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Labour market institutions in small Pacific island countries: Main guidelines for labour market reforms

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LABOUR MARKET INSTITUTIONS IN SMALL PACIFIC ISLAND COUNTRIES: Main guidelines for labour market reforms

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Abstract:

This report consists of a comprehensive overview of labour market institutions in the small Pacific island countries in order to propose recommendations to improve the performance of their labour markets. We pay particular attention to three countries: Fiji, Palau and Papua New Guinea. We focus on the main pillars of labour market institutions, as employment protection legislation, minimum wage, and labour organization. The analysis considers the possibilities for institutional change in the next future. The main guidelines for eventual reforms are discussed, for the region as a whole and for the above three countries.

Keywords: Pacific, employment protection legislation, minimum wage, unions, institutions, labour law.

JEL Classification: J32, J51, J63, J80, K31, O17, O56.

(July 2017)

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0 Foreword

This report consists of a comprehensive overview of labour market institutions in the small Pacific island countries in order to propose recommendations to improve the performance of their labour markets. We pay particular attention to three countries: Fiji, Palau and Papua New Guinea. We focus on the main pillars of labour market institutions, as employment protection legislation, minimum wage, and labour organization. The analysis considers the possibilities for institutional change in the next future. The main guidelines for eventual reforms are discussed, for the region as a whole and for the above three countries.

In the case of small Pacific island countries, statistical information is scarce, fragmented and, many times, not strictly comparable across time and/or countries. In fact, one of the three selected countries —Papua New Guinea— does not have any Labour Force Survey. Different surveys and sources (as the population census) provide information on the labour market, but they are not exhaustive. This is the reason we have preferred to use statistical information as a descriptive approach, leaving aside multivariate analyses about the impact of different dimensions of employment protection legislation on employment, unemployment, etc. We use the available information to build a coherent broad picture of these labour markets in order to understand the performance of their labour market institutions.

The report proceeds as follows. The first section provides a brief overview of the main demographic and labour market outcomes of the region. The second section analyses the labour market institutions. This section also discusses changes of institutions, as labour market reforms. Here, we discuss the importance of the legacy of pre-independence period to understand the current features of the industrial relation systems in the region, but especially in the three selected countries. Finally, the third section compiles the main guidelines for labour market reforms obtained from the two previous sections.

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1 Introduction: The labour markets of the small Pacific island countries

1.1 Economic growth in small Pacific island countries

Remoteness and economic growth have been distinctive features of the region, but current prospects of growth are not bad

Pacific island countries face specific challenges for economic development. Geography considerations are key, especially ‘remoteness’. Gibson (2007) estimate a comprehensive measure of country remoteness using bilateral distances of 219 countries¹. This author finds that in 2003 the average Pacific island is the 197th most remote, while a mean Caribbean island is 100th most remote². Anyway, this distance rank has slightly decreased respect to 1988, when the mean Pacific islands were ranked as 199th (and a mean Caribbean island 98th). Of course, remoteness is a relative concept. What is remote is related with transportation costs and how to access to other societies and markets. When considering airfare measures of remoteness, the same authors note that the remoteness of Pacific islands substantially increases. In fact, statistical analyses show that remoteness has a negative impact on growth of Pacific island countries (Gibson, 2007; Gibson and Nero, 2008). At the same time, Gibson (2007) find that the growth of any Pacific island country crucially depends on the economic growth of their country neighbours.

Considering the specific characteristics of the Pacific island countries, the relatively low growth rates of the recent past may also be related with a measuring problem. Part of the wealth does not participate in the market economy, and then wealth and income may be underestimated (Gibson and Nero, 2008).

Climate change is a serious concern for the Pacific island countries. Consequences of the global warming are more present in the region than in other world regions. As a sample from 2016, we have the drought related to El Niño in Palau, heavily affecting tourism, and then to the Palauan economy. The consequences of global warming are not part of this research. However, it is important to have in mind that this problem may heavily affect to the labour market, not only through the impact on growth, but potentially increasing mobility of people across and abroad the region.

Nevertheless, the current growth forecast for the region at the closing date of this report is 3.9% for 2016. Therefore, it is not expected that the current global uncertainty and weak global growth will affect most Pacific economies. Even prospects for smaller economies are a bit better.

¹ This author considers the 19 Pacific Islands countries and territories with available data respect to the other 218 countries in the rest of the World, weighting by the GDP or the population of each of those 218 countries.

² This is the distance rank weighting by the GDP. When weighting by the population the distance rank of the Pacific Islands decreases, and, on average, it is the same as Caribbean Islands.

1.2 Population and main labour market outcomes

In this section, we provide an overview of the labour market in the South Pacific island countries, excluding the main developed economies as Australia and New Zealand. Therefore, we focus on small Pacific island countries.

A growing and more urban population, with a few exceptions

The basic framework of any labour market consists of population. Table 1 shows that in the selected small Pacific island countries, population has grown from almost 7.2 million people in 2000 to almost 10.5 million in 2015. Therefore, we have an increase of 47.5% in 15 years. However, this aggregate result hides a great country heterogeneity. Using the Table 1 data, Figure 1 presents the population growth rates from 2000 to 2015. Those countries with the highest increases are Papua New Guinea (58.5%), Vanuatu (44.8%), and the Solomon Islands (41.6%). At the same time, there are two countries with a decreasing population in the same period: Palau (-6.9%) and the Federated States of Micronesia (-4.4%).

Attending to the three countries of this study, we have very different trends: Papua New Guinea is one of the countries with a highest growth of population in this period (58.5%), Fiji has a much smoother increase (8.4%), and Palau presents the highest decrease of the region (-6.9%).

About the geographical distribution of this population in each country, Figure 2 shows that the percentage of population living in urban areas has been increasing, in general, from 2000 to 2015, with the exceptions of Tonga, Micronesia and Papua New Guinea, stagnated around 23%, 22% and 13%, respectively. The only country with a decrease in the urbanization rate is Samoa (from 22% in 2000 to 19.1% in 2015). Nauru is a very special case, always reporting 100% of population living in urban areas³. Palau is the country with a largest increase (17 percentage points), and it is the listed country with the highest rate in 2015 (behind Nauru). Fiji had a moderate-low increase (almost 6 pp), having 53% of population living in urban areas in 2015.

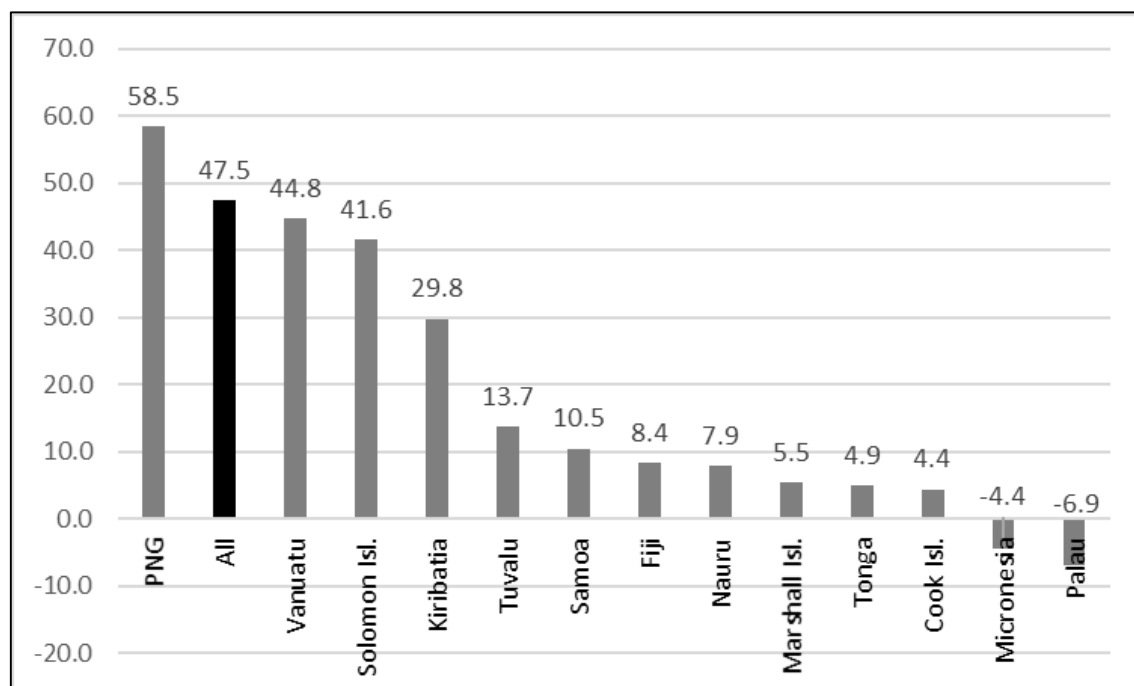
³ In fact, Nauru is one of the smallest countries in the world, only behind Vatican City and Monaco.

Table 1. Population (in thousands) in small Pacific island countries.

	2000	2005	2010	2015
All	7176.7	8156.9	9290.3	10587.1
Cook Islands	18.0	21.5	23.7	18.8
Fiji	802.0	827.0	850.7	869.5
Kiribati	84.5	92.5	103.1	109.7
Marshall Islands	51.2	51.2	52.9	54.0
Micronesia	107.0	105.6	102.8	102.3
Nauru	10.1	9.5	9.7	10.9
Palau	18.9	19.8	18.3	17.6
Papua New Guinea	5,190.8	6,051.7	7,055.4	8,225.6
Samoa	175.1	178.7	186.4	193.5
Solomon Islands	418.6	470.1	528.0	592.9
Tonga	99.1	101.2	102.8	104.0
Tuvalu	9.5	10.3	11.1	10.8
Vanuatu	191.7	217.8	245.4	277.5

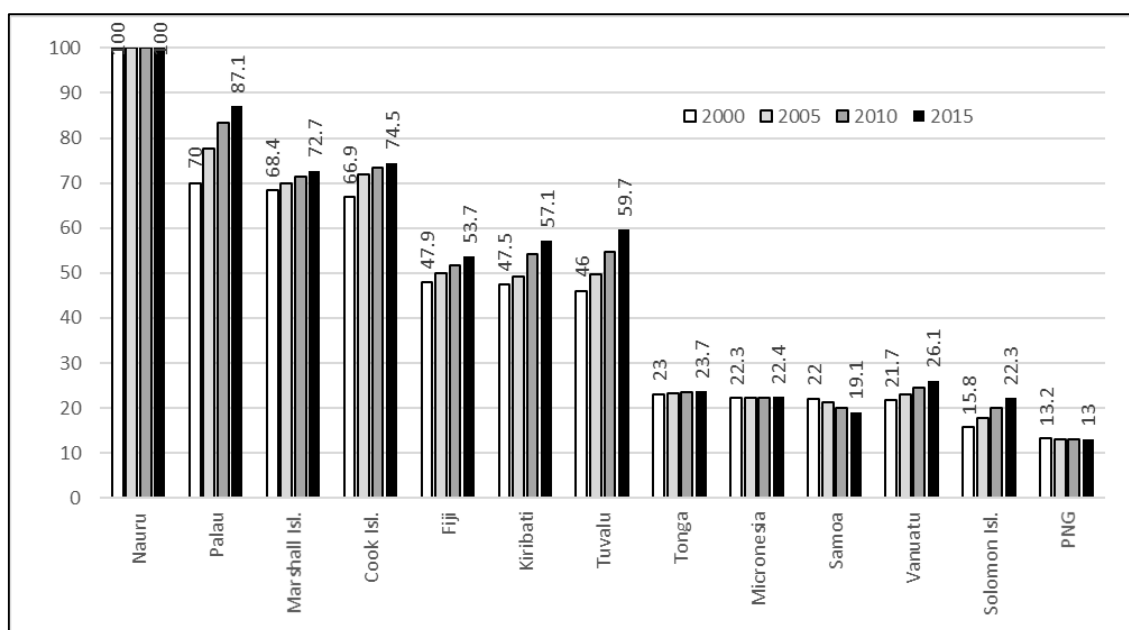
Source: *Key Indicators for Asia and the Pacific 2016*, Asian Development Bank (<https://www.adb.org/publications/key-indicators-asia-and-pacific-2016>). Original sources: United Nations Population Division, Department of Economic and Social Affairs. World Population Prospects, the 2015 Revision. <https://esa.un.org/unpd/wpp/>

Figure 1. Growth population rates in small Pacific island countries (2015 respect to 2000, in percentages).



Source: Calculations with figures from Table 1.

Figure 2. Urban population as percentage of total population



Source: *Key Indicators for Asia and the Pacific 2016*, Asian Development Bank (<https://www.adb.org/publications/key-indicators-asia-and-pacific-2016>). Original sources: Economy sources; United Nations Population Division, Department of Economic and Social Affairs. World Urbanization Prospects, the 2014 Revision.

The scarce statistical information shows a decreasing trend in labour force participation in the region...

Reliable data on labour force participation and unemployment are scarce for the small Pacific island countries. In fact, many times the statistical information from different sources is not consistent. Figures 3 and 4 are a good sample of the low availability of statistical information in the region about the labour market ⁴.

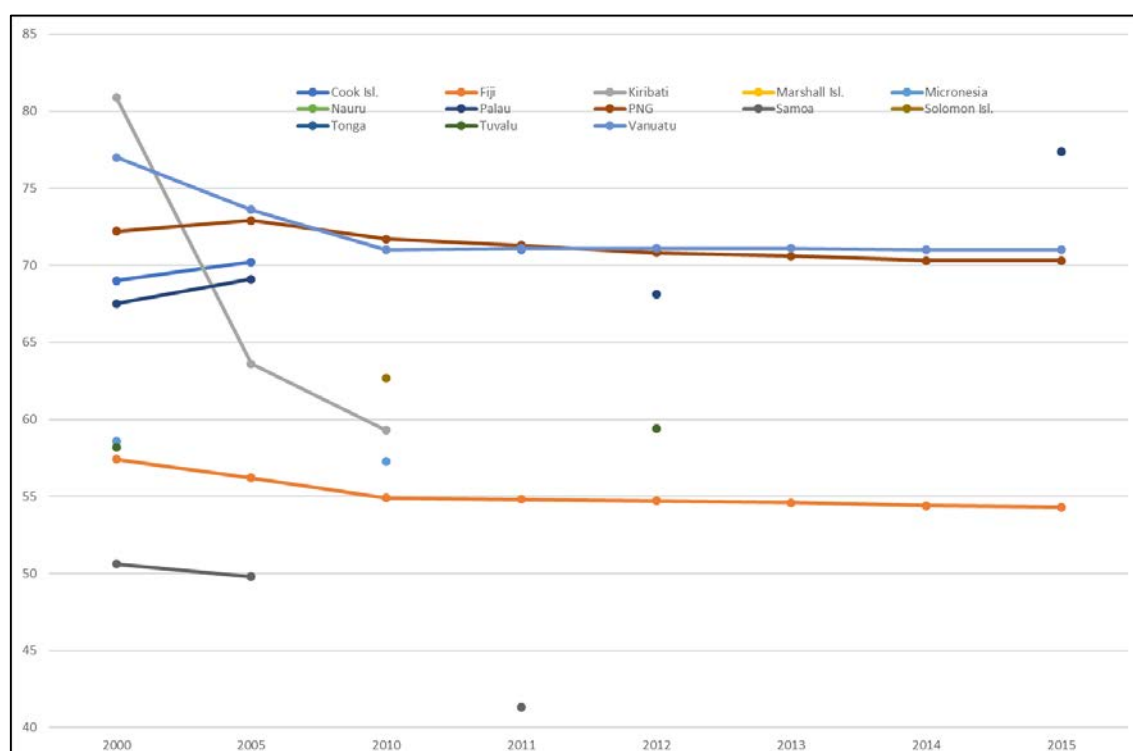
Figure 3 shows the available information on labour force participation rates. The countries with the longest series of original data are Fiji and Vanuatu, both with more or less steady labour force participation rates, around 55% for Fiji and 71% for Vanuatu. For the rest of countries, we have very different figures with a difficult comparison as they refer to

⁴ The figures used in Figure 3 corresponds to those in Table A.1 in the appendix. The data come from ADB (2016), compiling different sources. The main sources are KILM database (compiled by the ILO, <http://www.ilo.org/kilm>) and the NDMI (National Minimum Development Indicators, version 2.0, http://www.spc.int/nmdi/labour_force). The original sources correspond to households' surveys, sometimes restricted to formal and/or urban employment, and censuses. In order to complete this information and filling the gaps, we use the country data from the report WESO 2017 (ILO, 2017). This latter source includes estimations to fill the gaps and because of the small amount of original information some estimations for small countries are only reliable to show trends and to build regional aggregates. About the methodological technicalities of the WESO country data see the following note: <http://www.ilo.org/ilostat-files/Documents/ILO%20estimates%20and%20projections%20methodological%20note.pdf>

different years and they are clearly outdated. Anyway, considering the labour force participation rates, more or less there is a group of countries with rates around 70% (Cook Islands, Palau, Papua New Guinea and Vanuatu) and other group around 50% (Fiji, Federated States of Micronesia, Samoa, Solomon Islands and Tuvalu). Kiribati has an extreme decreasing pattern in the labour force participation rates. Finally, there is not information for the Marshall Islands, Nauru and Tonga.

