

Labour Markets in Small Developing States

Edited by Andrew Downes



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Commonwealth Secretariat

Commonwealth Secretariat
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Andrew S Downes
Barbados, May 2008

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Introduction

In recent years, increased attention has been paid to the challenges facing small states in the context of rapid global change. In 2000, a joint Commonwealth Secretariat and World Bank task force report clearly outlined the challenges facing the small member states of the Commonwealth and specified a number of policies and programmes for meeting these challenges. The report addressed such issues as the vulnerability of small states, the volatility of income and export earnings, the need to enhance public and private sector capacity, the challenges of adjusting to a new trading and institutional environment and the need to develop new industries to replace sunset ones. The task force also assessed the case for special and differential treatment for small Commonwealth states.

A follow-up evaluation of the actions taken since the publication of the report of the task force pointed to the slow adjustment process taking place in these small states (see Briguglio, Persaud and Stern, 2006). This review of the small states agenda emphasised the need urgently to build resilience in moving towards an outward-oriented development strategy. It also recognised the enduring challenges facing small states in the context of globalisation and identified several new challenges facing these small states, namely, HIV/AIDS, loss of preferences, increased debt burden, crime and security. The reviewers advocated an outward-oriented development strategy supported by the creation of a conducive investment climate, regional integration, enhanced development assistance, human resources development and building mechanisms to boost economic resilience.

An important element in the development strategy for small states is the operation of the labour market. On the supply side, these small states must have access to the quantity and quality of human resources to meet the demands of the production process. On the demand side, both local and foreign enterprises would absorb the personnel to satisfy production requirements. In many respects, small developing states have several opportunities to expand their exports in keeping with an outward-oriented development strategy suggested by Briguglio, Persaud and Stern (2006). Several of these small developing states are, however, constrained by the availability of the human

resources needed and also by structural and institutional rigidities that exist in the labour market.

In order to meet the challenges of an outward-oriented development strategy, small developing states have to address the constraints posed by the labour market and the challenges of human resources development in a globalised world. The main objective of this book is to examine the labour market conditions and human resource development initiatives in small developing states in the Commonwealth with a view to identifying the general and specific constraints that can affect an outward-oriented development strategy. This examination will permit the formulation and advocacy of policies and programmes which can enhance the role of the labour market in the development process.

The macroeconomic features of small developing countries that define the nature of the labour market are well established in the literature (see, for example, Commonwealth Secretariat/World Bank, 2000). The relevant features include small and limited domestic markets for goods and services; heavy reliance on external trade and foreign investment; thin natural resource base; limited institutional capacity; vulnerability to external economic and physical shocks; high degree of production and export concentration; relatively low levels of per capita income and higher incidence of poverty; and, in some cases, remoteness and isolation from the main arteries of trade and commerce. These features define the basic structure and behavioural characteristics of the labour market which tends to be 'thin', subject to regulations and structures which create inflexibility in the domestic market and reflective of the production orientation of the country.

One of the issues facing labour market analysts in small developing countries is the choice of an appropriate analytical framework. Contemporary labour market analysis is usually approached from two broad perspectives: neoclassical and institutional/structuralist (see, for example, Kaufman, 2004). Neoclassical labour market analysis is based on the assumptions that individuals seek to optimise (maximise well-being or minimise costs), make rational choices when confronted with known alternatives and rely on marginal decision rules. The market forces of supply and demand determine the price and allocation of labour services. The labour market is regarded as being competitive and results in efficient outcomes. Institutional and social elements are largely eschewed from the analysis or rationalised in the context of neoclassical behaviour norms. A deductive approach is used by this school.

Institutional or structuralist labour market analysis focuses on how the labour market actually operates and takes into consideration institutional forces (unions, employer agencies, laws, internal company rules) and sociological and historical forces (class, race, segmentation, discrimination, lobbyists) in determining labour market outcomes. Agents in the labour market are viewed as 'satisficing' and characterised by 'bounded rationality' given the asymmetric and imperfect information available to them. Institutionalists/structuralists

focus on the unique features of the labour market and its imperfections – persistent unemployment, rigid wages, job search and labour immobility. They use an inductive approach to the analysis of the labour market.

In the context of small developing countries, the small size (thinness) of the labour market and the developing nature of the economies suggest that an institutional/structuralist approach to labour market analysis would be more appropriate. However, labour market analysts in these countries have drawn on both schools by adopting an 'eclectic approach'. Such an approach can be termed 'neoclassically informed institutional labour economics' following Jacobsen and Skillman (2004, p.10). This approach allows the theoretical rigour and concepts of neoclassical economics to be integrated with the institutional/structural details of small developing states. The papers in this volume largely adopt this eclectic approach to the analysis of the labour market in small developing countries.

The analysis of the labour market that is undertaken in this volume points to certain similarities, despite geographical location. The first common feature of these countries in Africa, the Caribbean and the Pacific is the existence of relatively high levels of unemployment, especially among the youth and females. Although there are difficulties in the measurement of unemployment in these countries, the overall unemployment rate tends to be above 10 per cent, with much higher rates for young people in the labour force. The high rates of unemployment have been associated with low rates of employment growth, due to weak economic growth in the productive sectors. Productive activities in these small developing countries are centred around the resources which exist there: agriculture, fishing, mining and tourism. For example, agriculture and fishing are prominent in the Pacific states, while tourism and, to a lesser extent, agriculture are features of Caribbean states. A key challenge for these small states is the diversification of the productive bases of their economies in order to provide sustainable employment and livelihoods.

A second feature of the labour markets of these small states is the high levels of semi- and un-skilled labour and the lack of skilled labour in key areas of production. Several of these small states have had to rely on importing skilled labour – managers, professionals, technicians and skilled craftsmen – in order to meet the needs of both local and foreign companies. Work permit data show the specific categories of skill shortage in these small economies (accountants, doctors, engineers, chefs, managers, architects and computer specialists).

A third feature of the labour markets is the migration of workers (and their families) to larger and more developed countries such as the USA, Canada, the UK, South Africa, New Zealand and Australia. In some cases, this mobility of labour is temporary or seasonal (e.g., South African mines and Canadian farms), but in other cases, it is permanent in nature, thus leading to a 'brain drain'. In effect, skilled labour from other countries migrate to small states to fill critical skill gaps created while the skilled and semi-skilled workers from

small states migrate to larger and more developed countries to enhance their economic welfare. Limited freedom of movement of labour has occurred in the context of economic integration as in the case of the Caribbean Community and Common Market.

The co-existence of high levels of unemployment and migration of workers has been partly the result of deficiencies in the education and training system. Several employers complain that the educational system does not adequately meet their skill needs, thus leading to a mismatch between the output of the educational/training system and the needs of the employer. These features point to a lack of linkage between strategic investment and production planning, human resources development planning and employment planning. There is a clear need to strengthen the economic planning and management systems in these small states.

Associated with the mismatch problem is the inadequate nature of labour market information systems in these small states. Very few countries have the capacity (technical and financial) to undertake regular labour market surveys to monitor labour market changes. Although several of the states have received assistance from the International Labour Organisation (ILO) and various development agencies in building a labour market information system, these efforts have not been sustained.

A fourth feature of the labour market is the existence of weak regulatory systems such as the use of minimum wages, the regulation of trade unions, social protection schemes and unemployment insurance. Where labour market regulations exist, enforcement and compliance have been major problems. Several labour laws have not changed for several years. The lack of formal social safety nets for workers usually means that reliance is placed on informal social networks and remittances from abroad. Governments do engage in selected active labour market policies such as special employment programmes and technical and vocational training. The public sector is a major employer of labour in these small states, as few opportunities for employment exist in the private sector.

A fifth common feature of the labour markets in small developing states is the significant size of the informal labour market. Given the lack of job opportunities in the formal sector, labour market participants tend to hustle in the informal sector – petty trading, gardening, prostitution, drug trading and so on.

In some countries, the informal sector accounts for up to 40 per cent of overall output and employment. The human resource base of those working in the informal sector tends to be weak, thus creating a link between poverty (low labour incomes) and poor human capital. The low level of the human capital reflects the inadequacies of the educational and training system, which is characterised by issues of poor quality resources (teachers and materials), inappropriate curricula, a high degree of absenteeism, low completion rates at secondary level and a low level of certification. The poor human resource

base of the labour force results in low levels of labour productivity and lack of competitiveness in international commodity markets.

Rural to urban migration of labour is also a feature of several of the small states. Job opportunities, social amenities and physical facilities tend to be concentrated in the urban area, thus leading to a drift of people from the largely underdeveloped rural areas. In several instances, the informal labour market grows in the urban areas as expected job openings are not realised.

Labour market segmentation is therefore a central characteristic of small developing states of the Commonwealth. Segmentation exists with respect to sector, geography, sex, age and educational credentials. Given the link between the labour market and the commodity market, employment tends to concentrate in dominant production sectors (agriculture, mining and tourism) and in sectors dependent on these main sectors (distribution and construction). Segmentation in the context of a dual labour market therefore takes on various forms:

- export-oriented (tradeables) versus domestic-oriented (non-tradeables)
- formal versus informal
- urban versus rural.

Within these labour market structures, segmentation occurs along gender lines as females occupy such jobs as service workers/clerks and males as technical, managerial and skilled craftsmen. This duality is, however, slowly changing in the Caribbean where more females are obtaining tertiary level education than males. In addition, segmentation according to age occurs as young people now joining the labour market have to accept low-level entry jobs or join the unemployment queue in the context of 'wait unemployment'. Educational credentials are important in the labour market where skilled and experienced labour is a premium. But social networks and contacts are also significant elements in obtaining a job in the semi-skilled and unskilled categories of work.

The case studies in this volume highlight these essential characteristics of the labour market in small developing countries in much more detail. The institutional and structural features raise major challenges for policy-makers in these countries. The changing global labour market demands means that small developing countries must constantly change their labour market policies and programmes to meet the demands of new areas of production (especially for export), to stem the brain drain and to provide a social safety net for disadvantaged persons. Trade liberalisation is also likely to have an adverse effect on the labour markets of small states, hence appropriate policies and programmes are needed to cushion these effects.

Several policy measures have been suggested for addressing the challenges facing the labour market in small states. The restructuring and refocusing of the education and training systems has been identified as a means of addressing the problem of youth unemployment. In recent years, there has been an interest in the transition from school to work and the flow of

information between the education/school system and the labour market. The general conclusion that emerges from this examination is the need to reform the education/training system to fit the needs of the labour market. Technical and vocational courses have been introduced into the secondary school curriculum, apprenticeship/internships have been introduced, increased teacher training programmes have been established and special training programmes have been set up to cater to out-of-school children.

While education and training focus on the supply side of the labour market, there is a dire need to develop an employment creation programme based on a national production plan. The highly concentrated production structures of small states provide little opportunity for employment creation. Production diversification permits the widening of employment opportunities, provided the required skills are available. In several instances, small states can take advantage of some of the provisions of international trading agreements (for example, economic partnership agreements with the European Union) to expand their production and export base. Small developing states have to rely on export markets for economic growth, so that measures to boost exports will result in higher levels of direct and indirect employment growth. Small and medium-sized enterprise development has been encouraged in these states.

The linking of education/training to labour market needs helps to stem the migration of people from these small states. In many respects, emigration in the form of the brain drain has been due to the lack of opportunities to undertake sustained and remunerative work. While some emigration may be beneficial to countries, the evidence seems to suggest that small developing states incur a net loss with the migration of its skilled labour.

Within the labour markets of these countries, there is the need to revise labour laws and work practices to introduce more flexibility to cope with modern production systems. Where unions are well entrenched, these laws and practices are slow to change. A balance between flexibility and security ('flexicurity' in the Danish labour market model) is needed for these small developing and somewhat thin labour markets.

Although these labour markets are relatively small, labour market information for planning and policy-making is difficult to obtain. Labour market data are sporadic and need to be collected in a more integrated and systematic manner. The detailed analysis of the labour market in small developing states is hampered by the lack of data.

Labour market institutions (government departments, trade unions and associations and labour practices) require upgrading and modernisation to better serve the needs of the stakeholders. One institutional structure that has triggered much discussion is the establishment of a social partnership involving the government, labour unions and employers. The case of Barbados is a good example for small developing states to draw important lessons (see Downes and Nurse, 2004).

The articles in this book provide a detailed assessment of the structure and performance of the labour market in the small developing countries of the Commonwealth. Mahendra Reddy examines the issues and challenges facing the labour market in the Pacific islands. He notes that unemployment provides a major policy challenge as the Pacific island economies have been experiencing relatively low levels of economic growth. Employment is largely concentrated in the agriculture, public and informal sectors of these economies.

Employment in the small Pacific islands is resource-based – agriculture and fishing – although recent attempts have been made to generate employment in the services sector (especially tourism). Labour migration is a prominent feature of these small Pacific countries, with seasonal labour moving to New Zealand and Australia. Like other small developing countries, the Pacific countries have suffered from the brain drain of skilled labour. Remittances, however, play an important role in the household income of the resident population of these countries. The islands have been subject to periodic political instability and are vulnerable to environmental shocks. These features create major challenges for the economic management of these small countries. Some attempts have been made to build resilience through economic diversification and labour training.

Andrew Downes discusses the experience of the small states in the Caribbean. As noted earlier, the Caribbean shares several of the features of the Pacific labour market, such as high youth and female unemployment, migration and deficiencies in the education and training system. In general, the economic performance of the Caribbean countries has been better than in the Pacific and African states, with several of the countries exhibiting a high to medium level of ‘human development’. The Caribbean countries are more diverse than the Pacific islands, with the services sector playing a more prominent role in the performance of the Caribbean labour market. The social safety net provisions are generally better than in the Pacific states. Attempts have been made to resolve the challenges facing the labour market in the form of modern labour legislation, educational and training reform and economic diversification.

Happy Siphambe analyses the labour market and human resources development initiatives in the small states of Africa and the Indian Ocean. As in the Pacific and Caribbean countries, unemployment and poverty are two features of the labour market. In addition, the small African states of the Commonwealth have experienced the effects of HIV/AIDS. Migration is also a prominent feature of these small states, along with a growing informal sector. The education and training system in these African and Indian Ocean states has not been able to match the needs of the labour market.

Roli Degazon-Johnson takes a more focused look at the issue of the migration of teachers and nurses from small Commonwealth states. She notes that, despite the flow of remittances to these countries, the human capital loss is

significant as critical human resources are needed to assist with the development process. Several of the small states of the Commonwealth are in the top 20 countries in the world with the highest emigration rates to OECD member countries. These migrants usually have relatively high levels of human capital and are readily absorbed in the labour markets of developed countries. There have been ebbs and flows of migrant labour over the years, but in recent times, there has been an increased flow of health workers and teachers to Australia, New Zealand, Canada, UK and the USA.

The Commonwealth states have developed a code for the International Recruitment of Health Workers and a Commonwealth Teachers' Recruitment Protocol to assist with the smooth flow of workers between small states and the more developed states of the world. Some countries have been developing protocols of managed migration in order to bring some order to the migration process and create a 'win-win' outcome. As Degazon-Johnson points out, these instruments "seek to balance the rights of the highly skilled to free movement and migration against the need to prevent erosion of the development process in poor countries and to prevent the exploitation of scarce human resources of these countries".

These articles contribute to the general literature on the structure and performance of labour markets in developing countries, with a special emphasis on small developing states (see Fields, 2007 for a general overview). It is hoped that other researchers will extend the research provided in this book.

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1

Labour Markets and Human Resource Development in the Caribbean

Andrew S Downes

1. INTRODUCTION

Recent studies of the economic growth and development process have emphasised the critical role of human capital in achieving high rates of output growth, reducing unemployment and poverty and enhancing social development (see World Bank, 2005). For small developing countries like those in the Caribbean, the existence of limited natural resources means that emphasis must be placed on human resources development (HRD) in national development strategy formulation. Human resources development refers to the enhancement of the skills, knowledge and competencies of the population so that the workforce can contribute meaningfully to the national development process. Through education and training (and health and nutrition), HRD can overcome imbalances in the labour market. Employers would be able to obtain the quality and quantity of labour resources they need, while individuals would be able to supply better quality labour resources, achieve higher levels of productivity and receive higher incomes. HRD initiatives must therefore be related to the dynamics of the labour market.

The main objective of this chapter is to examine the labour market conditions and HRD initiatives that have been implemented over the past two decades in the Caribbean, with a view to identifying the general and specific constraints which have been placed on the growth and development process. Given their small size, Caribbean countries have had to adopt an outward-oriented development strategy incorporating export promotion, economic integration and foreign direct investment. Such a strategy requires certain types of human resources (labour demand side), which must be supplied through the education and training system (labour supply side). In many instances, education and training policies have not been designed to meet the demands of the labour market, hence there has been the charge of a

mismatch or a dysfunctional education and training system. In addition, the region has been confronted by the emigration of skilled labour (the brain drain), which has further constrained the growth and development process in the region.

This chapter first examines the nature of the labour market in the Caribbean by analysing changes in the labour force, employment, unemployment and wages/salaries over the past two decades. The second section of the paper examines the education and training initiatives undertaken in various countries in order to enhance the supply of labour. The critical issue of the emigration of skilled labour is also discussed. The chapter concludes with a discussion of the appropriate policies needed to strengthen the linkage between the operations of the labour market and HRD initiatives in the Caribbean region.

2. LABOUR MARKET DYNAMICS IN THE CARIBBEAN

2.1 Labour Force

Using the available survey and census data, some basic features of the Caribbean labour market are highlighted. On the supply side of the labour market, the Caribbean countries have experienced relatively low rates of population and labour force growth over the period 1999–2004 (see Table 1). Similar growth rates were also recorded for the decade 1990 to 2000. With the exception of Belize and St Kitts and Nevis, the population growth rates averaged less than 1 per cent per year. The lower rates of population growth and

Table 1: Population and Labour Force Growth Rates in the Caribbean, 1999–2004 Annual Average

<i>Countries</i>	<i>%</i>	
	<i>Population Growth</i>	<i>Labour Force Growth</i>
Antigua and Barbuda	1.2	n.a.
Bahamas	1.4	1.8
Barbados	0.3	0.9
Belize	3.0	4.6
Dominica	0.1	n.a.
Grenada	0.9	n.a.
Guyana	0.2	1.1
Jamaica	0.5	0.0
St Kitts and Nevis	2.1	n.a.
St Lucia	1.2	2.5
St Vincent and The Grenadines	0.5	2.2
Trinidad and Tobago	0.3	1.4

Source: World Bank Group: <http://www.worldbank.org.data>

Note: n.a. – not available

subsequent lower labour force growth were due primarily to the implementation of family planning programmes in several countries during the 1950s and 1960s. The fertility rate (births per woman) varied between 1.6 (Trinidad and Tobago) and 3.4 (Belize) during the period 2000–05. An analysis of the distribution of the population by age-specific groups provides some evidence of the ageing of the population over the past four decades. There has been a general decline in the youth population, that is, those persons under 25 years of age and a general rise in the older cohorts, especially those over 65 years of age. The conjunction of these two features has resulted in a fall in the dependency ratio, that is, the ratio of those under 15 years of age plus those over 65 years of age to those persons aged 15 to 64 years of age in nearly all of the countries over the 1990 to 2000 period (see Table 2).

An analysis of the participation of males and females in the labour market indicates that there has been a significant increase in the female participation rate (that is, the percentage of adult females who are part of the labour force) and a relative constancy and, in some cases, a decline in the male participation rate in several countries. For example, in Barbados, the female labour force participation rate rose from 60 per cent in 1993 to 64 per cent in 2003, while the male rate was 74.1 per cent in 1993 and 75 per cent in 2003. In the case of Trinidad and Tobago, the female rate rose from 44 per cent in 1993 to 49 per cent in 2003, while the male rate was 75 per cent for 1993 and 74 for 1999. Jamaica recorded a decline in both rates over the 1993 to 2003 period: the male rate declined from 75 per cent to 74 per cent while the female rate fell from 62 to 56 per cent. Belize recorded relatively low, but increasing, female

Table 2: Dependency Ratios for Caribbean Countries, 1990–2000

<i>Countries</i>	<i>1990</i>			<i>2000</i>		
	<i>Male</i>	<i>Female</i>	<i>Overall</i>	<i>Male</i>	<i>Female</i>	<i>Overall</i>
Antigua	0.64	0.62	0.63	n.a.	n.a.	n.a.
Bahamas	0.59	0.58	0.58	n.a.	n.a.	n.a.
Barbados	0.55	0.57	0.56	0.48	0.51	0.50
Belize	0.92	0.93	0.93	0.83	0.82	0.82
Dominica	0.76	0.83	0.80	0.73*	0.78*	0.75*
Grenada	0.85	0.88	0.87	n.a.	n.a.	n.a.
Guyana	0.64	0.64	0.64	0.53*	0.52*	0.52*
Jamaica	0.78	0.78	0.78	0.61*	0.64*	0.62*
St Kitts and Nevis	0.68	0.84	0.75	0.64*	0.64*	0.64*
St Lucia	0.73	0.72	0.72	0.65*	0.64*	0.65*
St Vincent and The Grenadines	0.76	0.79	0.78	0.76*	0.79*	0.78*
Trinidad and Tobago	0.66	0.66	0.66	0.48*	0.50*	0.49*

Sources: CDB: Selected Indicators of Development 1960–98 and Annual Report 2005

Notes: n.a. – not available; * indicates 1998 data.

participation rates (less than 40 per cent) and relatively high but constant, male participation rates during the 1990s. Female participation rates in St Lucia were relatively high and decreasing during the 1990s, while the male rates also declined slightly. Overall participation rates for Guyana, Jamaica and St Lucia declined over the 1993 to 2003 period (see Table 3). While the male labour force participation rates have been historically high because of the male-oriented nature of the labour market, the rise of the female rate can be attributed to several factors:

- improved educational and training opportunities
- the expansion of activities in selected areas of the economy providing employment for females (e.g., information services, banking and financial services, tourism)
- the self-actualisation of women and the drive for financial independence
- the decline in fertility rates and average household size which reduces the need to stay at home for long periods
- the establishment of daycare services and the increase in modern household production technology and services which release females from traditional household production activities.

An examination of the educational attainment of the labour force indicates a general increase in the formal educational base of the labour force. There are, however, significant skill deficiencies in the Caribbean labour force. For example, 70 per cent of the Jamaican labour force reported no formal educational credentials in 2002. In Barbados, with its compulsory education requirement up to 17 years of age, it was estimated that approximately 63 per cent of the adult population had no certification in 1990, while in 2000 it was 57 per cent. Caribbean governments have responded to this skill deficiency by establishing various technical and vocational training programmes: the

Table 3: Labour Force Participation Rates in the Caribbean by Sex Distribution 1993 and 2003 (%)

Country	1993			2003		
	Male	Female	Total	Male	Female	Total
Bahamas	79.9	69.9	74.3	82.1	71.7	76.5
Barbados	74.1	59.7	66.3	75.0	64.0	69.2
Belize	78.8	35.0	56.5	78.1	43.0	60.3
Grenada	62.5	50.8	56.7b	75.6a	55.0a	65.0a
Guyana	81	39.3	59.5a	n.a.	n.a.	55.2b
Jamaica	74.6	62.4	68.3	73.7	55.6	64.4
St Lucia	78.9	61.2	69.4	72.5b	59.0b	65.0b
Trinidad and Tobago	75.5	43.7	59.5	74.2	48.9	61.6

Sources: ILO, Digest of Caribbean Labour Statistics and CDB, Annual Report 2005

Notes: a applies to 1999, b applies to 2002

Human Employment and Resource Training (HEART) Trust in Jamaica, Service Volunteered for All (SERVOL) in Trinidad and Tobago, and skills training programmes in Barbados, St Lucia and Grenada (see Downes, 2000 and Lochan, 2000). Available survey evidence for Barbados and Jamaica indicates that employers also undertake significant on-the-job training in order to overcome the problems associated with the skill deficiencies of new and incumbent employees.

The improved educational attainment of the labour force has also resulted in the growth of the number of professionals, technical and managerial persons in the region. This group has, however, remained relatively small and hence there is still a dependence on non-Caribbean persons in a number of skilled occupational categories. The improvement of the human capital base has also resulted in the Caribbean countries being classified as medium to high human developed countries according to the UNDP's Human Development Index (HDI). For example, Barbados, St Kitts and Nevis, Bahamas, Trinidad and Tobago and Antigua and Barbuda were classified as having 'high' levels of human development for 2004.

2.2 Employment

The creation of job opportunities has been one of the greatest labour market challenges facing governments in the Caribbean over the past four decades. Various development strategies and policies have been implemented to generate employment for the available labour force: infrastructural development and public works, agricultural diversification, import substitution industrialisation, nationalisation, economic integration and export promotion (especially tourism, financial and information services). These strategies and policies have been only moderately successful as high rates of unemployment still persist in the region. Using time series data for the Bahamas, Barbados, Belize, Jamaica, St Lucia and Trinidad and Tobago (the only countries for which time series data are available), there was a general upward trend in the number of persons employed (see Table 4). The average annual growth rates over the 1990–2004 period was, however, relatively low compared with previous decades: the Bahamas (2.4 per cent), Barbados (1.6 per cent), Jamaica (1.2 per cent) and Trinidad and Tobago (2.9 per cent). There was also a high degree of variability in the pattern of employment growth over the study period.

Little empirical work has been undertaken to identify the factors that influence employment growth in the region. Although several possible causes of employment growth have been suggested – for example, the effective demand for output in both local and foreign markets, the use of certain types of production and organisational technologies, relative factor prices, the social and legal framework governing the labour market and the availability of other complementary inputs – there has been little empirical verification of the magnitude or statistical significance of these causes.

Table 4: Employment in the Caribbean, 1990–2004
(‘000 persons employed)

Country	1990	1992	1994	1996	1998	2000	2002	2004
Bahamas	114.2	114.7	124.6	129.8	144.4	153.3	152.7	158.3
Barbados	105.3	101.7	105.5	114.3	119.8	125.5	128.6	132.0
Belize			62.4	65.0	73.3			
Grenada			30.4	35.0	34.8			
Guyana		245.5		239.8 ¹			232.4	
Jamaica	896.3	905.7	923.1	959.8	953.6	933.5	1036.8	1055.2
St Lucia			52.3	56.7	56.4	63.5	62.8	62.3
Trin/Tob ²	374.1	405.9	415.6	444.2	479.3	503.4	525.1	556.3

Notes: 1. refers to 1997, 2. Trinidad and Tobago.

The empty cells indicate that the data are not available.

Source: ILO, Digest of Caribbean Labour Statistics and various national reports

<http://www.ilocarib.org.tt/digest>

The available empirical evidence on the determinants of aggregate employment in the region suggests the following:

1. Output growth is the main factor influencing employment growth (that is, labour demand is a derived demand)
2. The elasticity of employment with respect to output varies between 0.22 and 1.10 (for Barbados, Jamaica, Trinidad and Tobago over the period 1970–2001)
3. Real wage rates have a weak influence on employment expansion. There is some evidence that increases in real wages have some negative but weak impact on employment growth in Barbados and Jamaica
4. Adjustment costs (hiring and firing costs) as captured in a lagged employment variable are important in employment growth (see Downes et al, 2004, for points 1–4)
5. Recent econometric research which explicitly accounts for changes in minimum wages, severance payment and national insurance contributions in Barbados, Jamaica and Trinidad and Tobago indicates that these measures have not had a statistically significant effect on employment (with the exception of the minimum wage rate changes in Jamaica). One reason for these results is that there were few changes in these regulations over the 1970–2002 period (see Downes et al, 2004).
6. Micro-econometric research for Trinidad and Tobago indicates that “for workers who experienced compliance, the introduction of the minimum wage [in 1998] significantly increased the probability of a person becoming involuntarily part-time employed” (Strobl and Walsh, 2003), implying that employers reduced their demand for labour services by reducing employees’ work hours.

The structural adjustment policies implemented by Caribbean governments during the 1980s and 1990s had an adverse impact on the labour market and hence on poverty. These policies affected employment both *directly* and *indirectly* through the cuts in public sector employment and changes in aggregate demand. The formal private sector was not able to fully absorb the fallout from the public sector layoffs; hence there has been a growth in 'informal employment'. During the early 1990s, Barbados undertook a structural adjustment programme in response to a balance of payment crisis. The adjustment measures resulted in a fall in employment from 113,304 in 1990 to 100,400 in 1993, that is, a decline of 12,900. Most of the people laid off during the period were in the public sector, as the government sought to reduce its fiscal deficit. Jamaica, which has been in a state of economic volatility since the late 1970s, also recorded a decline in employment during the 1990s. The number of people employed fell from 963,300 in 1995 to 933,500 in 2000, that is, a decline of approximately 30,000 persons.

The available data indicate a significant increase in the number of self-employed and own-account workers. Since the labour force data in the Caribbean come from surveys that target households, employed persons therefore self-report their labour market attachment. It is therefore likely that a number of the self-employed and own-account workers are employed in the 'informal sector'.

Although the 'informal sector' can be difficult to define, recent estimates of the size of the sector indicate the following values for the late 1990s:

- Jamaica and Guyana – over 45 per cent of measured (official) gross domestic product (GDP) (see GRADE, 2002; Faal, 2003)
- Barbados and Trinidad and Tobago – 10 to 15 per cent of measured GDP (see Barbados Statistical Service, 1997/8; Maurin et al, 2003).

Data on 'informal employment' defined as self-employed (own-account workers), apprentices and unpaid family workers as a proportion of total employment corroborate the estimates of the size of the 'informal sector' in the Caribbean.

Although some 'formal' employment may be captured in the data, there seems to be an increase in 'informal employment' in Barbados, St Lucia and Belize and a decrease in Jamaica, and Trinidad and Tobago during the 1990s.

The relatively high percentage of employed persons classified as *elementary workers* (between 19 and 35 per cent in 2000) also points to a significant level of informal sector employment in the region.

The informal labour market tends to be a source of income when the economy is experiencing difficulties as persons engage in various hustling activities – street vending, car washing, petty trading, small-scale agriculture and small-scale gardening. The informal labour market becomes a source of primary income for many and a secondary income for some people.

Over the past 40 years, the agricultural sector has been a declining source of employment of the labour force in the Caribbean. For example, in Trinidad

and Tobago, the contribution of agriculture and forestry to total employment declined from 23 per cent in 1970 to 8 per cent in 2000, while in Barbados the contribution of the agricultural sector declined from 24 per cent in 1960 to 4 per cent in 2001. The sector is still important in such countries as Jamaica (21 per cent in 1998), Belize (28 per cent in 1999), Guyana (29 per cent in 1992) and, to some extent, the Windward Islands of Dominica, Grenada, St Lucia and St Vincent. The agricultural sector (mainly bananas and sugar) has borne the brunt of changes taking place in the global trading environment. With the advent of trade liberalisation, the preferential arrangements that the Caribbean countries have had with European countries are gradually being dismantled. Indeed, both bananas and sugar agreements have been subjected to WTO investigations. Several of the Caribbean countries have, therefore, sought to develop alternative economic activities primarily in the area of services (tourism, financial and information). A rough classification of the countries in the region based on sectoral shares in GDP would be as follows: services-oriented (Antigua, Barbados, Grenada, St Kitts, St Lucia) or mixed (Belize, Guyana, Jamaica, Suriname, Trinidad and Tobago, St Vincent, Dominica), where a mixed economy combines either agricultural or mineral production with services.

