

POLICY BRIEF

Improving a Tough Labor Market



Photo credit: Luis Ascui.

Explore the policy options being undertaken to improve the challenging labor market in the Pacific.

Introduction

The Pacific region includes countries with high population growth rates and those with declining populations. Labor market issues are therefore diverse, and efforts to address them are best developed in country-specific contexts. Nonetheless, this overview highlights some of the dominant labor market challenges in the region, considers underlying economic and labor market conditions, and discusses policy options for addressing these challenges.

Analysis

Challenges faced across Pacific labor markets

Many countries in the Pacific share common labor market characteristics and problems.

First, creating opportunities for productive employment is arguably the most urgent labor market issue, especially in Papua New Guinea (PNG), Solomon Islands, and Timor-Leste, which share a critical need

for new jobs for their young and rapidly growing populations. These countries have recently achieved relatively high economic growth rates driven by resource exports. Other countries in the region share the need to create jobs, but they generally have lower population and economic growth than the largest Pacific countries. Constraints to job growth in the region are daunting and interrelated.

Second, labor force participation rates—defined as the percentage of working-age persons who are employed or unemployed but looking for a job—average 63% (Table 1). However, large proportions of the working-age populations in most Pacific countries continue to be engaged in subsistence and informal work, and have only marginal attachments to the formal labor market. Informal workers typically have lower and more unstable incomes, lack access to employment-related protection and other public services, and suffer from underemployment as they struggle to find adequate paid work.

Table 1: Pacific labor market indicators (as of 2014 or latest available year)

Country	Population ('000)	Working-age population (% of total population)	Labor force participation rate (% of working-age population)			Formal employment (% of labor force)	Public sector workers (% of employed)	Subsistence (% of employed)	Unemp (% of for
			Male	Female	Total				
Cook Islands	15.2	62.4	77.0	65.0	71.0	90.2	31.0	1.8	
Fiji	863.1	66.8	...	...	68.9	72.1	10.1	22.5	
Kiribati	111.1	61.3	72.4	66.2	59.3	50.2	24.8	27.7	
Marshall Islands	54.5	57.4	66.3	35.4	51.2	66.7	38	3.5	
FSM	102.9	63.2	66.1	48.4	57.3	39.9	24.4	52.4	
Nauru	10.7	59.2	78.9	49.3	64.0	73.9	25.3	4.1	
Palau	17.9	72.4	...	...	68.1	94.0	34.9	2.0	
PNG	7,570.7	58.2	62.0	62.4	65.8	55.2	22.8	41.0	
Samoa	187.4	55.7	58.3	23.3	41.3	60.7	5.3	35.6	
Solomon Islands	626.2	57.7	63.5	62.2	62.9	21.7	4.2	77.6	
Timor-Leste	1,306.0	54.1	56.1	25.7	41.7	29.1	15.9	69.8	
Tonga	103.3	56.5	62.7	42.3	52.3	70.6	17.6	28.6	
Tuvalu	11.1	61.9	...	...	73.3	47.7	42.2	43.0	
Vanuatu	271.1	59.4	80.4	61.4	70.9	38.5	7.7	59.6	
Pacific (total/average)	11,251.2	58.4	62.7	52.9	19.5	43.5	

Pacific excluding PNG	3,680.5	59.9	56.5	47.2	11.7	49.5
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... = data not available, FSM = Federated States of Micronesia, PNG = Papua New Guinea.

Note: Working-age population standardized to ages 15–64. Regional averages are weighted averages.

Sources: ADB estimates using data from the Secretariat of the Pacific Community Statistics for Development Division website, Cook Islands 2011 Census; Fiji 2010–2011 Employment and Unemployment Survey; Kiribati 2010 Census; Republic of the Marshall Islands 1999 and 2011 censuses; Federated States of Micronesia 2010 Census; Nauru 2011 Census; Palau 2012 Census; Papua New Guinea 2009 Household Income and Expenditure Survey; Samoa 2011 Census; Solomon Islands 2009 Census; Timor-Leste 2010 Labor Force Survey; Tonga 2011 Census; Tuvalu 2004–2005 Household Income and Expenditure Survey; and Vanuatu 2009 Census.

Third, the low proportion of workers in the formal sector explains why the regional average unemployment rate appears moderate at 6.4%. Many people view the probability of securing a job in the formal sector so low that they do not actively participate in the formal labor market, which means they are not counted in the unemployment figures.