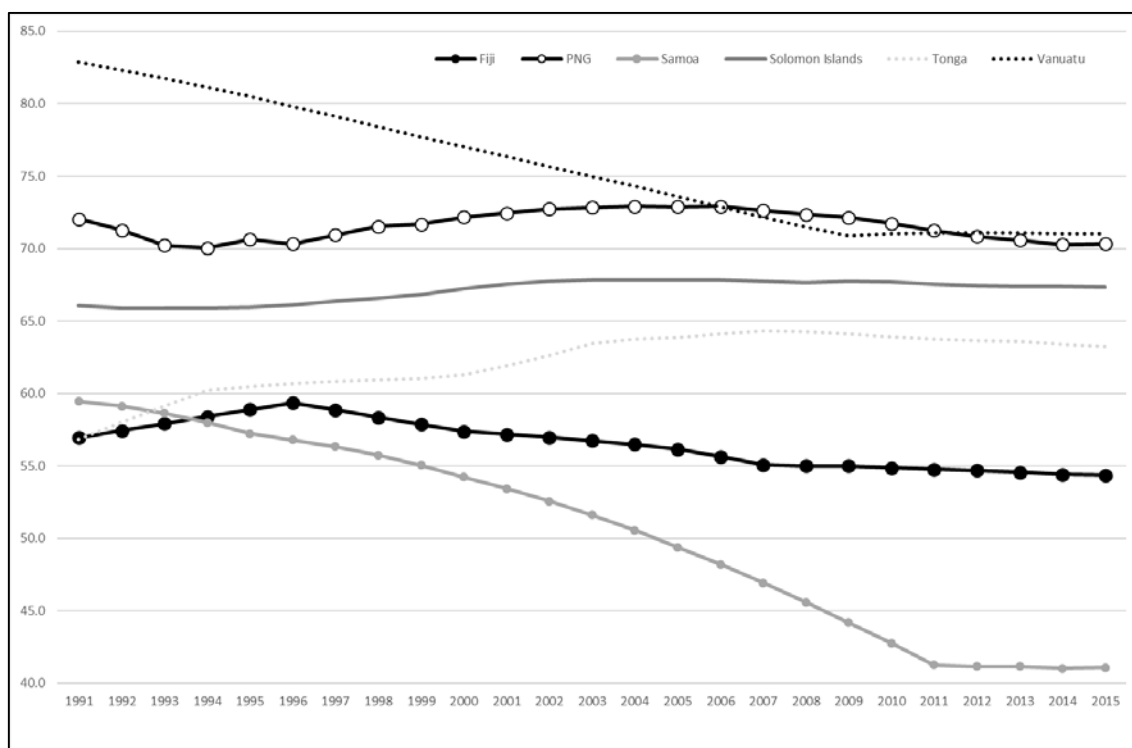
In general, there is a general pattern of decreasing labour force participation, at least at first sight because of the countries with longest series. Using the country data from WESO 2017 (ILO, 2017) we have represented the reconstructed series for Fiji, Papua New Guinea, Samoa, Solomon Islands, Tonga and Vanuatu in Figure 4. Now, the decreasing pattern of participation rates is clearer, although two countries have a sustained stability (Solomon Islands and Tonga).

Figure 3. Labour force participation in small Pacific island countries (2000-2015).



Source: *Key Indicators for Asia and the Pacific 2016*, Asian Development Bank (<https://www.adb.org/publications/key-indicators-asia-and-pacific-2016>). Original sources: Economy sources; International Labour Organization. Key Indicators of the Labour Market Online; for the Cook Islands, Kiribati, the Marshall Islands, Nauru, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, and Tuvalu: Secretariat of the Pacific Community. National Minimum Development Indicator Database.

Figure 4. Evolution of labour force participation rates in small Pacific island countries (1991-2015).



Source: Country data of the report World Employment and Social Outlook 2017, Research Department of the International Labour Organization. These figures may include estimations. See methodological notes in the following link: <http://www.ilo.org/ilostat-files/Documents/ILO%20estimates%20and%20projections%20methodological%20note.pdf>

...while the unemployment rates follow rather stable country-by-country patterns, with rates for youth people much above the whole population especially for youth women.

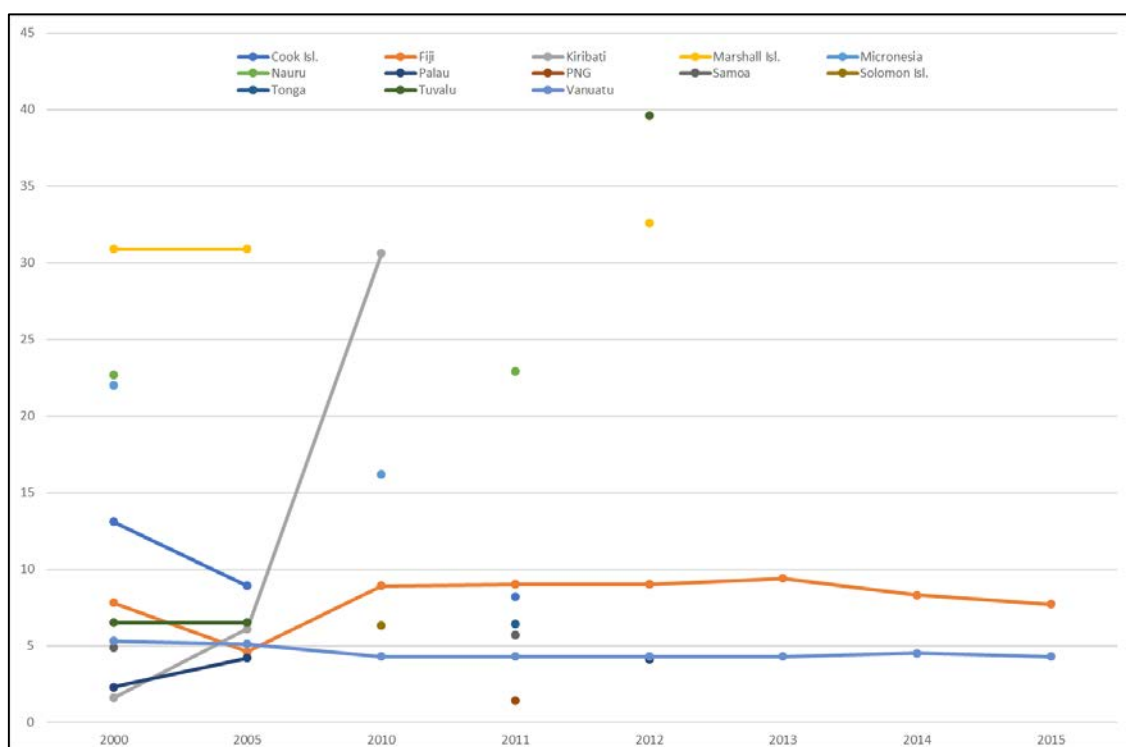
Figure 5 presents the unemployment rates in the same set of countries. There are figures extremely different in the region. On one hand, the Republic of the Marshall Islands reports unemployment rates above 30% jointly with Kiribati and Tuvalu in the latest available year, and Nauru slightly above 22%. On the other hand, we have Tonga (6.4%), Palau (4.1%), Vanuatu (4.3%), and Papua New Guinea (with only 1.4%). Fiji may be included in this last group, although the unemployment rate has usually been above 7%. Fiji and Vanuatu are the only countries with a long series for the unemployment rate, as it was the case for the labour force participation rate. Again, the evolution roughly follows the great recession for Fiji, while for Vanuatu the pattern is almost stable around 4.3% since 2011.

Here, it is difficult to follow a pattern beyond the effects of the great recession. As we did before with labour force participation, we use the country data from WESO 2017 (ILO, 2017) in order to discern general trends. In Figure 6, we have the reconstructed series for Fiji, Papua New Guinea, Samoa, Tonga, Vanuatu, and the Solomon Islands. As in Figure

5, there is not any clear trend, beyond an increase in the latest crisis for Fiji and Samoa. The evolution of the unemployment rates in the rest of countries is rather stable.

About youth unemployment, Figure 7⁵ shows that the unemployment rate among those 15-24 years old are much higher than those displayed for all active population in Figure 4. Some countries as Kiribati, the Marshall Islands, Nauru and Tuvalu have much larger youth unemployment rates (above 50%) than the rest of selected countries. By gender, this problem is larger for females than for males. The difference in unemployment rates does not seem to have a clear trend; it seems rather stable comparing both time years (2000 and 2015, or the closest available year).

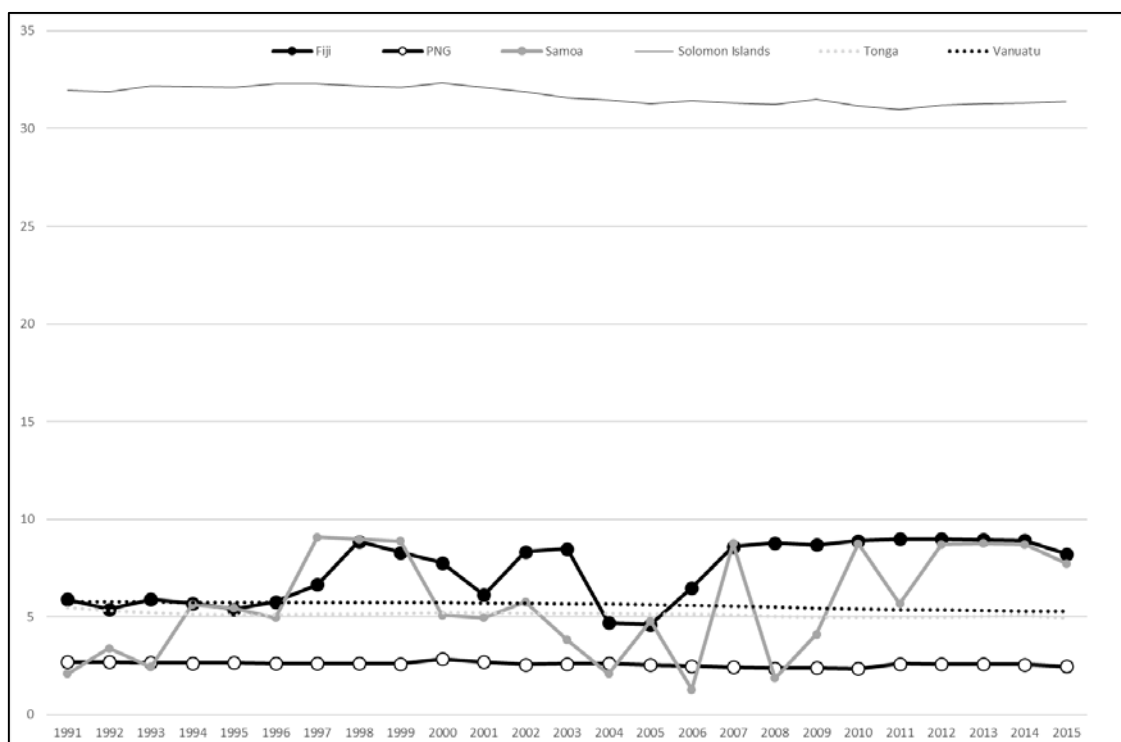
Figure 5. Unemployment rates in small Pacific island countries (2000-2015).



Source: *Key Indicators for Asia and the Pacific 2016*, Asian Development Bank (<https://www.adb.org/publications/key-indicators-asia-and-pacific-2016>). Original sources: Economy sources; International Labour Organization. Key Indicators of the Labour Market Online; for the Cook Islands, Kiribati, the Marshall Islands, Nauru, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, and Tuvalu: Secretariat of the Pacific Community. National Minimum Development Indicator Database.

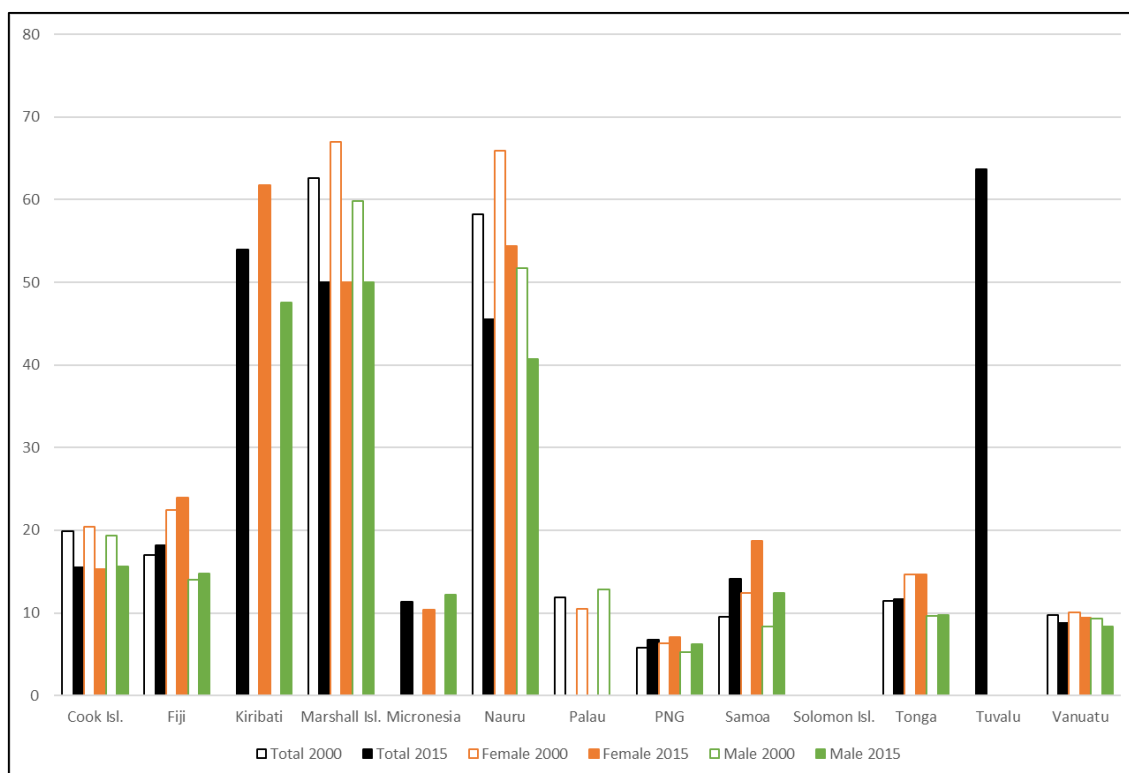
⁵ The data used in Figure 5 come from Table A.2, in the appendix.

