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ECONOMIC THEORY, APPLICATIONS AND ISSUES

Working Paper No. 37

**Globalisation and the Economic Future
of Small Isolated Nations,
Particularly in the Pacific**

by

Clem Tisdell

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Globalisation and the Economic Future of Small Isolated Nations,

Particularly in the Pacific

Abstract

Small countries, such as Pacific islands countries (PICs), vary considerably in the extent and in the ways in which they are linked to the global economy. Particularly within PICs, households and families, and different social groups also differ in their dependence on markets, cash and foreign exchange incomes for their economic welfare. A dualistic economic model is inadequate as a means for specifying the distribution of this dependence. There is a need to analyse the distribution of such dependencies more precisely using, amongst other things, relative frequency distributions. It is hypothesised that increased integration of PICs into the global economy combined with global economic reforms can be expected to result in reduced private investment in many PICs, mainly because of outflows of investible funds from PICs to take advantage of higher economic returns elsewhere. In turn, this is liable to reduce real wages and employment in these countries. At the same time, there are likely to be increasing pressures for emigration from PICs as income differentials between them and higher income countries, such as Pacific Rim countries, grow, and political demands to allow freer international movements of labour are likely to magnify as PICs demand full commitment to the globalisation concept and as various employer groups in higher income countries seek to cope with growing international economic competition brought about by increasing globalisation by importing labour. The possible implications of these trends for the economic development/future of PICs are considered.

Globalisation and the Economic Future of Small Isolated Nations, Particularly in the Pacific

1. Introduction

Economic globalisation has proceeded at a fast pace in recent times as demonstrated by several measures (Tisdell, 2005a; Tisdell and Sen, 2004). For example, the percentage of gross global output traded rose from around 12 per cent in 1960 to 24 per cent in 2002 (Tisdell, 2005a, p.6). The level of foreign direct investment has also risen substantially in magnitude and as a proportion of global output in recent decades, as have short-term money movements. The percentage of the world's population engaging in international travel has shown a strong upward trend (Tisdell, 2005b) and there has been an explosion in the extent of international electronic communication, partly as a result of technological advances.

On the other hand, growth in international labour movements appears to have been less rapid even though substantial international movements of labour do occur. These involve both short-term movements ('guest' workers) and permanent migration. Furthermore, the ageing of populations in many developing countries and perceived skill shortages in these countries are catalysts for relaxation of requirements for labour migration to more developed countries. Despite this, the international market for labour appears to involve more restrictions than other global markets.

Economic globalisation involves the international extension of markets. In popular parlance, it covers the concepts of borderless economies and the global village. Its economic consequences for nations are liable to differ. Some nations may make little economic gain from the process of globalisation, or even lose, whereas others may reap substantial economic benefit from it. Furthermore, the ways in which nations may gain or lose from globalisation can differ significantly.

Small isolated economies, such as many Pacific islands economies, have limited scope for benefiting from the process of economic globalisation because of their geographical isolation from large markets. This combined with their small home markets denies such countries economies of scale and of agglomeration. Their natural barriers to international trade are

substantial and are likely to remain even when man-made barriers to global trade are reduced considerably. Tuvalu, for example virtually has no exports of goods because of its natural situation and Kiribati has few exports (Tisdell, 2000).

On the other hand, some of the larger Pacific island countries, such as Fiji, obtain a significant share of their foreign exchange receipt from their exports. In 2000, for example, Fiji's exports amounted to about 45 per cent of its GDP, and that of Papua New Guinea in 2002 was equal to about 27 per cent of its GDP. These economies, therefore, appear to be more dependent on the global trading economy than small atoll economies. There are, of course, other ways of achieving international dependence, for example, via international labour movements and remittances. The scope for this type of dependence also differs widely amongst Pacific island countries (PICs) (Connell and Brown, 2005). The nature and degree of economic interdependence of PICs with global economy varies greatly. With this in mind, let us discuss generally the prospects for international trade in goods and services for these countries, scope for changed international capital movements and labour movements, given the ongoing process of economic globalisation.