While the contribution of the manufacturing sector has remained relatively constant for almost all the countries of the region, there has been a significant rise in the contribution of the services sector to the provision of job opportunities. For example, in Jamaica the sectoral distribution of services to employment was over 60 per cent in 2000, while in Barbados it was over 70 per cent in 2000. The Leeward Islands of Antigua and St Kitts and Nevis have also recorded a rise in the degree of employment in the services sector. The growth of services sector employment reflects the focus of economic development policies implemented by several Caribbean governments in recent years. In order to reduce the dependency on a single economic activity (such as sugar in Barbados, bananas in St Lucia, bauxite in Jamaica and Guyana, petroleum in Trinidad and Tobago), Caribbean governments have encouraged economic diversification into such areas as tourism, international business services and information services. These 'new services' have complemented traditional services such as distribution, transport and commerce. Diversification has also been occasioned by the changing global economic environment, which has witnessed the intensification of trade liberalisation and the removal of trade preferences. These measures have undermined the economic viability of traditional economic activities in the region such as agricultural production and import-substituting manufacturing production.

In the Caribbean, the State has played a very important role in the economy by providing incentives, establishing social infrastructure, protecting property rights, facilitating the transactions process and engaging in direct production activity. In some ways, the intermediating role of the government has increased the transactions cost of economic activity, but in other ways, it has

been the source of employment for people who might not have been able to find employment in the private sector. Available data indicate that the Government accounted for between 7 per cent (Belize) and 36 per cent (Jamaica) of the employed labour force during the period 2001–2002.

Although the government is the single largest employer in the region, the private sector accounts for the largest percentage of employed. For example, in Barbados the private sector accounted for over 70 per cent of the employed in 2001, while in Jamaica, the percentage was over 80.

Additional features of the Caribbean labour market that can be highlighted from the available data are:

- a general rise in female employment in the traditional areas of clerical, sales and services. With the growth in female labour market participation over the years, female employment has, however, been increasing in the professional, administrative and technical operations, especially in Barbados, Jamaica and Trinidad and Tobago;
- while there has been a general improvement in the human capital (educational attainment) of the labour force, there is still a relatively small cadre of professional, technical and managerial personnel (between 11 to 24 per cent of the employed during the late 1990s). Using data on work permits for immigrants from various Caribbean countries, Downes and Henry (1994) pointed out that this category of worker accounted for the highest level of work permits issued in many countries. During the period 1996–97 work permits granted for professional, managerial and technical occupations ranged from 61 per cent of total permits granted in Jamaica to 83 per cent in Barbados. Although these work permits partly reflect the large number of foreign companies and organisations operating in these countries, the high percentages also suggest an inadequate supply of high-level skills;
- the bulk of the employed tend to be between the ages of 20 and 50 years, with the mandatory retirement age varying between 60 and 65 years. There is a low incidence of people who are employed over the age of 65: Barbados (less than 2 per cent), Jamaica (6 per cent) and Trinidad and Tobago (2 per cent);
- there is also a low incidence of reported moonlighting (that is, multiple job holding) in the formal labour market, about 1 per cent of the employed in the countries with available data (for example, Jamaica). It is, however, expected that in economies with significant informal sectors such as Jamaica and Guyana, the degree of moonlighting in the informal sector would be much higher;
- a decline in the degree of unionisation among the employed, although labour unions are still dominant in key economic sectors: hotels, public utilities and the public sector. It is estimated that between 20 and 35 per cent of the labour force belongs to a labour union;

- in an effort to reduce costs and increase efficiency, there has been a steady increase in ‘contract workers’ in Jamaica and Trinidad and Tobago (see Thomas, 2000).

The phenomenon of the ‘working poor’ is also evident in the region, with workers unable to receive enough income from the trade of their labour services (labour income) to meet their basic personal needs. Available data on the extent of the ‘working poor’ (defined as ‘those who work and who belong to poor households’) in the Caribbean indicate rates of 8.5 per cent and 3.5 per cent for Jamaica in 1986 and 1997 respectively, while for Trinidad and Tobago, the rates were 11.2 and 13.6 per cent for some years (see Majid, 2001). These rates are calculated as the working poor as a percentage of the employed. Downes (2000) in a review of the relationship between poverty and labour market status in the Caribbean (Barbados, Belize, Grenada, Guyana, Jamaica, St Lucia, St Vincent and Trinidad and Tobago) observed the following features of the poverty-labour market nexus:

- the human capital base of the poor (that is, level of education and degree of certification) is low and results in low-skilled, low-paying jobs (elementary occupations, small-scale enterprises and informal sector activities);
- where poverty is concentrated in identifiable communities, there is some evidence of stigmatization, which results in employment discrimination and labour segmentation;
- the seasonal pattern of production and employment (for example, in agriculture, tourism and construction) affects the degree of poverty in households;
- minimum wage legislation has been used to alleviate poverty in some countries, notably Jamaica, Trinidad and Tobago, and Guyana. In Guyana, the minimum wage has, however, been insufficient to overcome individual and household poverty;
- individuals in poor households take advantage of migrant worker programmes in the USA and Canada organised by the governments. These programmes have been targeted on agricultural farms and the hospitality sector. Remittances from these programmes help to bolster household income and smooth out consumption levels. They have also adversely affected labour market participation of some household members.

The correlation between poverty and labour market status raises the issue of the *quality* of employment. Evidence from Jamaica indicates that employment does not mean an escape from poverty as persons engaged in low wage jobs can easily slip back into poverty. In some cases, for example, during structural adjustment programmes, middle-income employed persons have slipped below the poverty line when they are laid off (Handa, 2004). This tends to occur where there are single income households.

2.3 Unemployment

Unemployment is regarded as one of the most difficult economic problems to resolve in the Caribbean. Although there are variations in the measurement of unemployment, official estimates of unemployment obtained from labour force surveys indicate that the unemployment rate is relatively high in the region (see Table 5). During the period 1990–2004, the unemployment rate in Barbados ranged from 9.4 per cent in 2000 to 24.3 per cent in 1993, while in Jamaica the range was 11.4 per cent in 2003 to 16.5 per cent in 1997. In Trinidad and Tobago, the unemployment rate declined from 20 per cent in 1990 to under 10 per cent in 2004. Although the data on unemployment is scant, in the Organisation of Eastern Caribbean States (OECS), the available information also indicates double digit unemployment rates in the 1990s; for example, Dominica (15.7 per cent in 1999), Grenada (15.5 per cent in 1997) and St Lucia (between 18 and 22 per cent during the period 1990 to 2004). These high levels of unemployment reflect the underdevelopment of the skills, knowledge and talents of the labour force and the under-utilisation of human energies and skills. Several policy measures and programmes to reduce the high levels of unemployment in the region have been implemented by Caribbean governments (see Downes, 2000). The unemployment rate declined somewhat during the 1990s in the Bahamas, Barbados, Belize, Grenada, and Trinidad and Tobago, but was volatile in Jamaica and St Lucia.

Econometric analysis of the factors influencing the aggregate level of unemployment has been very scant. An econometric evaluation of unemployment in Trinidad and Tobago pointed to the dominant role which output growth plays in reducing the unemployment rate, while increases in the average real wages and the real loan rate impact adversely on the unemployment rate (Downes, 1998). Other empirical research on unemployment in Trinidad and Tobago also indicates that the existence of a ‘wage gap’ (either petroleum-sugar or agricultural-non-agricultural) (Henry, 1990) and the low

Table 5: Unemployment Rates in the Caribbean, 1990–2004 (%)

Country	1990	1992	1994	1996	1998	2000	2002	2004
Bahamas	12.3	14.8	13.3	11.5	7.8	6.9	9.1	10.2
Barbados	15.0	23.0	21.9	15.8	12.2	9.4	10.3	9.8
Belize	n.a	n.a	11.1	13.8	14.3	11.5	10.0	11.6
Grenada	n.a	n.a	29.1	17.5	n.a	11.5	n.a	n.a.
Guyana	n.a	11.7	n.a	9.1	n.a	n.a	11.7	n.a.
Jamaica	15.3	15.7	15.3	16.0	15.5	15.6	14.2	11.7
St Lucia	n.a	16.7	19.2	16.7	21.6	16.5	20.4	21.0
Trin/Tob ¹	20.0	19.6	18.4	16.2	14.2	12.1	10.4	8.4

Notes: 1 indicates Trinidad and Tobago;

Sources: ILO: Digest of Caribbean Labour Statistics (various issues)
National Labour Force Surveys

degree of capital accumulation (IMF, 1997) as factors contributing to the high degree of unemployment in Trinidad and Tobago. There is also evidence to suggest the existence of 'persistence' in the unemployment rate whereby past unemployment affects the 'natural rate of unemployment' in Trinidad and Tobago.

Many of the features of the unemployed are similar across the region. The most significant aspect is the very high levels of youth unemployment (15–24 years of age), especially among females. In all the countries, the female unemployment rate is higher than the male rate. Youth unemployment rates have generally been over 20 per cent, with the female youth employment rate varying between 30 and 45 per cent in the 1990s. Although the measurement of unemployment varies across the world, these features of high female and youth unemployment are quite common in developing countries (see, for example, Turnham, 1993).

It is generally believed that much of the open unemployment is due to structural factors, such as the nature of the educational system and its interface with the labour market, the increasing use of modern labour-saving techniques in the production process, the permanent shift in the demand for goods and services, the skill content of the labour force and, to a lesser extent, cyclical factors such as the insufficiency of aggregate local and foreign demand for goods and services. Structural adjustment programmes have also contributed to the unemployment problem in the region. For example, in Barbados, the unemployment rate reached 25 per cent during the implementation of a structural adjustment programme during the 1990s. In the Windward Islands, the decline in the fortunes of the banana industry has contributed to the high rates of recorded open unemployment in Dominica and St Lucia.

The factors which affect the general unemployment rate also affect youth unemployment in the region. The International Labour Organization (ILO, 1996) has identified the following determinants of youth unemployment in the region:

- inadequate aggregate demand to generate enough jobs to absorb the new entrants to the labour market
- inappropriate education and training which do not match the requirements of the workplace
- the lack of work experience when entering the labour market
- the absence of well-functioning vocational guidance and placement facilities
- a poor attitude to work and low work aspirations
- the avoidance of certain types of jobs which are low-paying and have low status. Reservation wages are high so that the youth prefer to queue for better paying jobs (that is, wait unemployment) and obtain support from family and friends
- the impact of new labour market developments – emphasis on flexibility, multi-skilling and outsourcing.

An important feature of the unemployed is their low level of educational and training attainment. In Jamaica for example, over 80 per cent of the unemployed had received no training in 2000, while in St Lucia over 60 per cent of the unemployed had no education or had only reached 'standard 6' education in 1995. In Barbados, more than 75 per cent of the unemployed had received secondary level education in 1999 due to the institution of compulsory education for all children up to 17 years of age. However, in 2000, 57 per cent of the adult population had no form of formal certification.

Unemployment tends to be low or non-existent among those with tertiary level or university education. Professional, technical and managerial occupations exhibit low or zero levels of unemployment, reflecting the degree of scarcity of such skilled persons. The bulk of the unemployed generally indicates that their usual or standard occupation is sales/clerical, 'elementary production' and general production. Available data for some Caribbean countries (Barbados, Trinidad and Tobago and Jamaica) indicate that some of the unemployed experience long spells of unemployment. The modal range for the duration of unemployment in Barbados is 6 months to one year. The long spells of unemployment can result in the depreciation of the few skills possessed by the unemployed, hence making them unemployable in the formal labour market.

In terms of the geographical features of unemployment, high levels of open 'urban' unemployment exist in the larger countries (Jamaica, Guyana, and Trinidad and Tobago) while 'rural' unemployment and underemployment exist in the OECS.

One of the problems faced by the unemployed tends to be the absence of a social safety net in the form of social insurance. At present, Barbados is the only country within the region with an unemployment insurance scheme. The Scheme covers salaried workers between the ages of 16 and 64 years (excluding the self-employed and government employees) who must make contributions for 52 weeks in order to qualify for the payment of an unemployment benefit. Seven of these contributions must be paid in the quarter preceding the quarter in which the benefit is paid. Qualified people are paid up to 26 weeks of benefits in a year at a rate of 60 per cent of the original salary up to a maximum salary of Bds\$715 per week. People must be actively looking for work during their period of unemployment before being paid the benefit. The number of claims rose from 9,814 in 1985 to 20,396 at the height of the economic decline in 1992. There has been a gradual decline since then. Data from the severance payments scheme in Barbados suggest that the main reasons for severing employment over the years have been the re-organisation of business operations (to meet the new competition and technological demands) and the closure of companies (due to a permanent shift in demand and/or a prolonged decline in economic activity). The co-existence of an unemployment insurance scheme and a severance payment scheme can

encourage some degree of 'double dipping' by the severed/unemployed person.

In terms of job search activity among the unemployed, the available data indicate that job search takes place primarily through applying in person or inquiring from friends (that is, social networks). Little use is made of employment bureaus (see Downes and Gunderson, 2003). Abt Associates (1998) reached a similar conclusion relating to the development and use of employment services in the Caribbean. Barbados, Trinidad and Tobago and, to a lesser extent, Jamaica have operational public employment agencies (Abt Associates, 1998; Statistical Annex, Table A-4). Employment bureaus are used primarily by those who have to indicate that they are seeking work in order to receive some form of assistance (e.g., unemployment insurance) or who register to go on external labour programmes.

2.4 Determinants of Labour Force Participation and Unemployment

It was noted that there has been a general increase in the labour force participation rates in the Caribbean with the female rate increasing over time and the male rate remaining relatively constant. The changes in the labour force have implications for the unemployment rate, defined as the percentage of the labour force which is available for and seeking work during a specified period. Most countries in the Caribbean also include discouraged workers in the measure of unemployment (i.e., there is no job search requirement). Many factors influence the decision to enter the labour market, including: age, education, household size and characteristics, marital status and other socio-economic elements. Using probit analysis, the factors affecting the decision to enter the labour market (that is, those that increase the probability of being part of the labour force) can be identified and the magnitude of the effect estimated. Such an analysis was undertaken using labour force data for Barbados, Guyana, Jamaica, St Lucia, and Trinidad and Tobago (see Downes 2004, for the complete regression results).

The econometric analysis provided the following results for the male and female labour participation decisions:

- Age is an important factor in the labour participation decision. The relationship is quadratic, with decision to participate increasing with age, reaching a peak and then subsequently declining. The male participation rate for Barbados seems to be an exception to this general result;
- Education is a statistically significant variable in the decision to participate. Both male and female workers enhance their human capital (via education and training) in order to trade their labour services in the labour market;

- Marital status is also a key element in the decision-making process. Widowed, separated or divorced females are more likely to engage in labour market activity than married females. The effect is the reverse for men, whereby married men have a higher likelihood of entering the labour force than those in other marital categories;
- The nature of the 'headship' of the household also seems to influence the labour force participation decision. Where households are headed by females, with or without the presence of a male, there is the decision on the part of females to participate in the labour market. Where a male is present in the household, there is an increased probability that he would participate in the labour market;
- There is evidence for St Lucia and Jamaica that remittances from abroad tend to dampen the decision to participate in the labour market. Recent econometric research by Kim (2007) and Bussolo and Medvedev (2007) confirm the importance of remittances in reducing the degree of labour force participation in Jamaica by raising the reservation wage of potential job seekers.

These econometric results corroborate the general patterns observed in the aggregate data on labour force participation and unemployment in the region.

Female participation rates are much lower than male rates in all the countries for which data are available. As indicated earlier, female rates are increasing faster than male rates and may reflect the importance of human capital (education) and the female-headed nature of households as observed in the probit analysis of labour force participation.

Available data for labour market participation by age indicates that peak rates are observed in the 30–45 years of age categories. Participation rates for both males and females tend to be low for the age group 15–19, and then rise to peaks in the 30–45 years of age category and then decline in the higher age groups. This reflects the quadratic relationship observed in the econometric analysis.

Few data are available on the labour force participation rates by educational attainment and urban/rural distribution. Data for Trinidad and Tobago suggest that participation rates increase with educational qualifications/attainment, while data for Dominica indicate high participation rates for people outside the capital, Roseau.

It is expected that some of the factors which affect the participation decision are likely to affect the unemployment status of the individual. A probit analysis of unemployment in Barbados, Guyana, Jamaica, St Lucia, and Trinidad and Tobago was conducted to understand the characteristics of the unemployed and to infer what types of worker characteristics are in demand by employers. The following results emerge (see Downes 2004, for the full results):

- Age is a significant element in the probability of being unemployed. The relationship is quadratic with the probability of being unemployed rising with age to a given age and then declining. In effect, younger persons are more likely to be unemployed than older persons;
- Education is also a key element in the probability of being unemployed. Males and females with complete or incomplete primary level education have a higher probability of being unemployed, while those with tertiary level education have a lower probability of being unemployed, which suggests an excess supply of workers with low skills;
- As expected, in economies with high levels of unemployment, first-time job seekers exhibit a high probability of unemployment since they have little or no work experience and are therefore forced to join the job queue;
- The results clearly indicate that workers in rural areas have a higher probability of being unemployed;
- The nature of the household also seems to influence the probability of unemployment. Being a male head of a household is associated with a high probability of being unemployed;
- Remittances increase the likelihood of being unemployed, which could indicate voluntary unemployment (as households are supported by cash from abroad). But if causality goes in the other direction, this result could be explained by the fact that the unemployed are more needy and therefore more likely to receive remittances;
- Both male and female youth unemployment (20–24 years) are affected by the same factors as adult unemployment, namely, low educational attainment, living in a rural area and being a first-time job seeker;
- Among unemployed youth, age reduces the probability of unemployment, suggesting that new entrants eventually find jobs.

These econometric results corroborate the general patterns observed in the aggregate data on unemployment in the region.

Data on unemployment by age confirms the econometric results relating to the probability of being unemployed. The unemployed are concentrated in the 15–30 years age group and represent a serious youth unemployment problem in the region. As indicated earlier, the degree of unemployment is highest among female labour force participants.

In order to understand the nature of unemployment and its duration, it is important to distinguish between ‘discouraged workers’ who have effectively exited the labour force and the actively unemployed who engage in job search. Recent research on the behaviour of unemployed persons in Trinidad and Tobago has provided some interesting conclusions. Valtonen (2001) found that the “chronically unemployed (i.e., discouraged workers) showed a consistent lack of up-to-date knowledge of the labour market, whereas those who were successful in finding employment did have this type of information, through ‘weak ties’ based on family and previously established labour market

links” (p. 171). She also found that “while affiliation with the formal economy could strengthen an individual’s position in the labour market, association with the informal sector did not seem to give any better advantages in finding employment” (p.171). These findings are associated with ‘residential discrimination’ and ‘job history discrimination’ in the labour market. There is qualitative information that suggests that these features are common throughout the Caribbean where people who live in ghetto or deprived areas or who have a history of frequent short employment spells find it difficult to find a job. Job seekers therefore ‘embellish’ their resumes to provide signals that would attract the attention of prospective employers.

In a later study, Valtonen (2003) confirmed the importance of “belong(*ing*) to circles” as being important in shaping employability. This forms part of the individual’s social capital, as employed and unemployed persons can network and share information on job openings with those looking for employment.

Strobl (2002) and Byrne and Strobl (2005) examined the nature of unemployment in Trinidad and Tobago from the point of view of their job search strategies. They noted that Trinidad and Tobago has used a broader definition of unemployment than that provided in the standard ILO guidelines. They found that:

- including marginally attached males to the labour force raises the degree of labour market slack or unemployment rate. In effect, Trinidad and Tobago’s unemployment rate would be higher than countries that used the ILO definition (see also Downes, 1998);
- for non-employed males, the decision of whether to search for a job is related to cyclical conditions, that is, in bad times (downturn) more men are discouraged from actively seeking employment;
- the incidence of non-search among the non-employed has increased over time;
- men who are marginally attached to the labour market do not behave differently from those unemployed persons who are currently looking for a job, especially in the rural areas;
- the concept of ‘job search’ may not be meaningful or important for ‘rural men’ compared with ‘urban men’ because of the seasonality of work, the higher cost of job search, the higher unemployment rate in the rural areas and the remoteness of the rural areas.

The micro-regression results and the aggregate descriptive data indicate that inadequate skills or low educational attainment are key factors underlying unemployment in the region. There is some degree of voluntary unemployment as people queue up for jobs in the public and private sectors. Migration and associated remittances tend to raise the reservation wages of workers in some countries. The data also suggest the existence of a significant discouraged worker effect.

2.5 Wages and Earnings Determination

The labour market provides the main source of income for a very large part of the adult population in the Caribbean. Workers seek employment opportunities in their own countries as well as in other countries. High levels of unemployment and low wages have forced Caribbean workers to seek employment outside their home countries. Both intra- and extra-regional migration have been important features of the Caribbean social economy for over a century. Although large-scale organised migration to the UK, USA and Canada has largely ceased, there has still been a steady stream of workers to the USA and Canada from the Caribbean, especially Guyana, Jamaica and, to a lesser extent, Trinidad and Tobago.

In addition, Caribbean governments have negotiated special labour schemes with American and Canadian employers whereby workers are contracted to work on farms and in the services sector (e.g., hotels). These contracts provide seasonal employment for a relatively small group of workers who are normally employed in the agricultural, construction and general services sector (see, Downes and Odle-Worrell, 2003).

Remittances from permanent migration and special labour programmes have played a critical role in the survival of households in the Caribbean. For example, LeFranc and Downes (2001) found that remittances from Jamaican workers played a critical role in alleviating poverty in Jamaica during the 1990s. Both permanent and temporary migration therefore provide a means whereby foreign exchange is generated by the export of surplus labour.

Migration and its associated remittances are expected to have an impact on the local labour market. Since wages and earnings are generally higher in the receiving countries, the reservation wages of potential migrant workers would be higher in the domestic market. For example, a worker would prefer to remain unemployed than to work on a sugar plantation at home. He would, however, take a similar job working in Florida. Data for selected countries indicate that wages per hour are generally lower in the Caribbean than in other developing countries (see Table 6). Wage rates in the manufacturing sector for Jamaica and the Dominican Republic can be regarded as being competitive vis-à-vis Costa Rica, Malta, and Trinidad and Tobago. Although several Caribbean countries have minimum wage legislation, in many cases the average wage is considerably higher than the minimum wage, especially where labour unions are strong. In some cases, the average wages for selected sectors are used to set minimum wages.

Earnings function analysis points to important factors that influence the earnings of workers in the region. Using data from recent labour force surveys in Barbados, Jamaica, St Lucia, Guyana, and Trinidad and Tobago, the determinants of the log hourly wage, or earnings, (that is, Mincer regressions) were identified. The regression results (reported in Downes, 2004) indicate that hours worked, educational attainment, training and experience are key variables in determining the earnings of individuals. These factors have

Table 6: Wages and GDP in Selected Countries (1997)

(US\$)

<i>Country</i>	<i>Wages per hour*</i>	<i>GDP per capita</i>
India	0.19	374
Sri Lanka	0.31	816
Philippines	1.34	1,119
Guatemala	1.23	1,584
Jamaica	0.73	1,609
Dominican Republic	1.51	1,855
Thailand	0.99	2,542
Costa Rica	1.69	2,714
Panama	3.39	3,034
Mauritius	0.90	3,841
Mexico	1.02	4,250
Trinidad and Tobago	3.40	4,510
Malta	3.62	8,838
Canada	12.13	20,145
United Kingdom	13.97	21,864
United States	13.17	29,278
Singapore	8.72	31,161

Note: These are based on wage rates in the manufacturing sector provided by the ILO

Source: <http://www.ia.ita.doc.gov/wages>

a positive impact on earnings. Other key features suggested by these regression results are:

- individuals from rural areas have lower earnings than those from non-rural areas
- working as a public sector employee has a positive impact on earnings, which implies that public sector employment can be distortionary and may lead to queuing
- working full-time rather than part-time increases hourly wage earnings
- working in the agricultural sector and/or in elementary occupations depresses individual earnings.

Wage rates in the Caribbean are set largely by the collective bargaining process or via legislation in the form of minimum wages for certain occupational categories, or the country as a whole. Two approaches to the setting of minimum wages have been adopted by Caribbean countries. A few countries have implemented a national minimum wage: Antigua and Barbuda, Jamaica, and Trinidad and Tobago. Other countries have adopted an occupational minimum wage structure: Barbados, Belize, Dominica, Grenada, Guyana, St Kitts and Nevis, and St Vincent and The Grenadines. In the case of occupational minimum wages, most countries have focused on setting rates for such occupational categories as shop assistants, domestic (household) workers and security workers. In addition to a national minimum wage, Jamaica has also

introduced minimum wages for these groups of workers. In some countries, some of these workers – shop assistants and security workers – are members of trade unions, so that their average wages are usually higher than the stipulated minimum wage rates. Adjustments in the minimum wage rates usually take into consideration changes in prices in the country rather than an assessment of poverty levels.

Some research was undertaken during the early 1990s on the determinants of nominal wage increases at the aggregate level in Barbados, Jamaica, and Trinidad and Tobago. In the case of Barbados, labour productivity changes have been identified as the main determinants of real wage increases over the 1955–1990 period (Downes and Leon, 1994). They found that a 1 per cent increase in labour productivity results in a 0.27 per cent increase in real wages.

In Jamaica, real wage growth has been influenced by unemployment (–), price inflation (+) and such ‘social variables’ as ‘real wage stickiness’, ‘real wage share’ and ‘target real wage’ (+) (see Hamilton, 1994). In the case of Trinidad and Tobago, past price increases, unemployment growth and output growth (a proxy for productivity growth) have been shown as the main factors influencing nominal wage rates. No recent research has been undertaken on these relationships.

2.6 The Role of Labour Legislation

It has been argued that labour market legislation has contributed to increases in wages and earnings in the Caribbean. Caribbean countries started to become members of the ILO from 1962. Several of the ILO’s conventions have been ratified over the years. Out of 71 conventions, Guyana has ratified 45; Belize 42 and Barbados 39 (see Table 7). The Caribbean countries have ratified almost all of the eight fundamental conventions: forced labour (1930); freedom of association and the right to organise (1998); right to organise and collective bargaining (1949); equal remuneration (1958); minimum age (1973) and the worst forms of child labour (1999). With the exception of Belize, Guyana and Suriname, there has been less success with the ratification of essential labour administration conventions (see Table 7).

Many of these conventions have given rise to various forms of labour legislation aimed at enforcing these conventions. These legislative measures give rise to quasi-fixed labour costs, which affect the demand for labour although the extent of effective enforcement is relevant. Various attempts have been made to summarise these measures in index form (see Downes, 2002 for a summary). Using the two indices developed by Rama (1995), the index of labour market rigidity; and Marquez and Pages (1998), the index of employment protection, the Caribbean countries exhibit a lower degree of labour market rigidity and employment protection than Latin American countries. Rama’s index of labour market rigidity combines the following labour market regulations: number of ILO conventions ratified, annual leave with pay (in

Table 7: Ratification of ILO Conventions by Caribbean Countries*

<i>Country</i>	<i>Fundamental Conventions (8)</i>	<i>Essential Labour Administration Conventions (16)</i>	<i>Other Conventions (57)</i>	<i>Total (71)</i>
Antigua and Barbuda	8	11	8	15
Bahamas	8	4		
Barbados	8	5	26	39
Belize	8	9	25	42
Dominica	8	5	9	21
Grenada	8	3	20	28
Guyana	8	8	28	45
Jamaica	8	4	16	26
St Kitts and Nevis	8	1	—	8
St Lucia	7	3	18	28
St Vincent and The Grenadines	7	2	12	21
Trinidad and Tobago	8	1	9	16

Source: Goolsarran S.J (2005): *Caribbean Labour Relations Systems: An Overview* (ILO, Caribbean), pp. 242–249

Note: *(as at 30 November 2005)

days), maternity leave (in days), social security contributions (percentage of wages), government employment (percentage of the labour force), minimum wage (percentage of average wage), severance pay (monthly wages paid) and unionisation (percentage of the labour force). These indices are evaluated on a scale with minimum and maximum values and then aggregated.

Marquez and Pages (1998) used a similar ranking of a range of labour market regulations: length of probation periods, advance notice periods, the actual cost of dismissing a worker, whether dismissals related to firms' difficulties are likely to be deemed a just or unjust cause for dismissal and whether reinstating the worker in his/her job is mandatory once a dismissal is deemed unjust. The summary index of employment protection gives an ordinal rather than a cardinal scale of measurement. In many cases, labour legislation has not been changed for several years, other than regular adjustments to the minimum wage. While these legislative measures along with negotiated benefits may have increased the level of wages, the impact on employment has not been significant according to the methodology used in Downes et al (2004). Downes et al (2004) used time series regression analysis to examine the impact of minimum wages, national insurance payments and severance payments regulation on employment in Barbados, Jamaica, and Trinidad and Tobago over the period 1970–2000. They found that these measures had little impact on employment. Output expansion was the dominant variable in the regression equations. During the economic crisis in Barbados in the early 1990s, the Government of Barbados changed the Severance Payment Scheme

payment arrangements, making it easier for firms to lay off workers. On the other hand, the widespread trend of growing informal sector employment provides counter evidence that rising labour costs may have indeed reduced labour demand in the formal sector.

While not a legislative measure, several countries in the region have been engaging in social partnerships (government, labour unions and private sector associations) in an effort to control the extent to which labour market arrangements, such as collective wage bargaining, affect the economy. Probably the most successful of these arrangements is the social partnership in Barbados. At the height of the economic crisis in the early 1990s, the social partners implemented a prices and incomes policy which initially called for a freeze on increases in basic salaries and wages and later a restraint on such increases (see Downes and Nurse, 2004 and Fashoyin, 2003, for a full discussion). This arrangement has been extended to subsequent protocols covering a wider range of national, economic and social issues.

2.7 Labour Market Segmentation and Labour Mobility

Caribbean labour markets have been described as being segmented or composed of distinct sectors with limited inter-sectoral mobility (see Anderson, 1987; Doeringer, 1988 and Panton, 1993). Segmented labour markets are generally characterised by some degree of discrimination based on age, sex, race or ethnicity (see Bosworth et al, 1996, chapter 2). But segmentation can also arise as an unintended or indirect result of other policies. Consider public-private segmentation, which is evidenced through the positive public wage premium as well as the non-wage benefits that public employees receive. Public compensation policies and the relatively large size of the public sector together create divisions in the labour market through labour supply decisions and queuing.

A review of the literature on the operation of labour markets in the Caribbean reveals some evidence of segmentation and discrimination. Anderson (1987) observed that labour market segmentation exists in Jamaica. Using data from a National Mobility Survey in 1984, she argued that the Jamaican labour market can be segmented into three components: primary, secondary and informal. Within these three components, “the presence or absence of worker protection serves to divide the labour market into different segments with varying outcomes” (p.149). She observed that the primary (formal) sector is small, while the secondary and informal sectors are much larger. There was evidence of occupation sex segregation involving women in the teaching and health profession (e.g., nurses), while males dominate in manufacturing, construction and large-scale agriculture. Women were dominant in the informal sector.

Anderson (1987) also noted that there are differences in the age structure of the different labour market segments with the formal primary, central

government and secondary sectors being dominated by those who are better educated and under 40 years of age, while the informal sector consisted of older, less educated persons. She also observed that the labour market was segmented along average income levels, with primary sector workers receiving higher average incomes than those in the secondary and informal segments. She concludes that “there are marked differences in the age, sex and education composition of workers in each sector”, which are reflected in income differentials. These differentials cannot be fully explained by differences in human capital as the “structural effects of labour market location” (that is, within a sector or geographical location) are critical (p.165).

