

New Caledonia in the turmoil of the 21st century

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Cahier du CEMOTEV n°2017-01



Centre d'Études sur la Mondialisation, les Conflits, les Territoires et les Vulnérabilités

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2. Patrimoine et soutenabilité. Tourisme et développement notamment face au défi climatique
3. Stratégies des firmes internationales, métropolisation et résiliences territoriales
4. Insularité, gouvernance et développement soutenable
5. Evaluations de la soutenabilité et de la vulnérabilité

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Pluridisciplinarité : Les thématiques sont abordées dans une perspective pluridisciplinaire et font appel à divers champs de la science économique et de la géographie : économie de l'environnement, économie du développement, économie du développement durable, économie internationale, économie industrielle.

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Avant-propos

Ce document est une synthèse de l'ouvrage "La Nouvelle-Calédonie face à son destin. Quel bilan à la veille de la consultation sur la pleine souveraineté ?", co-édition IAC – Karthala - Gemdev. Il en présente un résumé des principaux messages. Il en projette également les enseignements pour penser l'après-référendum sur l'indépendance de l'archipel, qui se tiendra vraisemblablement en novembre 2018. Les chapitres cités en référence sont ceux du livre. Le lecteur intéressé pourra y trouver le détail des données et raisonnements ayant conduit aux conclusions synthétiques exprimées ici.

This paper offers a synthesis of the book "La Nouvelle-Calédonie face à son destin. Quel bilan à la veille de la consultation sur la pleine souveraineté ?" [New Caledonia in the face of its fate. What assessment on the eve of the consultation on full sovereignty?], co-edited by IAC – Karthala – Gemdev in November 2016. It summarizes the main messages. It also draws lessons for thinking about the post-referendum era, a referendum on independence likely to be held in November 2018. The chapters quoted in reference are those of the book. The interested reader can find there the details of the data and reasoning which led to the synthetic conclusions expressed here.

On the eve of the referendum on independence¹, what are the possible futures for New Caledonia? This Pacific archipelago engaged in a process of negotiated decolonisation enjoys a unique status within the French republic. Born of a history punctuated by bloody struggles (such as in the 80's) but also by compromises, between pro-independence leaders and "loyalists" (who favoured NC remaining in the French Republic), this *sui generis* status has been framed by the successive political agreements of Matignon-Oudinot (1988) and Noumea (1998). What assessment can be made of their implementation, in particular of the cultural, political and socio-economic "rebalancing" process engaged, for instance, through the creation of the three provinces and the economic prerequisite of the Bercy protocol (1998)? The industrialisation program, driven by foreign investments linked to the construction of nickel metallurgical plants and the recent infrastructure projects, has today reached its limits. Which recent institutional and economic achievements should underpin the next phase? Which growth drivers should be activated and, beyond that, which development model and which "social contract" should be renegotiated?

Through the consultation on independence as defined in the Nouméa agreement, the country is preparing to set a new institutional and political course in a world that has changed dramatically since the quest for decolonisation first began in the mid-1970's. The initial demands for territorial autonomy, followed by the independence project, were made in a world characterised by the existence of two blocs which had their roots in the Second World War – a key moment for New Caledonia which had witnessed a somnolent colonial economy and society confronted by modernity coming from elsewhere. Beyond its diversity and ideological leanings, the affirmation of a third world resulting from decolonisation served as the referential for the Kanak emancipation process.

However, this world and its regulations have been called into question by the speed of technological change, the waning role of the states and the increasing influence of new stakeholders – globally-active companies with greater economic power than that of many governments; increasingly reactive civil societies serving as a greater driving force – as well as by the gradually growing awareness of frailties of a global growth model based on the use of

¹ The referendum will be organized in November 2018 at the later.

non-renewable natural resources and its consequences for the planet and human societies (the famous UN Brundtland Report, “Our Common Future”, was published in 1987). The advancement of knowledge, the steady increase in living standards, democratic progress and the emergence – albeit problematic – of global regulations are changing thought processes and are potential assets in taking up the challenges of the 21st century. The international environment is increasingly unstable due to growing inequalities and competition for natural and technological resources, which create sources of tension with repercussions quickly magnified in the modern, interconnected world.

In this context and in light of these challenges, which directly concern New Caledonia due to the importance of local nickel mining, the options open to the country should combine economic and social progress for all, the promotion of -and emphasis on- cultural diversity² and the identification and activation of new assets and incomes. Furthermore, the emancipation pathway chosen – which is currently almost undisputed – places the global role of a small, South Pacific island facing the need of sustainability at the forefront of considerations.

While it cannot answer all these fundamental questions, this work can identify avenues for prompting debate and determining viable options in line with the common destiny passed down from history. After first reiterating and summarising the main analyses formulated in this work, which together represent an economic and social appraisal of the Matignon-Oudinot and Nouméa agreements as well as of the Bercy protocol (see below), we will see the extent to which the observation of a still highly political economy in New Caledonia sheds light on the need to renew the development model. While not providing turnkey solutions, we propose a highly prosaic approach based on the realities of the New Caledonian context while examining alternatives to the two main current sources of income which are nickel and public transfers from France. Among the avenues of thought highlighted by the analyses developed throughout this work, opportunities relating to heritage promotion plays a key role in ensuring the sustainability of the growth path in New Caledonia.

Twenty-five years of development but a model in need of renewal

The development path of New Caledonia laid out here bears witness to considerable progress both at the economic and social level and at the institutional and political level. Taking a step back to consider the main development indicators, including the functioning of its democracy and the spatial distribution of the benefits of growth over a long period, makes it possible to measure the progress made since Matignon-Oudinot agreements and the three provinces’ inception in 1988. At a time when the trend is more towards gloom and concern, we feel that such a reminder is necessary to consider the future. It is nevertheless not a case of minimising the difficulties and while the path laid out is globally positive, there are increasing signs of a loss of economic and political steam in the model forged by the agreements of 1988 and 1998 (including the Bercy agreement) and implemented in recent decades.

New Caledonia, a developed economy that is still dependent on its historical incomes

- A booming economy

The New Caledonian economy witnessed a quite remarkable increase in global wealth over the period 1965-2010 of almost 4% per year, a figure greater than the growth observed in mainland France (chapter 2).

On average, per capita GDP grew by 2.3% per year over the period 1990-2010; it is now approaching that of mainland France, is between ten and fifteen times greater than that of the Pacific islands closest to New Caledonia (Fiji, Samoa and Vanuatu) and twice as high as in the French overseas departments.

The growth of global activity has led to a noticeable improvement in social performances across New Caledonia to the benefit of the North province and the Loyalty Islands province, in particular in

² Perceived as an objective, the “destin commun” - common destiny - between native people (the Kanak) and the other components of Caledonian population is a keyword of the political agreements engaging the archipelago on its decolonization pathway. But the “destin commun” is no longer an objective but a self-evidence, despite the risks of new violence as the referendum approaches.

terms of life expectancy or the baccalaureate pass rate for example. This social rebalancing nevertheless contrasts with the difficulty in reducing the monetary inequalities between the provinces: we also observe a ratio of two to three between the south and the other two provinces in 2008. At the same time, the income inequalities in the Loyalty Islands and the South province increased the most between 1991 and 2008 while they showed a downward trend in the North province.