2. International Trade in Goods and Services and PICs

While for some PICs, such as PNG and Fiji, international trade is their main link to the global economy for others, such as Tuvalu and Kiribati, international trade is of no or of little importance. In the case of W. Samoa, international trade is of moderate importance. Thus there are large differences in the degree to which PICs are linked to the global economy via international trade in goods and services. This position is unlikely to change as man-made barriers to international trade are reduced because of the considerable variations in the size of the economies of PICs, in their availability and diversity of resources, and in their physical costs of accessing international markets. For these reasons, one would expect the international trade possibilities of Kiribati and Tuvalu, for example, to remain quite limited compared to Fiji and PNG as economic globalisation proceeds. That is not to say that these atoll economies have had no economic benefits from international contact. They have been able to obtain some benefits from the global economy, for instance, from royalties charged for tuna fishing rights in their waters, and from being able to supply seamen for international shipping lines.

Not only does the dependence of PICs on international trade in commodities differ greatly but within PICs, various social groups and communities have widely varying degrees of dependence on such trade. There appears, however, to have been no systematic study of the degree of this variation by social groups. However, one might expect urban populations to be more dependent on markets and international trade and foreign exchange for their livelihoods than rural populations. In Fiji, market and international trade dependence of Fijian Indians is most likely greater on average than for Melanesian Fijians given that Fijian Indians have only very limited land rights (Prasad and Tisdell, forthcoming). Fijians in remote areas probably engage in much less trade than those in more central places.¹

It should, however, be noted that the proportion of a household's income or output entering trade is just one consideration in examining the importance of trade for the welfare of the household. A household, for example, that earns 5% of its income in cash might be economically more vulnerable to say a 20% decline in cash income than one that earns all of its income in cash. The former may be forced to forego market necessities whereas the latter household may only have to give up market luxuries. Assessment of the degree of economic dependence of households in PICs on market exchange is quite complex.

While many PICs may seem to have dualistic economies, probably most are not well represented by such a binary dichotomous relationship. The dependence of their population on markets, on cash, or on external economic factors probably forms a continuous relationship. A possible hypothetical relationship of this kind is shown in Figure 1 by the relative frequency curve ABCD. This curve indicates that no households in this hypothetical economy are without any cash income but that for a large number, cash accounts form a low proportion of their income. The hypothetical relationship in Figure 1 displays a bimodal distribution of 'dependence' of households on cash income, even though earning of all income in cash has the greatest relative frequency. Nevertheless, most individuals in this hypothetical country depend to some extent on non-cash income.

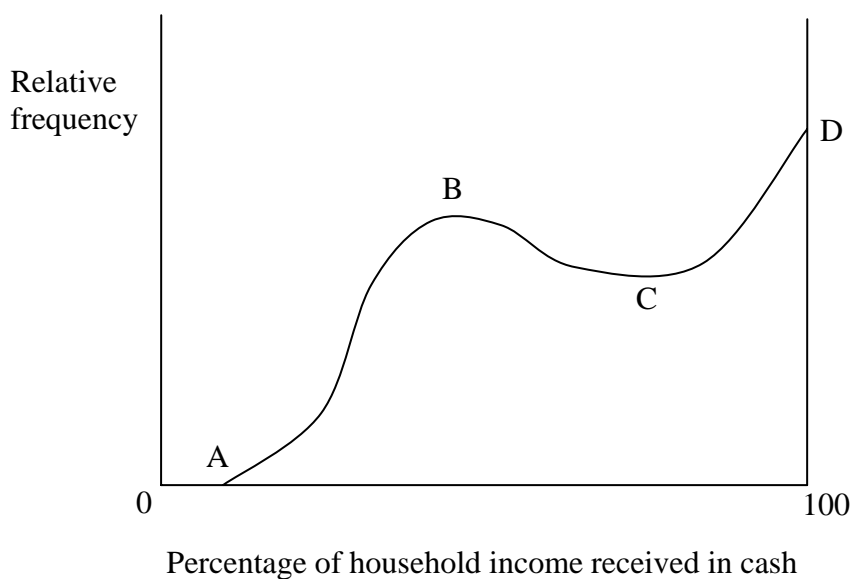


Figure 1 Relative frequency with which households in a hypothetical economy obtain different percentages of their income in cash

Relative frequency curves of the ‘dependence’ of households on cash, market exchange, exports, foreign transactions and so on for PICs have not been estimated but would be revealing. In higher income countries, such as Australia, almost the entire population is dependent completely on cash for its income. The exceptions in Australia would include some Australian Aborigines and Torres Straits Islanders and alternative lifestyle groups.