The results are corroborated by the micro-regression equation results, reported in Downes (2004), which indicate the lower levels of educational attainment (low human capital) and hence secondary or informal labour market status are associated with lower earnings.

Panton (1993) has provided an extension of the Anderson framework by indicating that Caribbean labour markets can be divided into:

- Formal – primary and secondary
- Informal – urban, rural and non-farm and rural farm
- Central Government.

The formal primary labour market consists of large-scale capital intensive firms with high wages (bauxite/alumina companies, hotel chains, financial firms). The formal secondary market consists of medium-scale labour intensive firms with low wages and operating in a highly competitive environment (distribution, trading, small- and medium-size operations). The informal labour market consists of urban self-employed, who hustle in petty trading, small-scale production, traders/higglers who market the produce of small farmers and rural self-employed and rural labourers. He applied this extended framework to the Jamaican situation over the period, 1950–1990.

Doeringer (1988) observed that conditions in Jamaica vary significantly between the labour market segments with arrangements in the informal sector being loose and unstructured while those in the formal sector are characterised by union agreements or established internal labour market rules.

Further evidence of labour market segmentation has been provided for other countries. In the case of Trinidad and Tobago, a study by the World Bank (1994) observed the following:

- workers in unionised firms in the manufacturing sector earned over twice as much per hour for the same work as workers in non-unionised firms
- average wages in the public sector are higher than those in the private and informal sectors
- compensation at the higher professional levels in the public sector is lower than in the private sector, but at lower levels, wages are higher than in the private sector

- professional and skilled workers earn more than semi-skilled and unskilled workers
- wages are generally higher in urban areas than in rural areas
- males are generally paid more than females in the same occupational class (see pp. 16–18).

These results, which indicate that there is a premium for being male, unionised, educated and located in the urban sector, are consistent with the preceding wage regression results for Trinidad and Tobago. There is evidence of discrimination against women in the earnings functions with the male–female gap being 18 per cent in 1992. The micro-regression wage equations for Barbados, Guyana, St Lucia, and Trinidad and Tobago indicate that being female is associated with lower wages/earnings (see Downes, 2004). Early analysis by Deutsch (1994) and Coppin (1996) found similar elements of segmentation and discrimination in Barbados. Using data from the Continuous Household Sample Survey for 1992 and 1993 they also found that:

- years of schooling had a positive and significant impact on earnings, with women benefiting more from post-primary education. Education was a significant variable in the earnings functions for young and older women and those who work in both the private and public sectors;
- experience had a positive and significant effect on earnings, especially for women in the public sector and for younger people;
- hours of work had a positive and significant impact on earnings for males, but not for females;
- on-the-job training was particularly important to older women and men, while institutional training increased the earnings of males;
- skilled occupations contributed positively to female earnings while white-collar occupations carried a premium over other occupations;
- both men and women received a premium for employment in the public sector associated with job security and pension rights.

Data for Barbados show that the average earnings of men are greater than for women and are largely associated with occupational segmentation. Women, in general, receive higher returns to vocational training and education than males. With more women obtaining tertiary level education, they have a greater probability of finding a job so that average earnings of women can converge to those of men in the long run. The estimated value of the coefficient for the female variable (female = 1, male = 0) in the earnings/wage equations was statistically significant for all the countries and therefore represents a significant wage premium associated with the sex of the worker.

The estimation of earnings functions for Jamaica showed that schooling has had a significant and positive impact on earnings, with the return to education higher for females than for males by at least 8 percentage points (Mackinnon-Scott (1992)). She also found that wage differentials between males and females in Jamaica were not a function of different levels of human

capital, but due to the pricing mechanism (that is, what the labour market would pay for an employee controlling for human capital features).

Labour market theories in the Caribbean have always emphasised the existence of a 'wage gap' between sectors and geographical locations that influences the nature of unemployment. For example, it has been observed in Jamaica that "wage differentials between the manufacturing and service sectors can be over 50% and between manufacturing and agriculture, 150%" (World Bank, 1994, p.53).

Recent data on the labour markets in the Caribbean tend to re-confirm the findings of the earlier studies discussed above. There has been a shift from agricultural sector employment to services sector employment in all the countries. The shift has been significant in Barbados and Jamaica, both of whom have developed their tourism and financial services sectors. The shift towards the services sector has also resulted in an increase in employment for females. In general, more females than males are employed in the services sector; for example, in Barbados the services sector (tourism, financial services, and general services) employed 14,600 males in 1991 and 20,400 males in 2001, while 18,400 females were employed in 1991 compared with 26,600 in 2001.

The micro-regressions for the wage/earnings equations for the selected Caribbean countries provide results that indicate some degree of sectoral and locational segmentation in the labour market. A wage premium exists for working in the public sector (especially in the middle to lower categories) in Barbados, St Lucia, and Trinidad and Tobago, but not in Guyana. Wage and salaries in the Guyanese public sector have generally been lower than in the private sector. During the 1990s, the Guyana government granted wage increases to public employees in order to bring wages and salaries "closer in line with the private sector at the lower skill categories of employment" (see Egoume-Bossogo et al, 2003, p. 32). Wages tend to be higher in 'urban areas' with the exception of Guyana, where agricultural production – rice, sugar, coconuts, and so on – for export results in higher wages and salaries than in non-agricultural activity (except bauxite mining). In other countries, wages are much higher in the tourism, distributive trades and financial services sectors.

Although females have improved their educational attainment over the years, they still dominate traditional occupations (clerical, service and sales), while males are dominant in elementary occupations (professional, craft, construction and assembly). In effect, there is still occupational segmentation in the region.

An examination of average wages in Jamaica over the period 1996–2000 indicates that a 'wage-gap' still exists in Jamaica. The lowest average wages are observed in the wholesale, retail, hotel and restaurant sector, while the highest average wages are associated with employment in the transport, storage and communications sector. The ratio of the highest average wage to the lowest average wage increased from 2.7 in 1996 to 3.2 in 2000. In Jamaica, the community, social and personal services sector was the main employer of

female labour during the 1990s, but it is one of the lowest paying sectors. Seguino (2003) found evidence of job segregation and employment discrimination in explaining why women are more likely to be unemployed than men in the Caribbean.

An examination of the ratio of the short-term unemployed (less than three months) to the long-term unemployed (over three months) indicates an increase in the ratio for Barbados, Jamaica, St Lucia, and Trinidad and Tobago during the 1990s. Belize exhibited a decline in its ratio. A decline in the ratio is associated with some degree of mismatch in the labour market, since the inability to gain a suitable job results in long periods of unemployment. It should be noted that, although in Jamaica the unemployment duration ratio increased over the period, there was a large percentage of the unemployed who had never worked (between 30 and 40 per cent of the unemployed). This suggests a serious mismatching problem in the Jamaican labour force. The degree of mismatch is higher for females than for males as the unemployment duration ratios are higher for females than for males for all the countries.

2.8 Stylised Features of the Caribbean Labour Market

The overview of the Caribbean labour market outlined in the previous sections point to certain stylised features covering the period 1990–2005:

- a slow-down in the growth of the labour force associated with a low rate of population growth and an ageing of the population
- a higher male labour force participation rate than female rate, but a gradual increase in the female rate
- a general improvement in the educational attainment of the labour force, although there are still important educational and skill deficiencies
- a general trend of positive employment creation (outpacing labour force growth) which has been influenced primarily by output growth
- high level of unemployment, especially among the young (15–25 years of age) and female segments of the labour force
- significant out-migration (of generally higher-than-average skilled workers) and the return of remittances to the sending countries
- the significant in-migration which reflects a re-allocation of labour within the Caribbean (that is, from more developed to less developed countries)
- the disproportionately large size of the public sector
- growth of service-oriented employment and a decline in agricultural- and industrial-oriented workers
- a growth in informal employment
- a decline in the degree of unionisation, but labour unions are still strong in key sectors of the economy: hotels, ports, public utilities and the public sector

- a downward rigidity in nominal wages, with some degree of ‘real wage resistance’ in some countries
- nominal wage increases are determined primarily by inflation rather than productivity increases
- some degree of segmentation in the labour market with respect to sex and sector
- the relatively low degree of formal regulation.

3. HUMAN RESOURCES DEVELOPMENT

3.1 *Training and Skill Development*

Investment in education, training and skills development is regarded as being critical to economic growth and export competitiveness in small developing countries. Caribbean governments and companies have invested in human resources development (HRD) over the past few decades in an effort to improve the quality of the supply of labour. Several initiatives have been tried: curriculum reform, universal primary and/or secondary level education, the vocationalisation of the secondary school system, skills training programmes, incentives for private sector training, special technical and vocational training programmes, apprenticeships, entrepreneurial development programmes and job placement programmes. Many of these programmes have been targeted at the youth who have been most severely affected by unemployment and underemployment (see Downes, 2000).

Early attempts at overcoming the unemployment problem through HRD measures focused on the incorporation of technical and vocational subjects in the secondary school curriculum. It was argued that the traditional curriculum did not prepare students with the knowledge and skills needed for a technologically dynamic economy. Furthermore, several students were leaving the secondary (and primary) school system with little certification that could signal their productive abilities to employers. The inability of the secondary schools to accommodate all the students graduating from the primary level meant that students left the school system at an early age with few meaningful skills. While primary level education is ‘universal’, secondary level is not universal in the region. Governments have sought to address this problem by expanding the secondary school system and diversifying the primary and secondary school curricula. Comprehensive schools were introduced in the 1950s and 1960s to provide a broader educational base for students who were unable to gain access to the traditional secondary grammar schools. In the Barbados 1960–65 Development Plan, one of the main objectives of the educational programme was the development of technical education to contribute to the industrial needs of the country. The secondary school curriculum was expanded to incorporate industrial arts (metal and woodwork), home economics and agricultural science. The curriculum of these comprehensive schools was

designed to reflect the requirements of an expanding economy, especially in the areas of agricultural and industrial development. The early 1960s saw economic development policy in Barbados focusing on manufacturing development propelled by fiscal incentives, the building of industrial parks and the training of people in industrial techniques of production.

In Jamaica, technical high schools were established in the 1960s in order to respond to the commercial and industrial sectors' calls for more trained personnel in the technical and vocational areas. In several traditional and new secondary schools, vocational and technical teaching departments were established (see Morris, 1996).

In Trinidad and Tobago, the 1968–1982 Educational Plan provided the major thrust for the development of technical and vocational education. Pre-vocational and even specialised training were offered at the senior comprehensive secondary level. These schools were expected to provide students with options from four basic fields of technical education: agriculture, technology, home economics and commercial education.

The main examining body at the secondary level in the Caribbean, the Caribbean Examination Council (CXC), offers examinations in a range of technical and vocational subjects: agriculture science, art and craft, bookkeeping and principles of accounts, clothing and textiles, electrical technology, electronics, food and nutrition, information technology/computer studies, technical drawing, and shorthand and typewriting. The introduction of these subjects at the secondary school level marks a major change in the development of the human resources of the Caribbean. These provide teenage school leavers, who are about to enter the labour market, with the basic knowledge and training to cater to the needs of employers. The introduction of technical and vocational subjects at the secondary school level was therefore considered to be part of the general educational process, to provide a higher level of skill acquisition and instrumentality (i.e., the ability to design, problem-solve, plan, and so on) and to be a means of certifying the competence of students via formal examinations.

While some success has been achieved with the vocationalisation of the secondary school system, some countries have reconsidered this element of their HRD strategy. For example, in Trinidad and Tobago, consideration was given to concentrating technical and vocational education and training (TVET) in the post-secondary system (see Downes and Henry, 1994). The data on TVET in the secondary school system point to the low registration of students in several subjects (agricultural science, craft, shorthand, electrical technology), the poor performance of students in CXC examinations, the high unit costs of TVET facilities, insufficient qualified TVET teachers, poor standards of literacy and numeracy of graduates, the lack of modern equipment and the unavailability of materials and supplies on a continuous basis. It was found that TVET programmes offered at the secondary level did not improve the employment or earning prospects of graduates vis-à-vis conventional

school leavers. The new approach to HRD within the context of TVET in Trinidad and Tobago consists of two parts:

1. the development of a universal core curriculum at the secondary school level aimed at improving language arts, mathematics, cognitive and social skills which are all needed for TVET, and
2. the gradual phasing out of TVET specialisation in the secondary schools in tandem with the introduction and implementation of a new general curriculum.

Greater effort has therefore been placed at strengthening the post-secondary provision of TVET services. The secondary school system is expected to provide the basic educational background, which is vital to the development of technical and vocational training. In Jamaica, the Government introduced a Reform of Secondary Education (ROSE) project in which technical and vocational subjects will be taught in a thematic form (see Morris, 1996).

While Governments in the region have sought to increase the labour marketability of school leavers by introducing TVET in the secondary school system, the most significant HRD initiatives have been at the post-secondary level. The governments have established formal technical and vocational training institutions and a number of specialised skills training programmes. The graduates of these institutions meet labour market needs at different levels of the production process: engineer, technologist, master craftsman/technician, multi-skilled craftsman, skilled craftsman, craftsman and apprentice.

Well-established technical and vocational institutes exist in the more developed countries of the Caribbean: Barbados, Jamaica, and Trinidad and Tobago. In Trinidad and Tobago, the main institutions offering a range of technical and vocational programmes have been the San Fernando and John Donaldson Technical Institutes and the Hotel School. These institutions offer a range of craft, technician and service skills and students are certified through national and foreign examinations.

In Barbados, the Samuel Jackman Prescod Polytechnic and the Barbados Community College are the primary institutions providing technical and vocational training. The Barbados Institute of Management and Productivity (BIMAP) offers a range of short managerial and supervisory courses targeted at mid-level managers. In recent years, emphasis has been placed on the training of persons in computing and related areas. These programmes for employed people complement the Government of Barbados' thrust to infuse information technology into the school system in order to enhance student learning and provide students with the tools and skills to meet the challenges of the twenty-first century (see Cobbe et al, 1998 for a full economic assessment). A TVET Council has been established by the Government to oversee that development of TVET in collaboration with the Barbados Vocational Training Board. The Barbados government is now seeking to amalgamate the Barbados Community College, the Samuel Jackman Prescod Polytechnic

and the Erdiston Teachers' Training College into the University College of Barbados (UCB).

In Jamaica, the College of Arts, Science and Technology (CAST) was upgraded to the University of Technology (UTECH) and provides the higher level training in the science and technology areas needed by the Jamaican economy. The University of the West Indies (UWI) and the University of Guyana (UG) also provide degree-level education and training for people entering higher levels of the occupational ladder. The State Colleges in the Organization of East Caribbean States (OECS) – Antigua and St Lucia – also provide post-secondary level education and training (see CARICOM Secretariat, 2006, for a full discussion).

Given the shortage of skilled and well-trained personnel in the region, graduates from these special technical and vocational institutes are readily employed in the labour market. Indeed, unemployment rates among skilled technicians and associated professionals tend to be relatively low in the region (for example, less than 5 per cent in Trinidad and Tobago).

The greatest effort at HRD in the region has been in the area of specialised skills training programmes targeted primarily at the youth. All the countries of the regions have some form of skills training programme. These initiatives were largely started in the 1980s to deal with the chronic youth employment problem in the region. In Jamaica, the best-known programme in this area is the Human Employment and Resources Training (HEART) and National Training Agency (NTA), which were established by the Government in 1982 and 1991 respectively (see Knight, 1992). Prior to 1982 when the HEART agency was formed, several initiatives were taken to provide unemployed youth with skills (National Youth Service, Industrial Training Centres, Youth and Community Training Centres, Youth Camps, Agricultural Skill Training Centres). HEART was established to finance, develop and monitor employment training schemes especially for young people and to assist in the placement of those seeking employment. The agency is funded via a 3 per cent payroll levy on all employers except 'small' firms and the Government, along with private donations. The HEART programme consists of a school leavers' on-the-job training opportunities programme, which allows school leavers with low levels of certification to be trained by private employers. In addition, there is a series of academies that provide a range of short courses especially for young people in rural areas. A Solidarity Programme has been designed to provide credit and training assistance for those involved in self-development projects.

In Trinidad and Tobago, the main programmes geared to unemployed youth are the Youth Training and Employment Partnership Programme (YTEPP) and Service Volunteered for All (SERVOL). The YTEPP started in 1988 by focusing on skills training and the attitudes and values of the youth. The programme provides basic remedial education, vocational skills training, career enhancement, work experience attachments and post-training support. Training programmes make use of community centres and facilities so that the youth

can easily get to the places of training delivery. The orientation of the YTEPP is based on the problems faced by youth when they are about to enter the labour market, namely, the lack of marketable and communication skills, proper work attitude and ethic, the lack of work experience and financial and technical supports. These factors make young school leavers largely unemployable for long periods of time.

SERVOL was started in 1970 as a small-scale community-based organisation (CBO). It has become a highly successful and dynamic organisation with projects in vocational training, small business, agriculture and an integrated educational development programme. It focuses on the attitudes and other personality problems of youth that affect their employability. Its adolescent training programme grew from 25 participants in 1971–72 to over 5,000 in 1996–97.

The Morvant-Laventille Improvement Organization (MLIO) is also a grassroots organization that was established in 1986. Its focus has been to provide young people in one of the most depressed areas of Trinidad and Tobago with skills training and attitude re-orientation. It links training with commercial activities in such areas as painting, woodwork and furniture making, shoemaking and leathercraft, welding and electronics.

Other countries of the region have various forms of skills training programmes, which seek to provide the young employed with the necessary marketable skills. In recent years, with greater attention being paid to poverty alleviation, the development of human capital – skills training and remedial education – has been viewed as a primary way to help with the problem of poverty and unemployment. In Guyana and Barbados, poverty alleviation programmes have important skills training components which help to develop the human capital base of the poor (for example, the Social Impact Amelioration Programme, SIAP, in Guyana and the Pineland Creative Workshop in Barbados). Jamaica has also sought to learn from the experience of other countries with similar skills training programmes. For example, in 1996, the HEART/NTA and the National Industrial Training Centre of Brazil (SENAI) joined forces to provide training beyond entry-level competence. Programmes have been designed to increase the efficiency and productivity of the Jamaican workforce through skills upgrading and other technical assistance interventions.

In order to assist with the entrepreneurial aspects of HRD, some governments have introduced special funding schemes. For example, in Barbados, a Youth Entrepreneurship Scheme (YES) has been established to assist young people who are interested in setting up a business. YES assists with the provision of financial and technical assistance and training. The Government of Barbados has also established agencies to provide funds to people desirous of setting up small businesses.

The final HRD initiative has been in the area of on-the-job training (OJT). Surveys of companies in the region indicate that this is the main form of train-

ing taking place within companies in the region. Apprenticeship programmes by various skills training agencies also constitute a form of OJT. The HEART/NTA's School leaving programme in Jamaica provides on-the-job training for its participants. The programme was in existence for the whole life of the HEART/NTA.

Various reports and papers have been prepared on technical and vocational education training programmes in the region (see Parris, 1998; Downes, 2000; Lochan, 2000; McArdle, 2006). These studies have focused on such programmes as HEART/NTA in Jamaica, SERVOL and YTEPP in Trinidad and Tobago and the Skills Training Programme in Barbados. These programmes have been partly successful in providing the labour force with skills that they can offer to employers. There are still problems on the demand side of the labour market as several Caribbean economies have experienced problems over the past decade.

While national training programmes are well known, little information exists on the extent to which firms are engaged in training. A few surveys do exist which provide some idea of the extent to which private firms promote the training of employees. A small-scale survey of training and development needs in Barbados in 2001 indicated that 74 per cent of respondents have training budgets and allocated about 5 per cent of their overall budget to training (see BEC, 2002).

Lower level employees in the clerical, technical and vocational categories tend to receive the bulk of the training, which combines on-the-job training and classroom instruction. In terms of future training needs, the study identified supervisory management, job skills, health and safety, performance appraisals and implementation of a productivity management system. An earlier study by Ashton et al (2001) also highlighted the relatively high percentage of companies with training budgets and the high use of on-the-job training. People management was perceived as an important area of future skills training.

In Jamaica, the Jamaica Employers' Federation (JEF) undertook a study of training in private companies (JEF, 2000). It found that 44 per cent of the responding companies had a training budget but many of them were unable to indicate the percentage of the overall budget attributable to training. As in Barbados, most of the training was on-the-job. Senior management received the largest share of the training budget, with many of them attending overseas courses. The Ministry of Labour and Social Security has been collecting information on the most frequently advertised jobs in the Jamaican labour market. The top five areas fall into managerial, teaching, marketing, customer service and accounting occupations. The vacancies reflect the range of occupational skill areas (highly skilled to semi-skilled). It is generally recognised that jobs requiring little or no skills are hardly advertised since the supply of such persons tend to outweigh the demand for such workers (labourers, agricul-

tural workers). With the expansion in the services sector in the region, there has been a corresponding increase in demand for workers in this sector.

In the case of Trinidad and Tobago, Grover et al (1998) identified several firms that provided training for their employees, especially technical and management training. Most of this training was undertaken in order to upgrade the skills of existing workers. However, they found that there were basic skill deficiencies among workers, namely, work ethic and attitude, and desired technical skills. The National Training Agency (NTA) in Trinidad and Tobago has been undertaking surveys of the training needs of employees in various sectors of the economy. A May–September 2001 survey indicated that job opportunities were available for graphic artists, book binders, sales personnel, nurses, hairdressers, administrative assistants, data entry clerks and sewing machine operators. These are basically mid- to low-level jobs. The recent expansion of the economy of Trinidad and Tobago has resulted in a shortage of workers in the construction industry (plumbers, masons, electricians).

In the OECS, the lack of critical skills has been a constraint on economic expansion and international competitiveness (World Bank, 2005). For example, in St Vincent and the Grenadines and Grenada, skill shortages have been identified in the technical/engineering and managerial areas. Chottepanda (2004) has also pointed to skill labour shortages in Guyana, which has experienced a high level of emigration of skilled labour over the past decade. Data on work permits granted by Caribbean governments during the 1990s reinforce the nature of skilled labour shortages (see Table 8). The main categories

Table 8: Work Permits for the 1990s by Occupation in Rank Order of Importance

<i>Country</i>	<i>Occupation</i>
Anguilla	Production/Construction/Transport; Service; Professional/Technical
Antigua/Barbuda	Maid/Housekeeper/Related Workers; Construction/mechanic/electrician; Clerk/assistant
Barbados	Legislative/Senior officials/Managers; professionals; technicians and associate professionals
Grenada	Technicians and associate professionals; legislators, senior officials and managers; service workers
Jamaica	Legislators/senior officials/managers; professionals, crafts and related trade workers
St Kitts and Nevis (1996)	Technicians/assistant professionals; legislative/senior officials; production/construction/transport
St Lucia (1994)	Teachers, managers, nurses
St Vincent	Technicians/associate (professionals, professionals, legislative, senior officials, managers
Trinidad/Tobago	Professionals, technicians and associate professionals, legislative, senior officials and managers

Source: ILO, Digest of Caribbean Labour Statistics

for which work permits were granted were in the managerial, technical and professional occupations. The CARICOM Recognition of Skills Certificate (CRSC) has now replaced a work permit for several categories of workers in the CARICOM region.

In a comprehensive analysis of training needs in the tourism sector of 25 Caribbean Tourism Organisation member states, it was found that the majority of the workers were skilled/semi-skilled and unskilled with the ratio of managers to non-managers being 1:10. While tourism operators experienced moderate to extreme difficulty in filling managerial and professional posts, there was no great difficulty filling posts for unskilled workers. The main general training needs in the sector were in the areas of customer relations, marketing and communications and computer literacy, while technical training needs were in the areas of culinary skills, tour guiding and maintenance. Most of the training in the sector is on-the-job and the majority of the training expenditure is spent on skilled/semi-skilled employees. Data on the percentage of the budget spent on training were unavailable, but it was observed that two-thirds of the respondents spent less than US\$5,000 on training of staff in 1997. This relatively low expenditure may reflect the high degree of turnover of staff that occurs in the sector. Respondents identified the main human resource challenges as quality of staff, staff motivation, work ethic and attitude.

The results of the earnings equations can be used to derive the rates of return to different levels of education and training. Using the extended Mincerian earnings equation discussed by Psacharopoulos and Ng (1992), the results for Barbados, Guyana, St Lucia, and Trinidad and Tobago, indicate that:

- the rates of return for tertiary and university education are higher than secondary level education
- professional and post-university education and training exhibit the highest rate of return
- the rates of return for females are generally higher than those for males, especially at the tertiary/university levels
- rates of return for vocational education/training are relatively high
- Trinidad and Tobago, and St Lucia are relatively high compared to Guyana
- The rates of return are comparable to those for other countries (see Psacharopoulos and Ng, 1992).

This overview of training and skill development in the Caribbean indicates that a lot more needs to be done to enhance the human capital base in the region. There are serious skill deficits in key sectors. Furthermore, information on training in organisations is difficult to obtain.

3.2 The Mismatch Problem and the Transition from School to Work

One of the main reasons for youth unemployment in particular, and unemployment in general, relates to the “mismatch problem”, that is, the difference between the distribution of job requirements or needs of employers and the distribution of knowledge and skills of the labour force. The high levels of youth unemployment, coupled with the high incidence of uncertificated workers, suggest a “mismatch problem” associated with a dysfunctional education system. Employers indicate that they find it difficult to recruit workers with appropriate work ethic, attitude, job/work experience and technical skills. Establishment surveys in Barbados and Jamaica, for example, indicate that a poor attitude to work and poor work ethic have been major concerns for employers. They indicate that these attitudes, along with basic education/knowledge/skills (reading, writing and mathematics) are critical to job hiring and trainability of employees.

Attempts have been made in recent years to study and resolve the ‘mismatch problem’ by examining the transition from school to work. In their study of Jamaica, Kerr et al (2006) found that 26 per cent of the youth (15–24 years of age) had gained work experience as part of their education and training and that 78 per cent planned to further their education in the future. Approximately 60 per cent of the out-of-school youth had no passes in academic examinations, with the vast majority being males. It was, however, recognised that post-secondary certification was important to finding a decent job. The main obstacles to finding a suitable job were unsuitable general education and training opportunities, lack of certification and unsuitable vocational education. Regression analysis pointed to the importance of certification and work experience in determining the employability of the youth. HEART Trust/NTA has implemented a school leavers’ training opportunities programme called the National Service for Industrial Learning, to bridge the gap between school and the world of work. The trainee is placed in a firm to gain on-the-job training and receives a small stipend during the training period. The trainee can earn the National Vocational Qualification of Jamaica (NVQ-J) on completion of the programme.

In a survey of youth in St Vincent and the Grenadines, Vermeersch (2006) found that students lacked knowledge of the skills required by the labour market and had little interaction with employers about the skills needed by firms. On-the-job training was very low in the country. Correlation analysis indicated that there was little correlation between the level of academic achievement (secondary school leaving performance) and labour market outcomes. In an assessment of the link between the education and training system and the labour market, the World Bank (2007) found serious deficiencies in the system in the OECS and called for more resources to address these problems (employment assistance and youth training programmes).

These results point to the need to re-examine the education system as it relates to the needs of the labour market in the Caribbean. As suggested earlier several proposals have been made regarding the new education and training arrangement in the Caribbean: separate the job training from secondary education; create TVET tracks in schools; enhance the academic content of the TVET programmes in schools and colleges or make TVET a post-secondary exercise with a strengthened academic programme in schools; involve the private sector in the planning of the educational system; and foster greater regional co-operation in TVET.

3.3 The Brain Drain Problem

The Caribbean has historically been an area of migration – both immigration and emigration. Organised emigration has occurred to such countries as the UK, USA, Canada and Panama over the past century. Early emigration to these countries was a means of easing the high unemployment (surplus labour) problem in the region. People emigrated to more developed countries to work as domestics, nurses, teachers, construction workers, transport workers and other low and middle-skill level workers. Emigration can therefore be viewed as being beneficial to a country if the emigrants would otherwise be unemployed or working in low skill jobs. If the emigrants are members of the professional and skilled labour force, then a ‘brain drain’ occurs, which then results in lower overall productivity and reduced economic growth. There are several costs and benefits associated with the movement of people from one country to another (that is, emigration from the country of origin, immigration from the country of destination) (see Mishra, 2005). In relation to *the costs* of emigration to the country of origin, there are:

- the ‘emigration loss’, that is, the net welfare reduction associated with movement of infra-marginal workers who are paid less than their marginal product
- the public expenditure on the education and social welfare of the emigrants.

The benefits include:

- the inflow of remittances or other transfers from emigrants
- the possible network effects which can be a source of FDI and export marketing
- the enhancement of human capital.

The Caribbean has been an important source of migrant workers to more developed countries. It is estimated that between 1970 and 2003, 745,289 persons emigrated from Jamaica to the USA, UK and Canada, that is an average annual flow of 21,920 persons (PIOJ, 2005). The annual outflow however declined over the 1980 to 2003 period.

While emigrants from the Caribbean may constitute a small percentage of the work force of the destination countries, they represent a significant

Table 9: Percentage of the Labour Force that has migrated to the OECD Countries and the USA by level of Schooling, 2000

Country	Level of Schooling					
	% Primary		% Secondary		% Tertiary	
	OECD	USA	OECD	USA	OECD	USA
Antigua and Barbuda	6	5	36	29	71	63
Bahamas	2	2	12	10	36	36
Barbados	10	4	24	20	61	46
Belize	6	3	49	58	51	51
Dominica	8	6	61	53	59	47
Grenada	10	5	70	60	67	55
Guyana	14	6	34	30	86	77
Jamaica	8	4	30	27	83	76
St Kitts and Nevis	10	7	37	29	72	63
St Lucia	3	2	32	33	36	25
St Vincent/Grenadines	6	3	53	50	57	42
Suriname	18	–	44	–	90	–
Trinidad and Tobago	6	3	21	17	78	68

Source: Mishra, 2005

proportion of the domestic labour market. Using population census data for 1990 and 2000, Docquier and Marfong (2004) estimated that about 12 per cent of the Caribbean labour force migrated to OECD countries. Given the relatively small labour market with heterogeneous skills, such a migration rate can have a serious impact on the labour markets in the region.

An analysis of migration by education levels indicate that those persons with tertiary level education constitute the highest percentage of migrants to OECD countries. The rates are similar to those in the USA (see Table 9). The high rates of migration for tertiary level educated people (ranging from 36 per cent in the Bahamas and St Lucia to 90 per cent in Suriname) represents a significant 'brain drain' problem in the region (see Mishra, 2005).

Guyana, Jamaica, Suriname, and Trinidad and Tobago have been the main countries affected by the high rates of migration of skilled labour to the OECD countries. Data for Jamaica indicate that the main groups which migrated to North America during the 2000–2003 period included professional/technical/administrative/managerial (30.8 per cent of all emigrant workers) and some workers including private household workers (47.6 per cent) (PIO, 2005).

The Caribbean region has, however, received an income flow from the emigrants in the form of remittances and other transfers. These income flows represent non-wage income, which can affect the supply of labour. Econometric research on the participation decision and unemployment for selected countries suggests that remittances to a household can lead to the decision not to participate in the labour market and to people remaining unemployed (Downes, 2004, Kim, 2007 and Bussolo and Medvedev, 2007).

In recent years, Caribbean teachers and nurses have sought to benefit from the shortage of such workers in more developed countries. This has resulted in a shortfall in these workers (especially nurses) in the region. Some countries have sought to recruit nurses from outside the region (Asia and Africa) to meet the shortfall.