While this growth remains volatile compared to other developed economies³, it stabilised considerably over the period 2000- 2010 in relation to previous periods. This trend can be ascribed to the waning importance of nickel in wealth creation to the benefit of a tertiary sector less subject to fluctuations in raw material prices, although it should be reversed with the start of production in the metallurgical plants (chapters 2 and 3). Recent developments bear witness to a New Caledonian economy that demonstrates little trade openness⁴ whereas the growing imbalance in the balance of goods and services remains characteristic of small island economies where exports focus on preferential income (in this case nickel) and imports are thus dispersed.

On the other hand, the current account balance is very much in deficit at almost 20% of the GDP; this is now only partly offset by French government transfers in the form of transfers to the administrations and salary payments (chapter 2). Financial openness is thus very high, reflecting the financialisation of the means of insertion of the New Caledonian economy into the global economy. This is a key development in relation to the situation analysed by Jean Freyss twenty years ago (Freyss, 1995), which must be examined through the successive growth periods experienced by the country.

- The three growth periods underpinning recent development

Over the period 1975-2012, three different dynamic periods have underpinned the development path of New Caledonia. They characterise the gross national disposable income (GNDI), nickel-related incomes and public transfers. This succession of periods illustrates significant changes in the importance of the two main pillars – public transfers and nickel mining – in the New Caledonian economy (chapter 5).

The assisted economy system analysed by Jean Freyss corresponds to the period 1975-1989, during which excess savings in relation to investment was reflected by an outflow of savings abroad. Part of the impact of government transfers resulted in private investments outside the country. From 1990 until 2005, the introduction of a rebalancing process reversed this trend, with gross savings being redirected towards funding projects in New Caledonia. This development corresponded to an increase in the propensity to consume and in domestic investment which are conducive to rebalancing through the redistribution of incomes. An industrialisation process, driven by the construction of new metallurgical plants, was introduced in 2005 and ran until 2012. During this period, the financing of the New Caledonian economy was partly based on flows of foreign direct investment (FDI). Consequently the current account balance, which was in deficit, was financed by FDI. The industrialisation period came to an end in 2013 with the slow and problematic beginning of production of the two plants. A new system corresponding to that of a mining economy has been in place since then in which nickel should, in the long term, account for a quarter of the GDP when the three plants are operating at full capacity. This renewed importance of the sector in the economy would represent a real breakthrough, if somewhat uncertain due to both the current situation on the nickel market and the difficulty in implementing the institutional conditions for a genuine relay (chapters 1 and 5).

- Economic diversification difficult to achieve

In light of these different growth periods, it is clear that since the 1980s, New Caledonia has experienced limited structural change in terms of the creation and distribution of wealth and of sector-based dynamics. During the periods 1970-1997 and 1998-2009, the tertiarisation process continued and the territory made use of its comparative advantage in the nickel sector (chapter 3).

³ The volatility of growth is measured by the standard deviation of the rate of growth.

⁴ The rate of trade openness over the past ten years is on average 30% whereas comparable island economies exhibit a rate in excess of 60%.

Based on national accounting statistics relating to its commercial and professional aspects, the agricultural sector demonstrated contradictory dynamics. While the agricultural population has fallen sharply according to the most recent general agricultural census, provincial and territorial agricultural policies have given rise to a spectacular and prolonged increase in market production. This increase was initially the result of land concentration and significant gains in productivity while from 2002, it could be explained by the increase and dissemination of technical progress, the diversification of the farms and the concentration of production among fewer stakeholders. The level of food needs coverage by local production stagnated and the South province continued to account for 75% of production in 2014. The development of forestry, fishing and aquaculture bears witness to the difficulty in conquering external markets. Following a period of strong development, aquaculture in particular began to slow due to biological issues and the absence of an effective structuring of the sector.

The secondary sector also had great difficulty in expanding its productive base despite active support policies implemented by the local authorities with regard to tariff protection, exonerations on imported raw materials, quantitative restrictions and numerous financial aid packages from the provinces. Innovative initiatives have been launched and should gradually be strengthened by the introduction of a “national” research and innovation strategy.

The development of the energy sector shows a very strong energy dependence while the considerable increase in CO₂ emissions illustrates the urgent need to implement an ambitious climate-energy plan. Only the construction industry, which continues to be largely dominated by major French groups, can boast veritable growth resulting from the large mining projects and, more particularly, from the investments in the administrations linked to the “provincialisation” process and development contracts. The different tax exemption measures have also contributed to stimulating the construction of apartment buildings, hotels and hotel residences even if they have generated non-negligible adverse effects. After the construction of upgraded infrastructures and the large industrial investments, the signs of economic slowdown are now clearly visible.

Despite substantial investment, the tourism sector has not been able to return to the level of tourism flows achieved at the beginning of the new millennium and hardly lives up to the high expectations in terms of economic diversification it has targeted for more than thirty years. While cruise tourism has certainly enjoyed increased success in terms of the number of passengers, in particular in the Loyalty Islands, its development nevertheless raises questions concerning its limited economic impact as well as the related environmental and social damage (chapters 3 and 9).

Although the direct effects of the large-scale projects implemented in the nickel sector remain limited (in terms of value added, foreign currency earnings, fiscal resources and direct employment) and the role of nickel in growth is waning, the indirect and knock-on effects have been, and remain, considerable. They continue to exert considerable influence on the economic environment and the expectations of economic agents. The wave of industrialisation observed over the past decade has given rise to a major reconfiguration of the sector with the arrival of two global players in the metallurgy sector facilitating increased integration in international networks while generating local activities through subcontracting (chapters 3 and 5). Today, however, irrespective of the means of collaboration adopted with these transnational companies, the major constraint lies in the financial markets upstream of these firms’ capital. The profit targets are not achieved in a context where the price of nickel is far from favourable and New Caledonian plants are encountering technical difficulties typical of any new industrial project leading to reduced production and higher costs. The political aspect of the industrial projects is in conflict with the shareholders’ economic rationality and their need for returns on investment. The absence of a common strategy at territorial level in terms of energy procurement and, more broadly speaking, of the means of distributing value added appear to represent a handicap in dealing with the current situation.

Finally, the public sector, which accounted for more than a quarter of the creation of value added and more than a third of its growth until the end of the 1990s, has fallen steadily to 20% of GDP in 2012. Despite this trend, however, almost one-third of salaried employees still work in the public sector and public investment spending continued to account for 7% of GDP in 2013 (chapters 2 and 3).

- An economy still assisted with a narrow productive base

The model developed by Jean Freyss showed how, based on french public transfers, the development of New Caledonia could be illusory and give rise to a model described as an “assisted economy”. While these transfers increase wealth, they hamper local production thereby increasing the country’s dependence on them. Transfers from mainland France thus led to increased importations and an outflow of savings not invested. The transfers are therefore largely re-injected *ex-post* into the economy of mainland France as it provides the majority of the imports and receives the lion’s share of the investments. With regard to salaries and prices, the difference observed over the period of industrialisation (2004-2012) is the same as that recorded by Jean Freyss (1975-1988). New Caledonian wages are still between 1.73 and 1.94 higher than in France mainland while the prices of goods are some 34% higher (chapters 4 and 5).