Economic globalisation and market extension have different consequences for households depending upon how dependent they are on markets and the cash economy for their income. Also, in the Pacific one has to give particular attention to the nature of economic obligations within the family. Amongst indigenous people, the family is often a very extended family so that earners of cash in such a family have wide obligations to share cash. Thus the loss of a government job by one family member can adversely affect the welfare of many family members. Economic restructuring of the public service, such as occurred in the Solomon Islands, can therefore, result in widespread economic hardship where staff numbers in the public service are reduced.

Despite the fact that PICs differ greatly in their degree of dependence on trade in goods and services to generate income, all have significant links with the global economy. None are autarkic. International links of importance to countries such as Kiribati and Tuvalu are

remittances from their sailors employed on foreign vessels, royalties obtained from foreign countries granted rights to catch tuna in their EEZs, and economic returns from mostly foreign investment of the government's capital reserve funds. In the case of W. Samoa, remittances from Samoans living and working abroad are a major source of foreign income and an important link to the world economy.

With growing economic globalisation, it may be very difficult for many PICs to benefit from export-led growth. Fiji, in particular, may experience considerable economic difficulty given its export dependence on sugar production and garment manufacture. Markets for the output of both of these face increasing international market fluidity. PNG, and many PICs, are highly dependent on extractive industries for foreign exchange earnings. There is a risk that the rents from such industries will be unequally distributed and will not be used to bring about lasting economic development in the countries concerned. The rents of PICs may be used for consumption or even for investment abroad.

It is worthwhile, therefore, considering the likely impact of increasing freedom of capital movements on PICs and also the potentially greater freedom of international movement of labour. Freedom in international movement of capital is now well established as a plank of economic globalisation policies. Easier movement of labour internationally is a subject of increasing debate.

3. International Capital Movements and PICs

In recent times, higher income countries have reduced their aid to developing countries, including PICs. There have been suggestions that with appropriate governance and the freeing of capital markets, private investment might compensate for this loss. However, in many resource-poor remote economies, this is probably a false hope. Greater freedom of resource movement globally may drain away their resources and reduce their long-term economic growth. Globally they can become declining regions of the world, a decline accelerated by greater freedom of international resource movements. It is normal for some regions of the world to decline and for their population levels to fall as economic development proceeds and as market extension occurs. In addition, there is often a net capital outflow from declining regions. Whether such changes are socially desirable or not is often a matter of contention.

Consider some simple theoretical possibilities as far as capital movement is concerned. Suppose that the only source of private investment funds for a small economy is its domestic savings. Let x_1 in Figure 2 represent its available supply of investment funds which is supposed for simplicity to be inelastic. Line ABC in this figure represents the marginal efficiency of capital in this economy and line DBE indicates the global return on investment. If domestic savings cannot be invested abroad, the total return on savings will be equal to the area of quadrilateral OGCA. However, if investment can be undertaken freely abroad, savings invested at home will fall from x_1 to x_0 while the remainder of savings will be invested abroad. As a result, savers/investors increase their income by an amount equal to the area of the triangle BCE. The overall returns on investible funds increase but there is less capital formation in the domestic economy.