Figure 6. Evolution of unemployment rates in small Pacific Island countries (1991-2015).



Source: Country data of the report World Employment and Social Outlook 2017, Research Department of the International Labour Organization. These figures may include estimations. See methodological notes in the following link: <http://www.ilo.org/ilostat-files/Documents/ILO%20estimates%20and%20projections%20methodological%20note.pdf>

Figure 7. Unemployment rates for young people (15-24 years old) in small Pacific island countries by gender (2000 and 2015).

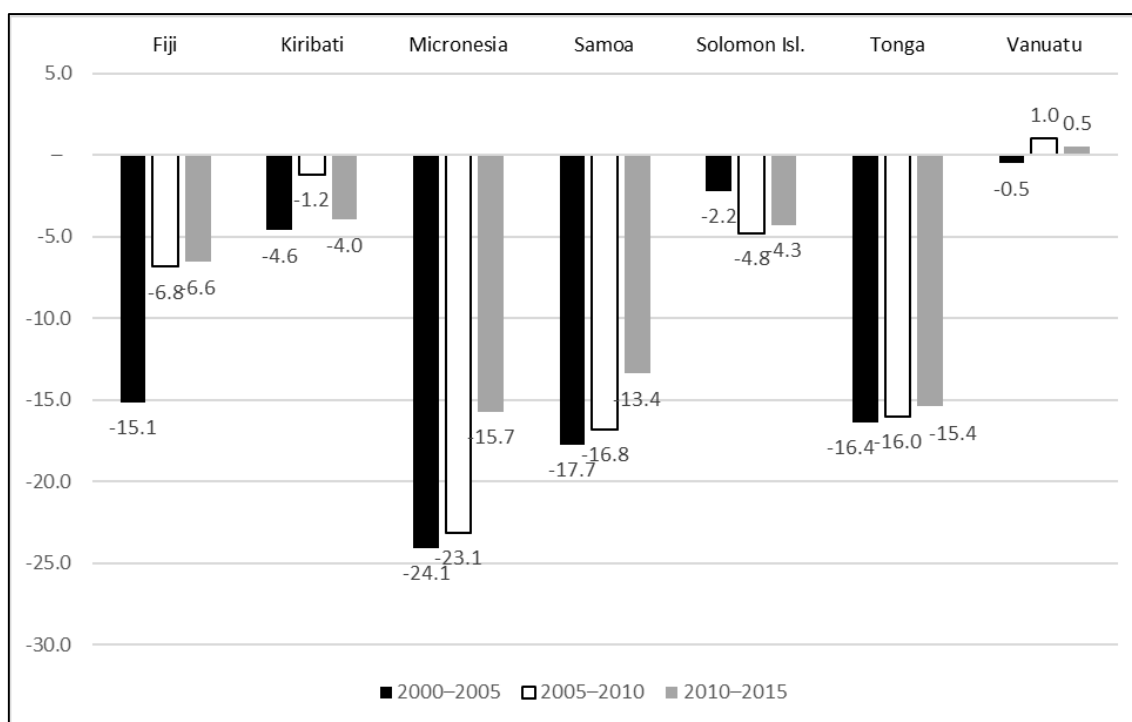


Source: *Key Indicators for Asia and the Pacific 2016*, Asian Development Bank (<https://www.adb.org/publications/key-indicators-asia-and-pacific-2016>). Original sources: Economy sources; International Labour Organization. Key Indicators of the Labour Market Online; for the Cook Islands, Kiribati, the Marshall Islands, Nauru, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, and Tuvalu: Secretariat of the Pacific Community. National Minimum Development Indicator Database.

Migration is a distinctive feature of small Pacific island countries, critically linked to the small size of these labour markets

Figure 8 shows the net international migration rate (per 1,000 population) for countries in the region with available information. Almost all these countries have negative flows, with the exception of Vanuatu. Therefore, the broad picture for the region is a predominant pattern of emigration. The net flows have a considerable size. In fact, these negative rates are the largest in the whole region of Asia and the Pacific (ADB, 2016; p. 102). Across the countries shown in Figure 8, Micronesia has the largest rates, with a peak in 2000-2005 reaching -24.1 per 1,000 people. The next countries are Samoa (-17.7 in the same period), followed by Tonga (-16.4 in the same period) and Fiji (-15.1). However, there is a clear decreasing trend, with lower figures for the periods 2005-2010 and 2010-2015. Fiji has the most pronounced decreased, from -15.1 to slightly below -7 per thousand. On the other hand, Samoa has an increasing trend (from -2.2 to around -4 per thousand) and Vanuatu turns from a small net rate (-0.5) to positive net rates (1.0 and 0.5 per thousand in 2005-2010 and 2010-2015, respectively).

Figure 8. Net international migration rate (annual averages per 1,000 population), for 2000-2005, 2005-2010 and 2010-2015.



Sources: *Key Indicators for Asia and the Pacific 2016*, Asian Development Bank (<https://www.adb.org/publications/key-indicators-asia-and-pacific-2016>), page 102. Original sources: Economy sources; United Nations Population Division, Department of Economic and Social Affairs. World Urbanization Prospects, the 2014 Revision – Data Query. <https://esa.un.org/unpd/wup/DataQuery/>

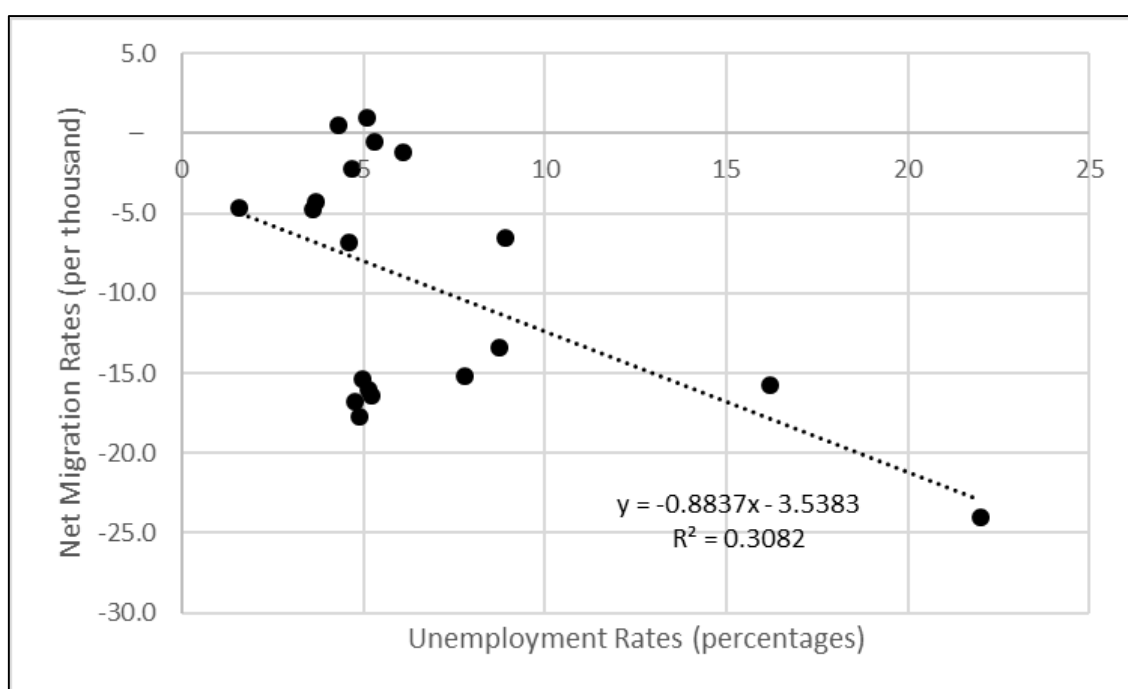
The most common approach to migration in the region is twofold: negative when focusing on brain drain considerations and positive when talking about remittances. Recently, migration is also linked with population movements because of climate change consequences. A full analysis of migration in the region would require a whole report or more than one. Here, what we want to remark is the role of migration considering the size of the labour market.

A small island country is, usually, a small economy and, then, a rather small labour market. The size of a labour market is important because in a smaller one it will be more difficult to match jobs and skills. In addition, these countries are also sets of islands. Moving across a fragmented territory seeking the optimal job has high costs. Sometimes, it will be so costly than only assuming a few additional costs, workers can move to another country to find a suitable job. A small labour market usually means less opportunities for workers. But also, higher costs for firms. Skills' shortages are only the other side of the same coin, i.e. huge difficulties to find the suitable worker for a specific job.

There is a relationship between negative net international migration rates and higher unemployment rates, although some net labour-sending countries also have a significant proportion of immigrant workers in their labour markets

The results of skills' mismatch are poor productivity (because of the low quality of job-employee matching) and higher unemployment (because of the lack of suitable jobs from one side and a lack of suitable workers from the other side). Figure 9 shows how there is a significant association between net migration rates and unemployment rates. For example, an increase of 5 percentage points in the unemployment is associated with an increase of 4.4 in net international emigration (per thousand people).

Figure 9. Unemployment rates (%) and net international migration rates (%) for small Pacific island countries with available information (Fiji, Kiribati, Micronesia, Samoa, Solomon Islands, Tonga and Vanuatu).



Note: Unemployment rates refer to 2000, 2005 and 2010, while the net international migration rates correspond to 2000-2005, 2005-2010 and 2010-2015. Countries with available information: Fiji, Kiribati, Micronesia, Samoa, Solomon Islands, Tonga and Vanuatu. Data for unemployment rates come from: ADB (2016) for Fiji, Kiribati, Micronesia, Samoa (2000), and Vanuatu; from WESO 2017 for Samoa (2005 and 2010) and Tonga, and from KILM (Key Indicators for the Labour Market, elaborated by the ILO) for the Solomon Islands. Data for the net international migration rates are those of Figure 8.

Migration is an immediate answer of workers to this problem. Of course, migration provides a solution for unemployed workers and alleviate pressures on local labour market mismatches —and also on local unemployment. However, from a social perspective migration is not a definitive solution to the problem of skills' mismatches, and may be related to additional problems for the sending economy. In fact, labour

mobility is an old worry in the region. Sometimes, the approach consists on how guaranteeing safe movements of people across frontiers and the management of remittances. Brain drain is also a common worry in migration debates in the region. Following the above reasoning, brain drain is also a problem related to the size of the market, because an individual rational facing a lack of adequate jobs to her training or educational level would move to another country where she can find an adequate job for her skills and education.

The opportunities for migration are not the same for the countries of the region. We can distinguish four main groups (Courtain et al., 2016): countries with a compact of free association with the United States and, then, having ‘open’ labour markets (the Marshall Islands, Micronesia, and Palau); countries with high mobility towards countries with historical ties and bilateral agreements with New Zealand (Fiji, Samoa, and Tonga); low mobility countries, with very low rates of outward migration at world level (Papua New Guinea, the Solomon Islands, and Vanuatu); and the two ‘atolls’ countries relatively isolated (Kiribati and Tuvalu, although Tuvalu has a relatively high labour mobility rate). The stock of Pacific migrants is growing, but unevenly distributed. As of 2013, the total stock of Pacific-born migrants residing in OECD countries (including the US territories of Guam and the Northern Mariana Islands) was 420,000. Almost 80% came from the ‘open’ group of countries and 15% from the high mobility group. From a complementary perspective, the poorest Pacific countries have the fewest labour mobility opportunities, as Papua New Guinea, Solomon Islands, Vanuatu or Kiribati (Courtain et al., 2016; p. 2-3).

Nevertheless, some countries of the region, although they are net labour-sending, they receive very significant flows of migrants, as in the case of Palau. In Palau, those born out of the country were 47% of all employees in 2000, 54% in 2005 and 60% in 2015, most of them from Asia⁶. Palau is a country with a labour regulation limiting the presence of non-national workers. While employers usually are prone to ask for less restrictive regulation for hiring workers out of the country, native population wants to have a preferential access to the employment opportunities of their own country. Again, the small size of the country, and, then of the labour market, may be behind this distribution of employment by birth.

To sum up, the great importance of migration across the region in social debates must be connected to the small size of the national labour markets across the South Pacific. In this vein, migration is not only a movement of workers towards some net receiving countries (in the Pacific region, Australia, New Zealand and South Korea), but the result of gross inflows and outflows of workers looking for a better matching and firms trying to find the right worker for a vacancy, also in the small Pacific island countries. The small size is a key feature of these labour markets must be considered in any labour market strategy for the region, including labour market reforms.

⁶ Figures taken from the *2015 Statistical Yearbook of the Republic of Palau* (<http://palaugov.pw/wp-content/uploads/2016/09/2015-Statistical-Yearbook-1.pdf>).

The labour markets of small Pacific island countries: Summary

The region is heterogeneous in terms of the national labour markets outcomes. In general, we have an increasing (with some key exceptions) more urban population respect to 2000 (again, with some exceptions). Although an urban labour market can provide more opportunities, it is also a door open to informal jobs. Unfortunately, the statistical information on the region is not regular (with very few exceptions) and not very reliable. Anyway, the available information shows that labour force participation rates are markedly different but with a general decreasing pattern, while unemployment rates seems rather disperse among countries, probably hiding different national conditions at country level. In general, young people suffer higher unemployment rates than on average, especially for women.

Another key characteristic of the labour markets of the region is migration as almost all of them are labour-sending countries. The highest migration flows are for countries with a compact of free association with the United States (the Marshall Islands, Micronesia, and Palau), and the 'atoll' countries (Kiribati and Tuvalu) have the lowest flows. At the same time, some countries (for example, Palau) have a negative net migration rate and a high proportion of foreign-birth workers. This is closely linked to the high level of mismatches between job seekers and vacancies in small labour markets. High levels of emigration and immigration, and unemployment are simultaneous effects of the small size of these labour markets.

2 Labour market institutions in the small Pacific island countries

In this section, the approach to the labour market institutions is twofold. In the two first subsections, we adopt a comparative approach based on simple indicators, as those produced by the latest available Doing Business report⁷, to present the main features of employment protection legislation and minimum wage. Later, we take a closer look at the labour market institutions of the three selected countries (Fiji, Palau and Papua New Guinea), beginning with a subsection on labour organization. We do not include a comparative of labour organization issues based on simple indicators as before, because, as far as we know, there is not a reliable database with this type of indicators for the Pacific island countries. After, the presentation of the labour organization in the selected three countries, we include a general discussion on the main characteristics of labour market institutions in the three countries. Here, the analysis will be mostly based on information taken from previous literature and we will adopt a more comprehensive approach in order to building blocks for the fourth section on labour regulation changes.

2.1 Employment protection legislation

We present a comparison of the available indicators on labour market regulation from the Doing Business report, annually prepared by the World Bank. Tables A.3 to A.5 (in the appendix) show the information available for our three main countries plus the rest of Pacific island countries included in the Doing Business. The data correspond to the service sector and to the main city of the country.⁸ The fields of labour market regulation covered are: hiring, redundancy rules, redundancy costs, working hours and job quality.

