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# Paradise for sale. The sweet illusions of economic growth in Vanuatu

by

Éric WITTERSHEIM\*

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## ABSTRACT

*Despite several years of economic growth, social tensions appear in Vanuatu's capital, Port-Vila, where a growing number of inhabitants see their daily life conditions becoming harder. A vast amount of land has been leased to expatriate investors, and the economic development is mainly supported and controlled by expatriates and/or non indigenous Ni-Vanuatu. The country's rural population, which still mostly lives from subsistence agriculture, begins to see its stable and steady traditional lifestyle threatened by the effects of development. It is then necessary to remind that the calculation of Gross Domestic Product (GDP) is not accurate to measure the quality and standards of life in Vanuatu, who has been elected "World's happiest nation" by a NGO using other, challenging criteria.*

**KEYWORDS:** Market economy, Urban, GDP, Land, Tourism, Aid

## RÉSUMÉ

*En dépit d'une croissance économique et d'une relative stabilité politique depuis plusieurs années, des tensions sociales apparaissent à Port-Vila, capitale du Vanuatu, où un nombre de plus en plus grand d'habitants a vu ses conditions de vie se durcir. Un grande quantité de terres ont été cédées à des investisseurs expatriés, et le développement économique est largement contrôlé par des étrangers et/ou des Ni-Vanuatu non autochtones. La population rurale, qui vit pratiquement toujours d'une agriculture d'autosubsistance, voit également son mode de vie stable et durable menacé par les effets du développement. Il est donc nécessaire de rappeler que les critères de calcul du PIB ne sont pas très appropriés pour évaluer la qualité de vie au Vanuatu, qui a par ailleurs été élu "pays le plus heureux du monde" par une ONG qui utilise d'autres critères, assez provocateurs.*

**MOTS-CLÉS :** économie de marché, urbain, PIB, terre, tourisme, aide

Within the last five years, the Republic of Vanuatu has been one of the fastest growing economies of the Pacific region. But behind the figures, I have witnessed, as an anthropologist doing fieldwork in the peri-urban neighborhoods of Port-Vila, the capital, the pernicious effects of an economic policy primarily based on Gross Domestic Production (GDP) and foreign investment-led economic growth and ignoring the specificities of this small indigenous state.

Vanuatu is changing rapidly, as a consequence of a massive boom in the real estate market fostered by tourism and foreign investment. This kind of economic development leads to new forms of land alienation, creating tensions between Ni-Vanuatu communities. Only a small minority of Ni-Vanuatu have been able to take advantage of the economic prosperity.

This paper will describe the present economic and social situation in Port-Vila and the island

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of Efate, in the light of my personal observations during three recent fieldwork trips (2007, 2008, 2009), interviews, and critical points of view expressed by Ni-Vanuatu and others.

### The world's happiest nation?

Since 2006, the Republic of Vanuatu has been one of the fastest growing economies of the Pacific region. The figures backing this achievement in maintaining economic growth are well detailed in numerous publications from the Asian Development Bank (ADB), the International Monetary Fund (IMF) and other international donors and policy-makers present in Vanuatu. And the various governments are praised for their ability to achieve good economic results, and political stability. Yet, I have witnessed, as an anthropologist doing fieldwork in this country for many years<sup>1</sup>, the pernicious effects of an economic policy mainly based on Gross Domestic Production (gdp) and foreign investment-led economic growth, and ignoring the specificities of this small indigenous state.

Vanuatu, elected "World's happiest nation" in 2006<sup>2</sup>, is changing rapidly, as a consequence of a massive boom in the real estate market and the expansion of tourism. During this period, only a little number of Ni-Vanuatu citizens have been able to take advantage of this economic prosperity. The majority of the grass-roots population is more and more struggling to make ends meet, challenging the positive views expressed by the government and the donors. Moreover, this type of development leads to new forms of land alienation which are opposing Ni-Vanuatu against each other, particularly in town<sup>3</sup>. This paper attempts to describe the present economic and social situation in the light of my personal observations, interviews, as well as other critical views expressed in Vanuatu and elsewhere.

### Economic growth and well-being

Vanuatu is repeatedly praised as an example among small Pacific islands States<sup>4</sup>, both for its economic results and the remarkable continuity with which the government has been supporting foreign investment. What lies behind this wide enthusiasm about Vanuatu's new economic orientations? The "private sector assessment" released by the Asian Development Bank in August 2009 states that:

"Vanuatu has had one of the fastest growing economies among the Pacific island countries in the recent past [...]. Real annual gross domestic product (GDP) growth has averaged about 6% over the past 5 years. It rose by 7% in 2006, 6.8% in 2007, and is forecast to have increased by approximately 6% in 2008 [...]. The recent strength of Vanuatu's economy has its roots in improved economic policy and in a gradual improvement in the quality of institutions."