Certain elements of the assisted economy model would appear to have been retained until the most recent period (chapters 2 and 5). The weight of government transfers in Gross National Disposable Income (GNDI) is falling but remains significant (12.9 % in 2012 compared to 25% in 1986)⁵. For the past twenty years, New Caledonian growth would appear to have been relatively less dependent on public transfers, suggesting that a productive economy productive has gradually replaced the assisted economy, although at the same time the total multiplier estimated for the industrialisation period (limited there to 2006-2010) is very similar to that estimated by Jean Freyss for the period 1983-1987. The combined ratchet effect of transfers on production and consumption has not, therefore, appeared to change significantly (chapter 5).

The production multiplier, on the other hand, is much higher than that estimated for the assisted economy. Inter-sectoral linkages are stronger in the industrialisation period than in the previous rebalancing period. The effects of links between the construction and corporate services sectors benefit from the inflow of investment, in contrast to the situation during the period 1983 and 1987.

In short, government transfers still operate in an economy where the productive structure productive remains that of a small economy highly integrated into the international economy through imports and FDI. Against this backdrop, government transfers analysed from the standpoint of demand have a limited ratchet effect on local production.

The dynamics of the assisted economy are in part still clearly present: transfers still present a large share of imports, both directly and through intermediate consumption. The relative weight of government transfers in the GDP has nevertheless fallen, in particular during the industrialisation period (2006-2012), in response to the development of the services sector and the construction of two metallurgical plants in the north and south of the territory. The economic development and the development of nickel metallurgy, both domestically and abroad through New Caledonian investments in South Korea, are thus reflected in a relative reduction in the weight of public transfers in the New Caledonian economy. At the same time, nickel-related revenues during the industrialisation phase took the form of significant foreign investment generating capital accumulation and extensive growth (chapter 2).

New Caledonia is thus currently in a transitional phase. It is important that a new development strategy replaces that of the development of mining and industrial projects in order to enable the country to become less dependent on public funding.

Institutional innovations but loss of steam in the consociational tools: a political model to be redefined

These economic results are inseparable from internal political choices and in particular from the rebalancing and negotiated decolonisation strategies championed by the Matignon-Oudinot, Bercy and Nouméa agreements. This is why it is necessary to examine the institutional innovations implemented over the past thirty years to interpret the economic results and the new prospects for development.

⁵ These transfers contribute *de facto* to the balance of public accounts: without them, New Caledonia would have been faced with a public deficit of 15% of the GDP since 2004. In 2012, a balanced public budget without transfers would have led to an increase in tax revenue of more than 70%, or a threefold increase in the indebtedness of the public authorities (chapter 2).

- Economic development facilitated by “provincialisation”

Long ignored then treated in an assimilationist rationale, the demands of the Kanak people for independence were expressed violently during the 1980s. The events revealed the predicament of a demographic situation unfavourable to the Kanak people⁶, giving the majority to those keen to remain within the bosom of France in the event of a vote by universal suffrage and thus resulting in the impossibility of recognising the historical legitimacy of the Kanak people via the ballot box. To overcome this imbalance, the 1988 “provincialisation” process gave an elective majority to the Kanak people in two of the three new local authorities (the North province and the Loyalty Islands) while also entrusting them with certain responsibilities and, in particular through a favourable distribution key of public transfers, providing them with the financial resources to implement their own economic development strategies. This adaptation of elective democracy – described as consociational democracy – and its impacts in terms of economic strategy are not exceptional; they can be observed elsewhere around the world wherever two clearly-defined communities express non-convergent needs that universal suffrage cannot reconcile (chapter 1).

The Nouméa agreement of 1998 was negotiated on the same consociative basis as that defined by Matignon in 1988, thereby extending the diagnosis of a need for rebalancing as well as taking further steps in the decolonisation and emancipation process. A government was also created, while the Caledonian Congress was therefore allowed to proclaim local laws. The joint negotiation of the mining strategy (the Bercy protocol) and of the country’s statutory and institutional governance apparatus (the Nouméa agreement) is emblematic of the weight of the political economy in the economic strategy. Because a strictly statutory agreement could not provide the Kanak executive bodies any true levers of development and thus the true means of testing their development project by standing apart from French public policy, negotiations concerned the industrial sphere which is not subject to universal suffrage. By obtaining the guarantee of an exchange of mining massifs and thus the possibility of constructing and operating a metallurgical plant, the North province – though the SOFINOR holding company and its subsidiary, SMSP (Société minière du Sud pacifique) – successfully imposed a different, long-term means of developing local mining resources: majority public ownership. This preliminary was decisive in both the creation of the Société territoriale calédonienne de participation industrielle (STCPI) and the development of foreign investment strategies, enabling the establishment of the North province’s nickel doctrine, which is currently fuelling local debate concerning future development models. The growth strategies described previously – first of “rebalancing” then of “industrialisation” – are thus joint products of the strategic adaptations of New Caledonian economic agents to global economic signals and the policies implemented by the institutions of the consociationality (chapters 1 and 5)

- The undeniable professionalising of public action and local development

The institutional developments of the past three decades focus on the structure of the provincial administrations and the increased in human and financial resources devoted to local development through the explosion in the number of projects and the increasingly professional nature of the technical support (chapter 9). They also explain the progress recorded, in particular in the spatial and territorial dissemination of economic and social development (chapter 2).

Globally speaking, the results of local development during the first terms of “provincialisation” are positive, although they remain mixed, especially in Kanak territory. This period proved more beneficial to Nouméa than to the rest of the country and more to the villages than to the tribes. At the beginning of the new millennium, new instruments were implemented in public policy, including grouped land development operations (“OGAF”), while the provincial development and investment codes and policies were reformed. The years from 2010 onwards have marked another turning point: support for production chains are better circumscribed with less ambitious but more precise objectives, such as increased selectivity of the projects and a clearer distinction between local development projects and structural projects (chapter 9).

⁶ The observation remains today: the Kanak people accounts for only about 40% of the total population of the islands

Another notable change in the dynamics of local development since the year 2000 is the intervention of metallurgical multinationals and, more broadly speaking, the increasing dissemination of their norms and standards. As the cases of Thio and Yaté illustrate, this is a breakthrough in relation to the historical means of intervention of the historic Société Le Nickel (SLN), hitherto the main private operator at local level. We observe renewed links and dialogue between industrialists and the local populations living around the plants. This renewal brings with it the emergence of new collective stakeholders, in particular renewed interest in local institutions (traditional authorities, town halls), and familiarity with innovative instruments including popular shareholding companies and their capacity to retain a share of the mining and metallurgical revenues at the local level (chapters 2 and 9).

The “provincialisation” process thus enabled the expression of different political styles, which distinguish themselves through more marked public interventionism in terms of economic management in the provinces in favour of independence and regulated liberalism in the South province. In particular, the differences are expressed in the specific natural resource management strategies: the land, the exceptional biodiversity of New Caledonia and, of course, mining resources (chapter 1). In the North and Loyalty Island provinces, a palette of local development policies primarily targets the customary lands, and in particular the groups subject to particular local law, which represent intermediate zones where customary law is practised but where development opportunities are more open. These policies, less frequently implemented in the South province, primarily take the shape of grouped land development operations (OGAFs). They help overcome the absence of transversality observed in the other development support mechanisms and facilitate the targeting of populations previously benefitting from little accompaniment. While similar in their legal framework, the environmental codes of the three provinces differ in the level of recognition of customary practices. It is at the heart of the recommendations of the Loyalty Islands province but is less important in the South province, which favours a conservationist approach to nature more in line with the International Union for Conservation of Nature (IUCN) for example. With regard to mining and metallurgy, the executive bodies in favour of independence defend public sector control of resources through land deeds and the creation of joint ventures with the participation of the local authorities in the capital. Until very recently, the South province advocated public regulation through mining legislation and taxation without for all that infringing on the prerogatives of the private sector in the economic activity.