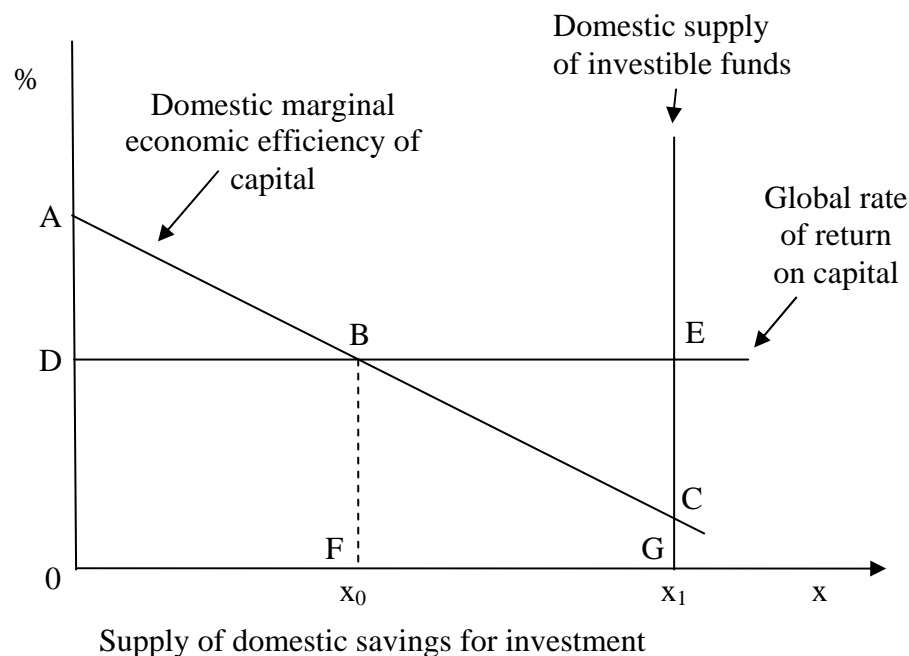


Figure 2 Illustration of how the free flows of funds for capital formation can result in an outflow of investible funds from a disadvantaged economy

Reduced capital formation in the domestic economy can be expected to result in less employment in the private market sector of the domestic economy. While those who are able to save substantial sums (mostly the better off) will gain from free international flows of funds, those who depend for their livelihood on the sale of their labour in this hypothetical economy can be expected to lose. They can expect lower wages and reduced employment as a result of a decline in the domestic demand for labour.

This is illustrated in Figure 3. There the line SS represents the supply of labour and the line D_1D_1 represents the demand for labour when all domestic savings are invested at home. The equilibrium in the labour market is then E_1 . Suppose, however, that as a result of deregulation, a high proportion of local savings is invested abroad. As a result, the demand curve for labour in the domestic economy might fall from D_1D_1 to D_2D_2 . The equilibrium in the domestic labour market then alters from E_1 to E_2 . Consequently, the level of domestic employment of labour declines and the wage rate is reduced. The net results possibly will be an increase in the inequality of income in this hypothetical disadvantaged economy with income shifting in favour of the wealthier members of the community. Wage earners will be disadvantaged.

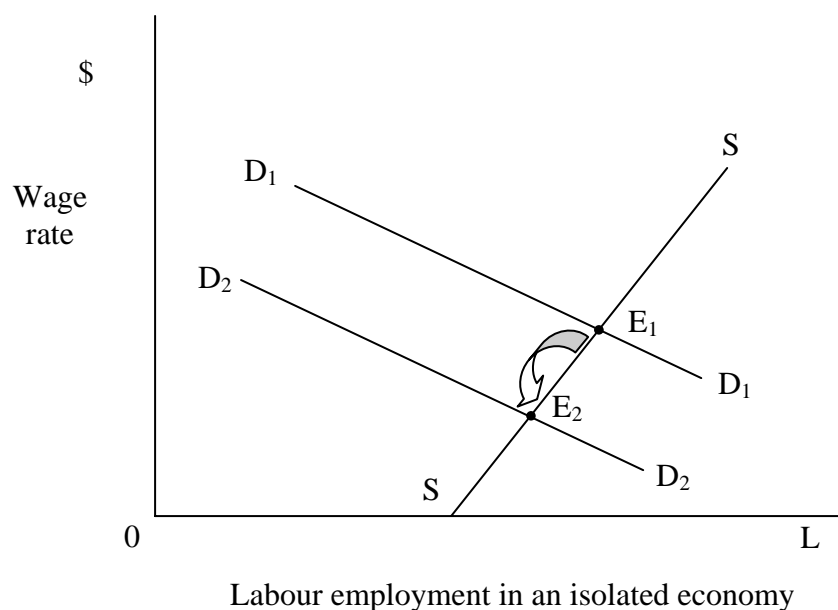


Figure 3 Outflows of capital from a disadvantaged hypothetical economy can reduce domestic wages and employment

However, the above ignores the possibility that, as a result of deregulation of capital markets, there could be greater inflows of capital to disadvantaged economies, such as those of many PICs. Foreigners may be able to undertake investment opportunities that locals lack the skills, market connections and technology to undertake successfully. However, in many cases, the inflow of such investment is likely to be considerably less than the outflow of local savings. This is because the limited resources and the market disadvantages of many PICs provide little scope for profitable foreign investment. Furthermore, in some larger PICs, such as PNG, where foreign investment is considerable, it is often in extractive industries, such as mineral

production. Economic leakages from foreign direct investment in such industries tends to be high, and extractive industries usually have limited sustainability.