According to this official report, three key-sectors can be identified to explain these excellent economic results: tourism; real estate and construction; and agriculture. As stated in the report, macroeconomic management has been sound, and inflation well controlled. Fiscal accounts have improved, with even budget surpluses recorded in certain years. The government has improved policies toward the private sector with the clear intention to make Vanuatu an "investor-friendly" country (<http://www.businessadvantageinternational.com/publications/vanuatu.html>). At the same time, there has been much more political stability and continuity in government politics and policy-making than there was in the 1990's and the early years of the 21<sup>st</sup> century (Wittersheim, 1998, 2006)<sup>5</sup>. Meanwhile, some observers have started to notice that this rapid development was not free from side effects, and was not that oriented towards the well being of the local population:

"In recent years, Vanuatu's economy has advanced significantly reaching nearly 7% growth in 2005 after more than a decade of stagnation. However, this

1. I work in Vanuatu since 1997. Recent fieldwork includes: 6 weeks in 2007, 4 weeks in 2008 and 2 months in 2009. These research trips were supported by the Pacific Islands Development Program (PIDP) of the East-West Center (Honolulu) and a grant from a research project led by Dr Marie Salaun ("Indigenous People and the State in the Pacific" - IRIS/EHESS) funded by the French Minister for Scientific Research (*Agence nationale de la Recherche*).

2. The New Economics Foundation, a London-based NGO, decided to evaluate the level of development: instead of counting the number of vehicles or the per capita income, they looked at the impact on the environment, the time spent with children, or cultural transmission. This is how Vanuatu came to be first, when the classic GDP rankings by nation used to confine the country in the lower-third.

3. Land alienation has been a landmark of the New Hebrides' history, but without necessarily opposing Ni-Vanuatu as the land was usually not leased voluntarily, but rather illegally appropriated by European settlers (Van Trease, 1987).

4. As noted by the authoritative Islands Business, published in Suva (Fiji): "Growth In Tourism 'Remarkable': With a World in Crisis, Vanuatu Projects growth" (Pareti, 2009).

5. All along its first 30 years of independence, Vanuatu has never experienced a coup, and democracy has never been seriously threatened. And the political instability of the early 2000's seems to have come to an end. Despite several government reshuffling (with parties and MP's still 'crossing floor' like during the very unstable years of 1997-2003), Ham Lini, for instance, has managed to hold his Prime Minister's seat for the whole 4 years of the term of office.

growth is not having the impact on the lives of most Ni-Vanuatu that one might hope. Driven mainly by foreign investment in the areas of tourism, financial services and land development, it is expatriates who are primarily reaping the gains of business development. This lack of inclusive development is becoming an alarming source of growing economic inequalities, dispossession and potentially disruptive social trends... While economic growth is clearly desirable, an urgent policy imperative exists to ensure that Ni-Vanuatu become equal participants in these developments and the subsequent benefits." (Stefanova, 2008)

This alarming statement was not issued by a radical NGO advocating indigenous peoples' rights with a rhetoric from the 1970's: it is a quote from a working paper emanating from the World Bank, an institution not really known for its critical views on liberal economic policies. Yet, in Vanuatu, self-satisfaction is widespread among the members of the government and the agents of development working for AusAid, NZaid<sup>6</sup>, the European Union, or the Asian Development Bank among others. While the new developments (resorts, residential houses) are clearly visible in Port-Vila, the quality of life of thousands of Ni-Vanuatu citizens residing in the outskirts of the capital city has dramatically gone down. Migrant communities living in settlements near Port-Vila are forced to move when the land on which they live is leased to a developer; and the large green areas where urban dwellers could grow staple food are shrinking rapidly, despite a growing demand<sup>7</sup>. New services are made available in these areas (water and power supply, fast internet connection) but most Ni-Vanuatu households cannot afford them. Moreover, the installation of new infrastructures is perceived by the inhabitants of the settlements surrounding Port-Vila rather as a threat than a blessing:

"They are installing pipes to bring water supply to us here. But is it a good thing, or does it mean that we will soon be asked to move?"

says Roy Iasul, a Tanna chief living in the heavily populated neighborhood of Blacksand<sup>8</sup>. In several peri-urban neighborhoods, basic infrastructures (water, electricity) are made available but most households can't afford to pay them.

Meanwhile, the country's rural population, who still lives mainly from subsistence agriculture, begins to see its stable and steady traditional lifestyle threatened by the effects of develop-

ment. The second most populated island, Santo, is also attracting a vast amount of investors. On several other islands (Gaua, Epi, Malekula), vast areas of so-called "underdeveloped" land have recently been leased to foreign investors. Despite promises from the government not to develop tourism in rural areas in order to protect the traditional lifestyle of the population, "Bali style resorts" and "meditation centers" are being built in isolated locations and secluded islands.