The result of the agreements is thus a global, varied and extremely complete funding mechanism for development including subsidies, guarantee funds, start-up funds, microcredit, interest-free loans, risk capital, mixed-economy investment companies and funding obtained from mining operators. The case studies presented in our collective work demonstrate that despite the limitations, the instruments deployed succeed in multiplying the effects of aid and have allowed a remarkable level of equipment to be reached throughout the territory. This surely explains, at least in part, the improved multiplier effects of mining production over the past decade (chapters 5 and 9). *In fine*, this diverse range of tools has favoured the use of mining rent and government transfers from mainland France in the local economy. At the same time, the coexistence of differentiated development strategies implemented by the different executive bodies has allowed the lines to be moved and has opened the door to renewed debate, sometimes even transcending the oppositions between those in favour of independence and those who are not (chapter 1).

The contrast between the provinces’ capacity to make proposals and the difficulty encountered by territorial institutions (congress and government) in asserting themselves and imposing national strategies in the different key tasks entrusted to them is nevertheless considerable. More broadly speaking, the principles of territorial governance are now being called into question by the reconfigurations of the territory’s political landscape as well as the nature and configuration of the interaction of stakeholders which form the New Caledonian economy. Through these failings and anticipated weaknesses, the results of the Nouméa agreement are mixed.

- A governance model called into question by a weakening of the separatists/non-separatists bipolarity

The New Caledonian consociational institutions were designed in a period of strong growth against a backdrop of political bipolarisation with the issue of independence requiring a rationale of blocs going beyond the traditional left-right divide: separatists against non-separatists. Today, the economic

situation is less favourable and, more importantly, the political landscape has become more complex. In the exercise of power and in light of the internal competition operating in the provincial sphere, conflicts between the blocs have been magnified causing an increase in the number of political parties. Furthermore, whereas these conflicts would previously abate when the debates moved to the territorial level, the recent period has given rise to unprecedented alliances reshaping political life (chapters 1 and 4).

This reshaping does not for all that result in a right wing-left wing opposition, instead marking more or less ad hoc convergences concerning key strategic economic policy issues, in particular the management of mining resources and the relations between the territory and the other stakeholders in the value chains, or the simplification of taxation and the transparency of trade margins. It is too early to prejudge the future of these rapprochements, in particular between Calédonie Ensemble (CE) and the Kanak Liberation Party (Palika), but there is little doubt that the dispersion of the blocs gives renewed meaning to political economic options hitherto impossible to implement. Former divisions should certainly continue to fuel the debate on independence in the near future, although the situation will become more open in the future (chapters 1 and 4).

Beyond these prospects, however, it has become obvious that the dissensions call the principle of decision-making collegiality into question that has applied at territorial level since the Nouméa agreement. Consensus is much more difficult to achieve – and much more costly in terms of negotiations – with an increased number of parties.

- The reshaping of market oligopolies between heritage and openness

Jean Freyss criticised the stranglehold of an “oligopoly of collusion” formed by the large colonial families or more recently arrived operators occupying dominant positions in the configuration of the territory’s political economy. Almost three decades later, the economic and political context has changed; the balances and sometimes the seats of power have moved (chapters 1, 3 and 4).

New Caledonia retains certain attributes inherited from a colonial commercial economy, based on imports, which is the origin of customs duties enabling the territory to satisfy the dual objective of revenue for the government and protection for local producers and interests. The barriers to entry to the territory limit foreign competition but tend to be of a permanent nature which initiates economic rents without for all that improving the competitiveness of local production. The concentration of operators per sector of activity remains high and offers few economic opportunities to develop competition. Such a configuration results in high prices for imported products and local products while artificially limiting consumption choices. However, it also results in particularly high margins for local companies, thereby directly consolidating the phenomenon of “a high cost of living” regularly bemoaned in the islands. Finally, downstream, the phenomenon of a high cost of living is exacerbated by the characteristics of the distribution sector and in particular in by the growing role of mass retailing which, in contrast to the potential for competition announced with its arrival at the beginning of the 1990s, merely reproduced the oligopolistic behaviour, while reshaping and modernising it. This sector benefits both from margins accumulated along the value chains and its market power resulting from a high concentration of operators (chapter 4).

If the power of the old oligopoly of collusion rooted in the colonial times has gradually waned with the arrival of new players and the increased professionalism of the business world, the dominant positions remain numerous. The development of new small and medium-sized enterprises, the rebalancing of activities towards the north of Grande Terre thanks to the spillover effects of the plant in the North province and the gradual emergence of Kanak entrepreneurship have nevertheless created an important breath of fresh air making it possible to envisage the renovation and gradual diversification of the economic fabric and in particular a reform of the game rules. Transparency and improved access to information are the key issues of this process of open debates and economic policy choices and is more broadly a question of local democracy. While there is a large effort to produce statistical information concerning the territory, the continued existence of blind spots and grey areas – sometimes accompanied by non-compliance with the legal obligations such as access to the results or structure of the company shareholdings – makes the analysis more complicated and hampers the ongoing openness and democratisation process. This also should encourage a change in governance, renewing the institutions resulting from the political agreements.

- The resilience of the Kanak tribal society :
power of the ideal, informal regulation and market integration

The transformation of the rural Kanak society is largely debated and the assumptions generally put forward such as the “solubility of customs in money”, acculturation, the rural exodus and the loss of knowledge and solidarity should be qualified.

A close examination of the population censuses over a long period of time, in particular at municipal level, would seem to debunk the hypothesis of a mass exodus of tribes towards the villages or Nouméa. It encourages a revision of the thought processes that serve as a reference for land management policies as it is not only public goods and access to employment and services that determine choices relating to settlement and mobility (chapters 7 and 8).

The surveys conducted in 2011 and 2013 by the Neo-Caledonian Agronomic Institute (IAC) (Guyard *et al.*, 2014) also provide evidence contradicting the received ideas of the financialisation of behaviours, the abandonment of staple crops and the loss of local know-how. While the outline and social and spatial footprint of families are changing, family ties remain important, combining membership of a single tribe and links newly-developed through mobility outside the tribal area. This family syncretism marks a shift towards western forms of organisation, albeit with families which remain entrenched in the Kanak domestic system, even if it forms a hybrid system incorporating other attributes from the labor market and renewed social activities. Available data show that families living in a tribe farm smaller areas of food crops than at the beginning of the 1990s (and even less than in the 1950s). However, this downward trend observed for some 25 years is reversing and in particular does not appear to concern the most symbolic products; we note a stability in areas farmed for yams (about 40 m² per inhabitant) and an increase in areas farmed for bananas (from 60 to more than 200 m²). Familiarity with cultural techniques remains remarkable, in particular with regard to compliance with the yam calendar. Furthermore, among the workers interviewed in the tribes, more than half claim not to have any activities other than the fields, fishing and/or hunting while only 5% claim not to have any activity relating to agriculture or gathering. One counterintuitive result is that agricultural, hunting and fishing activities are not less frequent in the development hubs close to the villages; they are not abandoned to the benefit of salaried work which instead serves to complement these activities (chapter 7).