Fourth, large numbers of workers (especially the more educated) seek jobs overseas. This alleviates some of the pressure in the domestic labor markets but can constrain domestic growth by creating shortages of skilled workers. Countries with strong links to more advanced and growing economies continue a long-standing pattern of migration, overseas employment, and repatriation of remittances that can make significant contributions to the families and economies back home. Migrant remittances contributed an estimated average of 22.8% of the gross domestic product in Tonga and 21.2% in Samoa from 2006 to 2012.

Fifth, for countries where data are available, women's participation in the labor force is generally lower than men's. In Samoa and Timor-Leste, their participation is around 25%, which is about 30 percentage points lower than men's. This is indicative of a much narrower range of jobs for women in the region that reduces their contribution to the economy.

If these challenges persist and recent employment trends continue, the number of unemployed and underemployed persons in the Pacific is likely to rise sharply in coming decades. The region's total population is projected to increase by about 4.1 million by 2030. The working-age population is seen to expand by 3.1 million, with about 2.1 million remaining outside wage employment, assuming there are no changes in labor force participation and formal employment rates. Just to maintain current rates of unemployment, nearly one million new formal sector jobs (or an expansion of current jobs by 44%) will be needed over the next 16 years. This does not take into account the need to provide formal employment for nearly an equal number of workers (about 830,000) that would otherwise be added to the subsistence sector.

Drivers of current labor market conditions

Pacific economies have relatively small private sectors. Small and dispersed markets limit domestic

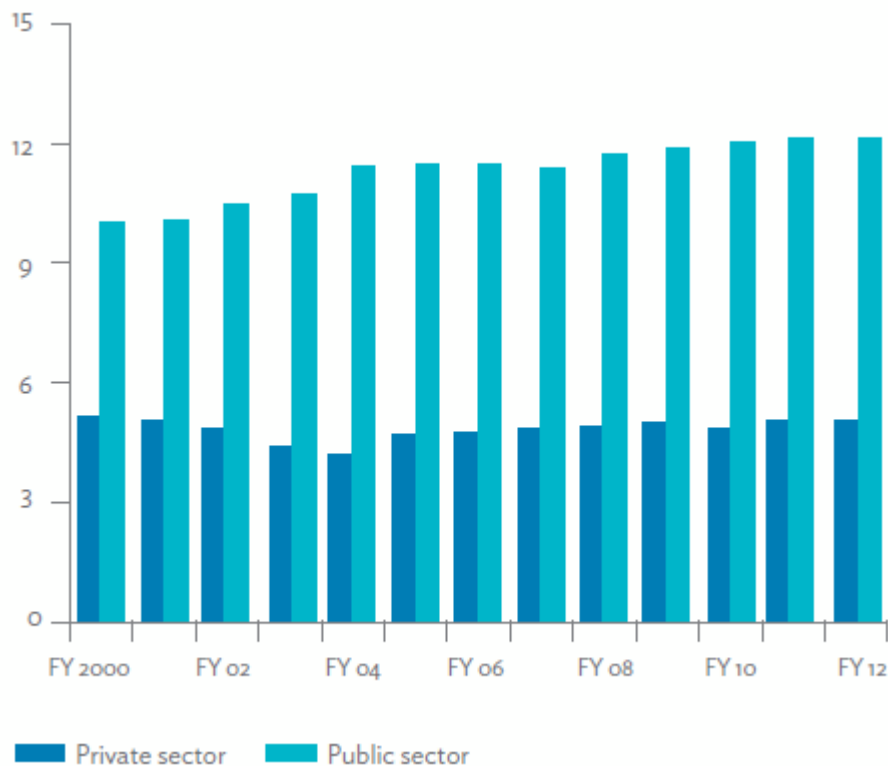
demand, while remoteness constrains export opportunities for private enterprises in the region. Unable to achieve necessary economies of scale, businesses struggle to expand operations and provide more jobs. Some policy choices have also hindered the development of an enabling environment for private sector investment. Private sector growth has tended to be highest in capital-intensive industries, such as mineral and petroleum extraction in PNG and Timor-Leste. These industries make significant economic contributions but generate few direct employment opportunities. Further, these industries are characterized by high levels of leakage as a result of repatriation of profits by overseas investors and reliance on imported skilled labor. The resource sectors, however, generate indirect employment in related retail, transport, and other industries.

Recent developments are opening opportunities in the Pacific. Significant investments in infrastructure and in information and communication technology (ICT) are enabling the development and expansion of private investments in tourism and other services. Better roads and air and maritime services in countries, such as the Cook Islands, Fiji, and Palau, have resulted in larger shares of the working-age population in formal employment. International demand for tourism has been growing and is forecast to continue to expand in the coming decades, which offers Pacific destinations a positive long-term growth outlook.