### **"The price of tourism": land alienation and development**

Tourism, after years of stagnation, has experienced a rapid growth in the last five years in Vanuatu. There has been a massive increase in the number of cruise ships visiting the country: the number of arrivals has tripled during that period. Their number rose by nearly 40% in 2008 after increasing by 60% in 2007. The number of visitors arriving by air rose by nearly 14% in 2007, and by over 16% in 2008. And despite the world economic slowdown, tourist arrivals by air in January 2009 were 28% higher than in January 2008<sup>9</sup>. This is directly linked to the severe drop of Fiji's tourism economy, dramatically hit by the coup orchestrated by Commodore Frank Bainimarama in 2006. Vanuatu has for long tried to develop tourism, but the sector was stagnating. The tourism economy now takes advantage of the very low wages in Vanuatu: the minimum wage, though recently increased by 20%, is now of 26,000 vatu (approx. US\$ 260 or € 200) a month. A level of remuneration completely ludicrous when one knows that imported goods (food, cars, hardware...) are approximately 50% more expensive than what they are in developed countries of the region, like Australia and New Zealand, where most tourists and new investors originate from.

Another major incentive for investors is the relatively low cost of land, particularly pristine coastal lots, which has fueled a massive real estate boom in the recent past. The expansion of the real estate sector is linked to tourism, but also to a new trend, particularly among Australian baby-boomers, to buy residential housing in Vanuatu, a tax-haven with no income tax. At only three hours from Sydney or Brisbane, Port-Vila, with the improvement of communications and its wide range of restaurants and bars, makes

6. AusAid and NZaid are the official organizations for overseas development for Australia and New Zealand.

7. A situation already different from the one Delphine Greindl (1996) describes in her research on food consumption in urban Vanuatu.

8. In *Man Vila*, a short documentary to be shown during the exhibition "Port-Vila, Mi Lavem Yu", at the East West Center Gallery (Honolulu, May-August 2011, curators: Drs Haidy Geismar and E. Wittersheim).

9. In 2010 the number of tourist reached for the first time the 100,000 figure ([http://www.dfat.gov.au/geo/vanuatu/vanuatu\\_brief.html](http://www.dfat.gov.au/geo/vanuatu/vanuatu_brief.html)).

a perfect spot for second homes. Knowing the very low scale of salaries, upper middle-class Australian families can even afford the hiring of full-time maids and gardeners.

One of the shocking aspects of the development of tourism, particularly for anthropologists, is the growing commoditization of *kastom* and traditional practices (Tabani, 2010). Visits to native villages, dances and rituals performed for tourists are good ways to sale Vanuatu as a “destination”<sup>10</sup>. Denouncing the destructive effects of tourism on indigenous cultures can be seen as romantic and unrealistic; yet, the traditional economy that rural populations have maintained is still, so far, the most sustainable type of development in these times of world economic uncertainties. The attempts to create a tangible economic market, and to develop salary-based employment in Vanuatu are antagonistic to what makes the country’s specificity: most people live on their indigenous land and from subsistence agriculture. There is an ongoing discussion on whether Vanuatu should join the WTO (World Trade Organization) or not. In that case, the country would have to abandon one of the key prerogatives of the 1979 Constitution: the fact that all lands belong to their indigenous owners, and cannot be sold. This principle is contrary to the very philosophy of the WTO: freedom of enterprise. It is not “fair”, thus, to allow some people to own land, and others not. This original situation that preserves Vanuatu’s indigenous lands (and *de facto* its cultures also) is now perceived as one of the main brakes to the expansion of economy. Yet, this “unfair” situation has not prevented the real estate sector from experiencing a massive boom during the last years, thanks to the system of “leasing”<sup>11</sup>.

### Paradise for sale

“People come here with a dream, and we help them to achieve this dream”, explains to me a former volunteer who is now working for a major real estate company. During the booming years of 2006-2008, advertisements offering “not-to-be-missed” investment opportunities in Vanuatu could even be seen on Australian TV and newspapers. But today still, prices for large seafront lots, and even whole private islets are still to be found at prices that compare with the cost of an ordinary family house in Sydney, Auckland or Noumea. Thus, most of the foreign investment is directed towards construction, land sales and other real estate related activities. As noted by the ADB report quoted earlier, foreign investment in property has led to substantial increases in land prices and a boom in construction, adding

significantly to Vanuatu’s growth rate. Gross domestic capital formation in the past few years has averaged over 20% of GDP – the highest rate among Pacific island countries. Within a few years, a vast amount of land on Efate has been leased to foreign investors. Today, it is acknowledged that around 80% of the coastal land on the island of Efate (where the capital, Port-Vila, is located) has been leased (see map below).