In addition, there are, frequently, socio-political impediments to foreign and local investment in many PICs. These include lack of availability of secure private property rights in land (Prasad and Tisdell, forthcoming), the political instability of some nations, corruption, and problems in achieving effective governance. These are the outcomes of cultural traditions and historical experience. They are difficult to change quickly. Furthermore, there can be considerable social conflict about the desirability of altering institutions associated with cultural traditions. It is unrealistic to imagine that a quick 'social fix' is possible, even assuming that it is desirable.

Thus, the prospect for economic growth being fostered in most PICs by the process of economic globalisation involving free international capital markets seems to be dim. In fact, several PICs, such as Fiji, could experience negative economic impacts from economic globalisation. Therefore, international labour movements need to be considered as a means to provide economic help to individuals living in such countries.

4. International Labour Movements and PICs

According to neoclassical economic theory, free movements of labour, including international movements, will result in economic gain if labour movements are currently restricted. Labour will tend to migrate from low income regions to higher income regions. In a frictionless, competitive economic world, labour movements will continue until the value of the marginal product of labour is equal in all regions and incomes are equal for those with equal skills and ability. Such free movements would bring about a potential Paretian improvement in economic welfare or a Kaldor-Hicks economic gain according to neoclassical economic theory.

Therefore, according to this point of view, migration from PICs to richer Pacific Rim countries, such as Australia and New Zealand, can increase incomes in the Pacific Region as a whole. It may also reduce the amount of foreign aid needed to maintain income levels in PICs, as discussed by Tisdell (1990) in Chapter 10, "Foreign Assistance to Resource-poor Developing Countries: Aid versus International Migration".

In practice, however, the economic impacts of such migration are likely to be complex. For example, its economic impact will vary depending on the relationship between the value of production in a country and the size of its population (Tisdell, 1990, Ch.10). Neoclassical economic models have normally been based on the assumption of diminishing marginal productivity. If this applies, out migration should raise per capita incomes in PICs. However, it could result in some countries or currently inhabited islands becoming completely depopulated because their maximum per capita income is less than that obtainable elsewhere in the world. For these areas, migration would result in a mathematical corner-point solution. The optimal economic solution could be to depopulate some islands completely in the Pacific and maybe even some small Pacific countries. Whether or not that would be desirable from other viewpoints could be contentious.

But we cannot be sure that a neoclassical production model of a Ricardian-type (see Tisdell, 2005c, Ch.1) applies. It may be that as the population of a country expands, it first experiences increasing returns to production then decreasing returns with further increases in population. If this Marshallian type situation prevails, then emigration from PICs may reduce the per capita incomes of remaining residents, not increase them as in the Ricardian case (Tisdell, 1990, Ch.10). Thus, Marshallian non-convexity in the production function will further stimulate out migration. It might, however, be offset (at least to some extent) by remittances to PICs by migrants.

It seems likely that non-convexities in national production do occur and that the Ricardian-type production function does not apply, or only applies in a few cases. Free migration from PICs could reduce per capita incomes in some of these, such as possibly Fiji. That could, however, be compensated for to some extent by remittances for emigrants.

The matter is further complicated by the presence of shared goods and services, the availability of which is heavily dependent on concentrations of populations. These include external economic benefits and disbenefits of being located in an area where population is concentrated, such as urban area or a 'centre' country. As a country or an area becomes depopulated, external economic benefits per capita may eventually fall, and further stimulate migration to central places (Tisdell, 1990, Ch.9). Thus the centre grows as a result of these externalities and the periphery further declines. Consequently, it is clear that the economic impacts of migration are more complicated than indicated by the Ricardian-type neoclassical

production model. Non-convexities in the production function and the presence of economic externalities dependent on concentrations of population may prevent the occurrence of a Paretian optimal outcome when free migration is allowed (Tisdell et al., 2004). Yet easier international migration could be better from an economic (and arguably a social) point of view than one where international migration is highly restricted. Even if easier international migration does not give ideal results, it could be more desirable than maintaining the status quo.