Finally, the surveys illustrate the strength of non-market flows of agricultural, fishing and hunting products: donations in kind and self-consumption account for more than 80% of total productions while the volumes involved have changed very little since the 1970s. Agriculture, fishing and hunting account for only 4% of families’ money incomes but for 24% of their total income if the non-market share is valued at market prices. Finally, it should be noted that this share helps reduce inequalities within the Kanak population: the effect of incomes and non-market transfers on the Gini index is thus similar to that of the social redistributions implemented by means of public solidarity at provincial and territorial level. The inequalities between Kanak and non-Kanak households and in particular between households living in a tribe and urban households remain significant. However, the studies encourage us to adjust these inequalities in light of the extent of market and non-market practices within the tribes, practices strongly correlated to individual mobility and the density of the accompanying flows of material and immaterial goods (chapters 7 and 8).

The polarisation of the territories in question: mobility as a support for renewed policies

Both a symptom and factor of the increased mobility of capital, insufficient importance is granted to spatial mobility although it plays a predominant role in reconfiguring the territories and raises questions concerning development policies. However, a map of residential mobility can be drawn using the results of the population censuses and of occasional, more qualitative studies. While imperfect, this tool nevertheless shows that new Caledonians are increasingly mobile. During the inter-census period of 1976-1983 and 2004-2009, the population increased by a factor of 1.8 while residential mobility rose by a factor of 3.1. More globally speaking, if all internal mobility is taken into account, it experienced a very significant increase linked to population growth, economic growth, improved household equipment, enhanced public transport and social and cultural changes (chapters 7 and 8).

Basing our analysis on observable residential mobility, the attractiveness of Grand Nouméa is

logically confirmed, although the true originality can be seen in the existence of major counter flows. For example, during the period 2009-2014, flows towards the South province accounted for only 45% of all inter-provincial residential mobility recorded. With the development of the VKP area (Voh, Koné, Pouembout), the North province recorded a positive migratory balance with the South province over the same period. Even for the Loyalty Islands province, the counter flows from the South province towards the islands during the same period accounted for 77% of all departures (chapter 8).

While we should not deny or underestimate rural-urban mobility towards Nouméa, it must henceforth be repositioned in a more complex picture of residential and temporary mobility (daily, weekly, etc.) which fudge the conventional centre-periphery vision and call assumptions into question concerning the process of rural exodus. The subsequent aim of (rural) population settlement would benefit from taking a back seat behind mobility accompaniment policies which foster development and social links (chapters 8 and 9).

- A different perception of the city and cross-town mobility: urban fragmentations and segmentation

A mobility-based approach also raises questions concerning the ongoing urban transformation. Taking ultra-mobility into account now makes it difficult to interpret the city as the opposite of the tribe or the “bush”. Urbanisation does not provide information concerning the weakening of the domestic Kanak society; the processes are far more complex. The territories are interwoven and while the city is clearly a privileged and sought-after living and dwelling space, it is largely constructed in its exchanges with the bush (chapter 8).

The urban growth of Greater Nouméa is a constant in the territory’s history. Seen from a classic urbanisation standpoint, however, the centre of present-day Nouméa is growing less quickly; it is the municipalities enjoying the best transport links and subject to the least land pressure (primarily Dumbéa and Païta) which provide the most significant explanation of the city’s population growth. This continued urbanisation is changing the landscape: the urban front of the dense suburbs is advancing, but spaces remain where rural life continues to dominate while urbanisation is developing in a somewhat more diffuse and discontinuous manner. Nor are urban areas restricted to Greater Nouméa, as the VKP hub now satisfies all the criteria of this category: a population of more than 13,000 inhabitants (5,500 in 1989), an increase in the number of houses and public infrastructures and a relatively wide range of private services. A certain number of signals confirm this urban character (noise, anonymity, shopping malls, traffic lights, etc.).

Urban growth nevertheless calls the social development of the territory into question. While the city is no longer the “white city”, what new urban identity can it develop? Observing the increasing number of Kanak people in Nouméa, Jean Freyss distinguished Kanaks integrated into the urban model, Kanaks “hors sol” (or away from home, referring to rural inhabitants temporarily in town) and second-generation Kanaks. This typology is no longer relevant due to the long-standing Kanak presence in the city (several generations) and the existence of urban tribes (Conception, Saint-Louis) and peri-urban tribes (Païta); this phenomenon can also be found in the VKP area with the Baco and Koniambo tribes. Furthermore, the number of Kanaks in the urban municipalities now exceeds that in the other municipalities. However, if this Kanak presence is mapped across Greater Nouméa, a phenomenon of social segregation is revealed (chapter 8).

The dynamics observed urge us to renew the planning tools by incorporating this fragmentation and the virtues of mobility. Otherwise, there is a major risk that development simply contributes to exacerbating the emerging social divisions.

- Avert the frailties of young Kanaks by calling on these resilient practices

While the results and analyses presented in this work qualify the numerous preconceived ideas, we must not for all that deny the emergence and continued presence of difficulties, in particular for young Kanaks (de-schooling, addictive practices and violence). A manifestation often associated with this rural exodus in the different media is the development of juvenile delinquency, by extension involving squats in Nouméa. The supposed de-tribalisation underlying the supposed rural exodus would appear to result in young Kanaks losing references and social capital becoming weaker across the entire territory. However, recent analyses show that domestic migrations following the development of the mining project in the North province and, more broadly speaking, permanent

mobility practices in the bush and between the bush and the towns would appear to reflect inter-sectoral complementarities, in particular between tribal and modern agriculture rather than a context of substitution. One avenue is thus to attempt to prevent the frailties of this young generation by calling on a more proactive monitoring as well as the resilient practices founded on the original human capital. We can cite the example of the prospects for organising accompaniment by drawing inspiration from and certainly adapting these practices to the new urban context and the management of certain young people in difficulty by the customary authorities, as is the case in the Loyalty Islands.

It would therefore be a question of mobilising and accompanying the local society's capacities for adaptation in response to the emerging challenges. More generally, the cultural, human and social capitals are clearly levers of development for New Caledonia on condition that they are promoted and not stigmatised.

The sustainability of the New Caledonian development path: towards a new paradigm?

Examining the sustainability of New Caledonia's development path makes it possible to alter perspectives by rethinking the transmission of development conditions and assets to future generations. The overall measurement of wealth for the islands show that the majority of this wealth (70%) is not generated by economic and natural capitals but by other elements such as human, social, cultural or geostrategic capital. Such a calculation puts the weight of mining and metallurgy in total wealth (including intangible wealth) into perspective; the question is thus one of substitution between the different capitals (education for nickel) and possible thresholds up to which these substitutions are possible and reversible (chapter 6).

