

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/structural (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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