5. Political Pressures for Easier Immigration to Higher Income Countries

Debate about whether residents of PICs should have easier labour access, including migration possibilities, to Pacific Rim countries, such as Australia, intensified in 2005. At the Pacific Islands Forum in 2005 held in Port Moresby, Pacific island leaders pressed for easier labour access of their residents to Australia. Such a development is seen by many as a logical follow up to a free trade area in the South Pacific, and would be analogous to the evolution of free markets in the European Union. In the case of the EU, greater freedom of trade within the EU was followed by greater freedom of labour movements.

An aspect of this debate has been the claim that Pacific islanders should be granted easier access to Australia for employment as seasonal workers (Maclellan and Mares, 2005). It is argued that this will create greater economic opportunities for unskilled or low skilled Pacific islanders, many of whom are under employed or unemployed. It may also provide a cheaper source of labour for seasonal employment on Australian farms, particularly in horticulture. Australian horticulturalists face considerable competition from imports as a result of reduced barriers to international trade. Several other higher income countries are employing cheap migrant labour in labour-intensive operations in horticulture; for example, Mexicans in the USA and North Africans in Spain.

In addition, it can be observed that many countries make considerable use of low-cost foreign ‘guest’ workers on short-term contracts, many of whom are low skilled. While this is a well known fact in relation to oil-rich nations, such as Brunei in the Asia-Pacific region, it is also true of other countries, such as Singapore, Malaysia, Thailand (see, for example, Kaur, 2004) and even Hong Kong. In the case of Singapore, Malaysia and Thailand, some of their industries are kept internationally more competitive as a result of the use of guest workers on lower pay than demanded by their nationals. Considerations of international competitiveness

may, therefore, also entice nations such as Australia to adopt similar policies as economic globalisation proceeds. As Australian labour markets become increasingly deregulated, the scope for labour contracts involving lower wages will increase particularly if a large supply of foreign guest workers from low income countries becomes available.

The above indicates that economic globalisation can increase pressures in more developed countries in favour of the import of low-cost relatively low-skilled labour. However, various economic interest groups (mostly employers) in higher income countries have also argued that in order to maintain their international competitiveness in a globalising world, it is important for them to be allowed to import skilled labour. Currently, it is much easier for skilled persons to migrate to Australia than the unskilled or those with few skills. Australia's current policies add to the 'brain-drain' in PICs.² To some extent, PICs counteract this by employing skilled Africans but this in turn adds to the brain drain from Africa.

Thus, it seems that growing international competition arising from the processes of economic globalisation is causing different employer groups with differing labour requirements to support easier short-term and long-term immigration of both skilled and unskilled persons. This is seen as a way to cope with international competitive pressures arising from globalisation.

Given the limited income and employment opportunities in small isolated economies, including PICs, their leaders are generally supportive of more liberal international labour movements, particularly if their emigrants are likely to return significant amounts of remittances to their home countries. At the same time, they are aware of the extra burden that they may face as a result of loss of skilled persons, such as medical practitioners and nurses.

Another reason why many higher income countries have become more receptive to the immigration of non-elderly persons, is that they are faced by an ageing population and a dwindling workforce relative to their total population. The burden of supporting the elderly in higher income countries may be eased by immigration of non-elderly persons. This strategy is, for example, being followed by Spain (Rojas, 2005). Australia, like Japan and many European countries, is one of the higher income countries that is experiencing an ageing population. This does not, however, appear to be a major problem for the USA possibly because of its large influx of Latin Americans.

On the other hand, the possibility should not be overlooked that poorly planned immigration programmes can be the source of social problems, highlighted, for example, by the rioting in France in November 2005 in poor suburbs dominated by immigrants from North Africa.

Immigrants may be especially vulnerable in a deregulated labour market. There is a danger that they will be subject to prejudice and discrimination in the workplace. Because of their weak bargaining position, long-term conditions of work may suffer. This could become an issue in Australia with the increasing deregulation of industrial relations. Ghettoes of socially disadvantaged could evolve, as appears to have happened in France and in the USA. Australia has become a more unequal society as globalisation has proceeded. Bob Gregory (2004) has found that there is increasing geographical stratification of income groups in Australia; the poor are increasingly located in proximity to each other and so also are the rich.

However, the number of Pacific islanders in relation to Australia's population is not large and not all will want or be allowed to migrate. Some Pacific islanders already have excellent opportunities to migrate such as Samoans and Cook Islanders but residents of resource-poor Kiribati and Tuvalu do not. This raises the question of whether residents of some PICs should be given a priority in sending migrants to Australia. If so, how should the selection be made? Should preference be given to migrants from resource-poor atoll countries, or to countries, such as Fiji, which are likely to be quite vulnerable to the loss of international market protection as globalisation proceeds?