Most of this land has already been wired up or walled, preventing the indigenous population from accessing beaches and marine resources:

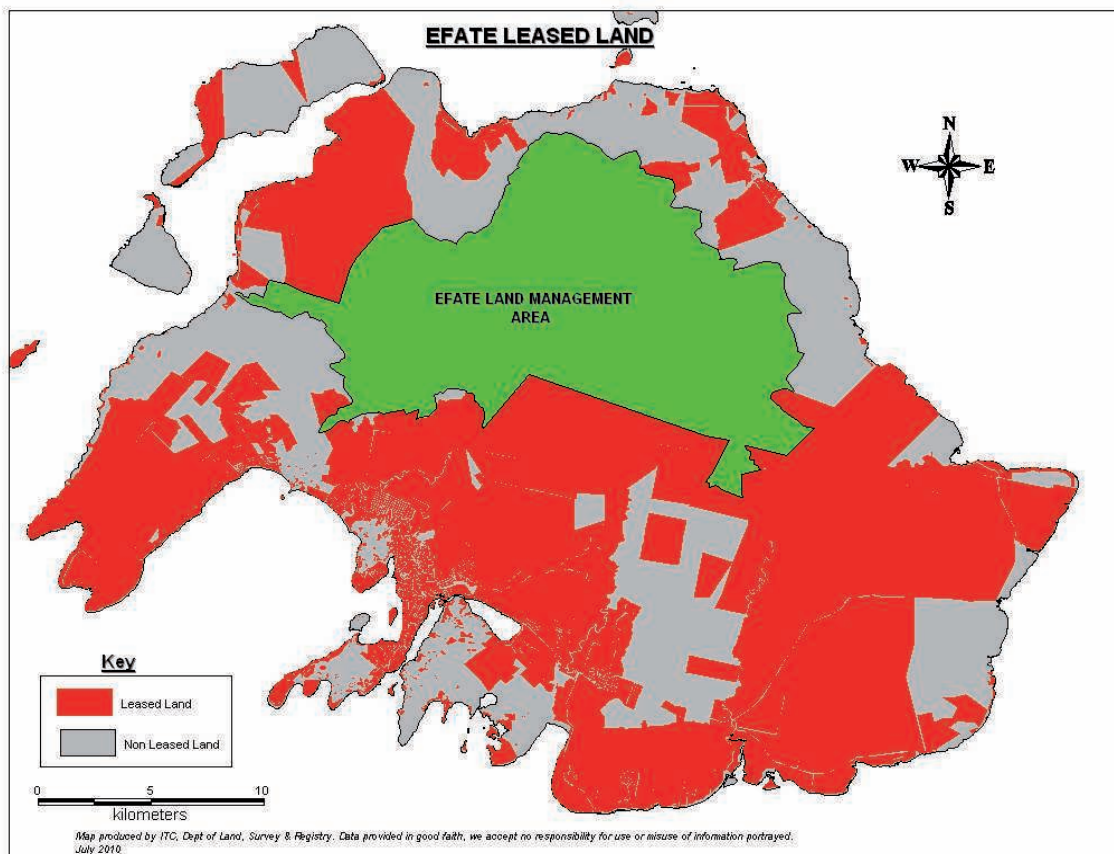
*“Tede, mifela mas askem pemisen long ol waetman blong kasem solwota, olsem taem we mifela I no kasem independen yet”* [“Today, we have to ask permission to the White men to access the sea, just like before independence”],

says Chief Roy Iasul (interview with the author, September 2008, *cf. Man Vila*, op. cit.). In Pango, another peri-urban area near the capital where land-leasing has been very important, the shape of the village has completely changed (Rawlings, 1997 & 2003). With the massive concrete walls surrounding the newly-built resorts and second homes, the village does not receive anymore sea breeze. Access to the beach and its marine resources is now limited to a very tiny spot. The grounds on which the village school and the cemetery are located are part of the area that has been leased: will they have to be relocated, or will they become part of the tourist attractions?

Furthermore, the leasing of a vast amount of land creates a lot of tensions inside communities and villages, as only a minority of people are willing to lease, and for their own benefit, the land that was for long thought inalienable (by younger generations in particular, who feel betrayed by their elders). Efate’s coastal land having been almost entirely leased, developers and investors are now moving to the islands of Santo, Epi, and Malakula. This is all the more worrying when one knows the importance of land, and the concept of “ples” (place), in the traditional society as well as in the contemporary context of Vanuatu, where migrants maintaining strong and active links with their home island (Lind, 2010). The complexity of land issues in Vanuatu, a mix of indigenous practices and Western law (Van Trease, 1987), made even more complex by the double and often opposing legal tradition of the French and the British (Miles, 1998), is today seen as slowing development and discouraging foreign investors. Hence a pressure to reform the land leasing system, to give equal and universal access to the land through free-holding. This is a drift heavily criticized by many observers, inside as well as outside the country.