Given the relatively modest contribution of the private sector to overall employment, the public sector has tended to assume a dominant role in providing formal employment, often as an employer of last resort. But the public sector itself is limited in the extent to which it can provide work, and there is excess demand for public sector jobs.

Further, public sector jobs are frequently used for dual purposes: as inputs into the provision of public services and as a de facto social safety net. As more labor is employed than required, public sector productivity declines and could result in poor delivery of services. Weak delivery of public education and health services produces poor education and health outcomes, which in turn, constrain growth and the expansion of new job opportunities—creating a vicious cycle. Use of public sector employment as a de facto social safety net also drives widening public–private wage gaps that hinder businesses in their efforts to attract skilled labor (Figure 1). This, in turn, contributes to the lackluster private sector growth outcomes observed in many developing member countries (DMCs) of Asian Development Bank (ADB) in the Pacific.

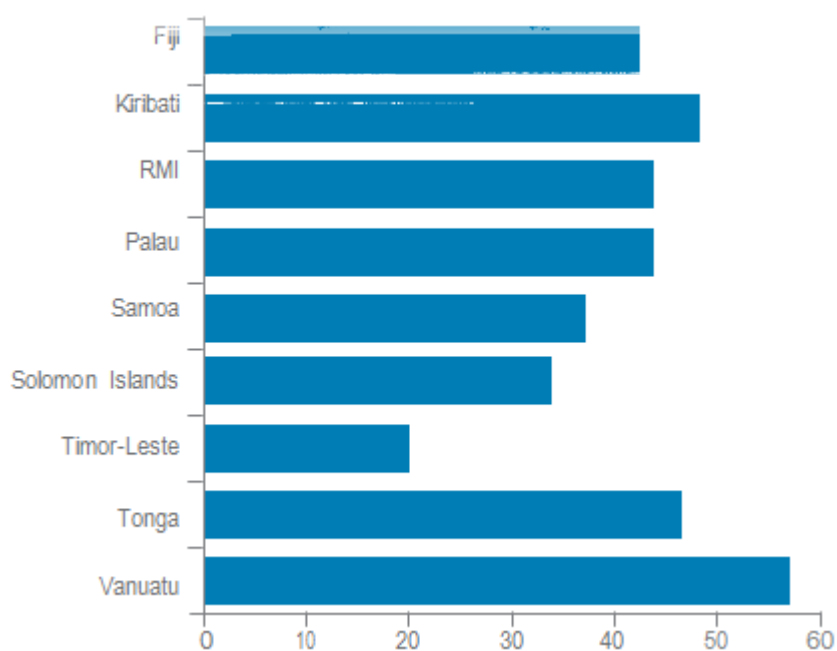
Figure 1: Public vs. private wages and salaries in the RMI (\$'000 per annum)



FY = fiscal year, RMI = Republic of the Marshall Islands.
 Source: Republic of the Marshall Islands (RMI) FY2012 Economic Review.

The scope for expanding (or in many cases, merely sustaining) jobs in the public sector is very limited. Without significant resource revenues, most governments tend to rely on overseas development assistance for funding. Development partners generally share concern over the large and growing public wage bills in the region (Figure 2).

Figure 2: Public expenditure on wages and salaries (% of total expenditure, 2009–2014 average)



RMI = Republic of the Marshall Islands.

Policy Options

Options for generating employment opportunities

Pacific DMCs have a number of policy and program instruments at their disposal that, if used effectively, can be combined to address job growth constraints and boost regional employment prospects.

Expanding private sector opportunities

Creating more jobs in the private sector requires policies to entice investment in relatively labor-intensive businesses and to foster employment growth in existing businesses. Improved infrastructure reduces transaction costs and contributes to increasing business competitiveness and expanding markets. Better roads facilitate market access. More and better air and shipping services can help cut transportation costs. Improved ICT can reduce the cost of doing business.

At a sectoral level, strategies for expanding opportunities need to be country-specific. The larger resource-based economies could look to train more skilled workers through innovative partnerships between the public and private sectors; models from Southeast Asian countries may provide useful lessons. Such public-private approaches could also look to expand opportunities for local businesses to deliver public services.

The relatively small size of many Pacific DMC economies and their labor markets means success in attracting one or two foreign investment projects can have a large impact on increasing formal employment. For example, tourism investments in Fiji, the Federated States of Micronesia (particularly on Yap), and Vanuatu have demonstrated some success in generating new jobs. The tuna loining plant in Majuro, capital of the Republic of the Marshall Islands, and the Yazaki automotive wiring harness factory in Samoa had initial success, but have recently struggled because of market changes. The tuna loining plant now employs far fewer Marshallese and is looking to Kiribati to provide workers. With the closure of Toyota car production in Australia by 2017, the future of the Yazaki factory is now uncertain.

