Australia and New Zealand. Bad governance, corruption, mismanagement of states resources, lack of reform of institutions and the inability of leaders in the Pacific to adhere to the principles of democracy and the rule of law have received attention in their aid programmes. Some of the recent policy interventions and targeted aid to FICs from Australia and New Zealand to improve governance and accelerate economic reforms are appropriate and ought to continue. However, this has a narrow focus and the amount of aid while increasing over the years in real terms is not enough to consider other areas. This includes infrastructure such as road, water supply and health facilities, which are all important for improving the
investment climate and providing better connectivity for people within the country. The neglect of infrastructure in the aid programme has severely affected the ability of many of the FICs to accelerate their growth performances.

The void in the aid for infrastructure is being partly filled by China and it is not surprising that some forum members are looking north for both political and economic relationship. The United States of America is worried about China’s growing influence in the Pacific and this is partly due to its neglect and reliance on Australia and New Zealand to deal with the issues in the Pacific Islands. It is no longer just check-book diplomacy by China, Taiwan and Korea, the relationship are getting deeper and stronger. For example, Fiji has just announced that it would establish an embassy on South Korea (Fiji Times, 12 September, 2007). The leader of the National Party has aptly put the concerns about New Zealand aid and how New Zealand has benefited from the Pacific Island migrants (Fiji Times, 13 September).

From New Zealand's perspective a lot of people are emigrating from the islands to New Zealand so I think it makes a lot of sense for there to be a greater commitment to education and I think that can be beneficial to both Pacific islands and any migrants who come to New Zealand.

On the part of FICs, they have to realize that that Australia and New Zealand are going to remain our strategic economic and political partners in the future and their political capital should be used to get more attention and help from them rather than looking towards China and India, South Korea and Taiwan. FICs leaders should not be sensitive to criticisms from Australia and New Zealand on issues such as governance and democracy as they are real issues for FICs. Regional cooperation amongst the FICs is far from desirable on several counts. The only success story of a truly regional institution is the University of the South Pacific which provides tertiary education to 12 of its member countries. There are, however, strains on the operation of the University as some countries are moving towards establishing national universities or institutions which are not sustainable in terms of the resources that may be needed. Regional pooling of resources and provision of services would make much economic sense to many of the
forum island countries. Unfortunately, some in the group do not realize this and are moving inwards in terms of creating their own institutions which they probably cannot afford. The forum island countries should also use their jurisdictional resourcefulness in a better way when dealing with Australia and New Zealand. When we had leaders like Ratu Mara, and when there was relative political stability, FICs had better influence on Australia and New Zealand. The coups of 1987 in Fiji, political instability and bad governance in PNG and the Bougainville conflict, ethnic conflict in the Solomon Islands and riots in Tonga have made the advocacy role of the FICs weak and this is probably why Australia and New Zealand can ignore request or demands from FICs. So we need to get our house in order!

Australia and New Zealand, however, have to rethink some of their strategies for economic integration and focus in terms of the amount and purpose of aid that they provide to the FICs. Contrary to assertions made by people like Helen Hughes (2003), FICs need more aid in key areas of infrastructure development, which has been ignored by both Australia and New Zealand for the last two decades, with some disastrous consequences. The current UN target for aid from developed countries is set at 0.7 percent. Neither Australia and or New Zealand are anywhere near the target. Australia’s GDP in 2006 was $A674.6 billion and if Australia were to increase its total aid by 0.1 percent of their GDP, it would increase the total aid to the Pacific by $A674.6 million annually. New Zealand’s GDP in 2006 was $NZ107 billion and 0.1 % increase in aid would add another $NZ107 million annually to the Pacific Islands in terms of aid support.