Intra-regional migration, especially from Guyana, has been a prominent feature in recent years. Workers from Guyana have moved, as temporary workers in the construction and agricultural sectors, to other Caribbean countries. These workers have been largely semi-skilled and do not fall within the categories of workers who are allowed to 'move freely' within the CARICOM region. This free movement of labour is currently limited to university graduates, media workers, cultural workers and workers associated with the rights of establishment of businesses in other CARICOM countries. The region, however, still depends on non-CARICOM countries for workers in the professional, technical and managerial areas.

4. LABOUR MARKET AND HRD POLICIES

The main challenges facing the Caribbean labour markets have been targets of government policies and programmes for several decades. More data have been collected and research undertaken to fine-tune policy measures aimed at overcoming these challenges. The changes in the national, regional and international economies with respect to the implementation of structural adjustment programmes, the forging of greater regional integration, the liberalisation of international trade, the erosions of preferences and the various facets of the globalisation process have exacerbated the challenges facing the Caribbean region. Although policy measures and programmes would be needed to address the problems facing the labour market directly, action would also be needed in other markets and in the general environment within which business activity takes place (for example, the commodity and financial market, the institutions of economic governance).

The main objective of labour market policy reform in the region has been to create a dynamic labour market that can foster productivity and promote flexibility while providing effective social safety nets and increasing real incomes for workers. Since labour is an integral input into the production process, then for small developing countries like those in the Caribbean, the development of the human resources of the countries becomes a vital element in enhancing overall productivity and international competitiveness. Improving the quality of the human resources of the region would require investment in education, training, health and nutrition. Changes in the nature of the demand for goods and services in the domestic and export markets would require changes in the quantity and quality of the human resources, which make labour market flexibility an important policy objective. Since it takes time to

educate and train people, then human resource planning is a critical exercise in various enterprises.

For a significant majority of the people in the Caribbean, the labour market provides the only source of income, that is, labour/wage income is a significant percentage of total income. The inability to sell labour services creates a problem of poverty and deprivation unless social safety nets exist. The labour market therefore becomes an important source of funds for these safety nets (for example, unemployment insurance, severance/redundancy pay, national insurance payments, remittances from workers abroad, income from other family members). As the empirical evidence suggests, increased earnings are associated with increased productivity, better education and training and greater competitiveness.

Labour market flexibility in the Caribbean tends to be higher than in Latin American countries, but lower than in non-Caribbean micro states. It has been argued that some degree of labour market flexibility is needed in the region in order to attract more foreign investment and increase employment (see Archibald et al, 2005). The nature of such changes would include reducing the difficulty of firing and the rigidity of working hours (that is, reducing severance payment and national insurance payments, introducing a more flexible work week). While these changes would lower the adjustment costs of employment for the employer, they should be balanced by social schemes that assist workers with short-term unemployment (unemployment insurance) and retooling for new jobs (training grants). Greater labour market flexibility should therefore be combined with some degree of social protection in order to smooth the transition processes on both sides of the labour market when shocks occur (that is, what is now termed flexicurity).

Labour market policies to address the main challenges of youth unemployment, the mismatch problem, job creation, emigration of skilled labour and low levels of productivity require measures on both the demand and supply sides of the market, and also in the areas of remuneration and labour market institutions. These policy measures should be developed in an integrated and holistic manner since the main challenges facing the region are inter-related. As indicated earlier, Caribbean governments and other labour market stakeholders have been implementing labour market policies to address various challenges over the years. Since these challenges still remain, it means that either they have been difficult to surmount, the policies have been implemented in a piecemeal manner, the measures have been too costly, the nature of the challenges has changed or the measures have been inadequate or inappropriate.

The range of policy measures presented in this study has been developed from previous studies of Caribbean labour markets and interviews with key informants of labour market behaviour. They attempt to address the challenges both directly and indirectly since these challenges are seen as inter-related.

The *first* of the policy measures aimed at meeting the challenges of the labour market in the region is the restructuring and refocusing the system of education and training. A dysfunctional educational system and inadequate training facilities lay at the heart of the youth unemployment, 'mismatch', 'brain drain' and low productivity problems. The issue of educational reform has been prominent in the region over the past decade. For example, Barbados has introduced an educational improvement programme (Edutech), while the OECS has recently completed the early phases of an education reform project. The Jamaican government has begun to implement the recommendation of a national task force on education.

The restructuring of the educational system – from primary to tertiary – must ensure that graduates have the competencies to operate effectively in the labour market both as employees as well as self-employed people. Universal secondary level education should form the basic minimum level requirement for the Caribbean region. Recent research by Lee and Temesgen (2005) indicates that access to education to at least (or even better than) secondary level is an important determinant for the growth of firms and hence long-term employment. While universal secondary level education is a primary goal, a co-primary goal is enhancing the quality of the output of the educational system (better certification, appropriate competencies and psychological skills). Improving the quality of the graduates of the school system, so that they can properly interface with the labour market would require improving the inputs of the educational system (teacher training, stronger parent-teacher associations, supplies and equipment, private sector participation). Graduates must leave the secondary school system with a high degree of literacy (writing, reading and computer skills) and numeracy in order to meet the demands of a dynamic labour market.

The training system should reinforce knowledge and competencies of the educational system. A much greater interface would be needed with employers who can support apprenticeship programmes, work experience study, and related programmes. HEART/NTA in Jamaica, the TVETT Council in Barbados and COSTAAT in Trinidad and Tobago are examples that can be repeated in other countries. However, these institutions need to be strengthened and properly funded in order to cater to the technical and vocational training needs of the region. The certification of the work force in various technical and vocational areas (for example, NVQs) at an international level would be critical to the enhancement of the international competitiveness of Caribbean human resources as well as goods and services.

The restructuring of the educational system should be accompanied by greater counselling and career guidance for students; more extra- or co-curriculum activities to build the 'soft skills' of inter-personal relationship, conflict management, work ethic and time management, mentoring and entrepreneurship. Such measures would allow for better job fitting – the output of the education and training system and the needs of the workplace. Educational

planning and labour market planning should be more integrated so that the transition process from school to work is efficient and effective.

A *second* policy area relates to measures to boost productivity in the workplace. The establishment of well-functioning productivity centres involving the stakeholders in the labour market should be a high priority for the Caribbean. Barbados has a Productivity Council which has been operational since 1993 and Jamaica has recently established a Productivity Centre. Such institutions would develop systems and programmes to promote productivity in the workplace – that is, reorganisation or retro-fitting of plant layout, gainsharing schemes, human resource (including management) training, and operations management systems, among other measures. As a tripartite national body, the council would recommend policies to deal with the external barriers to productivity growth such as investment incentives, infrastructural problems and bureaucratic systems. The results of the Promotion of Management-Labour Co-operation (PROMALCO) project organised by the ILO (Caribbean Office) would be useful in improving labour-management relations in the workplace (see Imoisili and Henry, 2001). National and sectoral memoranda of understanding (MOUs), as implemented in Barbados and Jamaica, would further the productivity drive once they are well known to workers and managers in various enterprises. One of the problems with such MOUs is that their contents are not well known to workers and managers who have to work with them.

The *third* policy is related to the development of an employment creation programme based on a national production programme. On the demand side, the labour market needs to be enhanced through a comprehensive production programme geared for the export market. As small developing countries that have historically depended on agricultural products for their survival, Caribbean countries have to develop alternative areas of production, as these traditional products are now ‘sunset industries’. Some Caribbean countries have sought to promote the development of new, sunrise industries in the services and technologically based sectors. These industries would require new human resource needs supplied by a restructured and refocused educational and training system. Caribbean countries need to take maximum advantage of the international trade negotiations in order to develop niches for the sunrise industries. In addition, pan-Caribbean region companies can form the platform for a greater push in the international market. National development plans and strategies now being formulated in the region (Vision 2020 in Trinidad and Tobago, Barbados Strategic Development Plan 2005–2025, OECS Development Charter and Strategy, Vision 2030 in Jamaica) must ensure that production and human resource plans are integrated at the operational level of implementation so that educated and trained people are readily absorbed into the labour market. An emphasis should be placed on high value-added jobs which would use the expertise of the supply side of the market and partly stem the brain drain.

Innovative ways must be developed to generate productive and decent work in the region. Small- and medium-sized enterprises provide some potential for job creation provided the environment within which they operate is enhanced. Attention needs to be paid to the financing and technical needs of such enterprises. Laws relating to the bankruptcy of firms and loan collateral arrangements would have to be revised in order to give these enterprises an opportunity to expand or recover from losses. Several countries have been examining the needs of these enterprises, but in a piecemeal fashion. There is also potential for entrepreneurial growth in enterprises that interface between the services sector and the agricultural and manufacturing sectors. While a lot of emphasis has been placed on the services sector in the region (e.g., tourism, financial and business, data processing), there is need for greater linkages with the agricultural and manufacturing sectors. The discussion on 'special and differential treatment' for small economies in various trade negotiations and economic partnership agreements should provide for such economies to restructure their sunset industries. For example, Barbados is considering a focus on developing a *sugar cane* industry rather than the traditional focus on the *sugar* industry.

The formation of pan-Caribbean enterprises within the context of the CARICOM Single Market and Economy should allow such enterprises to explore markets in the Caribbean Diaspora in North America and Europe and also non-traditional markets in Latin America and Africa. Given the relatively small size of the regional economy, a 'small' increase in exports in the international market can result in a significant increase in employment.

Some attention would also have to be paid to creating the environment for greater foreign direct investment to supplement regional financial resources and also to effectively penetrate international markets. Caribbean countries would need to address their physical infrastructure (public utilities, roads, and ports), regulatory systems and macroeconomic policies in order to attract greater investment to the region (Kolstad and Villanger, 2004).

A *fourth* policy area relates to the strengthening of the dialogue among the Social Partners (government, labour unions and employers). Such dialogue would provide the overall macroeconomic framework to achieve the objective of labour market policy reform. Several attempts have been made to establish well-functioning social partnerships in the region. The arrangement in Barbados has been the only one functioning at a satisfactory level. Such arrangements have been beset by distrust, which must be overcome in order to enhance the operations of the labour market. Those partnerships must be accompanied by well-functioning agencies such as Ministries of Labour and Economic Affairs, which need to be staffed by people with specialist skills. It has been argued that such agencies – government, employer and union – should be more strategic, proactive and global in outlook. The dialogue and agreement among the social partners would hopefully result in a less adversarial industrial relations climate, a focus on productivity growth, productive,

remunerative and decent work and greater opportunities for human resource development.

The *fifth* policy area relates to the revision of labour laws and work practices to reflect the changes in the commodity and labour market. Very few changes have been made in the labour laws over the past decade. Most of the amendments have been undertaken to accommodate administrative requirements. In many cases, labour practices, as determined by the collective bargaining process or internal labour market rules and regulations, have guided the operations of the labour market. With the advent of labour mobility within the context of the CARICOM Single Market and Economy (CSME), there will be a need to modernise and harmonise labour laws in the region. Changes should be made to reduce the non-wage labour costs associated with the employment of people, while protecting the rights and social welfare of workers.

One area of concern in the region is the costs of adjustment with respect to employment. Several countries have severance payment or redundancy laws that compensate the employee when he/she is severed or made redundant. Employers are usually required to contribute to a fund so that enough financial resources are available to compensate severed employees. These payments are contingent upon employment separation and therefore represent a pool of funds that can be used to finance the operations of an enterprise. Employers have been seeking to reduce their contributions, especially where these contributions are significant. Any reduction in the contribution would mean that either the sum paid to the employee or the period for payment would have to be reduced. A decision on this matter would depend on the rapidity with which an individual can find employment. In Barbados, a severance payment scheme co-exists with an unemployment insurance scheme and hence a severed worker can 'double dip'. This arrangement would need to be rationalised in order to reduce the non-wage labour costs to employers (see Downes, 2004).

Another area of topical discussion is the institution of either a national or sectoral minimum wage system. Several countries in the region have either a national minimum wage (Jamaica, Trinidad and Tobago) or sectoral/occupational minimum wages (Barbados, Guyana, and Antigua). With the formation of the CSME and the institution of 'free labour mobility' within the region, labour unions have argued for (sectoral) minimum wages in order to prevent the exploitation of labour.

The *sixth* labour market policy area relates to the development of measures to stem or take advantage of the 'brain drain'. Jamaica has proposed the establishment of a Diasporic Institute to examine ways in which people in the Diaspora can assist with the development of Jamaica. In the same way that some Caribbean governments have established special arrangements to help with the return to migrants to the region, similar arrangements should be developed to take advantage of the human capital services outside of the region. Some of the policy issues would involve maximising the benefits of

remittances to the country; training people as part of the export of services (for example, Mode 4 trade in services), investment and marketing prospects of the Diaspora, joint services provision – in the destination country and the Caribbean and creating externalities and networks in the destination countries.

A *final* area of policy is the development of labour market information systems (LMIS) in order to supply information on labour market needs, outcomes and behaviours. All the countries in the Caribbean are lacking in this area and there is a need for urgent action to redress this problem. The recent work on the Caribbean LMIS can form the basis of the development of national and regional labour market databases.

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2

Migration and Commonwealth Small States: The Case of Teachers and Nurses

Roli Degazon-Johnson

1. INTRODUCTION

For some years now there has been a new wave in migration taking place called the 'global search for talent' (Kapur, Devesh and McHale, 2005). It is characterised by large movements from the countries of the south to the north, among the highly skilled groups in particular; and the relaxation or modification of immigrations laws and policies to facilitate the movement of the highly skilled which has been identified among Commonwealth industrialised countries – Canada and the United Kingdom in particular – but are also noted with Australia and New Zealand, for example. There have been many calls for Caribbean leaders in public, academic and non-governmental sectors to become aware of the lack of retention and the loss of human capital to the region, through this renewed wave of recruitment and migration, recognising that governments can use human capital as important leverage in labour market negotiations on the trade in skills.

The September 2006 United Nations Special General Assembly focused on Migration and Development as being among the most critical and challenging issues on the geo-political map, of equal importance with Climate Change. The convening of this United Nations General Assembly Special Session (UNGASS) was one of Kofi Annan's last actions before demitting office; the November 2007 Caribbean Community (CARICOM) Council of Ministers for Health and Social Development focused on labour migration; these events, and others like them, awaken the hope that this region may at last be recognising the value of its human capital, which has been vanishing before its eyes. It is imperative that the Caribbean region begins to address this 'migration merry-go-round', which may prove extremely serious for the small states of the Commonwealth if left unchecked.

This chapter first presents an overview of some of the key issues for small states and those of the Caribbean in particular; it then focuses on the situation in relation to recruitment and migration of healthcare workers and teachers, addressing unethical recruitment among highly skilled workers; and it closes by proposing a leveraging of human resources by policy-makers in order to address human capital loss, and encourage retention and the return of highly skilled workers to small states.

2. HIGHLY SKILLED MIGRATION

Migration of highly skilled professionals seeking career advancement is not a recent phenomenon globally or for Commonwealth small states. Little in-depth study of the phenomenon has been made based on size of country and the impact of human capital loss on small states in particular. It is known that in the case of the 32 small states of the Commonwealth, the 12 member countries of the Commonwealth Caribbean experience high levels of migration among the most skilled workers which, alongside remittances as a percentage of GDP, are among the highest in the world (Mishra, 2006).

2.1 *Brain Drain and Gain*

The traditional view of 'brain drain' looks on all movements of skilled people as human capital loss, certainly for developing countries. There is a large body of opinion, however, which proposes that migration can be a 'win-win' or 'brain gain' to both source and receiving countries. There is recognition that, even with the high level of remittances coming into the Caribbean, for example, through formal channels, there is a net loss in human capital among the highly skilled which cannot be replaced by remittances (Mishra, 2006).

Formerly, the Caribbean used to lose the unemployed, possibly unemployable, and was pleased for them to find and seek a better life elsewhere. More recently, the Caribbean has lost and is continuing to lose a critical resource to its development – teachers and health personnel – at extremely high levels. Over recent decades 70 per cent of the work force which has received tertiary education has migrated to industrialised countries. Guyana, Grenada, Jamaica, St Vincent and The Grenadines have the highest tertiary emigration rates in the region followed by Haiti, Trinidad and Tobago, and St Kitts and Nevis (Mishra, 2006).

3. MIGRATION MERRY-GO-ROUND

The industrialised Commonwealth members – Australia, New Zealand, United Kingdom and Canada – are among the leaders in this migration merry-go round in which their skilled migrants, usually young new graduates, seek

work abroad and then return after a sojourn leading to ‘brain circulation’ and constituting ‘brain gain’ to the source country. Such brain circulation and brain gain is not happening to any great extent in the Commonwealth Caribbean among highly skilled workers and, from the evidence being gathered, not to any great extent in the other 20 Commonwealth small states in Africa and the Pacific. Historically, when people from small states migrate it is a decision usually taken by mid-level professionals. This decision, however, is not based on the desire to see a little of the world before returning home; it is a decision often made for good and it works in the following way.

Canada, for example, loses its trained nurses to the USA, so Canada recruits from South Africa who in turn recruits from its nearby African neighbours and from as far afield as Cuba. New Zealand, whose health personnel are recruited by the UK, then recruits from the Pacific Islands. A similar picture applies to teachers. The most recent data revealed that New Zealand actively recruits teachers from the UK and Ireland, as they cannot retain their own teaching stock. The UK then replenishes its teaching stock with South Africa’s teachers who can find teaching positions in the UK upon graduation, without teaching experience. Canada welcomes South African teachers as well as those from the UK and Australia. When there is a shortfall in one of these industrialised countries, then developing countries of Africa, the Caribbean and the Pacific and small states are used as the means of filling the gap. Little consideration is being given to the impact of this recruitment on the human capital needs and development of the developing country or small state. As the Minister of Education of Cayman stated at the meeting in 2002 from which the Savannah Accord emerged, ‘the loss of one teacher from my school system has an impact as great probably as the loss of 15 from the system of a large country’. The issue of economies of scale is pertinent here.

3.1 Healthcare Workers/Nurses

With regard to the exodus of doctors, nurses, radiologists, laboratory technicians, public health professionals and teachers in Commonwealth small states it is necessary to remember that, as a consequence of the healthcare demands of the industrialised members – Canada, Australia, New Zealand and the UK – between 20 and 35 per cent of their health workforce is from overseas. At the same time, the Pan American Health Organization (PAHO) estimated that between 2001–04, more than a quarter of the 13,046 nursing positions in the Caribbean region were vacant, and while 1,199 new nurses graduated during that period, 900 nurses left the region in the same period (see Salmon, 2006). It has been stated that the flow of health workers, partly as a result of active recruitment by *developed countries*, is a symptom of a deeper-seated problem in these same developed countries, which have failed to plan and retain sufficient nurses from their own sources (see Buchan, 2006).

3.2 Teachers

Jamaica, which has a population of fewer than 3 million, lost nearly 1,000 teachers to the UK between 2001–03, more than Canada lost, which has a population of 30 million. Guyana trains 300 teachers each year and loses that number to migration overseas. Education International has stated that, in industrialised countries the demographic trends of ageing populations are coinciding with limited inflows of young teachers. Over the next decade, up to 40 per cent of teachers in industrialised countries will retire and industrialised countries have the means to address this impending shortfall, but have planned poorly and are now buying their human resources from overseas (Van der Schaaf, 2005).

The Caribbean is beginning to monitor the movement of its teachers and nurses in particular and there is evidence of this from Guyana, Trinidad and Tobago, Jamaica, and Barbados. Data from the Pacific, however, is anecdotal as until recently, it would appear that Pacific Island leadership has seen only benefit to be derived from the migration of their human capital due to the income of remittances. Significantly, however, in 2005 the Minister of Education of Fiji Islands – which is at present suspended from Commonwealth membership – reported that, while that region had not experienced the extent of teacher migration and international recruitment of other regions, they were alert to the possibility that this might increase. Within the two-year period of 2005–2007, probably as a result of the civil unrest in Fiji Islands which may be leading to forced migration, the number of inquiries received from Fijian teachers by New Zealand’s teacher recruitment website has grown to be the highest in the Pacific region. At a recent Commonwealth Forum in the Pacific, teaching service commissioners from Samoa advised that they were losing their trained teachers to Australia. However, on further investigation, they discovered that their valued teaching resources are not being employed as teachers, but as bus drivers and prison warders.

4. QUALIFICATIONS RECOGNITION, PARITY AND TRANSFERABILITY

Competent teachers and nurses are restricted or prevented from benefiting fully from the compensation and benefits that they could be earning in the recruiting countries. For example, within the European Union, there is a directive regarding tertiary level qualifications which stipulates that, once a graduate has obtained a degree from a European tertiary institution, they have a right to be employed and treated equally anywhere in Europe, including the UK (see EU Council Directive). The same is not true of Commonwealth teachers or nurses, however. Teachers are informed that, because they do not hold European qualifications and do not have ‘Qualified Teacher Status’, they cannot be paid on the same basis as a qualified teacher from Europe. Overseas nurses are

also obliged to pursue a 3–6 month programme before they are permitted to carry out their professional duties in the UK, for example. While they wait, they are employed at levels of compensation below that of their UK counterparts with similar qualifications. This is ‘brain waste’, a form of devaluation of the skills and competencies of the highly skilled.

4.1 Wage Differentials

In all this there is a global migration hierarchy based on wages which – according to Stillwell and Evans (2006) – places health personnel from small, poor developing island states of the Caribbean and the Pacific at the bottom of the global hierarchy and the situation is no less true for teachers. The warning is very clear: if health personnel and teachers are paid at levels such that they will be attracted by the higher wages of other countries, then the small states of the Commonwealth will always be at risk of losing them. In addition, if these skilled professionals were paid at a level that they could use as leverage to negotiate better salaries with the recruiting country, it would place them at a higher value to those countries. Instead, often when the recruiting country wishes to save on its costs is the time it turns to recruiting from developing countries, as it knows that its salaries will be a seduction. This has produced many complaints from teachers who rushed to be recruited abroad, seduced by the ‘greener pastures’, only to find that they had to pay levels of tax – income and council tax – find accommodation, transportation and cope with a number of unexpected and unanticipated costs of living expenses, which they had not been advised of before their arrival and which were not outlined in their contracts.

It would seem that, if it were possible to pay salaries at a level for these valued resources which reduced the ‘pull’ factors of the recruiting countries, it would do both the health and teaching professions of the small states a great service.

4.2 Unethical Recruitment of the Highly Skilled

Even the skilled migrant can be subject to exploitation when being recruited to some recruiting countries. The highly skilled have been manipulated and exploited by those who are recruiting them, be they recruitment businesses and agencies, education or health bodies, or even schools and hospitals which often recruit directly. In November 2005, the General Secretary of the National Union of Teachers of the UK stated that teachers recruited by agencies to the United Kingdom had, in instances, been lied to by agencies, paid outside of the national wage and pay guidelines, put into accommodation with homeless people and those with mental illness, made redundant without justification and had their self-confidence and dignity eroded (see Sinnott, 2005). There have also been accounts of health personnel recruited from overseas being

misled about their salary level, career prospects and accommodation (see Buchan, 2006).

4.3 Remittances

Remittances (that is, money earned by nationals working abroad that is then invested in their homeland) are often presented as the antidote or panacea for migration of the highly skilled. Remittances have clearly made significant differences to the quality of life for many people. Children have been clothed, fed and educated with remittances; houses have been built; countries with balance of payments problems have been supported. Remittances also have a downside, however, in that they can produce a negative multiplier effect in encouraging import dependency, as they are used to purchase imports such as cars and other consumer items. In this way, they can drive inflation up and do not appear to result in investment in capital-generating activities. In some states, rather than raising the standard of living, they tend to increase dependency, erode good work habits and heighten inequalities in communities. Worse still, they have been found to create envy and resentment and induce consumption spending among non-migrants. It should not be forgotten that when a qualified doctor, nurse or teacher migrates they take the following with them:

- the capital outlay that went into their education from primary school through university
- the future taxes which their income would have generated
- the skills which could make a great difference to health, education and welfare of many people in their country.

4.4 Commonwealth Efforts for Ethical Recruitment of the Highly Skilled

Commonwealth initiatives strongly supported by small states governments yielded the International Code of Practice for the Recruitment of Health Workers in 2003 and the Commonwealth Teacher Recruitment Protocol (CTRP) in 2004. (The CTRP came about through the initiatives of eight education ministers of Caribbean small states in Barbados in 2002). These instruments do not seek to restrict free movement of labour, as many wrongly believe. They do seek to balance the rights of highly skilled workers to free movement and migration against the need to prevent erosion of the development process in Least Developed Countries (LDC) and to prevent the exploitation of scarce human resources of these countries. The Commonwealth Secretariat is becoming increasingly engaged with the International Organization for Migration (IOM), International Labour Organization (ILO), Education International (EI) and the World Health Organization (WHO), as they seek to ensure that when people migrate to other countries they are properly treated, their rights are respected and they have the benefit of ethical recruitment procedures.

4.5 Forced Migration

There are skilled professionals who wish to return to their own countries, but who do not see that they would be returning to an environment conducive to their own development, financially, professionally or from the standpoint of their own personal security and that of their families. In the Caribbean, unless there is a reduction in the levels of violence and crime, this will be a deterrent to returning professionals. It should be noted that there is a direct correlation between political instability and outward migration.

5. LEVERAGING THE HUMAN RESOURCE SKILLS

This chapter concludes on a final point of leveraging the human resources of small states by referring to the work of the Washington-based Centre for Global Development (CGD), which proposes four strategies as policies for source countries losing their scarce skills. They propose four Cs – Control, Creation, Compensation and Connection.

Control speaks to the policies to promote economic and political stability, thereby positively encouraging retention and return of highly skilled professionals to the source country. Creation proposes policies including the expansion of higher education opportunities to promote and leverage the human skill output. Compensation – always a fraught issue – urges the payment of direct compensation to governments in instances of major human capital loss and urges development aid and assistance in exchange for the loss. Connection focuses on the Diaspora and the promotion of brain circulation even on a temporary basis.

In summary, governments of Commonwealth small states and specifically Ministries of Education and Health should seek special ‘consideration’ from countries that recruit their highly skilled people. They should engage in discussions that lead to:

- forms of assistance being provided by the recruiting country
- specific professional development programmes for teachers and nurses
- capacity building to increase the output of highly skilled workers in source countries.

Small states should be negotiating so that wealthier countries who want the highly skilled people they produce provide the means of strengthening the capacity of the poorer small state to produce more teachers and nurses by assisting source country health and teacher training institutions and mechanisms (see Commonwealth Teacher Recruitment Protocol, 2004). While several of these initiatives are in operation already, much more can be done and much more is possible so as to ensure that the loss of the skilled personnel from small states does not have an adverse impact on the advancement of those states.

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3

Pacific Islands Countries Labour Market: Issues and Challenges

Mahendra Reddy

1. INTRODUCTION

The labour market in the Pacific Island Countries (PICs) can be defined as the aggregate of formal and informal sector employment. The formal sector consists of productive work regularly remunerated by a wage or salary and other benefits. Those working in the informal sector engage in activities for exchange or consumption. Workers in this category also move on to the enviously regarded formal sector, if they meet prerequisites that would allow them to move ahead. The largest segment of the informal sector is the subsistence sector, where the bulk of the PIC population resides and sustains its livelihood. The informal sector, including the subsistence segment, consists of several categories of worker: entrepreneurs, establishment workers, independent workers, casual workers, and rural subsistence workers (Forum Economic Ministers Meeting, 2006).

Being thus dichotomised and inherently rigid, the PICs labour market presents major problems and challenges. In particular, the problem of rising unemployment has become a high-profile policy issue amid alarming population growth forecasts. Rising unemployment could occur when markets fail to clear and match. This happens when the economies are not performing up to expectation. A sustainable solution to this problem is to ensure economic growth, at a rate of 5 to 7 per cent in real terms. However, in most PICs, average per capita incomes have shown little change since independence, even after 30 years. In many of them, population growth rates are still high as they have not yet entered the post-demographic transition stage, and total fertility rates are around 4 per cent in some cases (e.g. Papua New Guinea (PNG), Marshall Islands, Solomon Islands and Vanuatu). With population growth rates of 2.5 per cent or higher, the economies have had to average a GDP growth rate of around 2.5 per cent just to maintain average per capita incomes. Secondary data from various PICs indicate that some people have become quite wealthy which, together with the stagnant average per capita incomes, suggests that income distribution is becoming more uneven and

poverty increasing rapidly. This observation is supported by the limited studies of poverty in the Pacific, which also suggest that poverty is worsening in most countries (ADB, 2004). In the case of Fiji Islands, the labour market is growing steadily, but this growth is insufficient to absorb the estimated 17,000 entrants to the labour market each year, thus implying that there is an excess supply of unskilled labour.

These statistics make it quite clear that slow and sluggish economic growth is a major cause of unemployment problems. The mismatch between the supply and demand for employment opportunities could be due to several market or non-market factors that affect demand and supply of workers. Furthermore, a number of specific factors are peculiar to PIC economies. Therefore, appropriate policy formulation will require an in-depth understanding of PIC labour markets. In this light, this chapter will examine in detail the various factors and characteristics that define the Pacific Island Countries' labour market.

2. PERFORMANCE OF PICs ECONOMIES

In most of the PICs, average per capita incomes have shown little change since independence – in some cases over 30 years ago. In most of these countries, population growth rates are still high as they have not yet entered the post-demographic transition stage, and total fertility rates are around 4 live births per woman in some cases (e.g., PNG, Marshall Islands, Solomon Islands and Vanuatu). Hence, with population growth rates of 2.5 per cent or higher, the economies have had to average GDP growth of around 2.5 per cent just to maintain average per capita incomes. Visual observation indicates that some people have become quite wealthy which, together with stagnant average per capita incomes, suggests that income distribution is becoming more uneven and poverty increasing, creating a wider gap between rich and poor. This observation is supported by the limited studies of poverty in the Pacific, which also suggest that poverty is worsening in most countries (ADB, 2004).

The economic performance of the PICs in the second half of the 1990s and the first half of the 2000s varied considerably from country to country. Cook Islands, Fiji Islands, Kiribati, Samoa, Tonga and Tuvalu all had positive per capita GDP growth during this period, while Republic of the Marshall Islands (RMI), the Federated States of Micronesia (FSM), Solomon Islands and Vanuatu experienced, on average, negative per capita GDP growth.

How have the PICs done in comparison with other developing countries? The average 1995–2003 per capita GDP growth rates of the Low Income (3.2 per cent) and Lower Middle Income (3.6 per cent) countries are higher than that of the PICs (0.7 per cent average for 1995–2004), which suggests that the PICs are not doing as well as many other developing countries. The small economies of the Caribbean are widely used as comparators for the PICs. Of 12 Caribbean countries for which World Bank per capita GDP data are

available, the average per capita GDP growth rate for the period 1970–2003 (not all countries have data covering the full period) was 2.8 per cent. For the ten PICs for which these data are available, the average per capita GDP growth rate was 1 per cent. For the period 1995–2003, the average for the Caribbean countries was 1.6 per cent, compared to the 0.7 per cent average for the PICs for the 1995–2004 period.

Of the three countries with increases in per capita incomes above 2 per cent per annum – Cook Islands (6.5 per cent), Kiribati (2.3 per cent) and Samoa (3.1 per cent) – two, Cook Islands and Samoa, have undertaken substantial economic reforms. The economic performance of Cook Islands improved considerably following the comprehensive economic reform programme that began in 1996, moving from a negative GDP growth rate in 1995 to a positive 5.8 per cent in 1998 and 13.9 per cent in 2000. However, its performance since then has been less impressive, with GDP growth rates in the 3 to 5 per cent range. Cook Islands' population has declined at an annual rate of 3.4 per cent over the past ten-year period because of emigration to New Zealand, resulting in the very high rate of per capita GDP growth.