The work therefore proposes a monetary evaluation of New Caledonia's capacity to maintain its total wealth (genuine savings) over time. The analysis shows that the strategy of accumulation was sustainable over the entire period 1970-2012. Investments in economic and human capital more than offset the depreciation of natural capital. By correcting this indicator of the weight of government transfers, it is possible to calculate an "autonomous" genuine savings indicator (Couharde *et al.*, 2011). This was negative until 2012, except in 1972, 2004 and 2010, although it exhibited two distinct periods. The first corresponds to the assisted economy and rebalancing periods up to 2002 during which public transfers were decisive and largely underpinned growth. The second period corresponds to the industrialisation period (2002-2012). The relative weight of public transfers began to fall in light of FDI and economic growth in New Caledonia adopted more of an "autonomous" sustainability path (chapters 5 and 6). Autonomous genuine savings are almost at the sustainability threshold but in light of the transient nature of this period, the question of sustainability will depend on the potential growth drivers which will be implemented.

The indicators of weak growth and genuine savings do not, however, exhaust the issue of sustainability. Adopting a strong sustainability approach, thresholds can appear in different dimensions of wealth below which the damage would be irreversible. The analytical elements presented until now suggest that a critical natural capital threshold has yet to be achieved across New Caledonia as a whole. Several indicators nevertheless show that from a more local standpoint, the accumulation thresholds for certain pollutants have been exceeded (chapter 6).

Beyond the discussion concerning the environmental dimension and the natural capital, the issue of rural exodus is a recurrent manifestation of the loss of social and human capital in the Kanak society, in particular in northern and eastern Grande Terre and in the Loyalty Islands. Nevertheless, as shown here, domestic migrations do not only express the risk of losing social and cultural capital or the risk of desertification of certain areas; they also express the consolidation of human and social capital associated with a strategy of economic development and rebalancing between north and south (chapter 6 and 8).

It would therefore appear that economic capital and development in New Caledonia support social and cultural capital, in particular by fostering so-called "traditional" activities. New Caledonian heritage could be handed on to future generations, not only by means of preservation policies but also through policies designed to promote the different components of the territorial heritage (resilient social and cultural practices, mobility, non-market exchanges, etc.).

Some ideas for a new development model

At the end of this work, numerous avenues of thought are opened with a view to considering the future of New Caledonia. It is not a question here of providing a prospective vision; the different reports produced as part of the New Caledonia 2025 programme already fulfil this task (Government of New Caledonia, 2013). It is more an issue of proposing several avenues of thought for the future.

New Caledonia is faced with the challenges of a small island economy (SIE) benefitting from mining revenue. It must therefore overcome a high level of macroeconomic vulnerability. The growing power of the metallurgical sector thus goes hand in hand with an increased exposure of the economy to shocks originating on the international nickel and financial markets.

The issue of managing shocks is increasingly important in defining New Caledonia's growth path. It involves reducing the vulnerabilities and dependencies by increasing the diversification and resilience of the economy. The solution often put forward, of implementing a sovereign fund, now comes up against issues of a lack of capacity for abounding such a fund. Furthermore, such a strategy must not call into question the efforts made towards ensuring the diversification of New Caledonia's economy. In light of the uncertainty, the diversification of the productive sector continues to represent the best strategy. Nevertheless, the limited success of support policies for the tradable sectors illustrates the extent of the difficulties encountered on the road to diversification in New Caledonia. While these difficulties are common to numerous small island economies, the very diversity of their performances demonstrates the importance of public policies and innovative capacity to the future of economies.

In this respect, the strategy of heritage enhancement – be it natural or cultural – already implemented in certain sectors represents a potential source of diversification and sustainability for the New Caledonian economy.

Major challenges facing a small, profit-based island economy

The necessary construction of a national economic strategy remains highly dependent on the institutional and statutory options – political by nature – which will be adopted in the coming years. The consociational model of the Nouméa agreement must be revised, in particular to facilitate strategic reflection at the territorial level while maintaining the role of the provinces and also taking account of the fragmentation of the political landscape and the waning strength of the market oligopolies. Furthermore, the growing importance of interdependencies⁷ raises the question of how best to pursue the negotiated decolonisation while reflecting the present-day global political and economic realities; once again, the world of 2018 is not the same as that of 1998.

In particular, the perspective of independence raises the question of New Caledonia's capacity to maintain a high standard of living. Small island economies that are currently "affiliated" with a protecting power exhibit higher levels of per capita GDP than "sovereign" small island economies (Bertram, 2014). However, is this difference in the level of development a consequence of decolonisation or does it pre-date the decolonisation movement? According to Geoffrey Bertram, based on a statistical analysis of fifty one SIEs (1900-2013), the second hypothesis would appear to correspond more closely to the long-term historical data. In other words, throughout the 20th century, we noted that the small island economies demonstrating the best performances became or remained "affiliated", whereas the worst performers became sovereign states. Decolonisation, or the move to become sovereign, has not meant a lower level of economic performance for small island economies. Nevertheless, the challenges facing New Caledonia are significant, irrespective of the results of the referendum on independence and the resulting governance institutions.

It is highly likely that public transfers from mainland France, and thus the corresponding administrative revenue, will continue to diminish (at least as a relative share of GDP, if not in volume). This development and the prospects of the nickel market require a re-evaluation of the role of and conditions for collecting mining revenue along with an exploration of other economic policy options and, more particularly, development strategies.

In this movement, New Caledonia is faced with the difficulties common to small island economies linked to restricted markets, remoteness (only relative here), high production costs, and the

⁷ The means of managing these interdependencies will continue to be debated with mainland France in the same spirit of consensus as the Nouméa agreement.

economic, environmental and social vulnerabilities affecting their means of insertion in international trade. In terms of the criteria of vulnerability and sustainability, SEIs nevertheless exhibit very diverse situations (Geronimi, 2015). The diverse development paths demonstrate that being a small island economy does not carry with it a curse. On the other hand, and much more significantly than in larger economies, public policies play a decisive role in the development paths.

Among the factors explaining the high level of vulnerability of these economies, understood as exposure and resilience to the shocks (Guillaumont, 2006), small island economies distinguish themselves through a dependence on incomes and their instability, irrespective of whether these incomes stem from mining, administration or linked to migration (Bertram and Watters, 1986; Poirine, 1995). In 1995, Jean Freyss rejected the relevance of the profit-based economy model to analyse the situation in New Caledonia, in particular referring to the decisive political rationales of public transfers. The gradual exit from the assisted economy model and then from the industrialisation model of the period 2004-2012, coupled with the increase in production of the two metallurgical plants from 2013 brought the issue of income and its instability, and thus of the national strategies to prevent it, back to the fore.

The partial transformation of New Caledonia's economy into an industrialised economy based on nickel is not yet complete. The technical difficulties encountered in the two new plants against the backdrop of plummeting nickel prices calls into question the implementation of economic growth and financing drivers based on the nickel sector. Consequently, the debate on the future of the territory's economy quite logically continues to focus on the prospects for economic diversification, primarily based on the reinvestment of the incomes derived from nickel. In this respect, the introduction of a sovereign fund appears to be relatively consensual, despite the ongoing debate concerning its funding conditions.