In addition, both Australia and New Zealand should open their labour markets for unskilled and low-skilled workers so that FICs could have a safety valve for a large number of people who are unemployed and are living in poverty in their countries. These masses, if unemployed or underemployed, can be a cause for crime and instability, with the consequences being felt as far wide as Australia and New Zealand in terms of costly interventions. If they manage to find gainful employment, then the benefits will accrue to the home country, with positive spin-offs for Australia and New Zealand.
Both Australia and New Zealand should consider making a structural shift in their immigration policies and policies for low and unskilled labour from the FICs. While this is going to increase the proportion of workers imported from PICs (at the benefit of the island nations), the majority will still be imported from developed countries. This is because there is a substantially large and growing demand for labour in Australia, and to a lesser extent in NZ, meaning that PICs combined, at their potential, can only supply a fraction of the total demand for labour in Australia. The problem or issue is that Australia, and NZ, are not allowing the PICs to fulfill this small fraction of total demand.

The second point is that the sustainability of the PICs is under threat from their inability to develop their export base. Clearly, remittance is seen as some sort of a solution. Therefore, without allowing a fair share of emigrants, Australia and NZ are deepening the threat of unsustainability of many of the FICs. In addition, they would reduce their strategic interests in the Pacific and the gap is likely to be filled by countries such as China, India, Malaysia and South Korea. Even Venezuela is now in the running and participated as an observer at the recent forum meeting, promising FICs cheap fuel.

Aid should also focus on building capacities to improve agricultural and food production, and allowing this to be exported to Australia and New Zealand through improvements in quarantine regulations. If anything else, as pointed by Fiji’s leading economist, Professor Wadan Narsey, Australia and New Zealand should allow “free trade” in rugby. He says “the best rugby competition in the world, the Super 14, is full of Pacific islanders but Australia and New Zealand do not allow a Pacific islands team to take part, adding that a home match in Fiji would be a huge boost to tourism” (Fiji Times, 11th October, 2007)
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Appendix 1: Explanation for Table 8

Notes

1. Generally workers from the FICs are employed in two main areas: fruit picking and fruit packing units at most of the orchids. On average, by top range industry rate, workers get paid around NZ$30 to NZ$40 per bin such as with Mr. Apple in Hawkes Bay. The rate varies depending on the variety of Apple picked which would require varying level of care and concentration. The packing job is paid at an average hourly rate of NZ$11.00. For fruit picking, the current output from most islanders is around 3-4 bins per day which fetches about NZ$90.00 – NZ$120.00 daily depending on their individual hard work and effort. Each bin when filled can carry around 500 Kilos of apple.

2. Due to lack of data we have used non-agriculture earning and manufacturing earning as a proxy for average earnings in services and building sectors in New Zealand. Data obtained from the ILO website: [http://laborsta.ilo.org/](http://laborsta.ilo.org/)

3. We exclude the effects of taxes in our computations as these are mostly seasonal and basic activities. However, if a 20% provisional tax is charged, the results will not be much different for services and building sector. Generally agricultural workers at farm level do not pay taxes.

4. Estimates of the weekly living costs are based on those suggested by [http://www.emigratenz.org/cost-of-living-in-new-zealand.HTML](http://www.emigratenz.org/cost-of-living-in-new-zealand.HTML) for a modest family of 4 living in sub-urban centre in New Zealand. It is assumed that workers share rental costs in New Zealand but have own houses in Fiji. Further, we have added 20% extra cost of living to building construction and transport sectors because these workers will be closer to the high cost areas. The information on [www.dol.govt.nz](http://www.dol.govt.nz) site indicates that employers also share costs up to a capped figure of NZ$3000 per annum. However it is not known if the same cost sharing formula is applied to all workers across the board and thus it is hard to verify its effects in the above framework. Nonetheless any cost sharing initiatives will increase saving for the workers and therefore the pro-rated capped figure for six months is used in computing the savings above. The spot exchange rate of FJS1.20 per $1NZ is used.

5. Air New Zealand Smart Saver fare (F$350 one way including surcharges) is taken allowing 10% extra unannounced rate changes. $100 one-way extra is allowed for in land fares. The exchange rate is FJS1.20 per $1NZ.

6. Family support is based on the basic food requirement expenditure in Fiji ($35 per adult/week), see Narsey (2007). The above calculations assume a 4 member (adult) family with one of the adults working in New Zealand as a seasonal worker.

7. Spot NZD/FJD exchange rate of 0.8078 applied where necessary.
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