Redundancy rules and severance payments are not high in general, but they may be burdensome in some cases if extended beyond the formal sector and to small businesses

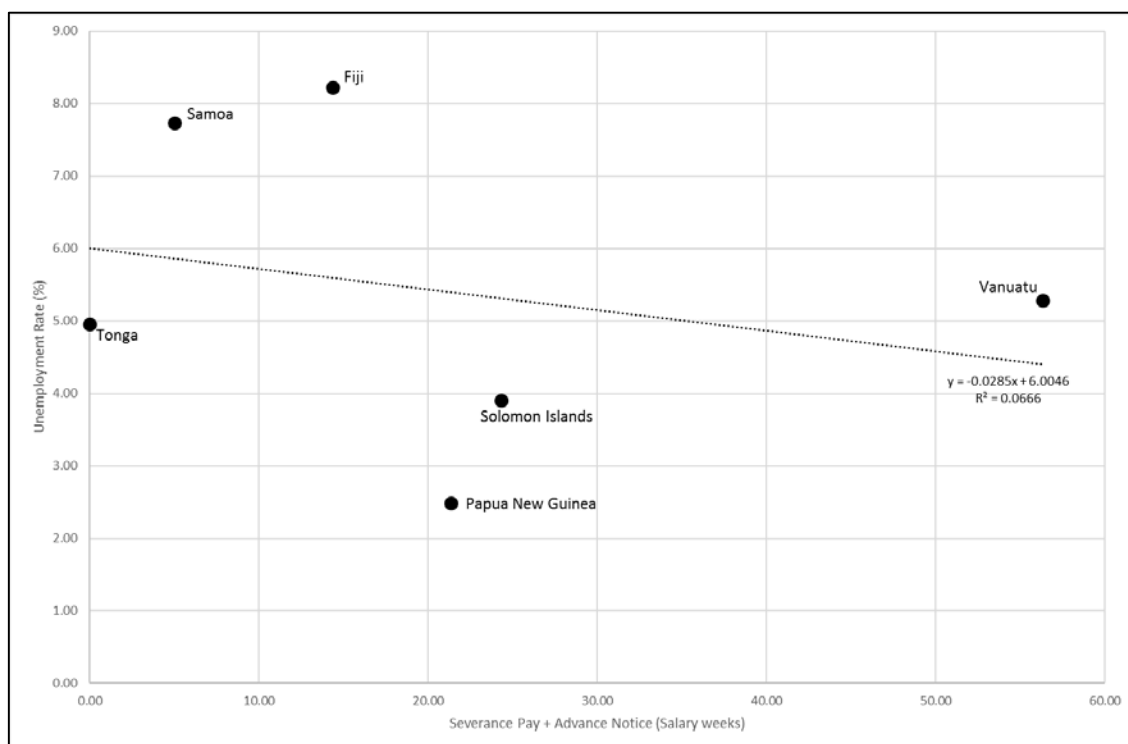
Probably, the most controversial issue on EPL has been for long redundancy regulation. In the appendix, Table A.3 compiles redundancy rules and payments in the selected Pacific island countries. Neither redundancy rules nor redundancy payments seem to be really stringent. As Jones and McGavin (2015) remark some employers survey show that employers in these countries are not worried by this topic. In addition, these rules and payments apply to the formal sector, and they are not enforced in the informal sector.

⁷ At the closing date of this report, the latest wave is Doing Business 2017 (published in October 25, 2016). Therefore, collected information refers to 2016. Link: <http://www.doingbusiness.org/reports/global-reports/doing-business-2017>.

⁸ According to the methodology of the Doing Business report, to make the data comparable across economies the worker considered is a cashier in a supermarket or grocery store, aged 19, with one year of work experience, working full-time and she is not member of a trade union (unless membership is mandatory), and the business is a limited liability company (or equivalent) with 60 employees, operates a supermarket or grocery store in the economy's largest business city, subject to collective agreements when agreements cover at least half of the food retail sector, and abides every law and regulation but does not grant more benefits than those mandated by law or collective agreements.

Jointly with the extremely loose regulation on temporary contracts (see below), adjustment costs and procedures are not burdensome for firms on average in these countries. In this vein, we have explored the association between the costs of advance notice plus severance pay and the unemployment rate. Figure 10 shows that this association is rather low and, although inverse, hardly significant.

Figure 10. Adjustment costs (severance pay plus advance notice) for workers with 10 or more years of seniority, and unemployment rates in small Pacific island countries.



Sources: Adjustment costs data are taken from Table A.3 (which is a summary from Doing Business 2017), and the unemployment rate data come from Country data of the report World Employment and Social Outlook 2017, Research Department of the International Labour Organization, with the exception of the Solomon Islands. These figures may include estimations. See methodological notes in the following link: <http://www.ilo.org/ilostat-files/Documents/ILO%20estimates%20and%20projections%20methodological%20note.pdf>. The unemployment rates for the Solomon Islands have been taken from Key Indicators of the Labour Market (KILM – ILO).

Although on average there is no relationship of the adjustment costs respect to the unemployment rate of the economy as a whole, these costs may represent an important burden in specific cases. Considering workers with 10 or more seniority years (as in Figure 10), the adjustment cost in Vanuatu reaches 56.3 salary weeks (more than one year of salary), in the Solomon Islands is 24.3 salary weeks (around 6 months), and in Papua New Guinea is 21.3 (around 5 months). For the case of Vanuatu, the cost is similar, for example, to the maximum severance payment for fair dismissals in a developed economy as Spain (Malo, 2015). For the other two countries, adjustment costs in case of

redundancy move in significantly lower amounts, but also significant. Maybe these costs are affordable in the formal sector, but probably they would be not realistic if applied in the informal economy, and, especially, in small and medium businesses of these countries.

Across the three main countries of this study (see Table A.3, in the appendix), Fiji presents a more detailed regulation on redundancy rules, while Palau and Papua New Guinea merely allow dismissal due to redundancy and leave the rest of issues out of legal regulation. About redundancy payments, Palau does not have any legal provision, while Fiji and Papua New Guinea do. Fiji has wider notice periods and lower severance payments while Papua New Guinea presents exactly the opposite relationship between notice and payments.

There are few limitations in the region to the use of fixed-term contracts, but even these few limitations are almost not important in practice

There are almost no limitations to the use of fixed-term contracts. Especially, using fixed-term contracts for permanent tasks is not prohibited in any country and there is no limit to the maximum length of fixed-term contracts (Table 2). The only difference in hiring across countries is related with the maximum length of a single temporary contract. The exceptions to no limits to this maximum are Palau (24 months) Papua New Guinea (24 or 36 months⁹) and Vanuatu (36 months). However, as there are no barriers to renewals, the above limits are not relevant *de facto*.

Table 2. Labour market regulation on fixed-term contracts in Pacific island countries.

	Fiji	Kiribati	Marshall Islands	Palau	PNG	Samoa	Solomon Islands	Tonga	Vanuatu
<i>Fixed-term contracts prohibited for permanent tasks?</i>	No	No	No	No	No	No	No	No	No
<i>Maximum length of a single fixed-term contract (months)</i>	No limit	No limit	No limit	24	24 / 36	No limit	No limit	No limit	36
<i>Maximum length of fixed-term contracts (including renewals)</i>	No Limit	No limit	No limit	No Limit	No Limit	No Limit	No limit	No limit	No limit

Source: Doing Business 2017 (World Bank). Note: the worker considered is a cashier in a supermarket or grocery store, aged 19, with one year of work experience, working full-time and she is not member of a trade union (unless membership is mandatory), and the business is a limited liability company (or equivalent) with 60 employees, operates a supermarket or grocery store in the economy's largest business city, subject to collective agreements when agreements cover at least half of the food retail sector, and

⁹ In Papua New Guinea, for written contracts the maximum length is 24 months when the employee is unaccompanied by dependants, and 36 if she is accompanied (according to the Employment Act, 1978).

abides every law and regulation but does not grant more benefits than those mandated by law or collective agreements.

In the region, working hours' regulation is rather lax: there is a standard work day of 8 hours, a not totally general maximum of 6 working days, and premia or restrictions for working out of the standard hours are not frequent

According to the information shown in Table A. 4 (in the appendix), in small Pacific island countries we have a standard work day of 8 hours (with the exception of Solomon Islands with 9 hours), and a maximum of 6 working days per week, but with more country exceptions (Kiribati, Marshall Islands and Palau, with 7 days).

About working out of the standard working hours, premia are not frequent, with the exception of overtime work. Only Fiji states a premium of 4% of hourly pay for night work, and Samoa and Vanuatu for working on the weekly rest day (100% and 50% of hourly pay, respectively).

Considering restrictions to work out of the standard working hours, only Samoa and Tonga have restrictions on weekly holiday work.

Again, we have a 'soft' regulation, not at all restrictive, here on the field of working hours.

In general, gender equality is not included in labour regulation in the region, and job quality regulation does not include unemployment compensation and only some countries provide coverage for sick leaves

The picture about how gender issues are included in legal regulation of the labour market in these countries is rather mixed (see Table A.5, in the appendix). None of the selected countries have regulation about not discriminatory in hiring by gender, and only three countries have explicitly regulated equal remuneration for work of equal value (Fiji, Kiribati, and Samoa). At the same time, only three countries do not have paid or unpaid maternity leave mandated by law (Marshall Islands, Palau and Tonga). When considering the minimum length of maternity leave in countries where exists, the minimum is zero days in Palau and the maximum is 84 days for Fiji, Kiribati and Vanuatu. The rest are in an intermediate length, 28 days in Samoa and 42 in the Solomon Islands. Finally, some countries have restrictions on night work for women (non-pregnant and non-nursing), as Kiribati, Papua New Guinea, the Solomon Islands and Vanuatu.

About job quality, around half of the selected countries have 5 fully paid days of sick leave a year (Fiji, Papua New Guinea, Samoa, Solomon Islands, and Vanuatu). The same set of countries have different paid annual leaves for workers with at least 1 year of tenure.

Finally, none of the selected countries have unemployment protection after one year of employment.

2.2 Minimum Wage

In the developing economies, minimum wages usually have more impact on workers' welfare and firms' performance than employment protection legislation

In developing countries, minimum wage is highly relevant for workers' welfare. Usually, it is more important than EPL to understand how a labour market works in a developing economy, and not only in the formal sector. Empirical evidence shows that even wages in the informal sector increase with a minimum wage increase —the so-called lighthouse effect (Boeri et al. 2011). At the same time, setting minimum wage levels in developing countries presents some drawbacks, because the minimum wage is used as a policy instrument to reach too many ends (reference in wage negotiations, deflation and social dialogue), as remarked by Saget (2008). Therefore, the analysis of minimum wage levels and changes should include two parts: the comparison of the levels and the analysis of the institutional context of minimum wage determination. In this vein, we present in this section a comparison of minimum wages in Pacific island countries and in the next section (devoted to labour organization) we will show how the evolution of workers' organizations has pivoted on setting minimum wages -attending to the three selected countries in this report.

In the region, the most part of countries have minimum wages, although exceptions are frequent

In the Pacific island countries, some exceptions apply to the minimum wages, as sometimes for young people, apprenticeships or specific sectors. In Fiji, the National Minimum Wage covers workers in the informal sector, as well as workers in the formal sector not covered by the current 10 Wages Regulations¹⁰; in other words, the minimum wage covers all workers not covered by specific sectoral minimum wages. In Palau, the minimum wage has exceptions related with sector, type of employer, and employee age¹¹. In Papua New Guinea, exemptions for young people (aged 16-21 years) existed until 2008. There are different minimum wages for rural and urban workers, which is clearly related to exceptions for the agricultural sector.

¹⁰ Ten sectors with a sectoral minimum wage rate, included in the 2015 Wages Regulations. these sectors are printing trades, wholesale and retail trades, hotel and catering trades, garment industry, sawmilling and logging industry, road transport, building and civil and electrical engineering trades, manufacturing industry, mining and quarrying industry and security services.

¹¹ The exceptions are workers employed as farmers by a single employer, domestic helpers, caretaker, babysitters or house boys, student employees and non-government organization employees, and employees 20 years old or younger and hired on a probationary basis for a period not to exceed 90 days

For the most part of countries, the ratio of the minimum wage to value added per worker is 0.5 or lower, and there is not an association of this ratio with the unemployment rate evolution at aggregate level in the region

Figure 11 shows the information on minimum wage published by the report Doing Business 2017 for the Pacific island countries¹². Only two of the listed countries, do not have minimum wage by law (Kiribati and Tonga)¹³. For the rest, minimum wage in US dollars per month ranges from 116.23 in the Solomon Islands to 634.54 in Palau. Fiji and Papua New Guinea are rather in the middle (311.97 and 231.41).

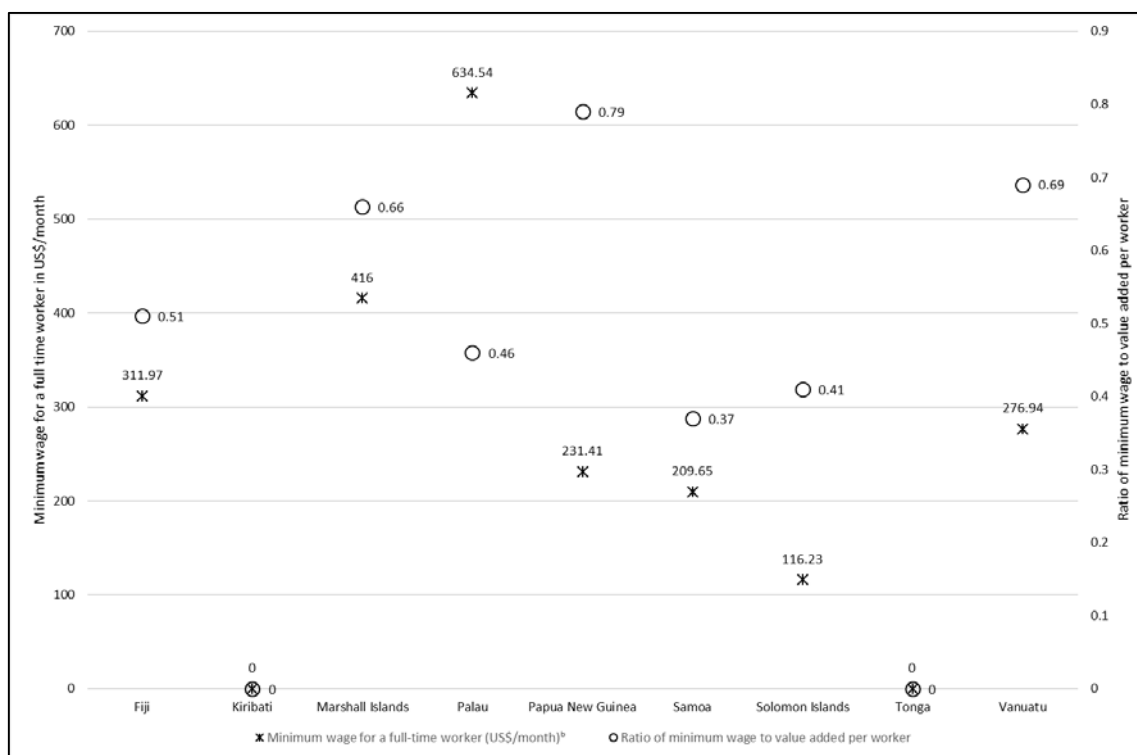
At the same time, Figure 11 also presents the ratio of minimum wage to value added per worker, which is a rough measure of competitiveness of the economy (the higher the ratio, the ‘worse’ for the economy). The highest ratio corresponds to Papua New Guinea (0.79) and the lowest to Samoa (0.37). Fiji and Palau are in the middle (0.51 and 0.46, respectively). In addition, Figure 12 shows the evolution of the ratio of the minimum wage to value added per worker. Here, we have a break in series because until 2013 data corresponds to the manufacturing sector while from 2014 we have information for the service sector. With a few exceptions, the evolution along this break is more or less smooth. In general, there is a peak around 2010-2011. The country with the most pronounced peak is the Solomon Islands, increasing from around 0.40 in 2008 to almost 0.90 in 2010, decreasing later below 0.70 before the break in the series, and showing a sustained decrease from 2014 to 2016. After the break in the series, only Papua New Guinea shows a significant increase in this ratio from 0.70 in 2014 to 0.87 in 2015, finally decreasing to 0.79 in 2016.