Collecting and stabilising mining and metallurgical income, nickel strategy and sovereign fund

The nickel-based industrialisation strategy is naturally faced with the difficulties inherent to a reinforced insertion in the global economy with a greater transmission of economic shocks and an increasing weight of multinational firms' strategies. The nickel crisis, which has lasted since 2015, is a perfect reminder that a mining or metallurgical specialisation is, by its very nature, vulnerable to fluctuations in raw material prices (Auty, 2007; Brelaud *et al.*, 2009). In retrospect, the management of the 2008-2009 price boom also seems to have underestimated the possibility of a turnaround in prices, despite the fact that this is an essential characteristic of raw materials that has been largely analysed in the literature⁸.

The long-term management of uncertainty related to fluctuations in the price of raw materials is traditionally based on external saving (possibly through the implementation of a sovereign fund) and/or domestic investment in diversification. The strategy of external investment of mining revenues would help avoid the occurrence of Dutch disease and make it possible to benefit from higher returns. For small economies, with few economic opportunities, external saving is therefore often prioritised. The massive dissemination of mining revenues in the domestic economy could lead to inflation and to the modification of the productive structure to the detriment of the tradable sectors; this is the phenomenon of Dutch disease (cf. *supra*). In reality, however, implementing a sovereign fund presupposes very large revenues and in the case of New Caledonia, their collection by the territorial institutions. However, the amounts actually collected by New Caledonia to date have been limited due to the coexistence of several revenue collection methods and, overall, the significant tax exemptions scheme benefiting to the mining sector (the so-called "fiscal pact").

• Strategies for collecting and stabilizing nickel revenues

The public debate currently opposes three different strategies permitting the continued collection of nickel revenues to the benefit of New Caledonia: using the lever of mining taxation on the processing plants (the possibility of introducing a mining licence fee is also under discussion); holding a stake in the metallurgical plants to collect the revenue in the form of dividends; and

⁸ The World Bank (1989) thus established the bases for the international doctrine for managing shocks (see also Geronimi *et al.*, 2003)

exporting the raw mineral while negotiating a fixed or sliding share of the selling price of nickel on the international markets. Looking forward, it is necessary to introduce the issue of temporalities: beyond the stability of the revenue, the sustainability of the New Caledonian economy is also a stake: depending on the strategy adopted, is the deterioration of the natural capital associated with nickel mining sufficiently offset (by investment in other assets) to ensure transmission of the current wealth of heritage to future generations?

The first strategy – mining taxation on processing plants – is currently based primarily on taxation of mining and metallurgical companies (IS 35), a tax that only the SLN is subject to as the two other metallurgical plants benefit from the fiscal pact. This guarantees the continued exoneration on all taxation over a period of fifteen years (plus a further five years at 50%) based on a production volume of 80% of a plant's full capacity. It is therefore highly likely that no tax income will be collected from the new metallurgical plants before 2028 at the earliest, unless the fiscal stability pact is called into question, a process that is difficult to initiate at present. Furthermore, this strategy is unlikely to provide significant tax revenues unless the price of nickel rises considerably to levels in excess of USD 15,000 per tonne. The impact of the 2007 boom (when prices surpassed USD 50,000 per tonne over several days) thus resulted in surplus tax revenue of some CFPF 25 billion in the same year. Since 2010, this tax revenue, essentially levied on the SLN, remained below CFPF 5 billion, falling to zero from 2014 (following the collapse of nickel prices).

The second strategy – holding a stake in the metallurgical plants – is particularly favoured by the North province which has added a principle of majority; it follows a rationale of taking control with holdings in excess of 50% of the capital of these companies, be they in the mining or metallurgical sector. The stake-holding semi-public companies (SPCs) are the instrument of this strategy. Beyond the North province taking majority control of the KNS plant via the SMSP and of the Gwangyang plant through SNNC-Posco, stake-holding is a strategy which, while not *per se* enabling the stake holders to decide on the management of the companies, provides access to remuneration in the form of dividends. The STCPI therefore holds 34% of the SLN (the North and Loyalty Islands provinces through NORDIL, and the South province via Promosud), whereas the SPMSNC holds only 5% of Vale NC (50% for the South province, 25% for the North province and 25% for the Loyalty Islands provinces). Majority stake holding is a proactive strategy aimed at influencing industrial and financial choices and a portfolio diversification strategy. The main question is thus that of the means of financing plant maintenance and repaying the loan in adverse economic conditions.

A third strategy – exporting the raw mineral – requires the negotiation of a fixed or sliding share of the selling price of nickel on the international markets. This strategy has resulted in a profit-sharing agreement with Japanese smelters guaranteeing raw mineral exporters an increasing proportion of the LME selling price according to the level of this price.

Independent of their relative efficacy in collecting nickel revenues, these three strategies cannot coexist at territorial level if they are to be effective individually while ensuring a coherent mining policy. The decisions required by the primacy given to one or other strategy can lead to conflicts between the winners and losers or even result in large-scale social crises⁹. The revenue is not collected by the same agents, depending on the strategy adopted.

Limited unless the prevailing situation on the nickel since 2015 market witnesses a sudden turnaround, tax revenues are fed into the New Caledonian budget before being allocated within the economy by means of a distribution key favourable to the North and Loyalty Islands provinces. In the medium term, the expected tax revenues from nickel will be limited and probably insufficient to support a sovereign fund (Baude, 2012). The share of nickel revenue collected through taxation remains weak and well below international standards.

The dividends received by shareholders in the plants depend on the decisions of the majority shareholders and the capacity of the plants to generate a surplus. With the price of nickel below USD 9,000 per tonne, none of the three plants within the territory is in a position to generate dividends. According to the estimated evolution of production costs (chapter 3), prices would need to rise above USD 12,000 per tonne in order to envisage the distribution of dividend. The dividends distributed primarily come from the SLN (within the territory) and from SNNC-Posco (in South Korea) and benefit the shareholding provinces through the SPCs. The dividends benefit the largest shareholders: 66% of the dividends paid by the SLN thus leave the territory directly.

⁹ The blockage of Nouméa in 2015 by the “small miners” is a recent example of this (see chapter 1).

In the SNNC-Posco configuration, 51% of the dividends paid benefit the SMSP. In a context of high prices, the indebtedness of the SMSP linked to financing the construction of the first stage of the Gwang Yang plant was reimbursed within three years. Since the collapse of prices in 2015, SNNC-Posco no longer generates a surplus that could be distributed as dividends.

When the dividends are paid, the North province will be the main direct beneficiary of the nickel mining activity by KNS in New Caledonia, at least as long as the current tax system is in place.

In the end, the stake-holding (or control) strategy results in the collection of nickel revenues through the distribution of dividends to the benefit not of the government of New Caledonia, but of the provinces via the SPCs and primarily the North province.

The third strategy of exporting raw minerals benefits the concession holders and “small miners” who nevertheless collect a limited share of the global price of nickel. The negotiations conducted with Japanese smelters guarantees that raw mineral exports are paid at 25% of the price of nickel on the London Metal Exchange (LME)¹⁰. Given that the average cost of mining one tonne of contained nickel was estimated at approximately USD 3,900 in 2013 (Christman *et al.*, 2016)¹¹, we can deduce that the export of raw minerals (at a price of less than USD 15,600 per tonne on the LME) is only worthwhile in New Caledonia for high concentrations. This mining is given priority over the richest deposits where New Caledonia enjoys an absolute advantage.