With large numbers of people engaged in the informal sector, increasing access to affordable financial services at the community level can help boost the capacity of small entrepreneurs to offer more jobs. Fostering the development of micro, small, and medium-sized enterprises can further spur entrepreneurship and innovation.

Where formal sector jobs are scarce, policy makers need to carefully assess the implications of new regulations on employment generation and avoid inhibiting job creation. But it is also reasonable for Pacific DMCs to aspire to have the same level of legislative protection for their workers as other countries at a similar stage of development.

Reforming public sector employment

Enhancing the productivity of public sector workers is a long-term undertaking. It requires sustained

efforts to professionalize the civil service, promote merit-based hiring and promotion, tie incentive-based remuneration to achievement of performance targets, and implement related reforms.

Unfortunately, slow private sector development has led some Pacific governments—often with the support of development partners—to seek to create jobs directly by establishing state-owned enterprises. Direct job-creating investments by governments have had, at best, mixed results. The region's growth has suffered from failed government-directed investments in the commercial tuna industry, hotels, airlines, agriculture, and wholesale and retail sectors (ADB 1997; Gillett 2010).

Development of targeted transfer programs, widely used across the world, provide a better alternative to using public sector employment as a social safety net. While costly especially during the establishment phase, these transfer programs offer a fairer and more transparent way of providing social safety nets without distorting public sector performance. These can also help public sector employment processes become more merit-based, enable productivity growth in the public sector, and promote a clearer focus on service delivery. Contracting out delivery of public services to the private sector can also lead to efficiency gains and create opportunities for businesses.

Improving education and training systems

The public sector has tended to take the lead role in skills development, especially through the delivery of technical and vocational education and training (TVET) services. Investments in basic education and TVET that equip a growing labor force with skills demanded by domestic, regional, and international markets have shown some success in increasing employment. However, the modest number of trainees graduating, the quality of the skills developed, and the low retention of postsecondary trainees all point to the need to do more to develop skills more effectively.

Since its establishment in 2007, the Australia-Pacific Technical College (APTC) has produced over 5,000 graduates from training campuses in Fiji, PNG, Solomon Islands, Samoa, and Vanuatu. The college offers credentials recognized in Australia in fields such as construction and manufacturing, tourism and hospitality, and health and community services.

Expanding opportunities for female students to receive training for nontraditional occupations can help overcome gender-based job discrimination that has hampered the success of education and training efforts.

Job growth through regional cooperation and integration

Regional initiatives, such as the Melanesian Spearhead Group labor scheme, and seasonal employment schemes in Australia and New Zealand have expanded opportunities for islanders. Under its Recognized Seasonal Employer (RSE) scheme, New Zealand hosted a total of over 6,000 temporary workers from Pacific DMCs in FY2013. Almost half of these workers were from Vanuatu, where RSE participation is now a significant source of foreign exchange. Australia has likewise seen rapid growth in seasonal worker arrivals. Over 1,000 workers from Pacific DMCs found seasonal employment in Australia in FY2012, with a large majority coming from Tonga.

Regional trade agreements provide an important framework to formalize arrangements for labor mobility. The ongoing discussions around the Pacific Agreement on Closer Economic Relations suggest labor issues are not straightforward, but have the potential to form an important part of expanding regional labor market opportunities in the Pacific.

While APTC has succeeded in skills creation, it has yet to achieve any significant progress in fostering labor mobility. Only about 1.5% of graduates have found work overseas. Graduates generally intend to migrate, particularly to Australia, but opportunities are hampered by administrative issues relating to skills assessment and certification. Mechanisms to match graduates with potential employers in Australia are also lacking (Clemens, Graham, and Howes 2014). Resolving these and other related issues will help APTC graduates and also provide important lessons for the design of future programs targeting regional labor mobility.

Conclusion

To achieve more inclusive growth, Pacific economies will need to ensure that recent improvements in headline growth figures are translated into more and better work opportunities. Creating enough decent, productive jobs for their citizens requires DMCs to adopt policy actions that take advantage of opportunities from a more interconnected regional and global economic system. This brief offers a preliminary analysis of some issues that define labor markets in the Pacific. It presages additional research planned by ADB to explore these issues and options for improving job opportunities in the region in coming years.

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Related link

Policy Brief: Realizing Job Needs across the Pacific (originally published in the Pacific Economic Monitor, July 2014)



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Last updated: July 2016