10. As Sissons (1997) suggests in the title of an article about the Cook Islands.

11. Most land in Vanuatu is considered indigenous land by the constitution, and hence can not be officially sold.



MAP 1. – Leased land on Efate, map produced by the Department of Land (Minister of Lands, 2010)

Aid/Watch is an Australian NGO trying to “monitor the increased shift towards the negotiation of bilateral trade agreements” especially when “aid is used as a bargaining chip in trade negotiations particularly where further trade liberalization becomes a condition for aid grants and loans”. It is a timely subject, in light of the current push for a “Pacific Agreement on Closer Economic Relations” (PACER), that would greatly favor the export of Australian goods to its Pacific neighbors. According to a report released by Aid/Watch in September 2009:

“The current model of “land development” driven by foreign investment is not benefiting Ni-Vanuatu and hijacks their control over their lands and development futures. Whilst the lease system is not technically or legally synonymous with the “sale” of land, such as in the freehold system, it is in practice facilitating rampant land alienation. Land leases are generally granted for 75 years (the life of a coconut palm) for a single payment rather than an annual rent, with leases normally dictating that customary owners – if they wish to reclaim their own land at the end of a lease – compensate the leaseholder for any improvements to the land.” (Aid/Watch, 2009)

Interestingly enough, this precision concerning the need for the customary owner to compensate the developers in order to regain its land at the end of the lease – acknowledged and practiced in

Vanuatu for years – has no legal bearing according to Professor Don Patterson, a land expert who teaches law at the local university (University of the South Pacific). Yet, the argument is still used today by real estate companies to lure foreign investors. Aid/Watch recalls that

“land booms resulting in the alienation of customary owners from their lands have been a key feature of Vanuatu’s historical and ongoing interactions with foreign powers [...]. By 1972 over a third of the country’s land had been seized for agricultural purposes, alienating people from their land and livelihoods”

this phenomenon then fuelled the pro-independence movement and anticolonial feelings. At independence in 1980, all lands were declared indigenous lands and given back to their customary owners, with the only possibility of leasing.

Ni-Vanuatu cultures are known for their close relation to land (see for example: Jolly, 1994; Curtis, 2002; Taylor, 2008). Anthropologists or indigenous activists often refer to it as a quasi-sacred relation, and land is, in any case, the base of the traditional economy and way of life in Vanuatu. In a world of economic – and food – crisis, the role and place of subsistence agriculture is often perceived as a major asset for developing countries that have been able to maintain it. Unlike many others so-called developing countries,

there were no food riots in Vanuatu, when the price of basic staple crops dramatically went up worldwide in 2007-08<sup>12</sup>.

### Agricultural policy and “*kastom ekonomi*”

Agriculture is an important component of Vanuatu's economy, representing about 20% of the GDP. According to the ADB:

“Some 60% of the population is engaged in a mix of subsistence and cash-based agriculture”<sup>13</sup>; the report concludes by saying that “an important part of future economic development will involve bringing a much larger proportion of the population that is primarily in subsistence activities into cash-oriented agricultural development.”

It seems all the more logical that a stronger, bigger economic market will help sustain the growth and help reduce the costs of imported goods, hence favoring foreign investment and the development of tourism. Yet, this statement is undermining the fact that the population of Vanuatu has lived for centuries, and still lives for a large part, mainly from self-subsistence. This eco-friendly, sustainable way of life is not based on growth and is thus seen as antagonistic to economic expansion. The long-time efforts of Ralph Regenvanu<sup>14</sup> and the Vanuatu Cultural Center for the recognition of “*kastom ekonomi*”<sup>15</sup> were partly rewarded when the then Prime Minister Ham Lini declared 2007 (and later 2008) “Year of the traditional economy” (Regenvanu, 2007). This was coming after the creation, under the auspices of the UNESCO, of a “pig bank” project<sup>16</sup>, using the highly-valued animal as a trade currency, especially for isolated local farmers with almost no access to the cash-economy. Yet, it did not bring much change to the major orientations of the government in favor of a foreign investment-based economic development.

Recent projects aiming at a more integrated agriculture, like the oil palm plantations to produce biofuel, are threatening the balance people manage to keep between their subsistence activities and more cash-driven agriculture<sup>17</sup>. These projects require large-scale land alienation in order to create giant monoculture plantations, where oil palm trees are lined up in ranks. A similar project failed in the 1960's (pers. com. from an advisor to the Minister for Agriculture) and the neighboring Solomon Islands also experienced great difficulties with oil palm trees, very vulnerable to hurricanes.