Samoa had two years of 6 to 7 per cent GDP growth in 1995 and 1996 and another two years of growth at similar levels in 2000 and 2001. The economic reforms undertaken in the 1990s, such as tariff reductions, adoption of the VAT, liberalisation of the foreign investment environment and public sector reform appear to have played a significant role in the reasonably good performance over the past decade. Ownership of the reform programme at the highest political level was no doubt important in its effective implementation.

While per capita GDP growth in Kiribati has been reasonably good, its economy is based primarily on services (75 per cent). Moreover, public administration is a major part of the services sector and the only component of the economy that has grown (doubling over the past decade in current dollar terms). Thus, the Kiribati economy is largely driven by aid, fishing licence fees, trust fund revenues, and remittances, with most of these funds being used to support growth in public services.

Vanuatu is another PIC that has undertaken substantial economic reform in recent years. However, it has also experienced considerable political instability and averaged only 1 per cent GDP growth during 1995 to 2004, which translates into an annual per capita GDP decline of 1.6 per cent over the past decade. Seventy-five per cent of the Vanuatu economy is recorded in the services sector – a large part of which is public administration. As elsewhere, macro-economic stability has been achieved relatively easily in Vanuatu. In 1998, when the Comprehensive Reform Program was introduced, the fiscal deficit was 10 per cent. In 2004, the government budget recorded a surplus of 1.1 per cent. Nevertheless, achieving micro-economic reform has proven difficult.

Fiji Islands, FSM, PNG, RMI and Solomon Islands have undertaken micro-economic reforms over the past decade or so. However, there has been limited

success with all of these reforms. A major problem appears to be in the implementation of reform programmes, perhaps because of bureaucratic ineffectiveness but more probably because of political unwillingness.

Raising economic growth to levels that will substantially reduce poverty will require levels of investment similar to those experienced by the rapidly growing countries of East Asia – in the 25–30 per cent range. There is extremely limited information about investment levels in the PICs. Information on the total investment and the breakdown into private and public investment is available only for Fiji Islands out of all PICs. On the latest figures, Fiji Islands's total investment is around 16 per cent of GDP (it has increased from a low point of 10 per cent following the 2000 coup). Of the total investment, only about a quarter is private; government investment is also about a quarter, while a half is by state-owned enterprises. Recent investment/GDP ratios are well below the peak reached in the period 1979–81 of close to 30 per cent. It seems likely that the decline can be attributed in large part to the high level of emigration among the better off and more highly skilled Indo-Fijian population since the coups of 1987. The recent increase in the investment/GDP ratio is most likely to be attributable to the increase in foreign investment in resort construction for the expanding tourism sector.

While there are almost no data on investment behaviour in the other PICs, it appears that most domestic investment is undertaken by the small expatriate communities from Australia, New Zealand, China (mainland and Taiwan), Korea, India and Vietnam. Foreign investment appears to be mostly in the form of the establishment of local branches of multinationals behind import barriers (producing for the domestic market, except where preferential trade arrangements allow very limited entry to other PICs).

3. THE PICs LABOUR MARKET: A SNAPSHOT

The PICs labour market consists of four sets of economies:

- the urban formal sector
- the urban informal sector
- the rural agricultural sector
- the rural subsistence sector.

Apart from Cook Islands, Samoa and Tonga, only a small proportion of the working-age population works in the urban formal sector (see Table 1). The largest formal sector labour market is in Cook Island (81.1 per cent) while the smallest market (5.6 per cent) is in PNG. This is ironic, as Cook Islands is one of the smallest countries and the only major resource it has is marine. However, its strong link with New Zealand enables it to get Aid and Grant support. On the other hand, PNG, despite having almost all the natural resources, has a very small proportion of its working-age population engaged in the formal sector.

Table 1: Employment and Working Age Population in Selected Pacific Island Countries

<i>Country</i>	<i>Total formal sector employment (year)</i>	<i>Population in 2004</i>	<i>Working age population (15–54) in 2004 (% of total)</i>	<i>Formal sector employment/working age population (%)</i>
Cook Islands	5,900 (2001)	14,000 (52.0)	7276	81.1
Fiji Islands	120,000 (2003)	836,000 (58.3)	487,450	24.6
FSM	15,137 (2003)	112,712 (54.8)	61,786	24.5
Marshall Islands	13,300 (2000)	55,370 (53.5)	29,614	34.8
Papua New Guinea	187,234 (2002)	5,695,300 (58.3)	3,320,217	5.6
Samoa	57,100 (2001)	182,750 (49.9)	91,131	62.7
Solomon Islands	22,177 (2002)	460,100 (52.0)	239,362	9.3
Tonga	34,600 (2003)	98,323 (52.7)	51,824	66.9
Vanuatu	16,300 (2004)	215,836 (51.4)	110,976	14.7

Source: The World Bank (2006:39)

Of those who work in the formal sector, most are working in the public sector. The large proportion of the formal sector working population in the public sector reflects the continuing importance of the public sector role in the growth and development of PICs economies. It still runs most of the institutions, and provides public utilities such as water, electricity and telephone in most countries. Public investment is a major proportion of the total investment.

The PICs labour market continues to face major challenges, in particular, that of unemployment. The formal sector is unable to absorb young school leavers from high schools or graduates from the major tertiary institutions in their countries. Countries that face a severe crisis in this regard are PNG, Solomon Islands, Vanuatu and Fiji Islands. In these countries population growth is quite high, emigration is low and economic growth is sluggish. Given that these countries have high youth dependency and fertility rates, a failure of rapid economic growth could lead to major social crisis in the near future. These countries are already experiencing serious social problems such as crime and violence.

The next section examines the salient features of PICs economies that define the contemporary PIC labour market.

Tables 2 and 3 provide a more detailed exposition of employment by sectors in PICs. The service sector generally employs more workers than the manufacturing sector in the region. Fiji Islands stands out as the biggest achiever as a result of the tourism sector, followed by PNG. Niue alone shows the lowest employment in the services sector. For labour force participation rates by country, Vanuatu followed by Cook Islands and FSM have the lowest participation and Tuvalu and PNG the highest. Nauru has the highest unemployment rate of the region and Tuvalu, Vanuatu, Samoa and Kiribati have the lowest.

Labour markets in PICS are highly segmented due to the sharp split between the formal and informal sectors. This combination prevents the easy movement of labour to take advantage of appropriate job opportunities.

4. LABOUR FORCE DYNAMICS: THE DEMAND AND SUPPLY CONDITIONS DEFINING PIC LABOUR MARKETS

Certain peculiar characteristics of the PIC labour market, explained in the following sections, need to be considered when designing policy measures to address the broader economic and social goals. Not only is it dualistic in

Table 2: The Sectoral Distribution of Employment in PICs Labour Markets

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

Sources: Chand (2006); Mellor (2004); Toatu (2004); Jowitt (2004); Imbun (2005a, b); Voigt-Graf (2006)

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

Table 3: Selected Social and Economic Indicators of PICs Labour Markets

Pacific Island Country	Last Census	Population at Census	Urban Population (%)	Labour Force Participation Rate, male (%)	Labour Force Participation Rate, female (%)	Adult Literacy rate (%)		Primary School Enrolment 2000	Secondary School Enrolment 2000
						Male	Female		
Cook Islands	2001	14990	6346	76.0	61.0	93	94	92.3	...
Fiji Islands	1996	775077	37	79.2	39.0	95	91	94.7	...
Kiribati	1995	77658	65	86.0	76.0	94	91	93.5	38.5
Marshall Islands	1999	50840	27	66.0	35.0	79	69	84.1	...
FSM	2000	107008	35	67.0	50.0	77	66	92.3	24.9
Niue	1997	2088	71	75.0	49.0	98	97	90.2	64.9
Palau	1995	17225	15	75.0	64.0	94	88	76.2	23.1
Papua New Guinea	2000	5190786	35	68.0	67.0	35	21	77.4	...
Samoa	2001	176848	12	68.0	73.0	96	96	87.0	16.6
Solomon Islands	1999	409042	32	31.0	15.0	39	20	56.0	...
Tonga	1996	97784	47	75.0	53.0	99	99	89.4	62.7
Tuvalu	2002	9526	21	n.a	n.a	95	95	99.6	...
Vanuatu	1999	193219	21	55.0	45.0	37	30	78.2	18.3

Source: UNDP, Pacific Human Development Report, (various years)

nature; the market has high youth unemployment, rising poverty and inequality, increased emigration and internal migration.

4.1 *Small Domestic Market*

They are not called small island economies for no reason: the PICs represent a small total land mass. Spread over 30 million square kilometers of the Pacific Ocean lie 22 island countries and territories, comprising some 7,500 islands. Of these, only about 500 are inhabited. The smallest country has a land area of 1,000ha (Tokelau) while the largest one, Papua New Guinea, has a land mass of 46,284,000 ha. A small country naturally implies a small domestic market. Thus, the labour absorption capacity of a small country has a natural limit. Furthermore, small country implies diseconomies of scale and thus a natural limitation to types of industries that could be established.

4.2 *Geographical Characteristics and Constraints to Growth and Labour Absorption*

The Pacific Island countries vary greatly with respect to their geographical features. The Melanesian countries of Papua New Guinea, Solomon Islands, Vanuatu, Fiji Islands and New Caledonia comprise large, mountainous and mainly volcanic islands. They are endowed with considerable natural resources: fertile soils, large forests, mineral deposits and rich ocean resources. The Micronesian and Polynesian countries, by contrast, comprise much smaller islands. Most are made up of small atolls with poor soil, with elevations usually between 1 and 2 metres (Kiribati and Tuvalu); there are some islands of volcanic origin with more fertile lands (Samoa and Tonga). Natural resources are mostly limited to the ocean; the seas of Micronesia and Polynesia are generally rich in living resources, as well as being reported to have significant prospects for exploitable non-living resources (petroleum, natural gas, minerals). These features of the Micronesian and Polynesian countries are a major constraint to expansion of their labour markets.

4.3 *High Vulnerability to Risks*

The Pacific Island countries are ranked among the most vulnerable in the world to natural disasters. Many of them are prone to the damaging effects of cyclones (hurricanes or typhoons), earthquakes, landslides and volcanic eruptions (see Table 4). Although natural disasters also occur in non-island countries such as the USA, the impact of a natural disaster on an island economy is much larger, given that the value of the damage is much larger in relation to the size, both geographically and with respect to GDP.

Natural disasters destroy the stock of capital, thus having a longer-term impact on the total output and secondly, they threaten the very survival of some small islands. Effects include devastation of the agricultural sector, the

wiping out of entire village settlements, the disruption of a high proportion of communication and other services and injury or death of a relatively high percentage of inhabitants.

A recent World Bank report stated that:

Pacific Island countries rank among the most vulnerable in the world to natural disasters. Since 1950, natural disasters have directly affected more than 3.4 million people and led to more than 1,700 reported deaths in the region (outside of PNG). In the 1990s alone, reported natural disasters cost the Pacific Islands region US\$2.8 billion in real 2004 value. Between 1950 and 2004, extreme natural disasters, such as cyclones, droughts and tsunamis, accounted for 65 percent of the total economic impact from disasters on the region's economies. Ten of the 15 most extreme events reported over the past half a century occurred in the last 15 years. (World Bank, 2006a: 10).

The loss of output arising out of the natural disasters affects the labour market in a number of ways. First, loss of lives implies loss of human capital. The PICs often face problems of human capital shortage and the problem is only aggravated by loss of lives arising out of a natural disaster. The labour market is also affected by the loss of output consequent on natural disaster. Furthermore, the necessity to divert public sector resources from productive areas towards disaster relief and repair work has a long-term impact on the labour market. Given the frequency of natural disasters in the Pacific, the labour market is quite fragile and vulnerable.

4.4 The EEZ, the Environment and the Labour Market

The Exclusive Economic Zones (EEZ) of the Pacific Island nations reach 200 nautical miles from their coasts, representing a significant portion of the off-shore fisheries and seabed mineral wealth of the ocean hemisphere. This provides an additional dimension to the PIC labour market, a source of employment on the sea. A large proportion of PIC populations source their

Table 4: Reported Disasters in the Pacific Islands (1950–2004)

<i>Natural Disasters</i>	<i>No.</i>	<i>Reported fatalities</i>	<i>Population affected</i>	<i>Reported losses (in 2004 US\$m)</i>
Windstorms	157	1,380	2,496,808	5,903.90
Droughts	10	0	629,580	137.00
Floods	8	40	246,644	94.80
Earthquakes	17	53	22,254	330.60
Others	15	274	21,520	60.00
Melanesia	110	1,130	2,115,332	1,654.90
Polynesia	71	494	1,041,012	1,797.40
Micronesia	26	123	260,662	3,074.04
Total Pacific	207	1,747	3,417,006	6,526.30

Source: The World Bank (2006a:2)

livelihood from marine resources. In some countries, like the atoll countries, where there is no potential for crop and livestock agriculture or from the industrial sector, the majority of the population derives their livelihood from this EEZ. However, such an exclusive labour market can have a disastrous impact on the livelihood of the population, as it can also pose a number of threats to this. Any damage or pollution of the environmental zones, (i) the coastal zone, (ii) near shore deep and pelagic fisheries grounds, (iii) offshore fisheries, (iv) sea bed minerals and offshore oil deposits and (v) the sea surface, could have irreversible consequences on current and future generations of the island populations.

Each of these zones faces a depressing list of issues, including coastal erosion, depletion, destruction and pollution of mangrove forests, sea grasses, coral reefs, and coastal food species. Stocks of slow growing deep-water coastal and bottom-dwelling fish are being depleted. In the past, the region has faced the issue of the destructive longline and driftnet fishing. Cargo ships have been responsible for oil pollution. There are cases of suspended solid wastes and destruction of fish and invertebrate eggs at the air/sea interface through chemical pollution and UV-B radiation. The PICs are also facing the problem of sea-level rise caused by global warming. All these factors will require major changes in these countries to ensure that, as far as possible, impacts of these environmental problems are minimised.

The relatively larger PIC countries are also facing a number of problems arising from modern agricultural practices. Some of the key impacts are:

- disruption of existing ecosystems
- biodiversity loss
- destruction of soils
- pollution of surface and ground waters with agricultural chemicals
- pollution of wetlands and the marine environment with silt and agricultural chemicals.

As Reddy and Duncan (2006) note, these factors could all be contributing to declining agricultural productivity.

Given that agriculture remains the backbone of most of the PIC economies, any decline in productivity and output will have a negative impact on the rural agricultural market. Furthermore, because of the existence of the dualism, a stagnant or declining agricultural sector growth will negatively impact the non-agricultural sector and thus affect the labour market. A sustainable labour market must ensure that any negative environmental effects are mitigated.

4.5 High Rural to Urban Migration and the Urban Informal Sector

The PICs urban population is gradually increasing and a primary cause of this is high rural to urban migration (Table 5). This population movement has an

implication for the ability of the urban labour market to absorb this increasing influx of rural unskilled workers (Reddy, 2007). The large supply of unskilled workers in the urban areas has suppressed wage rates of unskilled workers well below a social wage rate.

The urban informal sector has been swelled by the influx of unskilled workers into the urban areas. Fiji Islands and PNG are two countries in which the informal sector plays an important role in absorbing unskilled rural workers. The ability of the urban informal sector to absorb unskilled workers must be nurtured and supported. Supporting institutions such as micro-finance schemes must be encouraged, to ensure that these activities can survive (Reddy et al., 2003).

Papua New Guinea has taken a lead on this by enacting the Informal Sector Development and Control Act 2004, which encourages the development of the informal sector by organising it in a manner that promotes public health and cleanliness. The Act is aimed at creating employment opportunities and income generation to eradicate poverty and improve the standard of living. Since the Act was passed in 2004, informal sector businesses in urban centres have quadrupled, though previously an activity seen as an 'eyesore' and 'black market' business. Achieving such success, though, remains a challenge for the rest of the PICs, in particular for Fiji Islands, Samoa, Solomon Islands, Vanuatu and Tonga. Apart from the legislative challenge, the countries also need to balance economic policies between the formal and informal sectors, a stagnant semi-subsistence sector, lack of appropriate vocational education

Table 5: Pacific Urban and National Population Figures

<i>Country</i>	<i>Last Census</i>	<i>Population</i>	<i>% Urban Population</i>	<i>Annual Urban Population Growth (%)</i>	<i>Annual National Population Growth (%)</i>
Fiji Islands	1996	775,077	46	2.6	0.8
New Caledonia	1996	196,836	60	2.8	2.6
PNG	2000	5,190,786	13	2.8	2.7
Solomon Islands	1999	409,042	16	4.3	2.7
Vanuatu	1999	186,678	21	4.2	2.8
FSM	2000	107,008	21	-2.4	0.2
Guam	2000	154,805	93	n.a	1.5
Kiribati	2000	84,494	43	5.2	1.7
Marshall Islands	1999	50,840	65	1.6	1.4
Northern Mariana Islands	2000	69,221	90	3.4	3.3
Palau	2000	19,129	81	2.2	2.1
French Polynesia	2002	244,830	52	1.6	1.8
Samoa	2001	176,710	22	1.3	0.9
Tonga	1996	97,784	32	0.8	0.3

Source: Storey (2006)

programmes, lack of recognition of women's contribution and little emphasis on the role of technology in the informal sector.

4.6 The Tourism Labour Market of PICs

Tourism is the fastest growing industry in the Pacific sub-region and, for most small countries, is the largest earner of foreign exchange. Given that tourism in the Pacific is strongly based on environmental and cultural attractions, PICs can have comparative advantage in this industry: tourism could be one of the main sources of economic growth of PICs in future. Moreover, cheap labour is another comparative advantage in PICs to encourage Foreign Direct Investment.

Recent studies on global tourism trends predict that visitor volumes to the Pacific region as a whole will double over this decade, with corresponding benefits for PICs. Among the PICs, Fiji Islands, Guam, Saipan, Cook Islands, New Caledonia and French Polynesia are the major tourist destinations.

An interesting dimension to tourism is that it is quite labour intensive. Furthermore, it penetrates into the rural coastal labour market, thus providing a source of livelihood for rural households. However, the tourism industry is quite sensitive to the need to preserve local ecosystems, deal with local pollution and availability of water supplies, unsightly litter, and the peri-urban shantytowns that are mushrooming in PICs. Their ability to promote tourism and expand its tourist-related labour market would depend on PICs' ability to manage these problems.

Furthermore, the tourism labour market is quite sensitive to political instability. The 2000 political upheaval in Fiji Islands saw a major fall in tourism numbers (Table 6). The Melanesian countries are known to have a high degree of political instability and are regarded by some as the 'arc of instability' (Duncan and Chand, 2002). Recent civil unrest in Solomon Islands, Vanuatu and Fiji Islands has disrupted the flow of tourists into the country. The long-run

Table 6: Trend in Visitor Arrivals to Fiji Islands, 1995–2004

<i>Year</i>	<i>Total Visitor Arrivals</i>
1995	379,824
1996	402,088
1997	428,097
1998	442,209
1999	490,280
2000	364,192
2001	422,316
2002	491,189
2003	523,443
2004	596,084

Source: Fiji Islands Bureau of Statistics, March 2007

sustainability of the PIC tourism labour market, though, depends on a politically stable domestic market.

4.7 Migration, Brain Drain, Remittances and the Labour Market

Migration from PICs to neighbouring developing countries such as New Zealand and Australia is quite common (see Table 7). The variety of reasons for migration from PICs includes social and economic problems such as lack of employment opportunities, low income, poverty, lack of land, and lack of health and medical facilities. Political instability, law and order, and insecurity and violence are also deciding factors that push people out of the PICs. The poor working conditions, low wages and unemployment force families in PICs to pool their economic resources to enable one member to migrate to a developed country. The migrant is expected to help the family back at home by sending back part of the income earned there. As a result, remittance income is a major source of foreign income for PIC countries. Data from a recent study by the World Bank suggest that remittance for Fiji Islands is equivalent to 8.3 per cent of the total exports while for Tonga it is 154.2 per cent (Table 8).

Table 7: Net Migration Gain to New Zealand for Selected PICs, 1981–1999

<i>Year</i>	<i>Cook Islands</i>	<i>Fiji Islands</i>	<i>Niue</i>	<i>Tokelau</i>	<i>Tonga</i>	<i>Samoa</i>	<i>Total</i>
1981	63	-1	42	16	-123	104	-577
1982	242	278	85	3	-79	194	195
1983	107	271	45	-41	-95	396	713
1984	-33	287	63	-2	70	486	1122
1985	118	409	16	-31	94	872	1423
1986	92	293	34	6	0	744	1071
1987	200	582	92	-8	131	1126	2137
1988	160	1925	82	-18	71	985	3298
1989	-39	1958	49	29	42	948	2896
1990	-61	1519	39	31	-33	105	1494
1991	-60	848	3	53	-101	229	1170
1992	-365	430	22	9	-395	-754	-1157
1993	-282	528	30	0	-87	-492	-197
1994	-136	581	15	13	33	13	678
1995	13	864	3	40	159	566	1986
1996	231	1001	33	39	140	1165	3063
1997	568	1180	62	17	276	1016	3388
1998	410	993	44	25	186	611	2468
1999	244	974	56	-29	224	615	2108
Total	1472	14920	815	152	513	8929	25087

Source: Cook et al. (1999)

Table 8: Remittances and the Economy in Fiji Islands and Tonga

Country	Per Capita Remittances (US\$)	Population	Total Remittances (US\$)	As a % of GDP	As a % of Exports
Fiji Islands	\$370.88	836,002	\$130.3m	6.2	8.3
Tonga	\$753.02	98,322	\$67.3m	41.8	154.2

Source: The World Bank (2006b).

Traditionally, it was the smaller Polynesian states such as Tonga, Samoa, Tuvalu, Wallis and Futuna, Niue and the Cook Islands that were heavily reliant on remittances from migrants or seasonal workers to supplement local capital.

For countries like Tuvalu and Kiribati, remittances from seafarers who crew vessels for international shipping companies from North America and Europe comprise a major source of income. A study commissioned by the Secretariat of the Pacific Community on Tuvaluan and I-Kiribati seafarers' remittance spending and the economic and social implications of seafaring for community development, revealed that the seafarers' wages were the basis of economic support for many people within the home community, ranging from one to 30 people. The report estimates that 4,200 people in Tuvalu (population 10,000) and 10,200 people in Kiribati (population 85,000) were directly dependent on seafarers' incomes (Dennis, 2003).

Another more recent study on the use of remittances in Kiribati reveals that 57 per cent of funds remitted to wives are spent on basic needs, 30 per cent saved for investment and 13 per cent spent on school fees (Borovnik, 2004). For the seafarers themselves, 36 per cent do not save, 20 per cent have bought a house and land while 44 per cent are saving for a house and land. Because of the Kiribati tradition of *bubuti* (a request by a family member that cannot be refused), cash and goods coming into the community spread through the extended family, rather than remaining with one individual.

For its overseas exchange transactions, Tonga has seen a steady increase in private receipts through remittances in the past four years, from 105 million pa'anga (2001) to P184 million (2004). By comparison, in 2003–04, trade in merchandise raised just P28.3 million and services P52.7 million (National Reserve Bank of Tonga, 2004: 6).

Fiji Islands, one of the better developed economies, is now recognising remittance as a major source of foreign exchange. In 1994, F\$56m in remittances were received, which increased to F\$306m in 2004, surpassing all other industries except tourism.

An interesting dimension of the F\$306 million of remittances earned in 2004 was that F\$200 million came from the salaries and allowances of Fiji citizens working overseas. Furthermore, there are large sums of remittances that are sent to Fiji Islands unofficially. If these are accounted, it may surpass the tourism earnings as well.

In recent years, Fijians serving in the British army have increased in numbers: currently there are approximately 3,000. Large numbers of Fijian men are also being recruited by private companies to work as soldiers, security guards, truck drivers and labourers to work in or near the conflict zone of Iraq.

Samoa was placed in the top ten remittance-earning countries (Connell and Conway, 2000). The Melanesian countries have lagged behind the other PICs, due to internal problems, cultural barriers to mobility and poor skill endowment.

On the negative side, migration has resulted in a drain of skilled workers from the Pacific Region. PICs are already facing shortages of skilled labour in a number of areas and the self-interested migration policies of metropolitan countries, in particular, Australia and New Zealand, serve to extract skilled and qualified people, thus threatening the credibility of PICs labour markets.

In response to both push and pull factors, the PICs are losing a significant proportion of their qualified skilled workforce on an annual basis. The push factors are political instability, the poor state of law and order and security, discrimination and lack of employment and educational opportunities. The pull factors are opportunities for education and employment, better wages and salaries, good law and order, security and political stability.

4.8 Common Property and Land

The PIC economies have all developed on the basis of agricultural sector growth. The agricultural sector has, for a long time, provided primary products for processing, surplus labour for industrial sector expansion, and the capital and demand for goods produced by the non-agricultural sector.

However, the property rights that exist in PICs have for some time impeded growth and development of the agricultural sector. The PICs are known for the prevalence of communal land tenure system. For most of the PICs, the majority of the land is held under a communal land tenure system of some kind and thus cannot be sold in the market (Table 9). There have been several problems, and the resultant loss of confidence in the tenant community has dissuaded them from pegging their future to land and has provided a push to migration to urban areas. Apart from the urban problems arising from an influx of rural dwellers to urban areas, the rural labour market is also shrinking. PICs are known as MIRAB (migration, remittances, aid and bureaucracy) countries.

4.9 Unions and Labour Market

The PICs have one of the strongest union movements in the world and the links between unions and politics in PICs are very firm. The operation of unions has made the PICs labour market highly rigid and thus has proved to be an impediment to appropriate response to changes in the product market. Strikes and protests have been widely and frequently used in the PICs, in particular Fiji

Table 9: Land Area and Ownership of PICs

<i>Pacific Island Country</i>	<i>Land Area (ha)</i>	<i>Land under Communal Ownership (%)</i>
Cook Islands	24,000	15
Fiji Islands	1,827,000	92
Kiribati	73,000	89
Marshall Islands	18,000	n.a
FSM	70,000	n.a
Niue	26,000	n.a
Papua New Guinea	46,284,000	97
Samoa	284,000	80
Solomon Islands	2,890,000	83
Tonga	75,000	74
Tuvalu	3,000	n.a
Nauru	2,000	n.a
Tokelau	1,000	n.a
Vanuatu	1,219,000	92

Source: FAO Database, 2007

Islands, Samoa, Tonga and PNG, to settle industrial disputes. For instance, the total number of disputes reported in Fiji Islands in 1993 was 85 but by 1995 it increased to 88 (unpublished data from Ministry of Labour). Many PIC governments formally recognise unions and in some countries, like Fiji Islands, there are tripartite groups including representatives of employers, employees and government to solve disputes, relating to wages in particular.

In order for changes to be introduced to unionised workplaces, unions and management should resolve issues through collective bargaining, which should take place in good faith, bearing the national interest in mind. Collective bargaining is well entrenched in Scandinavian countries, where principles and virtues of openness, equality and self-regulation are held high. It has also worked in the Pacific, for example, in the case of the Ok Tedi Mining Workers Union in Papua New Guinea. For a long time the Ok Tedi mine was notorious for maintaining an adversarial relationship with the mine management, until the establishment of enterprise bargaining in the late 1990s. This ensured that all major changes having the potential to affect workers' interests must first be discussed with the union. Since then the union and management have been able to agree cordially on some major decisions.

As part of the legacy of colonisation, most features and processes of PIC industrial relations are modelled on British ones. As in Britain, trade unions in PICs have been really strong but their power and membership have started to decline. Nevertheless, the trade union movement in PICs is stronger than in most of the developed countries in the world, probably because the high proportion of public sector employment gave it a more fair recognition.

4.10 The Informal Sector and the Pacific Labour Market

As noted, a significant proportion of the PIC population works in the informal sector and therefore does not enjoy the same protection and security that employees in salaried sectors do: being shielded from government regulations and interventions offers benefits and disadvantages. Such countries as PNG and Fiji Islands have a significantly large informal sector, thus providing possible catchments for rural to urban migrants. However, the survival of the informal sector depends upon the success of the formal sector. If the formal sector performs well, then people will have the means to spend in the informal sector, thus keeping informal sector activity vibrant. There are other problems that informal sector operators face. Most of the informal sector workers, self-employed or unpaid family workers, are neither registered nor covered by labour laws and basic labour standards. Labour regulations governing hours of work, weekly rest, paid leave, minimum wages and social security are not commonly applied due to the small scale of operations, lack of knowledge and low income levels.

Working conditions are also less than ideal: workplaces can be poorly lit, poorly ventilated, excessively hot, poorly cleaned and maintained, lacking in clean water and other basic welfare facilities. The workspace may be inadequate and poorly designed and the work tools poor, imposing awkward posture, and workers may be exposed to dangerous chemicals and required to work long hours. Workers accept this situation because they are simply preoccupied with survival and not fully aware of workplace hazards. Given their vulnerability, injuries sustained at the workplace are often unreported and are settled by operators and workers, sometimes through small cash payments or termination of employment. In addition, they make no social security contribution, nor do their employers make any contribution on their behalf. For this group of workers, a social crisis awaits.

Informal operators who wish to achieve formal recognition face numerous legislative and bureaucratic obstacles that prevent their formalisation. Bureaucratic procedures and multiple legal requirements present hurdles for them in complying with labour standards.

Informal operators are also facing risks from lawlessness and insecurity. During periods of lawlessness, they are the first to be targeted, given that they are unprotected, vulnerable and have no legal status. To deal with these problems, local governments should review and simplify regulations to permit their more effective application in the informal sector. Bureaucratic procedures must be streamlined. The task of policy makers in PICs is to cultivate minimum standards for the informal sector, rather than to perpetuate the rather disdainful neglect that currently prevails.

4.11 Political Instability and the Labour Market

Reference has already been made to some PICs' having experienced civil unrest and political instability over the last three decades: PNG, Fiji Islands, Vanuatu, Solomon Islands and Tonga have all suffered severe disruption to economic activity. In Solomon Islands, the civil unrest resulting from conflict between settlers and customary owners led to the de-establishment of the government. Fiji Islands has experienced four coups, the most recent one on 5 December 2006, whose effects have included discontinuity of governance practices and policies (Table 10). The last three coups were executed primarily on the basis of ethnic supremacy, while the latest one asserts itself as an attempt to weed out corruption. The civil unrest on Bougainville was over access to the benefits of, and landowner dissatisfaction with, copper and gold mining activities, and social and other disruptions caused by these large-scale mining activities. The unrest and conflict lasting for ten years finally ended

Table 10: Government Change in Fiji Islands, 1987–2007

<i>Period</i>	<i>Type of Government</i>
1970–April 1987	Elected democratic government
April 1987–May 1987	Elected democratic government deposed in a military coup
May 1987–Sept 1987	Military appointed government; deposed in another military coup
Sept 1987–Dec 1987	Military government
Dec 1987–April 1992	Military appointed government
May 1992–Feb 1994	Elected government under an undemocratic constitution; loses budget vote and resigns
Feb 1994–May 1999	Elected government under an undemocratic constitution
May 1999–May 2000	Elected government under a democratic constitution; deposed in a military-backed terrorist coup
May 2000–July 2000	Government held hostage by military-backed terrorists. No effective government but military claims power
July 2000	Military-appointed government; in office for only 2 weeks before being dismissed
July 2000–March 2001	Military-appointed government; resigns after a court decision declared it illegal
March 2001–Sept 2001	Military-appointed government reappointed and backed by the military
September 2001–2006	Elected government under a democratic constitution
December 2006	Elected government deposed in a military coup
December 2006	Military government appointed
January, 2007	Interim government appointed

with the signing of a peace accord and ongoing negotiations and processes to establish an autonomous provincial government. In late 1997, Vanuatu witnessed social unrest due to lack of confidence in the Provident Fund, the collapse of the Development Bank, and the near-collapse of the National Bank. In 2006, the self-proclaimed Friendly Islands, Tonga, erupted with demands for a reduction in the powers of the monarch and other political reforms, culminating in violence and riot destroying 80 per cent of the CBD of the capital.