Finally, Figure 13 presents the association between the ratio of minimum wage to value added per worker and the unemployment rate. Here, the countries considered are Fiji, Kiribati, Marshall Islands, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, and Vanuatu. There is no any association at all. Of course, this analysis is not causal, but shows that, at the current levels of the minimum wage (respect to the value added per worker) in the considered countries, there is no any relationship with the unemployment rate dynamics or the association between both variables is mediated by other variables — for example, the enforcement of minimum wage law or the predictability of minimum wage changes.

¹² The data for Doing Business 2017 were collected in 2016.

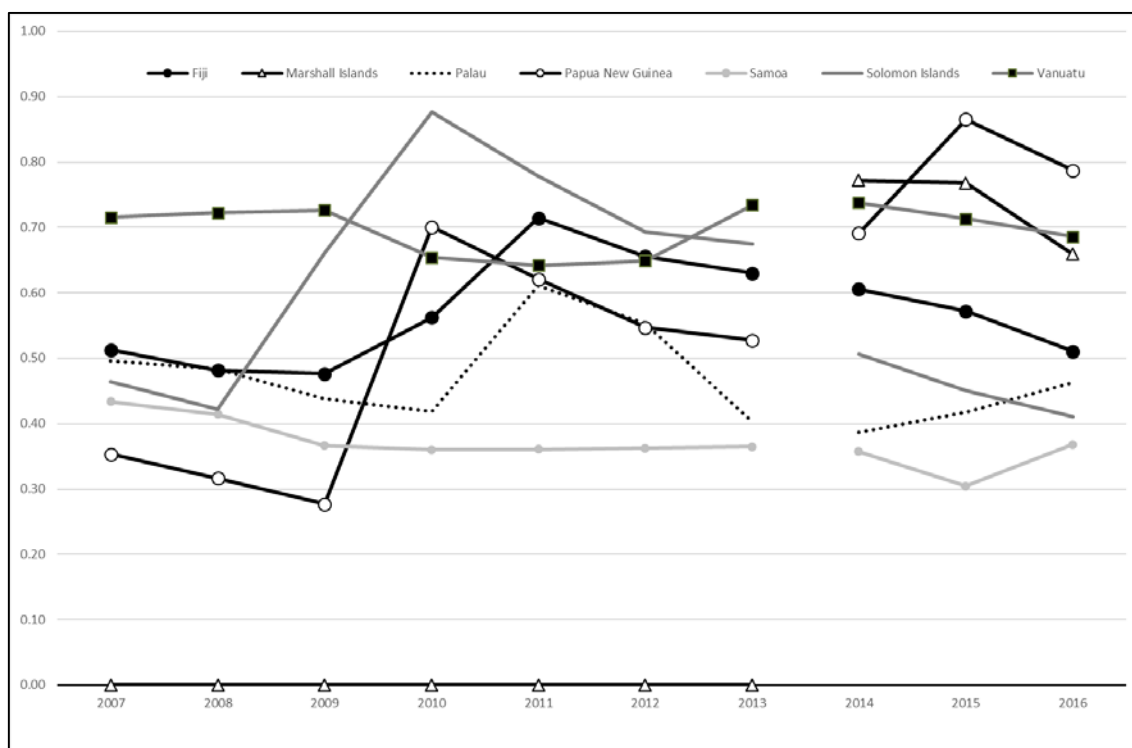
¹³ In Kiribati, there is a provision for a minimum wage at the discretion of the Labor Ministry, but it has never been implemented. Tonga does not have a minimum wage, but has proposed to introduce one (Table 1 in Government of the Cook Islands, 2015).

Figure 11. Minimum wage in small Pacific island countries in 2016: levels in US \$/months and ratios respect to value added per worker.



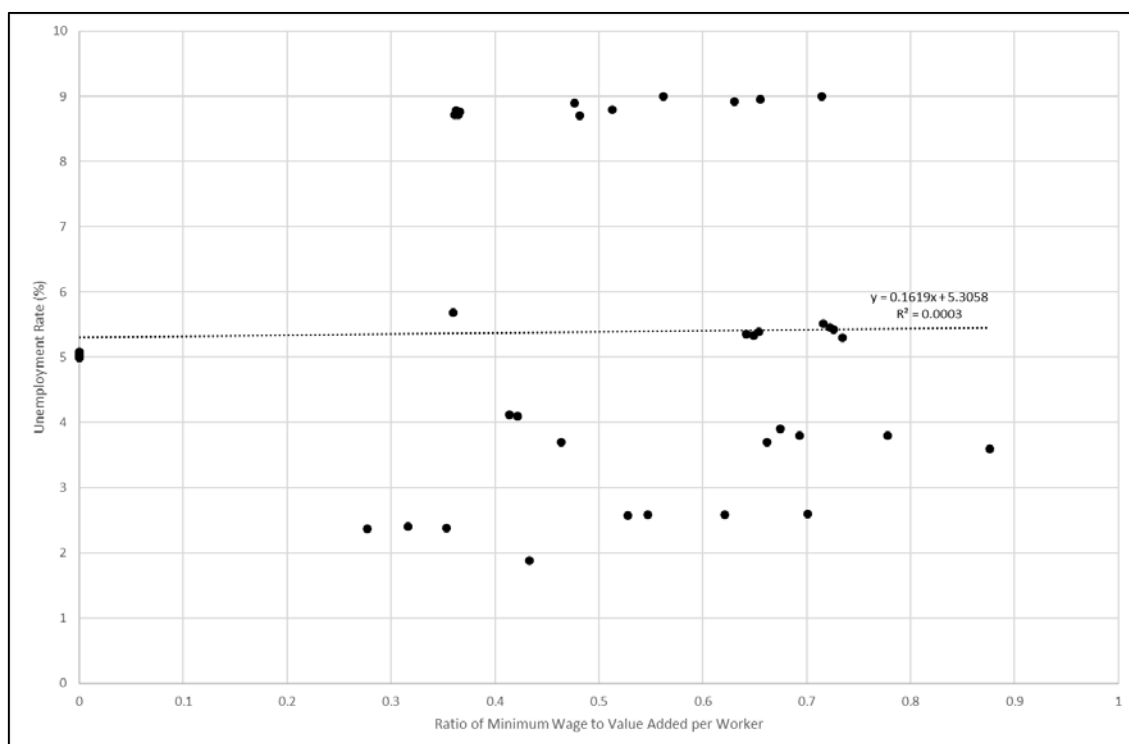
Source: Doing Business 2017 (World Bank). Note: the worker considered is a cashier in a supermarket or grocery store, aged 19, with one year of work experience, working full-time and she is not member of a trade union (unless membership is mandatory), and the business is a limited liability company (or equivalent) with 60 employees, operates a supermarket or grocery store in the economy's largest business city, subject to collective agreements when agreements cover at least half of the food retail sector, and abides every law and regulation but does not grant more benefits than those mandated by law or collective agreements.

Figure 12. Evolution of the ratio of minimum wage to value added per worker in small Pacific island countries (2007-2016).



Sources: Doing Business 2008-2017 (World Bank). Until 2013 information corresponds to a worker in the manufacturing sector while 2014 onwards corresponds to a worker in the service sector.

Figure 13. Ratio of minimum wage to value added per worker and unemployment rate by country.



Sources: For the ratios, Doing Business 2008-2017 (World Bank). Until 2013 ratios correspond to a worker in the manufacturing sector while 2014 onwards corresponds to a worker in the service sector. For the unemployment rate, country data of the report World Employment and Social Outlook 2017, Research Department of the International Labour Organization, with the exception of the Solomon Islands. These figures may include estimations. See methodological notes in the following link: <http://www.ilo.org/ilostat-files/Documents/ILO%20estimates%20and%20projections%20methodological%20note.pdf>. The unemployment rates for the Solomon Islands have been taken from Key Indicators of the Labour Market (KILM – ILO). The data corresponds to 2007 to 2013 for the ratio and from 2008 to 2014 for the unemployment rate.

2.3 Labour organization

All countries of the region have national legislation allowing unions, but tripartism is weak in the region. Nevertheless, there is the recent impulse of the ILO in the region

Despite the diversity among the small Pacific island countries in many economic and social patterns, there are some common features. The legacy of colonialism is analysed later, but the paternalistic approach in British territories has left a recognizable imprint. The encouragement of unions and labour legislation was related with the intervention of the state. The most renowned case is, probably, Papua New Guinea, but other countries, as Samoa share this characteristic (Leckie, 1992). However, as initially these institutions were not adapted to the social context (as for the most developing economies of the world)

they grew more or less weak, and focused on formal employment, especially in the public sector (ESCAP, 2007; ILO, 2014). The development of unions sometimes mirrored social problems as the ethnic division—as in the case of Fiji. At the same time, Prasad and Snell (2007) remark that trade union movements in the South Pacific have also been under strain balancing the ‘two faces’ of unionism—i.e. social justice in general and their own interests in terms of improving the position of their members through collective bargaining. Especially, trade unions had to make difficult choices to preserve their interests in times of political troubles. As a result, in countries as Fiji, Papua New Guinea and the Solomon Islands, trade unions played an important role promoting good governance and democracy at the cost effectiveness in the workplace (Prasad and Snell, 2007). In addition, there is a traditional poor record of consultations between managers and employees, accordingly with a weak tripartism. Nevertheless, in countries where tripartism effectively exists has a relevant role in the evolution of minimum wages.

According to ESCAP (2007), all Pacific island developing countries have legislation allowing trade unions. In this vein, probably the countries with a most developed industrial relations system are Fiji, Papua New Guinea and the Solomon Islands. Even in countries where there were not formal industrial relations before the 90s of the past century, as Tonga (ESCAP, 2007), they have been enacting different pieces of legislation with the support of the ILO (Leckie, 1992). Along the last decade, there has been an impulse of ratifications of the ILO conventions, giving the basic structure for a more solid development of the industrial relations systems of the countries of the region.

Table 3. ILO Conventions ratifications (as December 2016).

	Freedom of association		Forced labour		Discrimination		Child labour		Number ratified
	C87	C98	C29	C105	C100	C111	C138	C182	
Australia	1973	1973	1932	1960	1974	1973	...	2006	7
New Zealand	...	2003	1938	1968	1983	1983	...	2001	6
Cook Islands	..	...	2015	2015	...	...	...	...	2
Fiji	2002	1974	1974	1974	2002	2002	2003	2002	8
Kiribati	2000	2000	2000	2000	2009	2009	2009	2009	8
Marshall Islands	...	...	...	...	...	...	...	...	0
Palau	...	...	...	...	...	...	...	...	0
Papua New Guinea	2000	1976	1976	1976	2000	22000	2000	2000	8
Samoa	2008	2008	2008	2008	2008	2008	2008	2008	8
Solomon Islands	2012	2012	1985	2012	2012	2012	2013	2012	8
Tonga	...	...	...	...	...	...	...	...	0
Tuvalu	...	...	...	...	...	...	...	...	0
Vanuatu	2006	2006	2006	2006	2006	2006	...	2006	7

Source: NORMLEX, Information System on International Labour Standards (ILO). Link: <http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:1:0::NO::>

Table 3 shows that Australia and New Zealand have conventions ratified since the 70s of past century, but also Papua New Guinea. The most part of ratifications in the region has been in the XXI century. Now, the countries with more conventions ratified are Fiji, Kiribati, Papua New Guinea, Samoa and the Solomon Islands. At the same time, there are four countries (Marshall Islands, Palau, Tonga, and Tuvalu) with no ratifications. However, there is an active role of the ILO in order to advance in ratifications and the construction of solid industrial relation systems —as, for example, in Palau.

Next, to provide a more detailed outlook of labour organization and the performance of the industrial relations systems in the region, we focus on the three selected countries of this report: Fiji, Palau and Papua New Guinea.

In Fiji, unions have been linked to the political evolution of the country, and their representation is rather circumscribed to the formal and public sectors. As a result, tripartism has a limited efficacy

To understand Fijian trade unions is important to describe their time evolution. Trade unions were established in Fiji in the 1930s, when the British government urged all colonies to promote new legislation allowing trade unions activities. However, the practice put limits to the possibilities for a successful union action. On one hand, collective bargaining was undermined as compulsory recognition of unions was not implemented. On the other hand, the ethnic divide between ethnic Fijians and Fiji Indians was traditionally used by employers and authorities to weaken attempts for organizing labour. In fact, because of an ethnic segmentation employment, trade unions were also ethnically based, although racial exclusion clauses were not frequent until the 1950s (Gauder, 2010). The 1959 riots in Suva was a landmark of joint organization beyond ethnic differences, and it was followed by a reinforcement of separated unions for Fijians and Fiji Indians. Anyway, this ethnic divide was not sustainable in the long-term, probably because of the small size of these unions, and the general trend was towards unified unions. Because of the growing strength of the union movement, employers organized themselves. In 1960, the Fiji Employers' Consultative Association was created.

In 1964, the Trade Disputes Ordinance was launched. One of the first frictions, was the recognition of unions in collective bargaining. The full legal recognition of unions for collective bargaining arrived with the Recognition Act launched in 1976 (not that this is after political independence in 1970). The main criterion was that more than 50 per cent of workers must be union members.

A Tripartite Forum was created at the end of 1976. Although the Forum had no statutory authority, from 1977 it developed a key role in labour relations in Fiji. The Forum had a stabilizing effect on the labour relations and the economy until 1984 (Gauder, 2010). Around this year, union claims were more aligned with urban workers than with the rest of the economy. Government imposed a wage freeze in 1984 following advice from the Reserve Bank and international organizations as the IMF, but especially the so-called Nicol and Hurst job evaluation report presented in 1982 (Gauder, 2010). As a response, the union movement promoted the formation of a new political party, the Fiji Labour

Party (FLP), which according to Gaunder (2010) was focused on urban workers in formal employment.

A series of military coups began in 1987. At different times, new regulation was enacted to restrict individual and collective rights, including union rights. See, for example, Leckie (1993) for a detailed description of the different legal changes in the post-coup period. In general, tripartism was negatively affected by a series of coups. In 2006, there was a first attempt to recover the 'dormant' Tripartite Forum. Nevertheless, other institutions have played a role of a sort of sectoral or thematic tripartism: The Employment Relations Advisory Board (formerly, the Labour Advisory Board, created in 1965 by the Employment Act), the Training and Productivity Authority (formerly, Fiji National Training Council); Fiji National Provident Fund; the National Occupational Health and Safety Advisory Board; and the 10 industry-based Wages Councils.