In its Pacific policy discussion paper, the Australia Labor Party (ALP) indicates its support for a limited number of short-term employment visas, specifically for Pacific islanders to enable them to gain greater access to the Australian labour market (Sercombe, 2005). Their stays would be limited to 12 months or less. For seasonal workers, stays could be of as little as 3 months duration. The numbers being considered are modest; initially starting at 5,000 in year 1 and rising to 10,000 in year 5. The ACTU has indicated qualified support for the scheme.

Pacific leaders at the Pacific Islands Forum held in PNG in October 2005 requested the Australian and New Zealand prime ministers allow greater access to Australia and New Zealand for seasonal work by their residents. However, this was rejected by both. Miss Clark

(the New Zealand Prime Minister) was reported as saying that “New Zealand is concerned about the erosion of working standards and the rise in the number of illegal visa overstayers” as well as the fact that “some small Pacific states had virtually become unviable because their working populations had moved to New Zealand” (Shanahan, 2005).

6. Further Discussion and Concluding Comments

It is often claimed by proponents of laissez-faire economic systems that market deregulation and freer international trade will stimulate private investment. Furthermore, it is sometimes suggested that government investment tends to ‘crowd out’ private investment, and that, therefore, a reduction in public investment may further stimulate private investment. However, none of these effects have happened in Fiji in recent times. Private investment as a percentage of Fiji’s GDP has fallen since 1980 although the Fijian economy has become more open and less regulated, and at the same time investment by the public sector has also declined sharply (see Prasad and Tisdell, forthcoming, Table 4.7).

In Table 1, the openness of the Fijian economy as indicated by its exports as a percentage of its GDP for the period 1980-2000 can be compared with its level of private investment as a percentage of its GDP. It is apparent that with the growing openness of the Fijian economy,³ its private investment as a percentage of its GDP has fallen considerably.

Table 1 Openness of the Fijian economy (Exports as a Percentage of its GDP) in the 1980s and the 1990s and private investment as a percentage of its GDP in the same period

Year	Exports as a Percentage of GDP	Private Investment as a Percentage of GDP
1980	18.45	14.9
1981	15.66	13.7
1982	17.12	11.1
1983	15.77	10.9
1984	16.88	11.4
1985	17.09	13.6
1986	17.24	11.0
1987	23.47	10.9
1988	25.38	7.5
1989	27.72	6.4
1990	30.01	5.5
1991	27.38	5.2
1992	25.72	3.6
1993	26.38	4.7
1994	28.79	4.1
1995	36.19	4.1
1996	42.84	4.2
1997	35.42	3.7
1998	41.22	4.7
1999	44.31	4.7
2000	45.54	3.1

Source: Asian Development Bank, 2002 and Fiji Islands Bureau of Statistics, various years

Figure 4 shows the scatter of observations for private investment as a percentage of its GDP in comparison to Fiji's exports as a percentage of its GDP for the period 1980-2000. It can be seen that a negative relationship exists between the degree of openness of Fiji's economy and its level of private investment as a percentage of its GDP. For each 10% increase in openness of Fiji's economy, its level of private investments as a percentage of its GDP tended to decline by about 3.2%.