Such instability has both immediate and longer term implications for a country's labour market. Immediately, loss of capital stock will lead to closure of businesses and loss of jobs. In the medium to longer term, it will discourage investor confidence and affect investment and economic growth, thus having a negative impact on labour market expansion.

4.12 Governance, the Economy and the Labour Market

The state of governance has a marked effect on the depth and growth of a country's labour market. Labour market expansion requires expansion of the economy and economic expansion will only be possible if the key factors of production—land, labour, capital and technology – are able to move freely. Poor or bad governance will hinder the movement of these factors of production greatly.

Equally important, however, is the role of the private sector and civil society, especially in the corporate and economic realms. The private sector's role is significant in the harnessing and distribution of resources for wealth creation and sustainable development. Wealth creation is largely dependent on trade and investment. However, even here, good governance is of major importance, since it could have an effect the stability of the environment in which the private sector, households and investors can expand their activities. The expanded activity will also provide increasing resources to government to carry out its role in providing infrastructure, security, education, health and an effective judiciary. This in turn will boost private sector activities, expanding growth further.

Furthermore, small economies tend to be economically vulnerable to external shocks; good governance is a prerequisite for resilience building, principally because it promotes stability and a predictable legislative and fiscal environment.

However, bad governance is widely considered to be prevalent in the Pacific region and is often identified as a key factor in the relatively poor economic performance of the Pacific island nations. An ADB study by Mellor and Jabes (2004) concludes that the kinds of governance institutions so critical for producing equitable and effective development have not had time to develop fully. Furthermore, their report states that these governance institutions often are, or appear to be, at odds with traditional political and cultural

systems and processes, and these island states have not had time to work through the complex integration of old and new systems.

Another study, by Larmour and Barchan (2005), states that there seems to be a distinctive pattern of bad governance in the Pacific Islands. The authors attribute some but not all of those differences to small size in population and land area. The authors argue that smallness generates particular risks of corruption, for example, in offshore activities. The pattern of bad governance that is not yet present in PICs but could emerge in future given the smallness and the concentration of capital in the hands of the few, is the phenomenon of 'state capture'. It is defined as 'the undue and illicit influence of the elite in shaping the laws, policies and regulations of the state. When the institutions of the state are "captured" by vested interests in this way, entrenched elites in a country can benefit from a worsening status quo of misgovernance and can successfully resist demands for change even as incomes rise' (Kaufmann and Kraay, 2003:3).

Therefore, the long-term growth, development and sustainability of the PIC labour market depend to a large extent on how PICs can improve on governance in their country. Adopting appropriate macroeconomic policies, attracting foreign aid and capital will not help if the underlying institutions are not functioning well. It will only frustrate the work of the private sector and thus will impede growth.

4.13 Prevalence of a Rural Subsistence Sector

The PICs have a large rural subsistence sector, which plays an important role in employment creation and providing a source of livelihood. The persistence of the subsistence sector is due to no or low education and the prevalence of the communal land tenure system, which prevents land from being traded commercially.

The subsistence sector's support of livelihood has been termed 'subsistence affluence' (Bayliss-Smith and Feacham 1977; Lam 1982). The subsistence basis of the livelihood and the communal land tenure system have tended to keep a significant proportion of the rural population in the rural areas. However, the younger generation, more educated and with some knowledge of private property and the market economy, are gradually moving out from the rural sector. This basically implies that in the longer run, the subsistence sector will play a diminishing role in providing employment, thus occasioning a change in this dimension of the labour market.

4.14 State of Infrastructure and PIC Labour market

The state of infrastructure in PICs is poor by developing country standards (Table 11). The road conditions are quite bad, with mostly poorly maintained

Table 11: Limited Access to Infrastructure in Selected PICs

Country	Paved Roads % (1995–2000)	Fixed and Mobile Phone Subscribers per 1,000 people (2001)	Personal Computers per 1,000 people (2001)	Internet users thousands (2001)
Fiji Islands	49.2	211	60.9	15
Kiribati	—	48	23.2	2
Marshall Islands	—	67	50.0	1
Micronesia	17.5	—	—	5
Palau	—	—	—	—
Samoa	42	82	6.7	3
Solomon Islands	2.5	21	50.9	2
Tonga	27	112	—	3
Vanuatu	23.9	35	—	6

Source: World Bank, 2005

gravel roads and the tar-sealed roads badly pot-holed; also, electricity and phone coverage is low, thus affecting internet coverage.

The poor state of infrastructure finally has an impact on the cost of doing business. As is evident from the International Finance Corporation's (2005) *Doing Business* database, the PICs are ranked quite low relative to various countries in the region in terms of cost of doing business (Table 12). The limitation of basic infrastructure presents accessibility problems to many companies, leading to a decline in FDI.

Estimates of the costs of registering property and resolving contracts in several PICs are shown in Table 13. The transaction costs of registering property and settling contract disputes are extremely high, especially the latter. On average in these countries, it takes well over a year to settle a contract dispute. In PNG and Solomon Islands the monetary costs of doing so are prohibitive.

In the Melanesian countries (PNG, Fiji Islands, Solomon Islands and Vanuatu) a 'culture' of compensation claims has developed, whereby if investment projects such as mines or tourist resorts developed on customary land are successful, the landowners claim additional benefits under the contract. Unfortunately, in many cases the governments have not stood behind the contracts and have allowed the compensation claims to proceed. These contract disputes have increased the uncertainty of the investment climate, and thus will undermine any genuine efforts to expand economic growth and labour market.

Table 12: Doing Business in the Pacific

Economy	Ease of Doing Business Rank	Starting a Business Rank	Dealing with Licences	Employing Workers	Registering Property	Getting Credit	Ease of Doing Business Rank	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Closing a Business Rank
Fiji Islands	31	55	27	28	71	21	31	19	49	70	86	106
Samoa	41	91	51	11	60	83	41	19	42	62	54	125
Tonga	51	23	37	4	108	117	51	99	81	17	126	92
Papua New Guinea	57	69	102	19	64	101	57	33	91	52	88	97
Vanuatu	58	65	33	96	91	117	58	60	19	120	88	45
Kiribati	60	72	76	18	62	101	60	33	14	31	136	151
Palau	62	45	42	7	13	117	62	162	70	66	151	52
Solomon Islands	69	76	40	53	159	143	69	46	23	34	102	101
Marshall Islands	87	13	5	1	172	117	87	151	69	90	103	117

Source: International Finance Corporation 2005, *Doing Business* database

Table 13: Costs of Registering Property and Resolving Contracts

	<i>Registering Property (days)</i>	<i>Settling Contract Disputes (days)</i>	<i>Settling Contract Disputes (costs as % of value of contract)</i>
Fiji Islands	48	420	54
Kiribati	58	440	71
PNG	72	440	110
Samoa	147	505	25
Solomon Ids	86	455	141
Tonga	108	510	47
Vanuatu	188	430	64

Source: *International Finance Corporation 2005, Doing Business database*

4.15 HIV/AIDS Threat to the PIC Labour Market

HIV and AIDS have become a major threat to some of the Pacific Island Countries. The ADB in its 2007 outlook for PICs states:

‘The ADB considers the threat of HIV/AIDS in the Pacific region to be real and is concerned about its potentially destructive effects on efforts to secure sustainable development for the region’s peoples. Together with its regional development partners, ADB wishes to respond to this threat.’

The high HIV/AIDS infection rate in PNG will have a devastating effect on the labour force (Table 14). HIV/AIDS can potentially affect and reverse economic and social development. The epidemic attacks people in their most productive age and has no cure. The effects felt by different countries will vary according to the severity of the epidemic and the existing social and economic structure. Apart from devastating the labour force and thus affecting the supply of labour, it also incurs huge medical expenditure bills and thus diverts government resources away from productive activities.

5. LABOUR MOBILITY AND INTEGRATION WITH LARGE MARKETS

5.1 International Trade Theory and Labour Mobility

International trade theory argues quite clearly that free trade between countries leads to enhanced economic welfare for the countries that engage in it. However, though not very widely recognised, there is also general understanding about factor mobility including labour. Krugman and Obstfeld state, ‘Trade in factors is in purely economic terms very much like trade in goods, occurring for much the same reasons and producing similar results’ (Krugman and Obstfeld, 1994:155).

Table 14: Cumulative Reported HIV/AIDS Cases in PICs

<i>Country</i>	<i>As at</i>	<i>HIV including AIDS</i>	<i>Mid-Year Population as at June 2004</i>
American Samoa	Dec 2004	3	62,600
Cook Islands	Dec 2004	2	14,000
FSM	Dec 2004	25	112,700
Fiji Islands	Dec 2004	182	836,000
French Polynesia	Dec 2004	243	250,500
Guam	Dec 2004	168	166,100
Kiribati	Dec 2004	46	93,100
RMI	Dec 2004	10	55,400
Nauru	Dec 2004	2	10,100
New Caledonia	Dec 2004	272	236,900
Niue	Dec 2004	0	1,600
Northern Mariana Islands	Dec 2004	25	78,000
Palau	Dec 2004	8	20,700
PNG	Dec 2004	10,184	5,695,300
Pitcairn Islands	Dec 2004	0	50
Samoa	Dec 2004	12	182,700
Solomon Islands	Dec 2004	5	460,100
Tokelau Islands	Dec 2004	0	1,500
Tonga	Dec 2004	13	98,300
Tuvalu	Dec 2004	9	9,600
Vanuatu	Dec 2004	2	215,800
Wallis and Futuna	Dec 2004	1	14,900
All Melanesia	Dec 2004	10,645	7,444,100
All Micronesia	Dec 2004	284	536,100
All Polynesia	Dec 2004	283	635,750
All PICTs	Dec 2004	11,212	8,615,650
All PICTs (excluding PNG)	Dec 2004	1,028	2,920,650

Source: Jenkins (2005:4)

While the benefits of labour mobility are not explicitly stated, there are empirical studies that expose this. Hamilton and Whalley, using a CGE model, state:

(There are) large potential worldwide efficiency gains from moving towards a worldwide labour market free of immigration controls. Gains to the world economy in many of the unadjusted cases exceed existing worldwide GNP; in the adjusted case gains are smaller but still large. Thus, while the main conclusion of this paper may not be surprising, it is the potential quantitative size of the effects involved that is striking...The calculations reported here suggest that gains from liberalised labour mobility are likely to dominate developing country gains from nonmigration initiatives. (Hamilton and Whalley 1984:74–75)

Another study, by Borjas, points out that:

...immigration can introduce new interactions among workers and firms, so that both workers and firms might “pick up” knowledge without paying for it. As a result, even though the production technology at the firm level has constant returns to scale, the external effects resulting from immigration might lead to increasing returns on the aggregate. (Borjas, 1995:11)

In light of these studies, there does exist a compelling case for easing of labour mobility between the PICs and the more developed countries in the neighborhood such as Australia and New Zealand.

5.2 Labour Mobility from the Pacific

Currently, the movement of labour from the PICs to Australia focuses mainly on skilled trades and professional staff – nurses, teachers, rugby players, accountants and trades people – who have the necessary points for immigration and residency requirements. This has caused significant problems for island nations, but another concern is the growing pool of unskilled and semi-skilled workers who cannot find employment in the formal sector of island economies, especially as 40 per cent of island populations are under 20 years of age. For example, the Fiji Government estimated that in the first years of the new millennium, there were about 17,000 new job-seekers each year in Fiji (school leavers and late entrants to the job market), but only about 9,700 job opportunities in the formal sector (Fiji 2002: 42).

In response to this problem, over the past decade the PICs have made gaining greater access to the labour markets of Australia and New Zealand an explicit policy goal, as they see this access as a crucial element in long-term job creation and social development. The importance of this issue is evident when it emerges as a key element in regional trade negotiations. While the starting point of these various negotiations focused on trade in goods, trade in services and labour mobility has become increasingly central to the discussions. A variant to access to the Australian and New Zealand labour market is the pressure from PICs to establish seasonal work schemes for the Pacific.

The PICs’ demand for access to the Australian labour market is based on the assessment that there is a huge demand for seasonal labour in the Australian horticultural industry (World Bank 2006b). The ‘undersupply or unreliability of labour in the Australian horticultural industry has resulted in massive amounts of direct and indirect losses’ (World Bank 2006b:104).

In its 2003 inquiry on Australia’s relations with the region, the Senate’s Foreign Affairs, Defence and Trade Committee received numerous submissions suggesting schemes to bring workers from the Pacific and recommended a pilot programme to allow for labour to be sourced from the region for seasonal work in Australia. In its formal reply to the Senate report, however, the Australian Government simply ‘noted’ the recommendation for a pilot study, adding a one-line response that Australia has traditionally not supported

programmes to bring low-skilled seasonal workers to Australia. The negative response of the Australian government could be due to several reasons.

First, there is a popular dislike for 'cheap foreign labour' from Asia or the Pacific because of the memories of the poorly regulated 'blackbirding' system that provided Island labour for the Queensland sugar industry in the late nineteenth and early twentieth centuries.

Secondly, there is an entrenched belief within the governments of Australia and New Zealand that sees value only from migration of highly skilled or capital-rich migrants (Jupp, 2003: 145-6).

Thirdly, there is also a strong preference for permanent migration over short-term temporary migration, because of a belief that temporary skilled migration creates a lot of costs for the receiving country. Prime Minister John Howard of Australia responded to the idea of using overseas workers to pick fruit by saying on ABC Regional Radio that 'for a long period of time we have put our face against a guest worker approach', which could result in '[losing] control of a significant part of our immigration program' (Bedford, 2004).

Another argument used to deny both visitors' visas and visas for temporary work attachments is the fear that temporary workers will overstay their visas and 'disappear' into the community (adding to the stock of undocumented migrants).

Trade union leaders in Australia also stress that any seasonal work scheme must not be used to undercut wages and conditions for Australian workers, and must adhere to core labour conventions and standards, in particular, the conventions (97 and 143) with regard to migrant workers. However, these two conventions have yet to be ratified by Australia, New Zealand or any Pacific Island governments.

The World Bank study draws the conclusion that seasonal employment programmes for Pacific Islanders should not be seen as a panacea for the challenges of unemployment and underemployment, but they do have the potential to make a material difference to the well-being of a significant number of PIC workers and their families and communities. Furthermore, the report says that 'the scheme has the potential to significantly ease the seasonal labour shortages that hold back the horticultural industries in Australia and New Zealand and to add symbolic value as a gesture of goodwill by the region's two major powers towards their Pacific neighbors' (World Bank, 2006b: 138).

Ensuring greater labour mobility between the PICs is also an idea mooted under the Pacific Plan developed by the Pacific Islands Countries Forum Secretariat (PIFS). The Plan is a strategy document designed to create stronger and deeper links between Pacific Countries. It identifies the sectors where the region could gain the most from sharing resources and aligning policies. It aims to promote economic growth, sustainable development, good governance and security in the region, especially in regard to the limited capacity and fragile environment of the small islands states.

The Pacific Islands Forum Secretary-General, Mr Greg Urwin, notes that the issue of labour mobility requires more broad-based attention (PIFS, 2006). Urwin argues that:

Within the Pacific Plan, Forum leaders recognized, among other things, the need to prioritize Pacific Labour market issues. The direction taken on the issue of labour mobility in respect to arrangements under the Pacific Island Countries Trade Agreement (PICTA), Economic Partnership Agreement (EPA) and Pacific Agreement on Closer Economic Relations (PACER), will have a significant bearing on the nature of regional integration in the Pacific. Temporary movement arrangements for both the skilled and unskilled, if properly designed, have the potential to fill labour market gaps in the region, without leading to brain drain, and other imbalances or adverse social impacts in the source countries. (PIFS, 2006: 5)

The Pacific Plan, officially endorsed by the Forum Leaders at the 36th Pacific Island Leaders meeting held in PNG in 2006, recommends specific actions under the four pillars of Economic Growth, Sustainable Development, Good Governance and Security. These actions are currently being led by the Forum Secretariat.

6. HUMAN RESOURCES DEVELOPMENT IN THE PICs

Human Resources Development (HRD) is fundamental to the development process, contributing to poverty eradication and long-run economic growth through improved health, education and capacity building. Given the forces of globalisation, education and skills of the workforce will be the key competitive weapon for the rest of 1990s as well as the 21st century. (Thurow, 1994).

A perusal of PIC governments' strategic plans, annual budget addresses and development plans reveals that health and nutrition, general education, vocational training and managerial capability are given priority.

Health and Nutrition: Health and Nutrition has a direct impact on the workforce's dignity, self-esteem and productivity and a long-term effect of increasing their ability to absorb new techniques and knowledge. In most of the PICs, governments are providing public health services free of charge via government hospitals and health centres. However, fiscal constraints severely affect quality, full coverage and continuous provision of these services.

Provision of Formal Education: PICs have done relatively well in the provision of formal education. The region has one of the world's two regional universities, the University of the South Pacific. With the main campus in Fiji Islands and campuses or centres in each of the other 11 member countries and a commitment to distance and flexible learning and innovative use of ICT and educational technologies, the University delivers high-quality degree and postgraduate education throughout its vast and challenging region. Apart

from this, there are numerous other tertiary institutions and technical colleges in PICs.

The Australian government provides scholarships and fellowships for PIC citizens to study in Australia. Types of scholarships awarded by Ausaid in PICs include: Australian Leadership Awards, Australian Fellowship Awards, Australian Development Scholarships, DEST Endeavour Award Program, Australian Regional Development Scholarships and Australian Partnership Scholarships

The governments of New Zealand, Japan, the European Union and India also offer awards. The New Zealand government provides aid to PICs to strengthen the human resource base by supporting identified priority areas of HRD. Other international agencies providing funds for HRD are the UN, the EU, UNDP, UNICEF, KOICA and JAICA. One example of HRD support by UNDP is the introduction of a Young Professionals Program that not only trains new graduates, but also reduces unemployment and poverty in PICs. Another example is the provision of technical assistants by the Japan Special Fund and the Australian Agency for International Development in Kiribati. In addition to these, international agencies under the Council of Regional Organizations (CROP) – which includes the Secretariat of the Pacific Community (SOPAC), the Forum Secretariat, the Forum Fisheries Agency, the South Pacific Regional Environment Programme, South Pacific Tourism Organisation, Pacific Islands Development Program and South Pacific Board of Educational Assessment – are forming inter-organisational sectoral working groups to carry out research and development in HRD in PICs.

Technical and Vocational Education Training (TVET): For most of the past century or so, most PICs concentrated on formal academic education and overlooked non-formal and vocational training. Where they exist, vocational training institutes are limited, but some of the PICs are trying to catch up on such training to develop their human resources. For instance, in Fiji Islands some of the secondary schools as well as institutions such as the Fiji Institute of Technology and the Training and Productivity Authority of Fiji are providing vocational courses and training. Australia has also begun planning to establish a technical institute in Fiji Islands to train school leavers and recruit them to Australia to overcome the problem of shortages of skilled workers.

The importance of TVET was highlighted at a recent Pacific Forum leaders meeting in Auckland, New Zealand in April 2004, at which the leaders endorsed the development of a Pacific Plan emphasising the importance of technical training, especially in relation to the Pacific Islands labour market. Emerging TVET pedagogy strongly supports training having a strong component of workplace learning, rather than training being primarily institution based.

Skills shortages that impede economic growth could be solved through investment in TVET, as stated in Fiji's Strategic Development Plan 2003–2005. This could be done through expansion of intake at tertiary and vocational institutes to meet skill needs, to encourage tertiary-level distance education

and to promote wage systems that reward skills. Among the PICs, Fiji Islands and PNG presently have the most developed institutions for TVET.

7. LABOUR MARKET REGULATIONS, STANDARDS AND INSTITUTIONS

The labour market in PICs is regulated by both domestic and international labour regulations. With respect to domestic regulations, the Ministry of Labour in each of the countries regulates the labour market via the industrial relations bill. However, a number of other regulations enacted by the legislature deal with specific issues of the labour market. These regulations vary from country to country. A detailed study of Fiji Island's labour market regulations was carried out by Chand (2006). Table 15 provides a summary of the labour-related laws prevalent in PICs.

With respect to the international laws, the key ones are the International Labour Organisation (ILO) conventions. Fiji Islands has ratified 20 Conventions, of which two were ratified in 1998 (C.144 and C.169). Of these Conventions, three are fundamental (C. 29, C.105 and C.98). The remaining four fundamental Conventions (C.87, C.100, C.111 and C.138) have been submitted to the Labour Advisory Board for endorsement, but due to the current political environment have not been pursued for ratification. In response to the Government's request for technical assistance, EGALITE and ILO Suva organised a two-day Tripartite Seminar in January 1997 with a follow-up in 1999. A Pacific Multi-Islands Tripartite Seminar on Social Dialogue (with a focus on the Declaration) was held in Auckland in December 2000, to which only workers' and employers' representatives from Fiji Islands were invited. The commitment to pursue ratification remains on the part of the workers and employers, with the proviso that they will do so once an elected government is in place.

Papua New Guinea is also doing well on this aspect. On 1 March 2000, the National Executive Council (Cabinet) approved the ratification of seven ILO Conventions, these being Nos. 87, 100, 103, 111, 138, 158, 182. This is in addition to the 19 Conventions previously ratified by the Australian Colonial Administration. PNG has become one of the few member States to ratify all 8 fundamental Conventions. Plans to assist the constituents in the application of these Conventions will begin with a project to 'promote the Declaration in PNG' funded by the Japanese government.

Solomon Islands has ratified 14 conventions of which one (C.29) is a core convention. In 1997, ILO Suva received 11 reports on the application of Ratified Conventions, which were subsequently forwarded to NORMES. This was the first time such reports had been received in the last six years. Four core Conventions (C.87, C.98, C.100 and C.101) were being examined with the possibility of ratification of the first two conventions by the end of 1999. All efforts in this area have been suspended due to the current situation.

Table 15: Summary of Labour Market Regulations

<i>Aspect</i>	<i>Status</i>
Employment	<ul style="list-style-type: none"> • Cook Islands, Fiji Islands, Kiribati, PNG, Solomon Islands, Tuvalu, Vanuatu and Samoa have specific Employment Acts regulating the general terms and conditions of work (i.e., hours, leave, rest period, termination, etc.) • FSM, Niue and Palau have either their constitution or other laws overlapping to regulate employment aspects • RMI does not have an EA and Tonga has an Employment Act draft but has not passed it yet
Wages	<ul style="list-style-type: none"> • Fiji Islands, Solomon Islands, Palau and Vanuatu have minimum wage legislation and machinery for fixing wage minimums • PNG, Solomon Islands and Samoa have other laws, such as Industrial Relations Act, also responsible for regulating minimum wage • Administrative policies cater for minimum wages in Niue, Tonga and Tuvalu • Cook Islands, FSM, RMI and Nauru have no such laws on wages
Trade unions	<ul style="list-style-type: none"> • Fiji Islands, Kiribati, PNG, Solomon Islands, Tuvalu and Vanuatu have trade union legislation regulating their registration and operation as industrial organisations • Samoa has the Employment Act also regulating trade unions • Tonga has a draft Trade Union Act but not passed yet in Parliament • FSM, Nauru, Niue, Palau and RMI do not have trade union legislation
Dispute settlement	<ul style="list-style-type: none"> • Fiji Islands, Kiribati, PNG, Solomon Islands, Tuvalu and Vanuatu have Dispute Settlements Acts. The process of dispute settlement is well catered for in the Acts • Cook Islands and FSM have policies in place to accommodate dispute settlement • There is no such procedure or process in place in Nauru, Niue, Palau, Tonga and RMI
Occupational health and safety	<ul style="list-style-type: none"> • OHS Acts are in place in Fiji Islands, PNG, Solomon Islands and Vanuatu • Employment Acts and other laws regulate OHS in Kiribati, Tuvalu and Samoa
Pension	<ul style="list-style-type: none"> • Superannuation Acts exist for Fiji Islands, PNG, Solomon Islands, Vanuatu and Western Samoa • Cook Islands, FSM and Kiribati have other laws regulating superannuation • Administrative policies exist for Niue, Tokalau and Tonga • Second country laws apply in FSM, Palau and RMI • There is no arrangement yet for Cook Islands, Nauru and Tuvalu
Public service	<ul style="list-style-type: none"> • Fiji Islands, Kiribati, PNG, Vanuatu and Western Samoa have Public Service Acts • Cook Islands, FSM and Niue have Employment Acts responsible for public service regulation • Nauru, RMI and Tuvalu have the Constitution or policies responsible for public service • Tonga is yet to come up with a Public Service Act. It is in draft form

Workers compensation	<ul style="list-style-type: none"> • Workers' Compensation Acts exist in Fiji Islands, Kiribati, PNG, Solomon Islands, Tuvalu, Vanuatu and Samoa • FSM has policies regulating workers' compensation • Palau and RMI have second country laws applicable • Cook Islands, Niue and Tonga do not have such laws
Expatriate	<ul style="list-style-type: none"> • Cook Islands, Palau, PNG and Western Samoa have legislation on expatriates • FSM, Fiji Islands, Solomon Islands and Vanuatu have other laws responsible for expatriate labour and immigration regulation • Tonga has an administrative policy • Nauru, Niue and Tuvalu and RMI do not have laws on expatriates

Source: Imbun (2006)

In Kiribati, the translation of the fundamental Conventions into the Kiribati language is currently underway. This will provide basic materials for a national education and awareness campaign, which will also include the wider ILO mandate and objectives. Applications have been received from the constituents for their participation in the ILS Training course in Turin, preparatory to the ILC, to strengthen the capacity of national officials to pursue the twin objectives of education and ratification. A keen knowledge of application and reporting requirements gained through the ILS training course will provide a firm base for Kiribati to fulfill its membership obligations.

Labour market legislation suggests difficulties in most areas including employment relationship, minimum wages, dispute settlement, OHS, public service, workers' compensation, expatriate employment and tripartite. The kinds of difficulty experienced vary between the different types of legislation and between PICs, but in general problems spring from:

- a complete lack of policy and/or legislation pertaining to one of the above issues
- the areas being governed by obsolete legislation
- legislation focusing on one of the desired labour market outcomes to the neglect of others. For example, the paper suggests that in PNG, Solomon Islands and Fiji Islands wage decisions are fixed largely taking social conditions into consideration rather than productivity factors
- over-ambitious legislation in relation to resources. For example, Health and Safety Regulation across the region in general appear too ambitious given the human and financial resources available for enforcement
- legislation leaving too much leeway for discretion – as in the Trade Dispute Acts of Fiji Islands, Kiribati, Solomon Islands, Tuvalu and Vanuatu. This can lead to a lack of accountability and a reduction in the effectiveness of the legislation.

(Forum Economic Ministers Meeting, 2006:3)

The ILO provides a number of yardsticks through their conventions and recommendations as a basis for development. But not all PICS are members of

ILO and in such cases, joining the ILO might be an important starting point. This will enhance international trade prospects, so the challenge is to translate international standards into national practice and law (Prasad and Hince, 2001: 226).

8. SUMMARY AND CONCLUSION

This paper provides a detailed examination of Pacific Island countries' labour market, giving a snapshot of PICs labour markets and examining the various characteristics; it demonstrates that the woes faced by PICs labour markets can be solved only by a multi-pronged approach with a variety of tools.

The paper demonstrates that the major problem faced by PICs is rising unemployment and this problem will become much worse in the future given that population levels are expected to rise, while reasonable growth prospects of 5–7 per cent in real terms are quite slim.

In light of slow economic growth, the two larger developed countries in the neighbourhood, Australia and New Zealand, must allow labour mobility between PICs and them, thus enabling expansion of the labour market. Not only will it ease the unemployment problem in the PICs, it will also contribute to social and economic development of PICs via income flow back into the PICs and also solve the undersupply or unreliability of labour in the Australian horticultural industry.

There is also a need for regional integration and incorporation of labour. This simply means setting up dialogues or processes between governments. Regional integration means decreasing market barriers between countries to allow free trade of goods, services and labour. Furthermore, there should be both local and regional moves to develop the resilience of PICs' labour markets and economies.

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4

Labour Markets and Human Resources Development in the Small States of Africa and the Indian Ocean

Happy Siphambe

1. INTRODUCTION

Empirical studies done under the new growth theory (endogenous growth theory) has shown consistently that human capital has a significant impact on economic growth. Education is both a result and a determinant of income and can produce public and private benefits. The starting point of endogenous growth theory was the dissatisfaction with the neoclassical approach, with its assumption of a steady state of zero per capita growth. Instead it brings back into the realm of economic analysis long-term growth by assuming that some investments, such as human capital or knowledge acquisition, are not subject to diminishing returns because they generate spillover to the rest of the economy (Romer, 1986).

A second set of benefits are those that relate to research and development which comes from investment in human capital. A number of studies have been done based on the Romer (1986) model and the Lucas production function (1988) model, with some extensions and modifications being done to these models in terms of measurement of the human capital variable. The studies generally find that an increase in average male secondary schooling of 0.68 years raises annual GDP growth by 1.1 per cent a year, while an increase in tertiary education of 0.09 years raises annual growth by 0.5 per cent a year. They find an interaction between initial GDP and human capital (broadly defined, including health and education), so that countries that lag behind tend to grow faster if they have high levels of human capital.

The link between human capital development and poverty reduction is in general based on the assumption that the educated labour force is able to get productive employment in the labour market. Thus the ability of labour

markets to create well-paid jobs is very important. This chapter looks at the labour market in eight small countries in Africa and the Indian Ocean. It covers the labour market in terms of labour supply, labour demand, wages/salaries and other aspects of labour costs, unemployment, education and training initiatives, competitiveness and human resource development, migration and brain drain, labour market regulations and institutions, and other matters related to the labour market.

The chapter makes a synthesis of common trends and peculiarities of these labour markets with a view to teasing out the policy implications for making labour markets functional in small developing countries. A major constraint is the unavailability of labour market data on a time series basis of these small countries. Moreover, it is a difficult task to generalise about such heterogeneous countries. It is, however, easy to generalise in terms of two categories. The first category covers the small Southern African countries of Botswana, Lesotho, Swaziland and Namibia. These are all countries that have a lot in common in terms of the history of their labour and economy. In particular, these are countries that are dependent on South Africa for most of their imports as well as having had a long history of labour migration to the South African mines. These countries all have a common history of having been members of a common monetary union and using the Rand as a common currency. Botswana, however, moved out of the union in 1976 when it introduced its own currency, the Pula. The other countries, even though they introduced their own currencies, continue to have their currencies value at par with the South African Rand, while Botswana's is determined by a basket of currencies that also have the Rand as one of the units. The second sets of countries are those in the Indian Ocean, being Mauritius, Seychelles and Maldives. These also have a lot in common in terms of commodities that are associated with them being islands. For instance, they have a well-developed tourism sector and to some extent are highly dependent on sea-based activities such as fishing. The Gambia, though not having a common history or geography with the other seven, has features that are quite similar to some of the small economies in Southern Africa. What is particularly discernible is its dependence on a single commodity and the inability to diversify away from that single commodity. It also has high and rising unemployment that is typical of the other small African economies.