Contrary to common belief, the Ni-Vanuatu population has a long experience of market economy and cash-driven agriculture. Some crops, particularly the kava root, but also copra, cocoa or coffee, are grown for cash by most rural households in the country, but always as a side activity. They find their place in the subsistence activities of Vanuatu farmers without threatening their ecosystem<sup>18</sup>. The agricultural practices of Ni-Vanuatu relate more in fact to *horticulture* in that every individual possesses a garden in which a large variety of tubers, fruits, vegetables, flowers, are planted in complex arrangements that take into account a number of indicators: potential droughts or floods, hurricanes, etc.<sup>19</sup>. Mixing these varieties together in a savvy way make these gardens much more resistant to climate uncertainties, frequent and extreme in Vanuatu.

Moreover, traditional activities such as yams or pigs, or by-products like mats, pig-tusks (used as currency in the islands) play an important role in ceremonial exchanges that occur for marriages, births, dispute settlements, etc. Orchestrated along the lines of “*kastom*” (a complex and diverse system of practices and rules, which has become the generic term for anything related to indigenous cultures in most of the Pacific region), these activities are ensuring the maintenance of social cohesion. This is why the Western capitalist economy, even though it's been well and for long

12. “Food riots fear after rice price hits a high: Shortages of the staple crop of half the world's people could bring unrest across Asia and Africa, reports foreign affairs editor Peter Beaumont”, The Observer, Sunday 6 April 2008 (<http://www.guardian.co.uk/environment/2008/apr/06/food.foodanddrink>).

13. The exact figure is closer to 80%, the quasi-totality of the rural population living from a subsistence agriculture complemented by cash-driven activities. It is surprising – and potentially dishonest – that the report is mistaking to such an extent a figure which is widely admitted in Vanuatu and has been steady over many years: the last census (2009) shows that only 24% of the total population is urban.

14. A former director of the Vanuatu Cultural Center and a world expert on indigenous governance, Ralph Regenvanu became a Member of Parliament for Port-Vila in September 2008, after a record victory at the general elections as an independent candidate. Recently – December 2010 – he has been appointed Minister for the development of Ni-Vanuatu business.

15. The *bislama* term designating the traditional economy, the subsistence lifestyle that has prevailed for hundreds of years in Melanesia. Vanuatu, with 113 vernacular languages, is the most diverse linguistically country in the world.

16. The « pig-bank » scheme was part of a larger Unesco project aiming at fostering traditional currencies, considered as part of the intangible cultural heritage.

17. A World Bank policy research working paper released in July 2008 concluded that “[...] large increases in biofuels production in the United States and Europe are the main reason behind the steep rise in global food prices” (Mitchell, 2008).

18. This is also the case of Vanuatu's beef, the other main export activity, which is mostly produced by European settlers though. It is praised for its excellent taste and de facto organic production.

19. On the distinction between agriculture and horticulture, see Haudricourt and Hédin (1987) and the works of Jacques Barrau.

entrenched in the society, is only a supplementary and sporadic activity of most Ni-Vanuatu. A relation well summarized by the anthropologist Michael Allen (1968) with the term “cash-cropping”. Thanks to the comprehensive role and underlying philosophy of the traditional subsistence economy, there are no homeless people throughout Vanuatu, and the arch-majority of the population, before as well as after independence, has always managed to live with very little government support or access to State’s services.

According to Ralph Regenvanu (2007), the concrete benefits of the traditional economy are the following:

- There is more than enough food for everyone in the country, and we enjoy a food security that only comes with growing our own food;
- The traditional diet that uses food from the gardens is safe, healthy and nutritious;
- There is no homelessness in Vanuatu, a boast (as far as I know from my travels around the world) that only us, the Solomon Islands and PNG can make (the three countries in which the traditional economy is probably the strongest);
- We have no old peoples’ homes and no mental asylums – everyone is cared for within the extended family unit;
- We enjoy a general level of peace and social harmony throughout the country that is the result of traditional values of respect, equity, the promotion of relationships and a restorative community-based system of dispute resolution.

Such a system seems to have nothing to be changed about and needs to be preserved and helped maintaining. Nevertheless, there has been a general agreement among the ruling parties and donors that economic growth based on foreign investment was the best, if not the only road. Hence a strong incentive to help the private sector and reduce the role of the State in the economy, already limited since the implementation of the Comprehensive Reform Program (CRP) in 1997<sup>20</sup>.