In the post-2006 coup period, the labour movement was mostly divided and lose capacity to defend workers' interests against an authoritarian State. As a final sample, in 2006 the discussions about new legislation divided even more the main trade unions.

The Employment Relations Promulgation launched in 2007 guaranteed freedom of association protecting workers against anti-union discrimination.

Since 2009 the government ruled different decrees restricting trade union activities and labour rights. Probably, the worst moment was in 2011, when the government launched a decree introducing key changes in the Employment Relations Act of 2007, without consultation, although the social partners were pending on the general review of the employment relations legislation. These changes included derogation of existing collective agreements and the obligation to bargain new agreement in a period of 60 days, designation of new bargaining agents (not unions) and the imposition of compulsory arbitration, jointly with new limits to the right to strike. In addition, the Essential Industries Decree of 2011, covering the financial sector, telecommunications, civil aviation and public services, severely restricts trade union rights. As a result, a visit of a High-Level ILO secretariat mission to Fiji in August 2011 was followed by a declaration of the ILO Governing Body at its November 2012 of Fiji as on the 5 countries in the world with the worst record on freedom of association.

A turning point began with the democratic elections in 2014. In 2015, there was an explicit tripartite agreement to review labour market and employment relations regulation¹⁴. Government, employers and the FTUC reached an agreement (not endorsed by the FICTU) in January 2016. The agreement did not address some issues and the ILO offered technical assistance to find appropriate solutions with the government and social partners¹⁵.

¹⁴ <https://glosssheffield.wordpress.com/2015/05/13/non-observance-by-fiji-of-the-freedom-of-association-and-protection-of-the-right-to-organise-convention/>

¹⁵ See the Postscript section of Appendix I in the draft decision of the Governing Body about the Complaint concerning non-observance by Fiji of the Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87), made by delegates to the 102nd Session of the International Labour Conference under article 26 of the ILO Constitution, 14-March-2016. Link: http://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_455741.pdf (last access: 28-Sept.-2016)

Finally, union membership has been mainly concentrated among urban workers of the formal sector, especially white collar workers of the public sector (Naidu, 2009). In the informal sector, unionization is very low and in the rural sector chiefs are very important among indigenous Fijian. In the rural sector, only the sugar canes growers are properly unionized (Naidu, 2009).

To sum up, the evolution of the trade union movement was initially conditioned by the sluggishness of union freedom under the colonial ruling, later by the racial tensions (dividing trade unions) and the political uncertainty created by the coup series. Some key institutions as Wages Councils are characterized by a tripartite structure, although the efficacy of these institutions has been questioned in different periods (Narsey, 2006). Because of the limited union membership, in fact labour force in Fiji is mostly unorganized (Naidu, 2009), with deep ethnic and occupation divisions.

In Palau, tripartism does not exist, although the ILO works with social partners to implement it. The government sets directly the minimum wages, determining the level and the time evolution for the next years

The relative smaller size of Palau even respect to other Pacific island countries has been a limitation for workers' organization. At the same time, we can consider that the US authorities—in charge of the territory since the Second World War— did not promote the organization of tripartism, according to their own industrial relations system. The long period of transition from formal independence in 1978 to the Compact of Free Association—entering into force at the end of 1994— was not beneficial to develop a new institutional framework in the labour market.

There is no formal tripartite set up, but the ILO works with the Bureau of Labour, the Palau Chamber of Commerce and a few workers' organizations, as the Nurses Association and the Bangladesh Workers Association. A medium-term objective should be strengthening the Workers' organizations. Probably, the huge importance of foreign workers in the total workforce creates problems for this task, as they are highly mobile or should be according to the restrictions to hiring foreign workers. Although unionism was not prohibited, there were not operating trade unions until recently. Therefore, workers' organization is rather weak and needs of a consistent legal framework ratifying and regulating the fundamental conventions of the international labour standards.

On the employers' side, the Chamber of Commerce has the role of employers' organization in the organization. The Chamber seems to be more organized, although one of their explicit objectives consist of increasing membership.

As a marked difference respect to Fiji and Papua New Guinea, the government is crucial setting minimum wages. In Palau, the government publishes not only a minimum wage level, but a time path for increases in subsequent years until a maximum is reached. Then, the government repeat the process. This known time path for minimum wage decreases uncertainty for employers. Nevertheless, this pattern is rather new, as from 2007 to 2013 there was not any change in the level of the minimum wage in Palau.

In Papua New Guinea, labour organization was marked by the Australian-like regulation, but resulting in weak unions because of the context of a dualized economy; however, weak unionism was not replaced by state intervention which is also weak

As a former Australian protectorate, Papua New Guinea has inherited some characteristics of the Australian industrial regulation, as the system of compulsory conciliation and arbitration. Trade unions were a cornerstone in this system and they were promoted by the Australian authorities. The Industrial Relations Ordinance and the Industrial Organization Ordinance made provision for Industry Councils, Boards of Inquiry and direct negotiations, jointly with compulsory conciliation and arbitration (Hess and Gissua, 1992). Therefore, trade unions in Papua New Guinea began as an exogenous development (Plowman, 1979), as a result of international pressure and Australian domestic politics and not because of workers' unrest leading them to organize themselves in unions (Imbun, 2016).

When Papua New Guinea became independent in 1975, this system performed poorly, among other reasons because of a lack of capability of unions to represent workers' interests (Imbun, 2008) and a bad performance of the industrial dispute settlement mechanisms (Hess and Gissua, 1992). In the same vein, the minimum wage system in Papua New Guinea inherited the characteristics of the Australian wage-setting system since the colonial years.

The post-independence industrial relations system in Papua New Guinea was characterized by a dualistic economy and an emerging but small working class. In this period, trade unionism weakened. Some authors (as Hess, 1986) understood this situation as the result of the legacy of the previous system, but also the coincidence of factors as tribalism and subsistence farming with a very limited modern economy enclave with very weak state institutions. Again, although there was a formal tripartite industrial relations system, it lacked of an adequate union organization on the field. At the same time, this period had some successful cases of membership, leadership and effective operation within the system of compulsory conciliation and arbitration (Imbun, 2008).

Differing from the case of other developing economies, these relatively weak trade unions (and also employers' organizations) were not replaced in Papua New Guinea by the state intervention. In fact, the government's intervention was also weak (Daley, 1987)¹⁶, and the promotion of economic growth by the government was linked to an appeal to enterprises about respecting workers' rights (Hess, 1986). To sum up, although the tripartite structure has three weak components, tripartism facilitated the operation of independent unions and employers' organizations, interacting in a relatively open environment (Imbun, 2008). The problem is that the scope of this tripartism is limited by the dualistic structure of the economy and the labour market.

About collective bargaining, unions have the right to organize and bargain collectively, the right to strike is legally protected, and discrimination against union activity is illegal.

¹⁶ Quoted in Imbun (2008).

According to Imbun (2016), Papua New Guinea has a mostly deregulated collective bargaining with a sort of centralized institution (the Minimum Wage Board) assigning wages policy responsibilities on macro issues. Social participation in this system goes beyond the traditional social partners including also social organizations (for example, churches, women and youth), increasing pluralism. However, minimum wage changes are not predictably. The decisions of the Minimum Wage Board do not follow a regular time pattern and the time evolution of changes and exceptions has been rather complex since the seventies (Jones and McGavin, 2015). In fact, employers claim that this unpredictability of minimum wage changes harms business performance.

The role of government affecting minimum wages through the Minimum Wages Board is crucial, and also influencing on other wage boards. Spite of the ability of the government in this area, the government has a very weak influence on other parts of the industrial relations system, as conciliation and arbitration, labour inspections and regulation of occupational health and safety (Imbun, 2016).

2.4 Labour market institutions and labour market reforms

2.4.1 Institutional change: the case of the labour market

Labour market regulation must correct market failures and provide enough workers' protection, but at reasonable costs for firms' performance and economic efficiency

The challenge of labour market regulation consists of alleviating market failures and providing protection to workers without imposing great costs on firms' performance or economic efficiency. Although, there has been a long and hot academic and political debate about labour market regulation (especially on EPL), different reviews suggest that the impacts are relatively small on aggregate and depends on the country context (Cazes et al., 2012). Nevertheless, labour regulation can have different impacts for different groups of workers. Minimum wage and employment protection legislation have an equalizing effect among covered workers, but for those not covered (mainly youth, women, and less skilled) the effects on their employment are negative. Therefore, the modest aggregate effect on aggregate does not mean that labour market regulation does not matter (Betcherman, 2015). Although, labour market regulations are introduced to correct market failures, they also have indirect costs for some groups of workers, and they must be minimized.

Labour market institutions coordinate economic agents' expectations and choices, reinforcing the effects of the labour law origins

In order to produce a better regulation reforming national labour codes —i.e. reforming the labour market—, the simplest approach consists of considering that any conceivable

change can be implemented. However, labour law is a set of regulations with important complementarities across different norms. In addition, many of these complementarities are implicit rather than explicit. From this perspective labour market institutions are devices for expectations' coordination of labour market actors (Deakin and Sarkar, 2008). These 'devices' or 'institutions' are never created ex-novo. They are always related to the previous political and legal legacy of the country. Then, labour market regulation does not only impose norms on economic agents, but also crystalizes social and legal practices drawn from the past experience of labour market actors and, even, political actors (Deakin 2003; Deakin and Sarkar 2008). In addition, even countries with a common legal origin may develop substantial differences. The reason is the existence of unique events in specific countries creating path-dependence, even more when these unique events affect to the legal practice (Malo, 2005).

Labour market reforms implement changes in the wording of the law, but sometimes affecting to employers' and workers' behaviour in unexpected ways. Reforms agreed among social partners may minimize this type of uncertainty and avoid further conflicts

When considering the implementation of a labour market reform —i.e. an important change in national labour law—, workers and employers will have to use the new set of institutions. They will have to adapt their behaviours to the incentives provided by the new regulation. However, because of the implicit complementarities between different labour market institutions the labour market reform may not have the expected results or even unexpected impacts. Therefore, understanding how the labour market reform will affect to the practice is crucial to design effective reforms.

In addition, any legal change introduces uncertainty until the new regulation is widely known by workers and employers, potentially creating conflicts or affecting employment or investments decisions by firms. Changes with agreement with the social partners usually created a lower level of uncertainty, because potential impacts of changes on workers and firms have been considered to reach the agreement. On the other hand, reforms unilaterally implemented by governments usually introduce more uncertainty, and decreasing conflicts interpreting new rules is slower.

2.4.2 Employment protection legislation and labour market reforms in developing economies

The academic literature shows that 'stricter' EPL has small impacts on employment and unemployment levels (if any), but significantly affect to the gross flows of the labour market, and gives incentives for a larger informal sector in developing economies, although recent reforms in developing economies increased workers' protection

Probably, the most debated field of labour market reforms is the EPL. The debate in developed economies lasts at least since the 1970s, when recommendations on increasing labour market flexibility widespread from some international organizations. This literature provided few evidence about huge effects of EPL on employment and unemployment rates, but a more convincing evidence about its impact on employment and unemployment flows (Haltiwanger et al., 2014; Messina and Vallanti, 2007). A less stringent EPL increased flows from employment to unemployment and *vice versa*. At the same time, some labour market reforms increased flexibility at the margin, i.e. for new entrants into the labour market, as in the case of facilitating the use of temporary contracts, creating a sort of dual labour market (Saint-Paul, 1996).

In the 2000s the focus moved towards developing economies. Djankov and Ramalho (2009) surveyed the literature on the effects of employment laws in developing economies. Roughly in line with results from developed economies, Djankov and Ramalho (2009) found that countries with more stringent employment laws had a larger informal sector (as in the case of dual labour markets in developed economies) and higher unemployment, especially among young people. The negative impact on unemployment is also found by Feldmann (2009). However, Campos and Nugent (2012) find that changes in ‘rigidity’ do not systematically affect economic growth and do lower income inequality (as predicted by Freeman, 2010). It is difficult to see how both pieces of evidence might be complements, unless the expansion of the informal sector and the increase of unemployment are also linked with lower income inequality. Once again, the empirical evidence about the ‘rigidity’ of labour market regulation has important unsolved puzzles, also for developing economies. Adascalitei and Pignatti (2016) focus on labour market reforms related with the Great Recession, from 2008 to 2014. By contrast respect to developed economies, in developing economies labour market reforms tended to increase workers’ protection. In addition, these authors find that neither increasing or decreasing ‘rigidity’ of labour market regulation affects unemployment rates in the short-term. However, deregulatory labour market interventions have a negative short-term effect when implemented in times of crisis.

In developing economies, the race to obtain foreign direct investment is also in terms of weakening the labour standards and workers’ rights, although different aspects of globalization may have different impacts on labour market regulation

Previous literature has also analysed how changes in employment law in developing countries are related with a race to obtain foreign direct investment. Davies and Vadlamannati (2013) find evidence of competition in relaxing labour standards in both developed and developing countries, but the effect is strongest for developing countries with weaker standards. The impact of changes in one country on other countries is clearer in enforcement than in labour laws. This last result is disturbing, as the most part of analyses focuses on the wording on the law and not in the practice, which is closely linked with law enforcement. In a similar vein, Vadlamannati (2015) estimates the impact of globalization on changes in freedom of association and collective bargaining in developing countries. His results show a mixed evidence. While social globalization —

i.e. connecting people along the globe— is associated with an improvement in laws and enforcement of freedom of association and collective bargaining rights, this is not the case for political globalization —i.e. political ties with other governments, international organizations, etc. In addition, the positive effect is sensitive to changes in the empirical analysis.

Therefore, we have two types of results: a stringer employment law is associated with a larger informal sector and, probably, more unemployment among some groups (as young people); and changing labour law to improve economic outcomes in a race with other countries to increase economic growth or attract foreign direct investment may weaken labour standards and workers' rights. These results call for a cautious and counterbalanced approach to labour market reforms, weighting costs and benefits and not expecting miraculous results only changing the EPL. In addition, any change should attend to potential complementarities with other institutions of the labour market and, especially, to the enforcement of the law.

2.4.3 The legacy of the colonial past

In the region, labour market regulation and institutions show the strain between 'typical' labour codes, and traditional values and institutions

Usually, specialists remark two characteristics of the colonial past of Pacific island countries: it is relatively recent and it was 'milder' than in developing countries from other world regions. Both characteristics are not independent. Probably, colonialism was not so aggressive as in other developing countries, because in the decades previous to the political independence part of the region was governed under the authorization of international organizations or, at least, under a greater public scrutiny —always relatively respect other regions of the world.

Anyway, the colonial past is very important to understand the institutional and legal framework of the labour market and the possibilities of feasible reforms, but also, the traditional rules and how have interacted with the 'imported' institutions once the independent governments were launched. Brooks (1996) explains that labour law in the South Pacific is probably one of the best fields to study tensions between tradition and modernization. Nowadays, the most common pattern of industrial relations in the region is based on the existence of a labour code including legal instruments for enforcement as labour inspectors, courts, conciliation and arbitration. How this structure accommodates to traditional values? Not well or, at least, with difficulties as many of the village-based settlement of all disputes had no easy backing in legislation. A prominent example on how to adapt an imported institution is trade unions, and in the South Pacific different countries provide a variety of experiences depending on the historical background (Brooks, 1996). Although, trade unions are, in general, legally permitted in the South Pacific and related to the English tradition, the country experiences show from no promotion at all until very recently (as in Palau) to a long process of adaptation incorporating key social divides and conflicts (as ethnic conflicts in Fiji). The imported

labour market institutions have collective bargaining as the key institution for wage setting, following a developed tripartite model (as in Papua New Guinea). However, because of the extension of the informal sector (either urban or rural), the minimum wage is the cornerstone of the labour market institutions in many countries of the region. This also means that the role of the State is usually very important, because the approval of changes in the minimum wage is, at the end, a competence of the government, even when there specialized tripartite bodies (as the Minimum Wage Board in Papua New Guinea).