2. LABOUR FORCE DYNAMICS AND LABOUR SUPPLY

The basis of labour supply for any country is the population, both from natural growth and migration from other countries. A major issue relating to labour force growth, especially in the Southern African region, is HIV/AIDS, the effect of which has been to reduce the labour force. Table 1 shows the changes in population over time. The countries typically have small populations of fewer than 2 million with the exception of Namibia with just about 2 million people.

Over time, the population growth rate has been falling for all countries. The population growth rate for Botswana was reduced from 2.5 in the period 1990–95 to about 0.8 per cent per annum in the current period, 1996–2006. The lower growth rate of population is typical of all the countries under study. Maldives, however, has the largest population growth among these countries with 2.7 per cent in 2006. This was a fall from 3.4 per cent recorded in the 1990s. Half of the population in Maldives is under the age of 15.

For most of these countries, the decrease in population growth rates are a result of successful implementation of family planning, increased education of women, expansion of employment for women in certain sectors, etc. In terms of population aged 14 to 64, which is what comprises the labour force, there has generally been an increase for the countries for which data are available. The proportion of that population increased from 54 per cent in 1990 to 59 per cent in 1996 for Botswana, 51 per cent to 56 per cent for Lesotho, 55 per cent to 56 for Namibia. What these statistics generally indicate is that the labour force has been increasing over time, even though it grew by less than the previous period. This would imply an increase in the labour force for these countries.

Table 2 shows the changes in participation rates over time for the total labour force and separately for females. The total labour force participation rate has not been changing, mainly due to the male one remaining the same. For most of the other countries except Botswana, the female labour force participation in the labour market increased significantly. The highest rise is for Mauritius, which increased from 26 per cent to 34 per cent. Swaziland also increased significantly from 36 per cent to 39 per cent between 1980 and 2004.

What is evident from the statistics is that the total labour supply in these small countries has been increasing quite rapidly, even though population growth has been declining. This is posing a challenge for employment creation, especially because most of those joining the labour force are youth who have less on-the-job experience and are therefore less employable. For Mauritius for instance, the total labour force grew at an average annual rate of around 1.4 per cent over the past four years and there are around 9,000 new

Table 1: Population changes over time

<i>Country</i>	<i>Population ('000)</i>	<i>Growth Rate: 1990–95</i>	<i>Growth Rate: 1996– 2006</i>	<i>Population aged 14–64/ pop. 1990</i>	<i>Population aged 14–64/ pop. 1996</i>
Botswana	1760	2.5	0.8	53.5	59
Lesotho	1791	1.2.	0.5	51.3	56.2
Namibia	2052	3.5	2.0	55.1	56.3
Swaziland	1029	2.1	0.7	51.8	55.7
The Gambia	1556	3.6	3.0	56.1	57.8
Seychelles	81	0.9	0.7	—	—
Mauritius	1256	1.2	1.0	65.6	69.7
Maldives	270	3.4	2.7	—	—

entrants into the labour market each year. The total labour force increased to 549,600 at the end of June 2004 and is estimated at around 556,700 at the end of June 2005.

3. EMPLOYMENT/LABOUR DEMAND TRENDS

Labour demand is typically derived demand, as it is derived from the output produced by labour. There is therefore a relationship between the country's performance in terms of output and its performance in terms of demand for labour or employment. Table 3 shows the growth rate of per capita income for the period 2002 to 2007. On average, the countries recorded a per capita income growth rate, which is better in 2006 than in the previous periods. The best performer in terms of this indicator is Botswana, and the worst cases were Gambia and Swaziland.

Table 3 shows the growth rate per capita, while Table 4 shows the distribution of output by sector. Except for Gambia, most of the output of these countries comes from the manufacturing and service sectors. Generally, most of these countries' economies are based on very few extractive or agricultural commodities with very low industrialisation. This results in most of them being susceptible to external shocks. Most of these economies are narrowly based and have, over time, failed to diversify away from the economic base.

The economy of Botswana is one that started from a very poor condition. At independence there was very little apart from subsistence agriculture. Because of low industrialisation, a number of Botswana were migrant workers in the South African mines. Table 5 shows the distribution of workers by sector. While the mining sector has been the major sector in terms of contribution to GDP, exports and government revenue, its contribution to employment has been very small, ranging between 3 and 5 per cent of total share of employment. Its contribution to GDP has been more than 35 per cent over the last two decades. The small contribution of mining to GDP was mainly due to the capital intensive nature of the production of the mining sector. Moreover, there was very little diamond processing within the economy, which has

Table 2: Changes in Labour Force Participation Rates (LFPR)

Country	LFPR: 1980	LFPR:2004	Female LFPR: 1980	Female LFPR: 2004
Botswana	43	45	49	45
Lesotho	39	40	41	42
Namibia	41	40	41	42
Swaziland	34	35	36	39
The Gambia	51	51	45	45
Seychelles	48	48	45	46
Mauritius	36	44	26	34
Maldives	52	55	—	—

Table 3: Growth rate of per capita Real GDP: 2002–2007

<i>COUNTRY</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>
Botswana	5.1	6.1	6.1	6.6	4.8	5.2
Lesotho	1.0	0.8	1.9	1.8	3.7	3.2
Namibia	5.0	2.1	5.3	3.0	3.8	3.9
Swaziland	0.3	0.5	-0.1	0.4	0.3	-0.3
Gambia	—	—	—	—	—	-0.3
Mauritius	0.4	2.7	3.7	2.2	2.9	3.3
Seychelles	—	—	—	—	—	1.4
Maldives	—	—	—	—	—	4.1

Source: (i) National Statistics Offices of the SADC Member States; (ii) IMF, African Department Database; (iii) World Economic Outlook (WEO) Database 2007; (IMF) Regional Outlook; sub-Saharan Africa, 2007

Table 4: Share of Output by Sector

<i>COUNTRY</i>	<i>Agric output</i>	<i>Manufacturing output</i>	<i>Service Output</i>
Botswana	2.4	52.8	44.9
Lesotho	16.4	15.4	41.3
Namibia	12.1	11.6	59.5
Swaziland	10.1	36.6	39.4
The Gambia	37.7	12.8	49.5
Seychelles	2.7	15.2	68.5
Mauritius	5.3	19.6	67.4
Maldives			

therefore meant that there was little benefit in terms of employment in the diamond industry. The biggest employer over the period has been the Government, with an employment share of about 40 per cent. For the years that data are available, employment in South African mines has been declining, falling from 15 per cent of total employment in 1986 to about 4 per cent of total employment in 1999.

While distribution of output is skewed towards manufacturing, especially diamond mining, the sectorial distribution of employment is completely different. The sector with the biggest share to employment is commerce, with more than 20 per cent, followed by manufacturing, with more than 10 per cent. Given the effort of government in terms of programmes and policies to boost manufacturing, its performance is disappointing. In terms of distribution of employment between government and the private sector, it is worth noting that the private sector has the biggest employment share of about 57 per cent, followed by central government with 30 per cent. Local government and parastatals have the lowest employment of 8 and 5 per cent respectively (CSO, 2005). In terms of annual growth rate, employment has been

Table 5: Distribution of Workers by Sector (%)

Sector	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Agriculture	3	4	4	4	3	3	3	3	2	2	2	2	1	2	3	2	2	2	2	2
Mining and quarrying	6	5	5	4	4	4	3	4	3	4	4	4	2	3	4	3	2	3	3	3
Manufacturing	9	9	10	10	12	12	11	10	9	10	10	10	5	11	13	11	9	11	11	11
Electricity and water	2	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Construction	10	10	13	14	15	15	15	13	12	10	10	10	5	11	12	11	8	10	9	8
Commerce	17	17	16	16	18	18	18	18	20	19	20	19	9	17	2	19	15	19	19	22
Transport and communications	5	5	4	4	4	4	4	4	4	4	4	4	2	4	4	4	3	4	4	5
Finance and Business	6	6	6	7	7	7	8	7	8	8	8	7	34	7	8	7	5	7	7	4
Community and Personal service	3	3	4	4	4	4	4	4	4	4	4	4	1	2	2	2	2	2	2	1
Education	1	1	1	1	1	1	1	1	1	2	2	2	1	2	3	2	2	2	3	3
Central Government	32	30	29	28	26	25	26	29	29	30	30	30	18	33	38	30	25	31	32	33
Local Government	7	7	7	6	6	6	6	7	7	7	7	7	4	7	9	8	7	8	8	8
Private and Parastatals	60	63	65	65	68	69	68	64	65	63	63	63	78	60	53	62	49	61	60	60
All Sectors	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Migrant mine workers	15	13	11	9	8	7	6	6	5	5	5	5	2	4	—	—	—	—	—	—

Source: Various CSO Bulletins

increasing in the late 1990 to early 2000 period at a much lower rate of about 1.5 per cent. It is during that period that unemployment was also rising, as will be indicated in the next section. The current period is one that holds more promise in terms of employment growth, which was much higher at 2.8 per cent than the population growth at 2.4 per cent. This is, however, lower than the 3.1 per cent recorded between 2003 and 2004. The biggest challenge for Botswana's economy is in trying to diversify the economy and being able to create more jobs from the non-mining sector.

Lesotho is also very similar to Botswana in terms of lack of diversification from one sector. For Lesotho, the dominant sector in terms of employment is subsistence agriculture. Table 6 shows the distribution of labour force by industry in Lesotho. More than 50 per cent of the working population and close to 60 per cent of the working males are engaged in subsistence agriculture. The second largest sector in terms of employment is wholesale, retail, trade and repair with about 9 per cent share to employment, followed by construction with 7 per cent and textiles with 6 per cent. Women dominate the education, manufacturing and textile, private household activities and the wholesale, retail, trade and repair industries. With manufacturing, more jobs are in the textile area, which is a response to international and clothing markets, particularly in the USA under the African Growth and Opportunity Act (AGOA). While agriculture adds more than 50 per cent to employment, its contribution to GDP has been declining over the years. It dropped from about 30 per cent in the early 1980s to about 19 per cent in 2002. This was due to poor and erratic weather conditions.

Table 6: Lesotho Labour Force by Industry and Gender, 1997

<i>Industry</i>	<i>Male</i>	<i>Female</i>	<i>Total</i>
Agriculture and Forestry	6.5	3.6	5.2
Construction	9.5	3.9	6.7
Education	2.2	7.4	4.5
Electricity, gas and water	1	0.2	0.6
Financial intermediation	0.5	0.8	0.6
Health and Social work	0.4	1.6	1
Hotels and restaurants	0.3	2.6	1.3
Manufacturing and textiles	3.1	9.5	5.9
Mining and quarrying	3.1	0.5	1.9
Other community, social and personal services	0.7	1.1	0.9
Private household activities	0.6	10.5	5
Public admin, defence and social services	1.8	2.3	2.1
Real estate, renting and business activities	1.1	2	1.5
Subsistence Farming	59.1	41.5	51.3
Transport, storage and communications	4.3	0.6	2.6
Wholesale, retail, trade and repair	5.8	12.6	8.8
Total	100	100	100

Source: LFS 1997

Besides a decline in agriculture, there was also a fall in Basotho migrant workers to South African mines since the independence of South Africa. The number of Basotho migrant mine workers fell from 130,000 in 1999 to 62,125 in 2002. This obviously has implications in terms of low remittances. The decline in migrant labour was a result of the restructuring of South Africa after its independence and the response to changing gold prices. In 2004, migrant workers comprised 20 per cent of the labour force. In terms of distribution by sector, more than 50 per cent of the working population was engaged in private person/household, and another 28 per cent were employed in private formal establishments, while Government and parastatals employed 11.9 and 4.2 per cent respectively.

Just like Lesotho, Swaziland is dominated by agriculture and agro-processing industries and government services. Swaziland was historically quite dependent on South Africa for employment, as it had a large number of migrant labourers working in the South African mines. In the 1980s Swaziland experienced favourable industrial growth, which was led by companies relocating from apartheid South Africa and was a government attempt to take advantage to attract foreign direct investment. Table 7 shows the sectorial share of output in Swaziland. Agriculture has generally been declining from about 16 per cent to about 11 per cent. Industry has, on the other hand, been increasing its share from 41 per cent to about 45 per cent, while service has almost remained the same at about 43 per cent. GDP growth has declined over the years. It was about 9 per cent in the period 1985–1989, and fell to about 4 per cent in 1990–1997. Growth of output declined further to about 2 per cent in 2005 (ADB, 2006).

The so-called modern sector of Swaziland is dominated by agriculture and forestry products. Swaziland is essentially an exporter of unprocessed or semi-processed products, and hence has less value added and therefore less employment. As shown in Table 8, the share of agriculture in employment has been declining over time, falling from 43 per cent in 1970 to about 22 per cent in 2000. The share of manufacturing has, on the other hand, been rising from 13 per cent to about 21 per cent in 2000. Construction and transport sharers to employment have not changed significantly over time.

The Namibian economy, like the rest of the Southern African Customs Union (SACU) countries, is highly dependent on extraction of natural resources. The country was a colony of South Africa and gained independence from

Table 7: Share of Output by Sector in Swaziland

<i>Sector</i>	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Agriculture	15.9	14.0	14.6	11.4	10.7	10.8	10.0	11.3	11.2	11.2
Industry	40.9	43.8	42.4	44.4	44.2	45.0	46.1	45.1	45.1	45.1
Service	43.2	42.2	43.0	44.1	45.1	44.3	43.9	43.7	43.7	43.7

Source: CSO Swaziland

Table 8: Sectorial Share of Employment

<i>Year</i>	<i>Agric forestry</i>	<i>Manufacturing</i>	<i>Construction</i>	<i>Transport</i>
1970	43.2	12.7	5.5	5.5
1971	44.3	12.4	5.4	5.4
1972	45.2	12.1	6.7	6.7
1973	41.5	12.9	6.9	6.9
1974	45.2	12.2	7.1	7.1
1975	44.1	14.0	5.2	5.2
1976	43.1	12.4	4.6	4.6
1977	39.8	12.7	6.2	6.2
1978	38.1	12.3	11.1	11.1
1979	38.7	12.0	11.1	11.1
1991	25.2	18.3	5.6	7.1
1992	25.8	18.4	6.6	5.4
1993	25.7	18.4	5.1	5.0
1994	24.0	18.6	4.9	4.9
1995	25.1	19.0	6.4	4.8
1996	24.9	18.0	5.6	3.0
1997	21.9	19.1	6.4	3.6
1998	22.7	20.6	6.7	3.7
1999	21.4	20.1	6.1	2.9
2000	22.3	20.5	6.0	9.5

Source: CSO, Swaziland

South African rule in 1990. The Namibian economy was highly integrated into the South African economy during the decades-long occupation, which inhibited autonomous, authentic economic development. As shown in Table 9, agriculture has been and is still the dominant sector in terms of employment, with 29 per cent of workers engaged in this sector in 2000. Mining activities (especially diamond mining), extensive livestock farming in the commercial – then almost exclusively white-owned – areas and widely uncontrolled fishing activities characterised the economy at independence. The apartheid policy of racial segregation compounded the dual nature of the economy and society. The vast majority of the population was confined to the so-called homelands, particularly in the north and northeast of the country, and to a subsistence economy. Education was limited to the transfer of basic knowledge and skills. This resulted in a society characterised by a relatively wealthy minority living in well-developed towns and cities with functioning communal services and involved in the formal economy, and a majority living in rural areas, lacking basic services and making a living in the informal and subsistence economy.

Economic growth rose substantially after independence but then slowed down towards the end of the first decade. On the other hand, population growth declined from 3.1 per cent in 1991 to 2.6 per cent in 2001, according to the respective Population and Housing Censuses.¹ These should have been favourable conditions for a reduction of unemployment in the country.

Table 9: Employment by Economic Sector in Namibia in 1997 and 2000

<i>Sectors</i>	<i>1997 (%)</i>	<i>2000 (%)</i>
Agriculture	36.6	29.3
Manufacturing	6.5	5.3
Mining	1.6	0.9
Fishing	1.7	1.8
Wholesale/Retail trade and repair of motor vehicles	8.4	9.0
Others	45.2	53.7

Source: Ministry of Labour, 2001; Ministry of Labour, 2002

However, unemployment remained at a high level of about 31 per cent in 2001, although it had declined compared to previous years. Employment growth, as shown in Table 10, rose at a lower rate than output growth.

The agricultural sector is the major employer in Namibia, accounting for 29.3 per cent of all employees. Most of these jobs are provided by the traditional agricultural sector, while the commercial agricultural sector contributes only about 30,000 jobs. The agricultural sector is followed by the public sector and the wholesale and retail trade sector. The mining sector contributes significantly to foreign exchange earnings and government revenue, but employs less than 1 per cent of the labour force. Government is the single largest employer, with some 90,000 funded posts for the 2005–06 financial year. It is followed by the textile industry with about 7,000 jobs, which are, however, currently under threat.

In terms of employment since independence, new industries such as zinc refining and the textile industry have created roughly 8,000 jobs. Additional jobs are created in the service industries owing to increased demand, for instance, for transport services. On the other hand, the agricultural and, more recently, the fisheries sectors have laid off workers. Workers in the fisheries sector have been retrenched because of strong competition resulting, in part, from a strong local currency and increased oil prices. While there was cautious optimism that the unemployment rate had dropped, results from the 2004 Labour Force Survey indicate a considerable increase again, to 36.7 per cent. This was unexpected, and a thorough analysis of the Labour Force Survey data is needed in order to establish the causes for this rise. Furthermore, results from the National Household Income and Expenditure Survey 2003/04

Table 10: Comparison of Employment and GDP growth in Namibia, 1997 and 2000

	<i>Employment</i>	<i>GDP in constant 1995 prices, N\$million</i>	<i>Employment growth</i>	<i>GDP growth</i>
1997	401,203	13,665		
2000	431,949	15,100	7.7%	10.5%

Sources: Republic of Namibia, 2004; Ministry of Labour, 2001 and 2002

suggest a substantial drop in income inequality and income poverty. These results contrast with the rising trend of unemployment.

Mauritius is a country that seems to have done well in terms of diversifying its output and employment over the years. As shown in Table 11, we could discern easily the evolving changes in the different macroeconomic sectors of Mauritius as diversification sets in and more importantly as the structure of the economy undergoes changes. To cite an example, it can be observed how employment levels have been systematically declining in the Primary sector and more particularly in the sugar sector. The latter has fallen in both absolute and relative terms. This could be attributed to the ultimate phasing out of the sugar protocol, which has benefited the Mauritian economy for quite a few decades. The sugar sector is cutting down its labour inputs in an attempt to reduce production costs and to re-engineer its production function from generating sugar to ethanol as a local source of energy. The declining trend in the manufacturing sector is basically due to the decrease in employment in the Export Processing Zone (EPZ) sector. The latter is losing its competitive edge due to high labour costs and low productivity registered in recent years. The decline in Foreign Direct Investment (FDI) in this sector and the delocalisation of firms would also lend support to this finding. However, contrary to the trends observed in the primary and secondary sectors of production, employment levels have been systematically increasing in the tertiary sector. All sub-categories within this sector have experienced an increase in employment levels, albeit much more pronounced in the services sector.

The number of foreign workers has been declining in recent periods. From a peak of 19,121 in June 2003, the total number of foreign workers declined to 18,062 in June 2004 and 16,166 in June 2005. This is largely on account of the

Table 11: Sectorial Composition of Employment in Mauritius (in 000s)

<i>Sector</i>	<i>Year</i>		
	<i>2000</i>	<i>2001</i>	<i>2002</i>
<i>Primary:</i>	57.1	48.2	46.5
Sugar cane	29.4	21.6	19.9
<i>Secondary:</i>	187.7	186.7	183.5
Manufacturing	142	139.5	134.8
EPZ	89.8	85.7	80
Energy	2.9	3.1	3
Construction	42.8	44.1	45.7
<i>Tertiary:</i>	238.8	255.2	264.9
Trade, Restaurants and Hotels	86.4	92.8	96.7
Transport, Storage and Communication	30.8	33.4	34.6
Financial Sector	21.4	21.8	22.5
Services	100.2	107.2	111.1

Source: CSO (2004)

contraction in employment in the EPZ sector, which employs most of the foreign workers.

Like the SACU economies, the Gambian labour market is highly undiversified as it relies heavily on a single commodity, groundnuts. The agricultural sector accounts for the largest employment share with more than 50 per cent of the population engaged in subsistence farming, livestock raising and groundnut cultivation. The sector is also the source of food and export earnings. But agriculture contributes about 23 per cent of GDP since it is a low productivity sector. The industrial sector is very small, accounting for less than 8 per cent of GDP. Manufacturing activities are limited to crushing of groundnuts and food processing and provide employment to 3 per cent of the country's labour force (Republic of Gambia, 1998). Another important sector to employment is tourism, which provides about 2 per cent of the labour force.

Seychelles is a country that is highly dependent on tourism, which contributes 10 to 15 per cent of GDP and two thirds of foreign exchange receipts. Its dependence on tourism therefore means the country is highly susceptible to external events (Government of Seychelles, National Statistics Bureau, 2006). As shown in Table 12, the largest share of output comes from the tertiary sector at more than 60 per cent, followed by the secondary sector at about 30 per cent. The primary sector contributes the least with about 3 per cent share. In terms of employment, the majority of workers of more than 50 per cent are employed in the private sector. The second largest employer is Government with 32 per cent share in 2006 (see Table 13).

Like the rest of the island economies, Maldives' economic base is very narrow and is primarily based on tourism and fishing. In 1998 for instance, tourism made up 33.8 per cent of GDP while fishing accounted for about 10

Table 12: Share of total output by sector in Seychelles

<i>Sector/Year</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
Primary	2.9	2.6	2.6	2.6
Secondary	30.3	27.7	26.5	29
Tertiary	63.4	64.1	67.6	66.9

Source: Seychelles National statistics Bureau

Table 13: Share of employment by sector in Seychelles

<i>Sector/Year</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>
Private sector	59.2	52.6	51.7	53.8	52.5
Parastatals	12.4	16.5	16.9	17.2	15.2
Government	28.4	30.9	31.4	29.0	32.3
Total	100	100	100	100	100
Unemployment Rate	4	3.1	3.5	3.6	2.1

Source: Seychelles National Statistics Bureau

per cent (Government of Maldives, 2001). Table 14 shows a summary of the employment statistics.

While there are variations of the eight countries in terms of performance and employment creation, there are a number of common features. One is the slow growth of employment compared to labour supply over the years. The labour force is mainly youthful and therefore not easy to absorb into employment. Secondly, most of these economies have failed to diversify away from reliance on a single commodity and have therefore remained susceptible to external shocks. Output growth has not been matched by employment growth for most of these economies. The result of the mismatch between labour supply and demand, as will be shown in the next section, is growing unemployment and the informal sector.

4. WAGES/SALARIES AND OTHER LABOUR COSTS

In most of the countries in Africa, wages were institutionally set for most of the period. There also existed minimum wages for unskilled labour for most of these countries, making wages inflexible even during times of economic recession and high unemployment. In the current period with globalization, there has generally been an increased wage growth with worsening outcomes for unskilled labour, especially those engaged in the informal sector. While nominal wages were rising, real wages have over time for most of these countries been rising very slowly due to high inflation rates. The few studies done on the impact of minimum wages have indicated that they have not had a significant impact to employment creation. Employment has failed to grow not because labour costs are high, but because of other factors (see Siphambe, 2003).

In terms of country experiences, Botswana, like the other countries in this chapter, has had slow growth in real wages. Table 15 shows the changes in average real wages between 1980 and 2002 by economic sector. As seen, the highest average real wages in 1980 were in electricity and water, and finance and business services. By 2002, electricity and water had the highest average monthly wages followed by transport and communication. In agriculture,

Table 14: Labour Force Indicators in Maldives

<i>Year</i>	<i>Population 15+</i>	<i>Participation Rate</i>	<i>Labour Force 15+</i>	<i>Employed Persons 15+</i>	<i>Unemployed Persons 15+</i>	<i>Unemployment Rate</i>
1985	98728	52.1	52433	50661	772	1.5
1990	112561	49.5	55745	55272	473	0.8
1995	130670	51.3	67042	66515	527	0.8
2000	158897	54.8	87070	85356	1714	2

Source: Adapted from Rashid, 2006

Table 15: Average Monthly Real Wages by Economic Activities in Botswana, 1995 Prices¹

<i>Economic Activity</i>	1980	1985	1990	1995	1997	2002	2003	<i>Annual growth rate[†]</i>
Agriculture	238	189	269	250	266	599	542	1.61+
Mining and Quarrying	921	1032	1517	1185	1482	3176	3362	2.38+
Manufacturing	683	779	695	582	500	889	944	-0.71ns
Electricity and Water	1124	1041	1599	1350	1597	4438	5569	3.11+
Construction	594	590	615	633	552	979	1050	0.74+
Commerce	525	549	635	580	672	1282	1253	1.45+
Transport and Communication	1000	808	1167	1206	1404	3632	3597	1.43+
Finance and Business Services	1045	1088	1321	1265	1301	3114	3080	1.98+
Community and Personal Services	787	723	780	776	1062	1967	1965	0.90+
Education	985	997	1372	1618	1563	3359	2830	3.91+
Government	na	1676	1789	2015	1987	2822	2502	1.39+
<i>National Average</i>	970	941	1062	1022	1067	2359	2781	1.27+

Source: BIDPA, 2004

†: based on regression estimates using data for the period 1980-2002. ns: statistically not different from zero. +;+: statistically significant at 1%; 5%.

¹ The exchange rate between Pula and US Dollar then was P5.4= USD1. It is currently P6.2=USD1.

wages were far exceeded by those of other economic activities throughout the period. The highest growth in real wages was in the education sector (3.9 per cent), followed by water and electricity (3.11 per cent). Manufacturing registered a negative annual growth rate in average monthly real wages during the period. On aggregate the average real wages in Botswana have been growing at an annual rate of 1.27 per cent over the period 1980–2002.

Table 16 illustrates the average monthly earnings in the various sectors of the economy and does provide additional insights through the sectoral changes within and across sectors and time. While all sectors and sub-sectors have experienced an increase in the average monthly earnings, it is a fact that they are far higher in the tertiary sector; and more precisely, in financial intermediation. Within the secondary sector, the highest average earnings occur in the energy sub-sector, followed by construction. By all standards, the average earnings in each sub-category of the tertiary sector offset those of either the primary or secondary sector. This could be explained by the surging demand for tertiary sector skills, which have not yet been matched by the supply of such skills. The latter would require a long period of apprenticeship, costly training and, very often, special aptitudes. Hence, it can be seen that in the tertiary sector there have been both rising employment levels and average monthly earnings.

Table 16: Composition of Average Monthly Earnings (in Rupees) by Sectors in Botswana

<i>Sector</i>	<i>Year</i>		
	<i>2000</i>	<i>2001</i>	<i>2002</i>
<i>Primary:</i>	6585	7940	8707
Sugar cane	6159	7386	8308
<i>Secondary:</i>	6131	6821	7437
Manufacturing	5544	6155	6668
EPZ	4774	5323	5684
Energy	13515	17518	18987
Construction	8746	9280	10153
<i>Tertiary:</i>	10425	11243	11817
Trade, Restaurants and Hotels	8562	9394	9804
Transport, Storage and Communication	11491	12777	13716
Financial Sector	12224	14553	15441
Services	10328	11061	11576
<i>All Sectors</i>	8178	9159	9845

Source: CSO (2004)

5. UNEMPLOYMENT

For most of the sub-Saharan countries, the 1990 period was a time when most economies were failing to create well-paid jobs with the result being either rising open unemployment or rapid expansion of the informal sector. To some extent, these revealed the inability of the labour markets to be flexible in response to macroeconomic shocks. Wages are generally inflexible downward even in face of high unemployment, therefore meaning that markets fail to clear. For most of these countries, expansion of the formal sector has not kept pace with population growth or the size of the labour force. Table 17 shows the unemployment rate for the eight countries. The SACU countries have the highest unemployment rates of between 18 (Botswana) and 52 per cent (Lesotho). The island economies have done fairly well with low unemployment rates. The unemployment in the SACU countries is generally structural in

Table 17: Current Unemployment Rates

<i>Country</i>	<i>Unemployment Rate %</i>
Botswana	17.6
Lesotho	52
Namibia	36.7
Swaziland	40
The Gambia	4
Seychelles	2.1
Mauritius	9.3
Maldives	2.0

nature and is a result of the failure of these economies to diversify from the few extractive commodities.

The next part of this section summarises the issues about unemployment for each of the countries in detail. Botswana's economy is typical of a country that has failed to diversify its economy away from diamond mining. While diamond production was propelling the economy in terms of output, it was creating few jobs due to its capital-intensive nature. As a result, employment creation was not enough to absorb the increasing labour force, therefore unemployment was increasing over time. Table 18 shows that the rate of unemployment in Botswana was recorded at about 14 per cent in 1991. The unemployment rate then rose to about 22 per cent in 1994 and remained almost stable at that level until 1996 (CSO, 1997). Unemployment, however, fell slightly to 21 per cent in 1998 and fell further to 16 per cent in 2000 (see Table 18). Recent estimates from the 2005–06 Labour Force Survey reveal that unemployment has declined again from the 24 per cent estimated in 2002–03 to 17.6 per cent. Even though unemployment has fallen, the current level is still quite high and a major challenge for the economy.

In terms of distribution of unemployment by gender, the 2005–2006 Labour Force Survey indicates that, of the majority of unemployed, 55.5 per cent were women. Despite a lower labour force participating rate of 50 per cent (compared to 65 per cent for men), women had an unemployment rate of 19.9 per cent, while men had an unemployment rate of 15.3 per cent. Female youth (12–29) had an unemployment rate of 31.8 per cent, while that of males was 23.3 per cent. Unemployment is therefore concentrated among women and the youth. The youth are obviously unemployed because they have less work experience. Some of the issues could also be due to their late entry into the labour market compared to the older cohort (CSO, 2006).

As shown in Table 19, unemployment among females is more severe: in 2001, unemployment rates for males and females were 16.37 and 23.85 per cent, respectively. Unemployment among females is much higher, even though the labour force participation (LFP) rate for females is far lower than

Table 18: Trends in Total Labour Force and Unemployment in Botswana

<i>Year</i>	<i>Unemployed</i>	<i>Employed</i>	<i>Total Labor Force</i>	<i>Unemployment Rate (%)</i>
1991	61, 625	379, 938	441, 293	13.9
1993–94	107, 723	391, 804	499, 527	21.6
1995–96	94, 528	345, 405	439, 033	21.5
1998	115, 703	441,187	556,890	20.8
2000	90, 729	483, 432	574, 161	15.8
2001	109, 518	449,235	558,753	19.6
2002–03	144,424	462,401	606,826	23.8
2005–2006	114,422	537,043	651,465	17.6

Source: Calculated/computed from HIES, Census, and LFS

their male counterparts. This indicates that if the LFP rates were equal for both male and female, the rate of female unemployment would be much worse than the current situation. By area types, unemployment is highest in urban villages (24.6 per cent), followed by rural areas (17.73 per cent) and lowest in urban towns (15.59 per cent).² Thus, although unemployment is a social concern across the country, it is more problematic in urban villages compared to other areas.