### The contrasted realities of the private sector

In Vanuatu, the generic term “private sector” covers a wide range of activities that have very little in common. A huge gap exists between the burgeoning luxury resorts and other tourism-related activities developed by foreign – Western – investors on one side, and the small-scale

businesses owned by Ni-Vanuatu on the other side. In the middle, Chinese and Vietnamese (who are for most of them Ni-Vanuatu citizens as well) largely dominate the retail stores businesses, characterized by their “no frills” style. Access to capital is one of the main problems affecting the development of Ni-Vanuatu business. Apart from the compulsory business tax that any company has to pay (small, medium or large-scale companies pay the same amount), many young entrepreneurs are struggling to find the necessary lump sum needed to actually start a small business: buying tools, basic supply to start a small retail store... A good example is given by a small “gato” (“cake”) business set up by a group of young people from Seaside, an overcrowded slum in the heart of Port-Vila. Thanks to a micro-loan scheme<sup>21</sup> this youth group was able to start the project (buy 25 kg of flour and sugar; pans; fire wood). In just a few months, they were able to repay the loan, and already investing their first profits in stocks, little equipment, etc.<sup>22</sup>.

Today, in the main street of Port-Vila’s central business district, only one – among over a hundred – of private businesses belongs to a Ni-Vanuatu: a little flower-shop. It is thus very difficult for Ni-Vanuatu to set up businesses, bank loans being very hard to obtain. With an average 14% of interest costs, one of the only ways is to have a land title to be used as guarantee. But if the loan is not repaid in time, people can then lose their land. In any case, among the many new residential subdivisions that offer serviced land to investors, only a few (Teouma, Salili-Blacksand...) are accessible to Ni-Vanuatu. Most real estate companies advertise in English, with prices only in Australian and New Zealand dollars.

The majority of salaried-workers in the private sector – tourism, construction, retail stores – are paid the minimum wage: 26,000 vatu or a little under 200 Euros. Labor laws do exist in Vanuatu, but they are not enforced; employers do not follow the rules on paid holidays, extra-hours or termination. Many also refuse to contribute to the Vanuatu Provident Fund (VNPF) scheme for their employees. It is common to see people working 5½ to 6 days a week in lieu of 5. And the minimum wage is too often considered as a standard, universal amount for anyone with no consideration for experience or seniority.

On top of being a tax haven, with an offshore center active since 1971, Vanuatu also has a very attractive local tax system. The government’s tax base mainly consists of VAT, and import tax. There is no income tax, nor any tax on profit.

20. The CRP is inspired by Australian advisors and the Asian Development Bank and aimed at reforming the State and foster the market economy among local population.

21. Cf. The work of the non-profit association Vanwods (Vanuatu Women Micro-Credit Movement).

22. On the specific problems encountered by urban youth in Vanuatu, cf. Mitchell (2004).

The registration for retail stores, whatever their size (a major supermarket or a road stall), is the same for everyone: 20,000 vatu. Ni-Vanuatu's difficulties to access the necessary capital is an obstacle to a fairer economic competition, and consequently for the maintenance of social cohesion, much needed for a country which advertised itself outside as a "paradise". In the case of tourism development, it largely prevents the Ni-Vanuatu who do possess coastal land to set up themselves a tourist business, instead of leasing their land to foreign investors. This problem is often made worse by an unfair assessment of the value of seafront lots, in opposition to the relatively small capital needed to build a basic tourist accommodation.

### **Conclusion: The world economic crisis, a chance for Vanuatu?**

With its ongoing political stability and economic growth, Vanuatu is unquestionably a "good student" in the eyes of the ADB and other international donors. Praising the government for its stability, and the Finance Minister for its rigor, foreign countries and international agencies who play an important role in Vanuatu's economic orientations are doing their best to convince that the country is on the right track. Asserting the political stability is a key for good economic results, more than the contrary. As a sign towards donors and foreign investors, in September 2008, the newly elected Prime Minister Edward Nipake Natapei (Vanua'Aku Party) gave his first speech in English; yet, most of the local indigenous population is not fluent in this language.

The orientations expressed by the recent Vanuatu governments aim at easing foreign investment, without consideration of the true benefits for the local population. "To continue to attract direct foreign investment we must maintain confidence in the economy", says Odo Tevi, Governor of the Reserve Bank of Vanuatu:

"We have to continue to reform ourselves, the wharves, the airports and other areas." (<http://www.businessadvantageinternational.com/publications/vanuatu.html>)

While there is still a thorough debate to determine whether education should be free or not, the "much-needed ring road" (*ibid.*) around the main island of Efate, funded by the USA-borne *Millennium Challenge Account*, is now comple-

ted<sup>23</sup>. But most indigenous Ni-Vanuatu are still unable to afford a car, and hence the road is of value mainly to expatriates, who, in any case now privately own most coastal land on Efate.