Therefore, the legacy of the colonial past is crucial to understand the wording of the labour law and the set of labour market institutions. The empirical literature on law's origin usually finds that the 'rigidity' of labour law is related with the legal origin, although endogenizing the change in labour law (the reforms) the evidence shows that it is only another determinant and not the most important one (Campos and Nugent, 2012). However, the development level of these countries determines the scope of different institutions and which of them are more important for the vast majority of workers and firms. In addition, cultural values —the 'traditional' legacy— will shape the practice, and the practice is always more elusive in terms of analysis and understanding.

In Fiji, the institutional legacy is a British-type industrial relations system, with formal tripartism, weak in the practice

The colonial period created a British-type of industrial relations system. At the same time, some strictly local events modelled the evolution of this system, as the importance of the ethnic divide in the development of unionism in Fiji. However, the full recognition of unions for collective bargaining was not regulated until in 1976, much later than political independence (1970). A Tripartite Forum was soon created, in 1977, without legal statutory authority, but it was a key institution in labour relation in Fiji. Therefore, we have a labour relations system where workers' organization was created to channel conflicts under the colonial period, more or less following the model of the United Kingdom, maybe with a more important role of unions and social partners. The emerging of a tripartite structure only begin with political independence. In the post-independence period, unions have lived the same uncertainties of the agitated Fijian political life. In a period of social unrest and political conflict, usually trade unions channel political conflict. The informal sector also imposes severe limits to unions, and it is the reason for minimum wage setting being crucial in the institutional framework of the Fijian labour market.

Therefore, the legacy of the British-like imported institutions is important to understand that, formally, labour market institutions rest on tripartism. However, the evolution of these institutions in the economic context of Fiji explains why minimum wage setting is crucial for the impacts on the whole economy. The legal development of different dimensions of EPL is only related to the formal sector, and the rest of workers live in a labour market without an EPL. Then any change in the EPL regulation should rest on a credible enforcement. Otherwise, any legal development will deepen the divide between formal and informal sectors.

In Palau, the legacy is the absence of tripartism in a US-like system, but starting coordination between social partners

In comparison with other Pacific countries, the legacy in Palau seems to be non-existent. The labour market during the ruling of American authorities was, de facto, under the US regulation. It is widely known that this labour regulation is based on the direct interaction of workers and employers at company level, which de facto does not promote tripartism. This regulation recognizes the right to free unions, but it does not promote them nor has rules for formal recognition of unions by employers. With the political independence, right of association was guaranteed, but initially no unions operated in the Palauan economy. Step by step, labour relationships become more formal and, nowadays some unions exist and the chamber of commerce increasingly organizes employers. The incorporation of Palau to the ILO has fostered this formalization process of labour market institutions. Nevertheless, the minimum wage remains as the key component of these institutions, as it affects to the whole economy either directly (the formal sector) or indirectly (the informal sector).

Probably, one of the main challenges of the Palauan labour market is its small size. Later, we will discuss the importance of the labour market size for all Pacific island countries, but for Palau this issue is critical. Side by side, we have the huge importance of foreign workers in the Palauan labour market, closely linked to two other features of this economy: skills' shortages of a very small national workforce and the great number of foreign companies operating in the country. Until now, the legal answer to these challenges has been a restrictive regulation on foreign workers.

Apparently, in Palau, the legacy is more open than in other countries, because of the US-like legislation. However, the small size of the labour market and the high presence of foreign workers may weaken any attempt of workers' organization, even at firm level. EPL is not developed in the legal regulation and, according, to the legal legacy workers and employers have to bargain and agree, if they are interested in. Anyway, minimum wage is at the core of the labour market institutions, fully determined by government intervention, providing not only the wage level but the time path for the next years. This last characteristic of the minimum wage setting decreases uncertainty for firms.

In Papua New Guinea, the institutional legacy is related to the Australian administration, promoting formal tripartism, but weak in practice and very limited enforcement

The legacy in Papua New Guinea is related to the Australian administration before political independence. In a first stage, policies implemented by Australian authorities slowed the rate of urbanization and the speed and coverage of industrialization. In addition, labour policy created a sort of master-servant kind of relationship between the untenured labourer and employers (Latukeyu, 1989). The structure of the legal regulation of the labour market enacted tripartism following the Australian model. In fact, after

independence, Papua New Guinea retained the core of the Australian-like labour market regulation. The 1962 Industrial Relations Act remained active until in 1978 a new Employment Act was passed, although mainly based on the 1958 colonial Employment Ordinance (Cifuentes Montoya and Sai'I An, 2013).

Initially, some specialists on industrial relations in developing economies supported the convergence thesis, i.e. the logic of development towards modernization would overcome traditional obstacles to modernization, turning 'modern' the economy and the labour market. However, case studies for different countries showed that leaders who led unions to brief political and industrial relevance were, in fact, unable to represent the interest of workers at the workplace. This was the case of Papua New Guinea. The unusual promotion of unionization in the workplace during the 1970s and 1980s for a developing economy (Hess, 1989), hidden a weak representation of workers even although there was the structure of a tripartite industrial relations system (Imbun, 2008). The extension of the informal sector is also crucial in this country to consider minimum wage setting as the main labour market institution. However, the minimum wage system needs to be more predictable. In this vein, a better performance of the Minimum Wage Boards is necessary. Jones and McGavin (2015) surveyed the opinion of employers remarking that they consider very important for their business the predictability of changes in the minimum wage, instead of other pieces of regulation (as EPL, working permits for foreign workers, etc.), usually stressed by international institutions.

There are some legal developments of the EPL, but again there is a problem of enforcement. Likely, enforcement is one of the big problems of labour law in Papua New Guinea. As in other developing economies, labour legislation tends to apply exclusively to the informal sector. But, in this country there are no clear channels for dissemination of new legal rules. Jones and McGavin (2015) remark that many firms still implement so-called Common Rules that no longer exist in the current law. In addition, relevant pieces of labour legislation are clearly outdated (and the government explicitly wants to update them).

Therefore, the colonial past is, again, very important to understand the shape of the Papuan New Guinean labour market institutions as based on tripartism. Nevertheless, as in many other developing economies, the key institution is the minimum wage setting. At the same time, in this country labour market regulation is clearly outdated and social partners and the government agree in updating. Enforcement also needs major improvements, especially putting in place legislation in force.

The labour markets institutions in the small Pacific island countries: Summary

Employment protection legislation is rather heterogeneous, but it is not really strict for the region as a whole:

- Redundancy rules and payments are not high, but in specific countries may be significant if they were effectively applied to the whole economy.
- There are no significant limitations to the use of fixed-term contract.
- Working hours' regulation follow the standard 8 hours per day and a maximum of 6 working days. Usually, there are no wage premia or restrictions to work out of the standard ours.
- There is no regulation on unemployment compensation in the region.
- Gender equality is not usually part of the labour market regulation in the region.
- Only some countries regulate coverage for sick leaves.

About minimum wages, it is the most important labour market institution affecting directly to workers' protection, as in the most part of developing economies. The vast majority of region countries have minimum wages by law. However, exceptions for sectors or occupations are common. On average, the scarce data do not show an association between minimum wages and the unemployment rates.

On labour organization, all countries of the region formally allow trade unions. Unions have developed two roles: promoting social objectives through engagement with political actions and representing the day-to-day interests of workers. Sometimes, the first role has been prominent, damaging the representation of unions. The extension of informal economy is another reason for weak representation of unions. Although there is a recent impulse of the ILO in the region, in general tripartism is weak and depending on the national evolution of the colonial legacy:

- In Fiji, unions have been closely linked to the difficult political evolution of the country and affected by the social ethnic divide, and they are restricted to the formal sector, in special to the public sector.
- In Palau, the institutional framework for tripartism has been almost non-existent until recently, with the collaboration of the ILO.
- In Papua New Guinea, the development of tripartism has been weak and coincident with a weak state intervention following political independence.

A challenge for the region is how implement institutional change in the labour market institutions to obtain more and better employment outcomes. Labour market regulation must correct economic problems and protect workers, without imposing unreasonable costs to firms and economic efficiency. Therefore, labour market reforms should implement coherent sets of measures, including counterweights for workers' protection. Agreement between social partners reduces uncertainty in the implementation of labour market reforms and potentially increases their enforcement.

3 Main guidelines for labour market reforms

A 'single' labour market for the region to fight the problems of small national labour markets

Under the recommendations of international organizations, Pacific island countries have been involved in different attempts to reform their labour markets since the mid-2000s. These attempts have tried to limit different aspects of the EPL and changing the minimum wage systems. In any case, the pace of changes has been slow in many countries of the region (ESCAP, 2007). However, as explained in section 1, there is a key obstacle to remove in small Pacific island countries: the small size of their labour markets. This objective is beyond the labour regulation country-by-country and requires international coordination to implement harmonized legal changes.

The small size of the labour market in these countries may be a great source of costs and inefficiencies if job mobility and skills enhancing is not part of medium-term labour market strategies. Therefore, the solution is not only considering migration programs (seasonal or not) towards Australia, New Zealand and South Korea, but the interconnection across the small Pacific island countries expanding the size of their national labour markets. Following the example of the University of the South Pacific, with campuses along many countries, the Pacific island countries would benefit of creating a basic legal framework facilitating migration in order to cover skills' shortages. This is what experts usually call South-South migration or the Global South. Previous experiences, as in the Caribbean countries, reaching agreements may be useful (Warner and Anatol, 2014). This type of migration would help to fight unemployment and to increase firms' efficiency, and would decrease brain drain providing more opportunities. In order to protect workers' rights, the region needs a common legal framework for visas, seasonal employment, recognition of qualifications etc. Expanding public or private/public partnership in labour market intermediation across the region would be crucial for this task. Beyond facilitating migration across the region with a consistent legal regulation and improving labour market intermediation, fighting again skills' mismatches requires the active involvement of employers in vocational training programmes in the medium and long terms.

About the three selected countries of this report, restrictions to foreign workers of the Pacific region (especially those from small countries) should be alleviated accordingly with the above proposal. Probably, the most debatable issue in the Palauan labour market is the high participation of foreign workers. In the past decade, different legal changes were passed in order to introduce limitations to the use of foreign work by employers. Skills' shortages because of the small size of the Palauan working population and the use of foreigners as cheaper work are behind this trend. Alleviating or simplifying these restrictions was remarked by the Palau's government, especially advocating for a uniform foreign worker fee¹⁷. In a similar vein, the chamber of commerce (acting as an employers'

¹⁷ See the Medium-Term Development Strategy 2009 to 2014 (pp. 78-79). Link: <https://www.adb.org/sites/default/files/linked-documents/cobp-pal-2016-2018-oth-01.pdf>

organization) advocates for a more comprehensive labour policy to reduce distortions. Especially, equal application of wage, tax and labour laws. Therefore, although informal sector is very small in Palau¹⁸, differences of Palauan and foreign workers may be the beginning of a dual labour market by country's origin. Prevention of this problem with and adequate labour regulation is highly advisable. What we clearly know about dual labour market in advanced economies (especially in Europe) is that once a dual labour market exists is really difficult to fight against it. Of course, this is a problem related with the spread of non-standard employment, and not only linked with contract regulation. A promising way in advanced economies to fight against duality is providing the same protection and rights to temporary workers than to permanent workers. In this vein, the above proposal (especially for Palau in the case of foreign workers, but also applicable to Fiji and Papua New Guinea for the informal sector) suggest implementing regulation changes in order to cover all workers with the same level of protection.

The rationale for EPL reforms should be increasing effective protection to more workers instead of more protection to few workers. When lower levels of EPL would be advisable, counterweights must be introduced through social dialogue to prevent negative impacts

The lack of an adequate statistical information does not allow a deep and detailed analysis about the impact of the current levels of EPL on employment and unemployment outcomes. The review of current information provided in section 1.2 shows that current EPL is not really 'strict' considering the region as a whole, although we have countries in the two opposites extremes: those with almost no regulation at all and those with a more developed regulation.

In any case, reforming EPL must take into account that although EPL may impose costs to the firms, at the same time there are benefits of the EPL, because the protection provided to workers may increase economic efficiency and productivity. The dilemma of reforming the EPL consists of providing effective protection to workers without imposing excessive costs to the firms. A realistic level of EPL (here, the sum of costs of advance notice and severance pay) has to protect the worker providing reasonable time for job search and/or a monetary compensation in countries where unemployment benefits do not exist. At the same time, this burden must be affordable for firms, because otherwise the incentive for non-compliance or moving to the informal sector will be high. In the analysis of section 2.1, we showed that although on average redundancy costs are not high and, at descriptive level, do not correlate with unemployment, these costs may be burdensome in some specific cases.

We know that labour market reforms implemented by agreement of the social partners will create a lower level of uncertainty. In such agreements, changes in the EPL may be counterweighted by other measures offering protection by other means. Therefore, it is

¹⁸ While informal sector is wide in Fiji and Papua New Guinea (around 60% and 80% of workers, respectively), figures for Palau are very different: below 7% of employment in 2015 (own calculations with information from Table 4.9, p. 53., of the 2015 Statistical Yearbook, Republic of Palau. Link: <http://palaugov.pw/wp-content/uploads/2016/09/2015-Statistical-Yearbook-1.pdf>).

advisable that a hypothetical lower level of EPL would be implemented jointly with other measures. Likely, the most important counterweight for decreasing EPL would be improving enforcement of the labour law in case of redundancy and/or promoting arbitration and conciliation in an effective way in case of dismissal for the whole economy, or, at least, widening current levels of law enforcement. In addition, a lower level of EPL related to redundancies affecting to all workers is not obstacle to bargain additional provisions through collective bargaining in sectors or firms where a higher level is feasible. Notice that workers in the informal sector are not protected and they would be the most benefited from a substantial increase in enforcement. Of course, other counterweights are possible, depending on the agreements between the social partners and each of the governments.

Going to the specific cases of our three selected countries (see Table A.3, in the appendix), they have some procedural limitations in case of redundancy in Fiji (third-party notification) and any at all for Palau and Papua New Guinea. About advance notice and severance payments, Palau does not implement any of them by law. Fiji and Papua New Guinea have both: on average, 4.3 weeks of salary for notice period plus 5.3 as severance pay in Fiji, and 3.3 plus 9.2 respectively in Papua New Guinea. Therefore, both countries have a cost of around 3 months of salary per redundancy, plus some bureaucratic costs in the case of Fiji. All these figures are on average, as the costs are different for workers 1, 5 or 10 years tenured. Probably, this cost is not high for the formal sector, especially in the case of qualified jobs. However, extending this redundancy costs to any type of job in the economy is not realistic. In fact, the extension of the informal sector jointly with low enforcement (especially in Papua New Guinea) mean that these costs only are relevant for a relatively small group of workers, who also are in better jobs. Both countries may consider a decrease in these costs, but widening at the same time the enforcement of the new labour regulation. At the same time, decreasing advance notice instead of severance payments would have a lower impact on earning losses for displaced workers.

On the other hand, Palau has a lower share of informal economy and almost no regulation at all concerning redundancies. It would be advisable to implement some type of minimum EPL by law in order to give protection to displaced workers in an economy without unemployment compensation.