Although the statistics show unemployment to be a serious problem in Botswana, it does not seem to be a major social problem compared with the situation in other countries. For instance, until recently, the informal sector appears to have been less developed in Botswana compared with other African countries. Illegal migrants from other countries, especially Zimbabwe, fill many of the lower paid jobs, such as gardeners and domestic workers. This could also be a result of the relative strength of Botswana's currency, the Pula, against the Zimbabwean dollar, as well as the desperation of the Zimbabweans, given the dire economic situation in their country.

The fact that the Botswana population generally maintains high reservation wages (minimum wages below which labour chooses not to participate), despite high unemployment, seems to suggest that there must be something missing from the picture. One explanation is that many of those who openly declare themselves as being unemployed probably have family support, which allows them to continue looking for a suitable job without revising their reservation wage downwards in the face of unemployment. Many workers are not willing to work for anything significantly below the minimum wage, even if they are unemployed. This has also been exacerbated by the existence of government relief programmes and social safety nets in general. Workers can afford to remain unemployed and not take up work in agriculture because

Table 19: Unemployment and Labor Force Participation Rate by Gender, Areas, and Youth in Botswana

	<i>Unemployment rate</i>	<i>Labor Force Participation rate</i>
Total	19.60	46.97
<i>Gender</i>		
Male	16.37	55.95
Female	23.85	38.78
<i>Area types</i>		
Urban town	15.59	64.62
Urban village	24.60	46.64
Rural	17.73	37.85
<i>Youth (15–24)</i>		
All youth	40.86	36.53
Male youth	34.57	40.46
Female youth	48.03	32.89

Source: calculated from the 2001 census

government programmes are enough to sustain their day-to-day living. The high reservation wages may also be linked to the fact that a large number of the members of the labour force see themselves as too educated for some of these jobs. The demonstration effect provided from past experience was that, with a junior certificate, one could easily have worked in a white-collar job given that the country started from a scarcity of human capital. But given the relative abundance of educated graduates, this is no longer the case and therefore more and more youth labour is beginning to accept these jobs, albeit after a time-lag and unsuccessful search for a white-collar job.

Some of the factors found to have contributed to the unemployment situation are shortages of skills (especially entrepreneurial skill), a wrong attitude towards work (which contributes to low productivity), and lack of finance (BIDPA, 1997, Siphambe, 2003). Recent studies on productivity in Botswana found that workers have a relaxed attitude to work and seem to lack motivation. There have been numerous efforts to address these problems, some of which have been the main task of the Botswana National Productivity Centre.

Just like the Botswana case, the Lesotho labour market is characterised by low demand in relation to supply of labour. The labour force continues to increase by approximately 25,000 youth as new entrants every year. Excluding migrant labour, Lesotho had an unemployment rate of 52 per cent. In terms of gender, females had the highest rate of 57 per cent, while males had an unemployment rate of 50 per cent. When migrant labour is included, unemployment rises to about 54 per cent, with that of females being close to 60 per cent. Including hidden unemployment increases the total unemployment to about 64 per cent. The main causes of unemployment are diminished employment prospects in agriculture due to bad weather, a small industrial base, and retrenchments of the South African mining industries (Global Policy Network, 2006). The highest unemployment is for those aged 15–29.

Like the other SACU countries, the Swaziland labour market is characterised by an excess supply of labour, especially unskilled labour. As shown in Table 20, unemployment has been rising since 1986. It rose from about 22 per cent in 1986 to about 29 per cent in 2002. This was a result of the decline in formal sector employment due to the reduction in private sector employment resulting from shedding of jobs from the textile sector. There is also limited investment in other labour-intensive industries, while some firms were also shedding labour as a way to remain more competitive and profitable (Central Bank of Swaziland, 2006). From unofficial figures, unemployment is estimated at over 40 per cent, with youth being the hardest hit with an unemployment rate of 60 per cent. As a result of the high and rising unemployment, the informal sector is gaining prominence in Swaziland. What has made matters worse is that mining in South African mines has continued to decline due to restructuring in South Africa. This is to do with increased mechanisation, and relatively high mine wages that now attract South African citizens. As a result Swazi mining labour in South Africa declined from 20,041 in 1993 to 7,445 in 2004.

Table 20: Unemployment Rate in Swaziland, 1986–2002

<i>Unemployment/year</i>	<i>1986</i>	<i>1991</i>	<i>1995</i>	<i>1997</i>	<i>2002</i>
Total	21.5	18.2	21.8	22.8	29
Urban	15.4	8	14.7	15.7	—
Rural	36.3	25.2	24.5	27.8	—

Source: CSO, Swaziland

Table 21 shows the labour force, employment and unemployment in Namibia over time. Women are more affected by unemployment than men (39 per cent compared to 28 per cent in 2000). Most striking is the impact of educational attainment on employment status. Thirty-six per cent of the labour force with only primary education is unemployed, compared to 42 per cent with junior secondary (Grade 8 to 10) and 34 per cent with senior secondary education. Those with no formal education are less affected – only 23 per cent are unemployed. A possible explanation is that these are older people staying on farms, and are thus employed or self-employed in the traditional agricultural sector, while people with some degree of formal education migrate to towns and industrial centres in search of work and a better standard of living. A good education almost guarantees a job. The youth is hardest hit by unemployment. Almost half of the age group 15–19 years is unemployed. The rate drops dramatically the older the people are. From the mid-thirties, the unemployment rate falls to 10 per cent and below. Youth unemployment is thus a major challenge to the country.

There are a number of factors that explain the high rate of unemployment in Namibia. The economy is characterised by natural resource extraction that is highly capital intensive (mining, fisheries). The commercial agricultural sector is laying off workers to stay competitive, while the subsistence agricultural sector remains an employer of last resort. The introduction of a minimum wage for farm workers has reportedly contributed to retrenchments on

Table 21: Labour Force, Employment and Unemployment, various years in Namibia

<i>Year</i>	<i>Employed</i>	<i>Unemployed</i>	<i>Labour Force</i>	<i>Unemployment rate (Broad)</i>
1991 ¹	388,014	91,765	479,779	N/A
1993/94 ²	350,280	84,398	434,678	N/A
1997 ³	401,203	97,121	498,324	34.5%
2000 ⁴	431,949	109,598	541,547	33.8%
2001 ⁵	409,591	185,258	594,849	31.1%
2004 ⁶				36.7%

Sources: ¹Republic of Namibia. 1992/93; ²National Planning Commission. 1996; ³Ministry of Labour, 2001, ⁴Ministry of Labour, 2002; ⁵Republic of Namibia, 2003, ⁶The Namibian 24 May 2006

commercial farms. Furthermore, cattle farms have been turned into game farms and hunting lodges, often requiring fewer employees than before. Moreover, they become part of the tourism sector if they stop livestock farming altogether.

Relatively new manufacturing activities, such as textiles and diamond cutting and polishing, have had a positive impact on employment. However, the value chain of Namibia's raw materials needs to be extended in order to add further value and create employment. One of the main challenges remaining for the manufacturing sector is the small and dispersed population, coupled with a highly skewed income distribution that limits demand. In particular, newly established companies face stiff competition from well-established and capitalised South African companies, not only on the domestic market, but also abroad. Because of its limited size and range of products, the manufacturing sector contributes just 5 per cent to employment.

So far, investment – both domestic and foreign – has not been sufficient to alter significantly the situation in the labour market. In a similar vein, Namibia's economic growth has not been particularly employment creative.³ GDP in constant prices grew by 11 per cent between 1997 and 2000, while employment increased by 8 per cent.

Table 22 summarises unemployment trends for Mauritius. The unemployment rate maintained its upward trend, reaching 9.3 per cent in June 2005 (8.5 per cent in 2004), representing some 50,500 unemployed. The male unemployment rate climbed to 6.1 per cent (5.8 per cent in 2004) while the female unemployment rate increased to 15.3 per cent (13.5 per cent in 2004). Moreover, it is seen that the proportion of people being unemployed is increasing rapidly among women. The number of unemployed women in absolute terms nearly doubled between 2000 and 2005, and percentage-wise, it is more than twice of its male counterpart. The nature of the unemployment is of a structural nature, meaning that there is a mismatch between available skills and available jobs. The majority of the unemployed is youth, has less experience,

Table 22: Unemployment in Mauritius, 2000–2003

Year	Unemployment					
	Male		Female		Both Sexes	
	Number ('000)	(%)	Number ('000)	(%)	Number ('000)	(%)
2000	18.0	5.4	15.9	9.4	33.9	6.7
2001	18.9	5.6	16.5	9.5	35.4	6.9
2002	18.3	5.4	19.1	11.0	37.4	7.3
2003	19.7	5.7	20.8	11.7	40.5	7.7
2004	20.3	5.8	24.8	13.5	45.1	8.5
2005	21.5	6.1	29.0	15.3	50.5	9.3

Source: Central Statistical Office

has low education levels and is single and family supported. This is because the education system did not prepare the labour force for newly emerging sectors, such as ICT.

For the Gambian economy, the unemployment rate was estimated at 4 per cent in 1993 and was more rampant among the youth, especially males aged 20–24 years of age. This is because there are fewer job opportunities as well as the fact that the youth lack marketable skills. Unemployment is also concentrated in urban areas.

Maldives and Seychelles have generally done very well with unemployment rates of about 2 per cent. For Maldives, the unemployment rate generally declined between 1985 and 1995, but began to increase to 2 per cent in 2000. Maldives' unemployment rate is also quite low compared to the other countries covered in this chapter, including the best performers in terms of economic growth, such as Botswana. What is common with other countries in the chapter is that female participation rate is lower than males and yet they face higher unemployment rates than males.

In general, the SACU countries have performed badly in terms of employment creation. General characteristics of unemployment are that it is more prevalent among youth and women. For most of these countries it is structural, resulting mainly from the inability of these economies to diversify from single export commodities.

From the few studies done on the determinants of employment, the conclusions have been that the major determinants are age, education and gender. The probability of being employed increases if you are male, educated or older (for further discussions of these empirical results for Botswana refer to Siphambe, 2003). On the demand side, the major determinant of employment was output as represented by the country's GDP. Wages were found not to be significant determinants of employment (Siphambe, 2003). These results imply, therefore, that to reduce unemployment it is necessary to increase output, especially of certain sectors that have higher output elasticities; and also improve the education of the labour force.

Table 23: Labour Force Indicators in The Gambia

<i>Year</i>	<i>Population 15+</i>	<i>Participation Rate</i>	<i>Labour Force 15+</i>	<i>Employed Persons 15+</i>	<i>Unemployed Persons 15+</i>	<i>Unemployment Rate</i>
1985	98728	52.1	52433	50661	772	1.5
1990	112561	49.5	55745	55272	473	0.8
1995	130670	51.3	67042	66515	527	0.8
2000	158897	54.8	87070	85356	1714	2

Source: Adapted from Rashid, 2006

6. LABOUR MARKET REGULATIONS AND INSTITUTIONS

A major explanation for the lack of flexibility for labour markets in most of these countries to adjust in the phase of unemployment is the existence of labour market regulations. The Namibian labour market is, for instance, characterised by a high degree of regulation. The Labour Law 2004 includes provisions for extended annual leave, compassionate leave, maternity leave, severance pay and payment of outstanding leave on termination. While it is necessary to protect workers' rights, rigid labour laws prevent job creation, since they increase the cost of labour relative to capital. High labour costs also act as a barrier for small and medium-sized enterprises (SMEs) to enter the formal sector. A strongly regulated formal sector can thus result in a growing informal sector with negligible protection for employees.

The Botswana labour market has always been regulated through the incomes policy. Government wage and incomes policy was intended to cover areas where the market forces determining prices, wages and incomes may not result in efficient and/or equitable results. Thus, minimum wage regulations are intended to prevent exploitation and achieve other social policy objectives, while parastatals' wages and salaries are kept aligned with Government wage scales to forestall excessive wages and cost structures that could make the economy uncompetitive. Thus, the incomes policy aims at making the business climate attractive for investors, especially for investments in enterprises that could produce exportable goods and services.

Botswana's incomes policy was adopted in 1972 with a view to avoiding rapid wage escalation that could lead to growing income disparities and social discord. At that time, the Incomes Policy emphasised rural development and employment creation, which were viewed as key operational targets for achieving the national development goals and objectives. With most of the population living in rural areas and engaged in subsistence farming as their main livelihood, there was concern that mineral developments underway and the urbanisation processes that were occurring, would lead to manpower shortages, rapid wage escalation, widening income disparities, urban migration, growing urban unemployment and social tensions. Government was concerned that the emergence of such problems could thwart its strategies for economic and social development. While government would develop skilled manpower as rapidly as possible, it viewed wage restraint as a crucial ingredient in its overall macroeconomic policy framework. Wage restraint was considered important for promoting employment creation and enabling government's resources available for development to be spread as widely as possible. At the same time, government recognised the need to protect workers and consumers from monopolistic exploitation.

As part of the incomes policy, a number of institutions were developed as part of the tripartite system to bring together workers, employers and government. Some of these institutions are: the National Employment, Manpower

and Incomes Council (NEMIC), the Wages Policy Committee (WPC) and the Minimum Wages Advisory Board. NEMIC's terms of reference include monitoring and periodically making recommendations concerning the general levels of government wages, taking into account the wider impact on employment creation. In addition to NEMIC and in keeping with the undertaking to periodically review public sector wages and salaries, government has reviewed public sector wages and salaries through a series of Salary Review Commissions.

Towards the end of the 1980, the Botswana Government began to realise that the incomes policy was not serving its purpose given the changes in the economic environment, especially the growth of the private sector. It therefore commissioned a review of the 1972 Income Policy. The Revised Incomes Policy was adopted in 1990. Some of the main features of this policy are that the private sector was allowed to determine its wages guided by the need to become profitable. There was a recognition that the private sector had now grown and needed to be de-linked from Government pay structure to encourage its growth and competition. The incomes policy, however, maintained minimum wages so as to protect unskilled workers from exploitation by private sector employers. The parastatal sector was and is still tied, in terms of pay to the top and bottom pay of Government, but unlike in the past it could determine its own pay structure in between the top and bottom of Government pay.

The Revised National Policy on Incomes, Employment, Prices and Profits was reviewed again in 2003–04 with a view to aligning Botswana's Incomes Policy with best international practices, as well as with the country's Vision 2016 and other national policies. As a result of the review, Parliament is still discussing the document, which has not become a public document yet. Some of the major proposals in the 2003–04 review are to introduce minimum wages for agricultural and domestic service workers who are currently not covered by the minimum wage legislation; the review also proposed to remove the tie to some parastatals in terms of being linked to Government pay, so that they can attract skilled personnel that can make them competitive globally.

For Lesotho there is a minimum wage system that is set according to occupations in wages. There is a Wages Advisory Board that examines the rates annually. The minimum wages apply to all workers.

The determination of wage rates in Mauritius is based on a tripartite system involving employees, trade unions and the government. Annually, wages and salaries in the public sector are adjusted in line with inflation through what is known as the COLA (Cost and Living Allowance). The adjusted figure is again subjected to various discussions and bargaining. Furthermore, in the public sector, there exists a system known as the Pay Research Bureau (PRB) which submits a report every five years on wages, salaries and working conditions of civil servants together with parastatal organisations. This report makes recommendations for adjusting pecuniary and non-pecuniary benefits in line with structural changes of the economy, labour market changes, evolution of

the world economy and private sector challenges. The National Remuneration Board (NRB) is the main body that performs these duties in the context of the private sector.

7. EDUCATION AND TRAINING INITIATIVES

Most of these economies have a shortage of skilled labour, despite the enormous effort in terms of investment in education and training. As a result they have to import foreign labour, while having an excess supply of unskilled and semi-skilled labour. This points to the fact that the education system has not done much in terms of improving the quality of education and creating the skills needed by the economy. Most of countries concentrated on increasing access to education while they neglected the quality of education, which was needed especially in terms of diversifying the economy away from the few natural products and towards industrialisation.

Botswana is a typical country that has made tremendous efforts to invest in human capital. Lack of skilled and educated Batswana was one of the most important constraints on development for Botswana at independence and for many years afterwards. At independence, there were few schools and educated Batswana as a result of the neglect of the education system by the colonial government. The few schools that existed were a result of local and missionary initiatives. At independence, Botswana is believed to have had 40 Batswana who were university graduates and about 100 with senior secondary certificate. All of the university graduates were trained outside the country, mainly in the Republic of South Africa (Harvey and Lewis, 1990). Given the small human capital inherited from the colonial government, the Botswana government had to invest heavily in education, but there were still severe shortages mainly due to long time lags inherent in education and rapid economic growth, which in turn increased the demand for educated personnel (Harvey and Lewis, 1990).

In response to this scarcity of skilled labour, given the availability of revenue from diamond mining, the Government began to expand schooling both in terms of physical facilities and increase in enrolment. The education sector has always received the lion's share of both the development and recurrent budgets of Government of more than 20 per cent.

Given the emphasis of the Botswana government on human resource development over the years, there has been a sufficient output of people coming from primary and secondary schools who are ready to enter into training. Table 24 shows the enrolment in primary and secondary education since 1991. Enrolment rates for both primary and secondary schooling are very high. Dropout rates are minimal (primary 1.8 per cent, secondary 2.6 per cent). The transition rate between primary and junior secondary education was 96 per cent in 2001 and 53 per cent between junior and senior secondary, i.e., from Form 3 to Form 4 (Bennel and Siphambe, 2005). It is

currently 62 per cent and is planned to increase to 68 per cent or more by 2009. It is quite evident from this table that enrolment continues to increase. As shown in Table 25, 50 per cent of people aged 20–24 have completed Forms 1 to 4. This is significantly higher than those aged 40–44, with about 20 per cent having completed Forms 1 to 4.

Table 26 shows the number of people who were issued with certificates by the Directorate of Apprenticeship Industrial Training/MTTC between 1997 and 2005 by trade. Between 1997 and 2005, the output from the different vocational centres almost doubled for most fields. If you take into consideration that some of the certificate-level output was produced by the University of Botswana and other tertiary-level training, the output produced is more and has grown quite significantly over the years. The total enrolment for Vocational Technical and Colleges for 2004 was estimated at 12,780 students and was growing over time.

Table 24: Primary and Secondary School Enrolments in Botswana, 1991–2003

<i>Year</i>	<i>Primary</i>	<i>Secondary</i>
1991	292,233	68,487
1992	301,482	75,873
1993	305,479	85,689
1994	310,128	86,684
1995	313,693	103,159
1996	318,629	108,353
1997	322,268	116,976
1998	322,690	143,604
1999	323,874	148,076
2000	324,283	152,246
2001	329,451	151,847
2002	332,777	156,024
2003	331,456	156,687

Source: CSO, Statistical Yearbook, 2003.

Table 25: Educational Attainment of the Working Population Aged 12 Years and over in Botswana, 2001

(rounded %)

<i>Age Cohort</i>	<i>No education</i>	<i>Incomplete primary</i>	<i>Complete primary</i>	<i>Forms 1–4</i>	<i>Completed secondary</i>
20–24	6	10	6	51	26
40–44	23	20	21	20	17
All	18	17	14	29	22

Source: Population and Housing Census 2001

Table 26: Certificates Issued by DAIT/MTTC at Trade Test C, B, NCC Level in Botswana, 1997–2005

<i>Trades</i>	1997	1998	1999	2000	2001	2002	2003	2004	2005
Auto Electrical	265	146	156	205	196	268	203	279	305
Auto Mechanics	251	286	159	163	352	405	512	498	603
Agriculture	113	98	103	64	98	112	145	78	256
Bricklaying	356	138	289	306	356	379	406	568	702
Cabinet Making	219	138	159	198	208	345	375	380	408
Carpentry	245	245	265	243	550	568	605	615	605
Electrical	175	206	276	238	264	288	306	308	315
Fitter Machinist	103	64	76	35	16	35	12	43	64
Heavy Plant	89	65	49	82	105	106	106	115	130
Hotel/Catering	68	35	46	12	19	85	35	46	59
Painting	95	65	113	156	189	143	112	120	135
Panel Beating	105	65	58	67	92	65	101	45	87
Plumbing	167	111	89	116	168	190	204	304	270
Welding	165	132	154	165	189	205	206	275	306
Instrumentation	0	0	0	0	0	0	6	2	3
Power Plant	54	18	52	468	23	46	105	116	248
Heavy Plant									
Operators	0	0	0	0	0	29	49	69	370
Refrigeration	8	20	64	52	36	46	59	67	89
Totals	2488	1832	2108	2518	2825	3315	3547	3928	4955

Source: MTTC Records

Table 27 shows the breakdown of the labour force by level of training attainment in 2001. Slightly more than 80 per cent of the work force had received no formal training. Despite very high rates of economic growth over the last three decades, there is still an excess supply of semi- and unskilled labour in Botswana. The overall unemployment rate for individuals with no training was 28.4 per cent for females and 22.1 per cent for males in 2001 (Bennel and Siphambe, 2005).

Table 27: Population aged 12 and over by training attainment and sex in Botswana, 2001

	<i>Total (rounded '000)</i>			<i>% of population over 12</i>		
	<i>Female</i>	<i>Male</i>	<i>Total</i>	<i>Female</i>	<i>Male</i>	<i>Total</i>
No training	526	434	960	84.6	76.5	80.7
Certificate	62	93	155	10	16.3	13
Diploma	21	21	42	3.4	3.7	3.6
Degree	11	17	28	1.8	3	2.4
Total	620	565	1185	100	100	100

Source: 2001 Population and Housing Census

The majority of newly recruited semi- and unskilled workers in formal sector enterprises in Botswana have completed ten years of education (seven years' primary and three years' junior secondary school). The rapid expansion of education provision, particularly lower secondary education during the 1990s, has dramatically improved the education attainment profile of the labour force. In terms of availability of trainable labour force, the country has therefore produced high enough numbers. What may be lacking is the right quality for the needs of the labour market.

Just like Botswana, Lesotho, Swaziland and Gambia have invested heavily in education, even though they have done so at a lower rate than Botswana. Expenditure on education for Lesotho was estimated at 10 per cent in 2005 (African Economic Outlook, 2006). As a result there has been a positive change in terms of the labour force as measured by some of the statistics. Adult illiteracy rates were, for instance, falling from 18 per cent in 2000 to 14 per cent in 2005. The primary school enrolment ratio rose from 104 in 1990 to 112 in 2001, while secondary enrolment also rose from 13 in 1975 to 24 in 2001 (African Development Report, 2004). Between 1999 and 2004 Swaziland was spending 5.5 per cent of GNI on education. This is, however, lower than Lesotho at 10 per cent during the same period. Illiteracy rates have therefore been declining over time, reaching 17 per cent in 2005 from about 25 per cent in 1990 (African Economic Outlook, 2006). Education is a basic fundamental right for every Gambian child. Because of the rapid growth in population, school enrolment has however been low. Primary school enrolment was estimated at 57 per cent in 1988 and was 79 per cent in 2002. This is far lower than that of the continent as a whole at 92 per cent (African Economic Outlook, 2006).

Maldives gave great emphasis to provision of comprehensive and quality education, which has seen it enjoying 98 per cent adult literacy rates. Like most countries, there remains a major challenge in terms of improving the quality of the education system. As a result, Maldives' development activities are continually hampered by a shortage of qualified and skilled manpower, which is only filled through heavy importation of expatriate labour. At the same time, there are unemployed citizens of Maldives who, because of the improved standard of living, have become discriminating about jobs they would accept. Because of the relative success of Maldives in the region, it is attracting both legal and illegal labour from neighbouring countries such as Sri Lanka, Bangladesh and India. The biggest challenge to the economy of Maldives is diversifying it from tourism and fishing, which make it vulnerable to external shocks. There are also problems with producing local skilled labour, because of the fact that there are many dispersed islands.

8. MIGRATION, BRAIN DRAIN AND REMITTANCES

Studies on migration are very scanty for the eight countries covered in this chapter. Historically, the SACU countries were dominated by migrant labour

to the South African mines. For Botswana, Lesotho, and Swaziland, remittances from migrant labourers were a major source of foreign exchange. That situation has, however, changed quite drastically due to restructuring in South Africa. This is to do with increased mechanisation and relatively high mine wages that now attract South African citizens. As a result, Swazi mining labour in South Africa declined from 20,041 in 1993 to 7,445 in 2004. Basotho and Batswana workers have also been declining due to these changes in South Africa.

An important cause for concern for Lesotho and Swaziland is the migration of skilled labour to South Africa in search of greener pastures. The remittances from these migrants are, however, not properly captured in the statistics of these countries. Botswana also has a small but growing proportion of nurses and teachers who have migrated to the UK in search of better pay and better working conditions. From a government point of view, the brain drain is not so serious, even though there is anecdotal evidence of a shortage of nurses. Private hospitals are able to fill the gap with foreign workers, especially from Zimbabwe, due to its worsening economic conditions. The remittances from these teachers and nurses are also not well captured in the official statistics. Compared to countries in Western Africa, especially Ghana, these may constitute a very small proportion of the total income of the country. In the long run, there are likely to be external benefits in terms of acquired skills by these migrants; skills which they are likely to bring to the country on their return. Unfortunately, migration is not managed as governments see it as neither beneficial nor a significant worry. There is, however, need for more empirical research on migration from these countries.

9. HIV/AIDS AND THE LABOUR MARKET

An important issue for the labour markets, especially those in SACU countries, is the high prevalence rates of HIV/AIDS. The prevalence rates are quite high for these countries, with Swaziland having the highest rate at 43 per cent of women attending antenatal clinics. Botswana, Namibia and Lesotho have rates of 17.5 per cent, 35 per cent, and 19.2 per cent respectively. Studies done show that the impact of the epidemic on the labour market and the economy in general has been to reduce labour productivity, and to some extent growth of the economy as governments have been shifting some of the resources needed for development into funding HIV/AIDS-related expenditure.

HIV/AIDS absorbs the largest portion of the budget currently, both in terms of recurrent and development budget for the Botswana economy. The epidemic is also reducing the already scarce skilled labour in these countries, making it difficult for them to achieve their desired goals. Their human development indices have been declining tremendously as a result of the declining life expectancy resulting from the epidemic. In response, countries like Botswana have been providing free anti-retroviral drugs, which is taking away a lot of

the resources that could have been channelled towards growth and development. For these countries, HIV/AIDS is a major challenge for their labour markets (for a detailed analysis of the impact of HIV/AIDS on some of these countries' labour markets, refer to Greener et al, 2000, Greener et al, 2004, and Jefferis et al, 2007).

10. POLICIES AND PROGRAMMES FOR ENHANCING THE ROLE OF LABOUR MARKETS

The labour markets of the small countries of Southern Africa are generally characterised by persistent unemployment and poverty. Most unemployment increased in the 1990s and is more severe among youth and women. It is higher in urban areas and its duration is increasing over the years. The size of the labour force is increasing, despite the effects of HIV/AIDS. The island economies and The Gambia, however, have low unemployment rates.

Despite the differences in unemployment rates, the eight countries in this chapter have common features. These are that:

- most of them are based on very few extractive or agricultural commodities with very low industrialisation. This results in most of them being susceptible to external shocks. Most of these economies are narrowly based and have, over time, failed to diversify away from the economic base.
- most of these economies have a shortage of skilled labour, despite the enormous effort in terms of investment in education and training. As a result, they have to import foreign labour, while having an excess supply of unskilled and semi-skilled labour. This points to the fact that the education system has not done much in terms of improving the quality of education. Most countries concentrated on increasing access to education, while they neglected the quality of education, which was needed, especially in terms of diversifying the economy away from a few natural products towards industrialisation.
- due to excessive rural urban migration and the inability of urban centres to absorb the increasing labour supply, there has been an increase in the informal sector in most of these countries. Data show that employment in the informal sector for Botswana was 19 per cent, 72 per cent for The Gambia and 24 per cent for Mauritius. In most sub-Saharan countries the informal sector employs over 70 per cent of urban workers (Bhorat, 2005).

A number of policies and programmes for enhancing the role of the labour market are required to deal with both demand and supply side of the labour market:

- On the labour demand side there is a need to diversify these economies so they do not rely heavily on single commodities. The countries need to come up with programmes that will boost employment creation.

There is a need for countries to support a diversified set of industries especially geared for the export market, given that they have small populations. There is a need to identify key growth areas and support them in terms of finance, infrastructure and other means. Some of these countries are already moving in that direction. Botswana, for instance, has developed several employment schemes, which unfortunately were not very successful due to poor management of the programmes. The programmes were poorly targeted and there was no timely monitoring and evaluation. There is also a need to come up with policies that promote self-employment. Such schemes should aim to develop entrepreneurial abilities, especially in young people. There is also need to give special support to SMEs. Such enterprises have been shown to have very high potential for employment creation, especially self-employment.

- On the supply side, countries need to develop a set of policies and programmes to improve performance of labour markets. Most of these countries face critical shortages of skilled personnel, while at the same time having a surplus of unskilled labour. These countries urgently need to produce detailed and comprehensive national human resources development strategies, which focus in particular on the occupational requirements of key growth sectors in the economy. The development of a labour market information system is essential. Most of these countries lack the labour market information, since they do not have comprehensive databases for such information. Most of them, for instance, do not conduct tracer surveys.
- A major problem on the supply side has to do with quality of education. Most of these countries, driven by philosophies such as the UN declaration of 'Education for All' expanded their education quite significantly and sometimes beyond the ability of the resources. This led to an erosion of quality of education. For most countries, training was usually to fill shortages in the public sector and therefore it became clearer that the skills developed were not suitable for the private sector. And yet the private sector was expected to take a leading role in terms of both employment creation and economic growth. Vocational education was, for most of these countries (especially the SACU countries), neglected in pursuit of training for white-collar jobs. Vocational education is usually considered to be inferior to general education. As a result of the poor conditions of many of the African vocational education and training programmes, it is difficult for graduates to meet the private sector skill demands. There is, therefore, a need to develop policies towards access to formal on-the-job training. This calls for increasing training access for both adults and youth. At a general level, there is also a need to improve the quality of education in these countries.

- Most of these countries have low productivity and high costs of production that make them uncompetitive in the international market. Most studies done on these countries indicate that labour market regulations, like minimum wages, do not have a significant impact on employment creation. This is because they are set at very low rates and wages also account for a very small share of the total costs of the firms. There is also an issue that, even when regulations are in place, they are often not enforced due to limited coverage. Even though most countries have ratified a good number of the International Labour Standard Conventions, they have not changed their national laws to allow for enforcement of these standards. Given that wages are not the main binding constraint, it therefore follows that competitiveness must come from increased productivity and greater development of worker's skills. There is, therefore, a need to intensify programmes for enhancing productivity in the workforce in all the countries.

Notes

1. Government of the Republic of Namibia, 1992 and 2003.
2. In 1991, 19 of Botswana's villages started to be classified as urban villages. These were defined as villages with fewer than 25 per cent of their workforce working in traditional agriculture. These are, however, different from the more established urban areas such as Gaborone, Francistown, etc. Examples of urban villages are Molepolole, Mahalapye, etc.
3. Bank of Namibia, 2004.

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Recent studies of the economic growth and development process have emphasised the critical role of human development. For small developing countries the existence of limited natural resources means that emphasis must be placed on human resources development (HRD) in national development strategy formulation. Through education and training (and health and nutrition), HRD can overcome imbalances in the labour market.

This book explores the approaches to this challenge adopted by governments of smaller states across the world and considers the effectiveness of the particular strategies adopted. It also explores the role of labour migration, particularly the emigration of skilled labour, in this process.

The book will be of value to national economic planners, labour market economists, and all those who seek to ensure the successful development of the economies of the world's smaller states.



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