The situation evoked here mainly reflects the realities of Port-Vila. The disparity between the outer islands and Port-Vila has never been so striking. In many of the 80 small islands of the archipelago, the population often lives for weeks without any visit from one of the cargo ships bringing basic imported goods (soap, sugar, gasoline, flour) and collecting local cash-crops (copra in particular). There is a need for a more comprehensive analysis of the social and economic consequences of a development model ignoring the fact that 80% of the population still lives mainly from a millennial, sustainable traditional economy based on self-subsistence and local crops. It is necessary to remind here how much the calculation of GDP is not accurate to measure the quality and standards of life in Vanuatu. Drawing on the famous speech by Robert Kennedy on the first day of his campaign for US presidency in 1968, Ralph Regenvanu explains:

"To use a current example from Vanuatu, the simple act of leasing and clearing of a piece of land would add to Vanuatu's GDP – and therefore count as positive 'development of the economy' – because the lease of the land, the hire of the bulldozer and the chain-saw, the purchase of the fuel to run them and the payment of labour could all be counted in cash [...]. On the other hand, a large extended family of 40 or so people producing all the food and other materials they require to live from their land and sea areas, providing food to other families as part of traditional relationships, as well as safeguarding their natural environment and important places of identity for the benefit of their future descendants, do not add one vatu to the GDP." (Regenvanu, 2007)

The objective for the country is certainly not to look back and contemplate to revive an ancient, untouched world<sup>24</sup>; but more pragmatically to try and create a mix of "the best of two worlds". The sudden fall down of the world economy in 2008 may well have paradoxical effects in a country like Vanuatu: inverting the inexorable trend which draws its population into the global economy, people have begun to use more and more their ancestral self-reliance skills and the newly named "*kastom ekonomi*". To regain its title as "the World's Happiest Nation", Vanuatu may well need to stay "underdeveloped". Might, then, the world economic crisis prove to be a blessing for some of small island countries of the South Pacific?

23. The Millennium Challenge is a US\$ 65 million (€ 50 million) 5-year initiative supported by the US government. Vanuatu is the only Pacific Island country eligible for funding under the Millennium Challenge.

24. "The return to tradition, it is a myth – I keep saying this over and over again. Our identity is ahead of us" (Tjibaou, 2006).

## ANNEX

**Henry, a local 'manager'**  
(extract from fieldwork diary, January 2008)

Henry, who comes from the island of Tanna, works for a new company hiring "buggies" and scooters, and run by French investors from New Caledonia; the enterprise's turnover is of roughly 1 million vatu a week (approx. 7,000 euros). A former French teacher, Henry manages a team of eight ni-Vanuatu workers, mainly mechanics. A "Manager" in Vanuatu's economy is like the "quartermaster" on a ship: he takes care and is responsible for everything, accountable to the real boss, the owner. Henry is a very talented guy: of course he speaks Bislama, the national language, as well as two vernacular languages. But he is also fluent in English and French, which makes him able to communicate and entertain the tourists who come for buggy tours. He also leads the tours with groups of tourists, whom he takes to some exotic and seedy areas of Port-Vila (Blacksand, Teouma), something they can only do because Henry had himself dealt and gained permission from the local area chiefs. Yet Henry, who often runs the business by himself for weeks while his bosses are away, is making a mere 29,000 vatu a month (or 220 euros, for 6 days a week).

Henry, in his mid-30's, has no children. With less than 1,000 vatu a day, what can he buy? A bus fare cost 150 vatu and a pack of cigarettes, 750. In most of the little Chinese takeaways in town one can eat for 300 vatu, and a plate of "lokol kakae" (traditional food) at the market costs around 200 vatu. The price of rice has recently gone down from 230 to 150 vatu a kilo. Most commodities, from cars to rice, are imported, and cost roughly 50% more than what they cost in the big countries of the region, Australia and New Zealand. As a comparison, only a few weeks ago, I heard that young kids from the expatriate community were organizing a party, and asking 17,000 vatu per guest to cover the costs of drinks and food.

So if Henry wants to do any of the things that expatriates and tourists do here, Henry would have to save money for a few years at least. A little piece of land (1,000 to 1,500 sq. meters), in the new subdivisions that have recently mushroomed around Vila, costs at least 1.2 million vatu (8,000 Euros) in the cheaper areas. Of course, in the context of a fair economic competition, Henry would go to the bank and borrow money. But banks are reluctant to lend money to ni-Vanuatu, except when they can bring a land title to guarantee the loan. I have myself endeavored to get a loan from two different banks in Vila: I was offered very quickly the possibility

to borrow money, just in exchange of the promise to bring my salary slips later on. The rate, though high in both cases (around 9-10%), was yet better than the 12 to 14% interest loans that are offered to ni-Vanuatu entrepreneurs.

**Interviews conducted with:**

Chief Iasul Roy (Blacksand area), Henry Hosea (Blacksands area), Yelu Noel Nanua (End Blong Airport), the young boys from "Bamboo Station" (Tagabe area), Ralph Regenvanu (National Parliament), Loïc Bernier (Caillard Kadour Real Estate), and other non-recorded conversations with small business owners, bus drivers, etc.

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