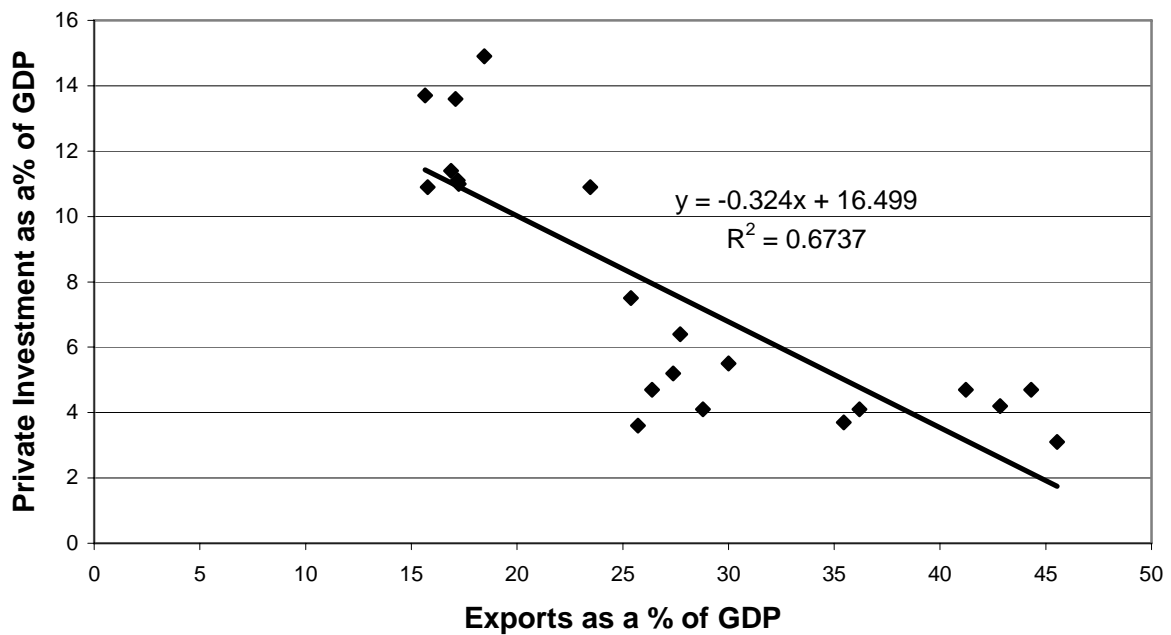


Figure 4 Openness of the Fijian Economy versus Private Investment 1980-2000

These results are consistent with the theoretical hypothesis put forward above that global market deregulation could lead to net capital outflows from some PICs or more generally reduce the level of private investment. There may, however, be other factors, such as political instability associated with its coups, that have contributed to Fiji's experience apart from the greater openness of its economy and reduced investment by the public sector.

The results indicate that it is by no means clear that growing economic globalisation involving freer international markets will stimulate economic development in all Pacific countries. Certainly some might be expected to experience net capital outflows or declines in investment, and if international labour movements become easier, declining populations. One would expect, in a 'borderless economic world', some nations to experience economic and demographic decline whereas others will prosper as economic globalisation proceeds. Just as some regions in large countries decline as they become more strongly integrated with the national market, so also several PICs can expect to experience economic and demographic decline as they become more fully integrated with the global economy and their mobile resources (such as capital and labour) move offshore to obtain higher economic returns. In the neoclassical economic world, such movements are an important step towards the

achievement of global economic efficiency, even though it is recognised that they may result in the economic decline of some regions.⁴

An additional point not discussed above, but considered by Tisdell and Fairbairn (1984), is that those PICs which increase their export dependence in a globalising world are likely, as a result of the law of comparative advantage, to become even more specialised in production than previously. They become even less diversified in production than before. They are then particularly vulnerable to changes in the international economy. They are likely to find economic adjustment more difficult than in the case of large economies and they can face long-term economic sustainability problems of the type discussed by Tisdell and Fairbairn (1984).⁵

Notes

- ¹ Even in the case of Fiji, subsistence income is very important for the livelihoods of many. According to the National Income Accounts prepared by the Fiji Islands' Bureau of Statistics, subsistence production in agriculture, forestry and fisheries accounted for about 42 per cent of the value of production of this sector in 2002. It accounted for a level of production valued at FJ\$229 million and significantly exceeded the value of sugarcane production. The estimated value of subsistence agricultural production in 2002 was approximately equal to that of sugarcane production, but exceeded it in 2001. The economic significance of subsistence production in PICs appears often to be neglected in policy formulation.
- ² For some discussion of issues involving the brain-drain in small island economies, see McKee and Tisdell (1990, Ch.8).
- ³ There is some indication from Fiji Islands' Bureau of Statistics that exports as a percentage of Fiji's GDP have started to decline. This may be because remittances have started to rise strongly as a source of its foreign exchange earnings.
- ⁴ Other economic models, such as centre-periphery models, also recognize that freer international markets may result in the economic decline of some regions. However, their proponents usually reject the neoclassical claim that global market liberalisation will promote global economic efficiency.
- ⁵ I would like to thank Dr Glyn Edwards for research assistance and Genevieve Larsen for her help in the preparation of this article.

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