In the region, minimum wage is more important than EPL for workers' protection and at the same time a more important worry for employers. Legal reforms should increase predictability of the evolution of this key variable for workers and employers, minimizing exceptions to general minimum wage and expanding collective bargaining at sector level

An employers' survey launched by Jones and McGavin (2015) has shown that employers consider that labour regulation is not a binding restriction (in Papua New Guinea), but the main concern of employers would be the minimum wage system (Jones and McGavin, 2015). In this vein, the region needs to implement more efficient institutions for minimum wage setting. A key element would be increasing predictability of the minimum wage

respect to the mean wage of the economy —or to the value added per worker. It is important to consider an evolution of the minimum wage according to the evolution of the mean wage of the whole economy. An evolution of the minimum wage independent from the mean wage would lead to sudden changes as Papua New Guinea experimented with the 1992 labour market reform, with a significant decrease in the minimum wage (Levantis, 2000).

A reform of the minimum wage setting increasing predictability would be crucial in Papua New Guinea. The recent trend of minimum wage institutions in Fiji is in this line yet. For the case of Papua New Guinea, reforming minimum wage means changing the structure of the Minimum Wage Board (Jones and McGavin, 2015), having a non-episodic status and increasing the expertise of the members of the board. All these changes should avoid unpredictable changes in minimum wages and connecting minimum wage determination with the economic performance of Papua New Guinea.

Sometimes, developing countries try to limit potential negative effects of minimum wages on specific sectors or occupations, introducing a long list of exceptions and/or different levels of minimum wages by sector or occupation. Many times, the result of these exceptions is a cumbersome regulation difficult to apply, worsening labour law enforcement. Although exceptions may be needed in some specific cases, the minimum wage system should minimize these special cases. In fact, the existence of these exceptions responds to a lack of effective collective bargaining by sector. Anyway, minimum wage exceptions are a poor substitute for collective bargaining by sector. The labour market reforms may simplify the minimum wage system eliminating exceptions, but at the same time collective bargaining in previously ‘exceptional’ sectors should be effectively promoted.

There is a general recommendation by many experts and international organizations to promote decentralized collective bargaining at the company level. The rationale is giving to the firms more tools to adapt to unexpected shocks (negative or positive). However, the extension of the informal sector in Fiji and Papua New Guinea also means that there is a huge prevalence of small businesses, and bargaining at the company level is very difficult in this type of companies. Therefore, collective bargaining at sector level is a reasonable choice, with the joint implementation of extension mechanism to firms and workers wanting to be under such agreements. For the case of Palau, minimum wage is currently fixed by the government and with a very predictable time path. Probably, the most important advice for Palau in terms of wage setting would be to promote collective bargaining articulating social dialogue.

Main guidelines for labour market reforms: Summary

The basic rationale for all labour market reforms in the region should be improving effective protection for more workers instead of providing more protection for few workers (usually in the formal or the public sector). On the other hand, it is highly advisable that the reforms will be implemented by agreement with the social partners to increase enforcement of new regulation and reducing uncertainty about the legal changes.

For the whole region, measures to fight the problem of the small size of labour markets:

- Facilitate labour movement across the small Pacific island countries.
- Alleviate restrictions for hiring foreign workers of the region.
- Facilitate homogeneous training and formal education across the region (i.e. credentials recognition, common university studies, etc.)

Fiji:

- Measures to decrease on average the costs of advance notice and severance pay as a whole, focusing more on advance notice. At the same, increasing effective coverage of the new regulation.
- Improving minimum wage setting, increasing predictability.
- Limiting the sector exceptions of the minimum wage and promoting collective bargaining in those sectors.

Palau:

- Alleviate hiring restrictions for foreign workers.
- Reinforce social partners, unions and employers' organizations.
- Articulate social dialogue through permanent institutions where social partners and the government would interact.
- Considering some minimum employment protection legislation by law.

Papua New Guinea:

- Measures to decrease on average the costs of advance notice and severance pay as a whole, focusing more on advance notice. At the same, increasing effective coverage of the new regulation.
- Improving minimum wage setting, increasing predictability.
- Limiting the sector exceptions of the minimum wage and promoting collective bargaining in those sectors.
- Increasing enforcement of labour market regulation, facilitating information about regulation in force.

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5 Appendix

Table A.1. Labour force participation and unemployment rates in small Pacific island countries.

LFP rate	2000		2005		2010		2011	2012	2013	2014	2015
Cook Isl.	69.0	(2001)	70.2	(2006)	...		71.0	...	...	...	...
Fiji	57.4		56.2		54.9		54.8	54.7	54.6	54.4	54.3
Kiribati	80.9		63.6		59.3		...	...	...	...	...
Marshall Isl.	...		...		...		...	...	...	...	...
Micronesia	58.6		...		57.3		...	...	...	...	...
Nauru	...		...		...		...	...	...	...	...
Palau	67.5		69.1		...		...	68.1	...	...	77.4
PNG	72.2		72.9		71.7		71.3	70.8	70.6	70.3	70.3
Samoa	50.6	(2001)	49.8	(2006)	...		41.3	...	...	...	...
Solomon Isl.	...		...		62.7	(2009)	...	...	...	...	...
Tonga	...		...		...		...	...	...	...	...
Tuvalu	58.2	(2002)	...		...		...	59.4	...	...	...
Vanuatu	77.0		73.6		71.0		71.1	71.1	71.1	71.0	71.0
Unempl. rate	2000		2005		2010		2011	2012	2013	2014	2015
Cook Isl.	13.1	(2001)	8.9	(2006)	...		8.2	...	...	...	...
Fiji	7.8		4.6		8.9		9.0	9.0	9.4	8.3	7.7
Kiribati	1.6		6.1		30.6		...	...	...	...	...
Marshall Isl.	30.9		30.9		...		*	32.6	...	...	...
Micronesia	22.0		...		16.2		...	...	...	...	...
Nauru	22.7	(2002)	...		...		22.9	...	...	...	...
Palau	2.3		4.2		...		...	4.1	...	...	...
PNG	...		...		...		1.4	...	...	...	...
Samoa	4.9	(2001)	...		...		5.7	...	...	...	...
Solomon Isl.	...		...		6.3	(2009)	...	...	...	...	...
Tonga	...		...		...		6.4	...	...	...	...
Tuvalu	6.5	(2002)	6.5		...		...	39.6	...	...	...
Vanuatu	5.3		5.1		4.3		4.3	4.3	4.3	4.5	4.3

* In ADB (2016), the figure reported for the Republic of the Marshall Islands in 2011 is 3.2, which is clearly inconsistent with the rest of the years.

Source: *Key Indicators for Asia and the Pacific 2016*, Asian Development Bank (<https://www.adb.org/publications/key-indicators-asia-and-pacific-2016>). Original sources: Economy sources; International Labour Organization. Key Indicators of the Labour Market Online; for the Cook Islands, Kiribati, the Marshall Islands, Nauru, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, and Tuvalu: Secretariat of the Pacific Community. National Minimum Development Indicator Database.

Table A.2. Youth unemployment rates (15-24 years old) in small Pacific island countries.

	Total				Fem.				Male			
	2000		2015		2000		2015		2000		2015	
Cook Isl.	19.9	(2006)	15.5	(2011)	20.4	(2006)	15.3	(2011)	19.4	(2006)	15.6	(2011)
Fiji	17.0		18.2		22.4		23.9		14.0		14.8	
Kiribati	...		54.0	(2010)	...		61.8	(2010)	...		47.6	(2010)
Marshall Isl.	62.6	(1999)	50.0	(2011)	67.0	(1999)	50.0	(2011)	59.8	(1999)	50.0	(2011)
Micronesia	...		11.3	(2010)	...		10.4	(2010)	...		12.2	(2010)
Nauru	58.2	(2006)	45.5	(2011)	65.9	(2006)	54.4	(2011)	51.7	(2006)	40.7	(2011)
Palau	11.9	(2005)	...		10.5	(2005)			12.8	(2005)		
PNG	5.8		6.7		6.3		7.1		5.3		6.2	
Samoa	9.5		14.1		12.4		18.7		8.3		12.4	
Solomon Isl.	...		...		...		...		...		...
Tonga	11.4		11.7		14.6		14.6		9.6		9.7	
Tuvalu	...		63.7	(2012)	...		...		...		...
Vanuatu	9.7		8.8		10.1		9.4		9.3		8.3	

Source: Source: *Key Indicators for Asia and the Pacific 2016*, Asian Development Bank (<https://www.adb.org/publications/key-indicators-asia-and-pacific-2016>). Original sources: International Labour Organization. Key Indicators of the Labour Market. 9th Edition. <http://www.ilo.org/kilm>; The Secretariat of the Pacific Community 2004, Pacific Islands Regional.

Table A.3. Labour market regulation on redundancy rules and payments in small Pacific island countries.

Redundancy rules								
Fiji	Kiribati	Marshall Islands	Palau	PNG	Samoa	Solomon Islands	Tonga	Vanuatu
<i>Maximum length of probationary period (months)</i>								
3.0	n.a.	n.a.	n.a.	n.a.	3.0	n.a.	n.a.	6.0
<i>Dismissal due to redundancy allowed by law?</i>								
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<i>Third-party notification if one worker is dismissed?</i>								
Yes	Yes	No	No	No	No	Yes	No	No
<i>Third-party approval if one worker is dismissed?</i>								
No	Yes	No	No	No	No	No	No	No
<i>Third-party notification if nine workers are dismissed?</i>								
Yes	Yes	No	No	No	No	Yes	No	No
<i>Third-party approval if nine workers are dismissed?</i>								
No	Yes	No	No	No	No	No	No	No
<i>Retraining or reassignment?</i>								
No	No	No	No	No	No	No	No	No
<i>Priority rules for redundancies?</i>								
No	No	No	No	No	No	No	No	No
<i>Priority rules for reemployment?</i>								
No	No	No	No	No	No	No	No	No
Redundancy Payments								
Fiji	Kiribati	Marshall Islands	Palau	PNG	Samoa	Solomon Islands	Tonga	Vanuatu
<i>Notice period for redundancy dismissal (for a worker with 1 year of tenure, in salary weeks)</i>								
4.3	4.3	0.0	0.0	2.0	2.0	4.3	0.0	2.0
<i>Notice period for redundancy dismissal (for a worker with 5 years of tenure, in salary weeks)</i>								
4.3	4.3	0.0	0.0	4.0	3.0	4.3	0.0	13.0
<i>Notice period for redundancy dismissal (for a worker with 10 years of tenure, in salary weeks)</i>								
4.3	4.3	0.0	0.0	4.0	5.0	4.3	0.0	13.0
<i>Notice period for redundancy dismissal (weeks of salary)</i>								
4.3	4.3	0.0	0.0	3.3	3.3	4.3	0.0	9.3
<i>Severance pay for redundancy dismissal (for a worker with 1 year of tenure, in salary weeks)</i>								
1.0	0.0	0.0	0.0	1.7	0.0	2.0	0.0	4.3
<i>Severance pay for redundancy dismissal (for a worker with 5 years of tenure, in salary weeks)</i>								
5.0	0.0	0.0	0.0	8.7	0.0	10.0	0.0	21.7
<i>Severance pay for redundancy dismissal (for a worker with 10 years of tenure, in salary weeks)</i>								
10.0	0.0	0.0	0.0	17.3	0.0	20.0	0.0	43.3
<i>Severance pay for redundancy dismissal (weeks of salary)</i>								
5.3	0.0	0.0	0.0	9.2	0.0	10.7	0.0	23.1

Source: Doing Business 2017 (World Bank). Note: the worker considered is a cashier in a supermarket or grocery store, aged 19, with one year of work experience, working full-time and she is not member of a trade union (unless membership is mandatory), and the business is a limited liability company (or equivalent) with 60 employees, operates a supermarket or grocery store in the economy's largest business city, subject to collective agreements when agreements cover at least half of the food retail sector, and abides every law and regulation but does not grant more benefits than those mandated by law or collective agreements.

Table A.4. Labour market regulation on working hours in small Pacific island countries.

Fiji	Kiribati	Marshall Islands	Palau	PNG	Samoa	Solomon Islands	Tonga	Vanuatu
<i>Standard workday</i>								
8	8	8	8	8	8	9	8	8
<i>Maximum working days per week</i>								
6	7	7	7	6	6	6	6	6
<i>Premium for night work (% of hourly pay)</i>								
4	0	0	0	0	0	0	0	0
<i>Premium for work on weekly rest day (% of hourly pay)</i>								
0	0	0	0	0	100	0	0	50
<i>Premium for overtime work (% of hourly pay)</i>								
50	50	0	0	50	50	50	0	25
<i>Restrictions on night work?</i>								
No	No	No	No	No	No	No	No	No
<i>Restrictions on weekly holiday work?</i>								
No	No	No	No	No	Yes	No	Yes	No
<i>Restrictions on overtime work?</i>								
No	No	No	No	No	No	No	No	No

Source: Doing Business 2017 (World Bank). Note: the worker considered is a cashier in a supermarket or grocery store, aged 19, with one year of work experience, working full-time and she is not member of a trade union (unless membership is mandatory), and the business is a limited liability company (or equivalent) with 60 employees, operates a supermarket or grocery store in the economy's largest business city, subject to collective agreements when agreements cover at least half of the food retail sector, and abides every law and regulation but does not grant more benefits than those mandated by law or collective agreements.

Table A.5. Labour market regulation on gender and job quality in small Pacific island countries

Fiji	Kiribati	Marshall Islands	Palau	PNG	Samoa	Solomon Islands	Tonga	Vanuatu
<i>Equal remuneration for work of equal value?</i>								
Yes	Yes	No	No	No	Yes	No	No	No
<i>Gender non-discrimination in hiring?</i>								
No	No	No	No	No	No	No	No	No
<i>Paid or unpaid maternity leave mandated by law?</i>								
Yes	Yes	No	No	Yes	Yes	Yes	No	Yes
<i>Minimum length of maternity leave (calendar days)?</i>								
84	84	n.a.	n.a.	0	28	42	n.a.	84
<i>Receive 100% of wages on maternity leave?</i>								
Yes	No	n.a.	n.a.	n.a.	Yes	No	n.a.	No
<i>Five fully paid days of sick leave a year?</i>								
Yes	..	No	No	Yes	Yes	Yes	No	Yes
<i>Non-pregnant and non-nursing women permitted to work same night hours as men?</i>								
Yes	No	Yes	Yes	No	Yes	No	Yes	No
<i>Paid annual leave for a worker with 1 year of tenure (in working days)</i>								
10	0	0	0	11	10	15	0	15
<i>Paid annual leave for a worker with 5 years of tenure (in working days)</i>								
10	0	0	0	11	10	15	0	15
<i>Paid annual leave for a worker with 10 years of tenure (in working days)</i>								
10	0	0	0	11	10	15	0	21
<i>Paid annual leave (working days)?</i>								
10	0	0	0	11	10	15	0	17
<i>Unemployment protection after one year of employment?</i>								
No	No	No	No	No	No	No	No	No

Source: Doing Business 2017 (World Bank). Note: the worker considered is a cashier in a supermarket or grocery store, aged 19, with one year of work experience, working full-time and she is not member of a trade union (unless membership is mandatory), and the business is a limited liability company (or equivalent) with 60 employees, operates a supermarket or grocery store in the economy's largest business city, subject to collective agreements when agreements cover at least half of the food retail sector, and abides every law and regulation but does not grant more benefits than those mandated by law or collective agreements.