- What nickel strategy for New Caledonia?

Each of these three strategies is therefore advantageous to specific stakeholders within the territory as well as abroad depending on their interests which may be contradictory. Schematically speaking, revenue collection through taxation (SLN) is advantageous domestically to the government of New Caledonia (when the price is sufficiently high), while dividends from KNS and Gwang Yang benefit the North province and the “raw mineral” strategy favours “small miners” holding securities and the operators¹², to whom subcontractors and rollers are often assimilated.

The economic arguments put forward to compare the respective advantages of the different strategies relate to the evaluation of the share of nickel revenue actually collected by the New Caledonian economy (taxation and dividends) together with the extent of the spillover effects across the entire economy, primarily through the jobs created (chapter 3). Beyond this technical debate, it is a question of political choice. Irrespective of the strategy envisaged, the trade-off of the growing power of the metallurgical sector is an increased exposure to shocks occurring on the global markets. The uncertainty affecting the development of the global markets is passed on to the New Caledonian economy via different channels depending on the nickel strategy adopted. Are private stakeholders better able to manage these fluctuations than the public authorities? This is an old debate (Collier and Gunning, 1994) which has been renewed with the return of strong fluctuations in the price of raw materials (Geronimi, 2016). While the introduction of a stabilisation fund can serve to alleviate the short-term effects of the fluctuations, the only effective long-term solution to the increasing uncertainty and vulnerability of the New Caledonian economy remains the diversification of the economy, be it financial (through the creation of a stock of international assets, or a sovereign fund) or real (through the growing power of the new tradable sectors).

Still in the long term and from the standpoint of sustainability, good management of nickel presupposes the maintenance of the wealth transmitted to future generations. Solutions can then be provided to the optimisation of the valuation of collected revenue.

As presented in chapter 6, a strategy of accumulation through investment in economic and human capitals within the territory ensured, with the help of government transfers, the global transmission of wealth during the period 1970-2012. Nevertheless, the difficulties encountered in diversifying the

¹⁰ The profit-sharing agreement negotiated by the union of mineral exporters in 2016 specifies that the export of saprolite ore can, in addition to a share of 25% of the LME price, give rise to a reassignment of profits linked to the metallurgical processing stage. This reassignment varies according to the price of nickel reached on the LME and only exists for prices higher than USD 7,000 per tonne on the LME. Thus, for a price of USD 9,000 per tonne of nickel on the LME, a New Caledonian exporter would, from 1 June 2016, receive USD 2,677.5 corresponding to 29.75% of the LME price, i.e. the basic rate of 25% and a profit-sharing of 4.75%

¹¹ In 2013, based on the cash costs of producing nickel available for seventy deposits (SLN database; Christman *et al.*, 2016).

¹² There were thirteen in 2012: SMK, GEMINI, MKM, SERKA, SMP, SMGM, SMCB, EDM, MINEX, SMN, SOREN, SMT and TPK (source: Dimenc).

tradable sectors (excluding nickel), in particular due to weak competitiveness (chapters 3 and 4), gave rise to debates concerning the creation of a sovereign fund. To circumvent the cost constraints – and thus Dutch disease – in mining economies, investing nickel revenues outside the national economy at higher rates of return than those obtained locally may be a pertinent solution. This option may nevertheless appear paradoxical and risky as it is based on the idea that the possibilities of diversifying the domestic economy are limited. Sustainability (maintaining the income level of future generations) would then primarily be ensured by incomes from financial investments abroad. Such a strategy can thus increase the vulnerability of an economy through heightened dependence on the international financial markets on which recurrent crises have become systemic. This presupposes the constitution of a sufficiently large and diversified portfolio of foreign assets¹³.

As mentioned above, the prospect of creating a sovereign fund in New Caledonia is nevertheless hampered by the effective capacity to support it by means of effective taxation of nickel. According to the analyses and simulations presented in the Baude Report (Baude, 2012), the weakness of taxation on the SLN companies combined with the exonerations enjoyed by the two new plants until at least 2024 discredits this solution. Tax revenue derived from nickel over the prosperous period of high nickel prices (2003-2009) represented no more than 3% of GDP (in 2007) before falling to 0.2% in 2009 (whereas nickel prices were still high). This revenue is much lower than those paid into the sovereign funds in Norway (more than 15% of GDP in 2008) or Chile (more than 8% of GDP in 2007), countries often cited as having implemented a successful sovereign fund strategy. Adding dividends from the 34% holding of the STCPI in the capital of the SLN to the revenue available does not change this observation; even in 2006, at the height of the boom period, these dividends only represented 0.6% of GDP.

In the more recent period starting in 2015 with the dramatic fall in the price of nickel, the previous observation is only strengthened: in the current configuration of taxation and the means of collecting nickel revenues through dividends as well as provincial and territorial holding companies, nickel revenues are unlikely to provide significant support for a sovereign fund in New Caledonia. The metallurgy sector is no longer (not yet) able to provide funding and is rather in need of it. Thus in 2015, the NMC recorded a loss of CFPF 3.5 billion and the current account balance of the SMSP was ensured through refinancing by the state and the AFD (approximately CFPF 20 billion additional indebtedness) and through support from the North province (CPFF 1.25 billion)¹⁴. The SLN and Vale NC are also facing financial difficulties. This situation can be called into question in the long term when the new plants no longer enjoy the tax exonerations (in any case not before 2024) and with the prospect of a significant rise in global nickel prices. The transition towards an industrialised economy is therefore taking place against a difficult backdrop which delays the prospects of being able to distribution of dividends accordingly.

The future is uncertain and any option involves high levels of risk that New Caledonia will not be able to fully manage. Nevertheless, and irrespective of the strategy adopted, the arguments mentioned previously advocate in favour of a coherent national nickel strategy as the only means of maximising both revenue collection and its valuation and smoothing over time. The choice of “provincialisation” has been accompanied by investment in the territory in line with the objective of rebalancing. Support for productive activities – in particular materialised by the Bercy protocol (chapter 1) – and for the development of human and social capital is thus consistent with the Matignon-Oudinot and Nouméa agreements. This is a break with the assisted economy model presented by Jean Freyss, characterised by the outflow of savings away from the territory. A strategic option in line with this trend would be a sign of confidence in the territory and its productive capacities.

A necessary diversification giving rise to debates and controversies and imposing choices

The debate on the collection and valuation of nickel revenues must not lead to other sectors being forgotten. In light of a fall in public transfers and a slower transition than planned to a metallurgy sector as a renewed source of currency and tax revenue, New Caledonia can no longer escape its status of small island economy. Far from being a curse, however, being an island can also be a source of opportunities.

¹³ The sovereign funds of Qatar, Chile and Norway are examples of successful mechanisms of this type that are often cited in the literature.

¹⁴ Interview with A. Dang, July 2016.

- Diversification and devaluation of the CFPF: uncertain prospects and the need for accompaniment

Beyond the nickel sector, the prospects for diversification have called on public policies (and funding) for several decades (chapter 9). Against a backdrop of a historically low price of nickel, this concern is once again at the forefront of considerations. With the nickel sector not as profitable as expected and government transfers dwindling, what are the alternatives sources of revenue for New Caledonia?

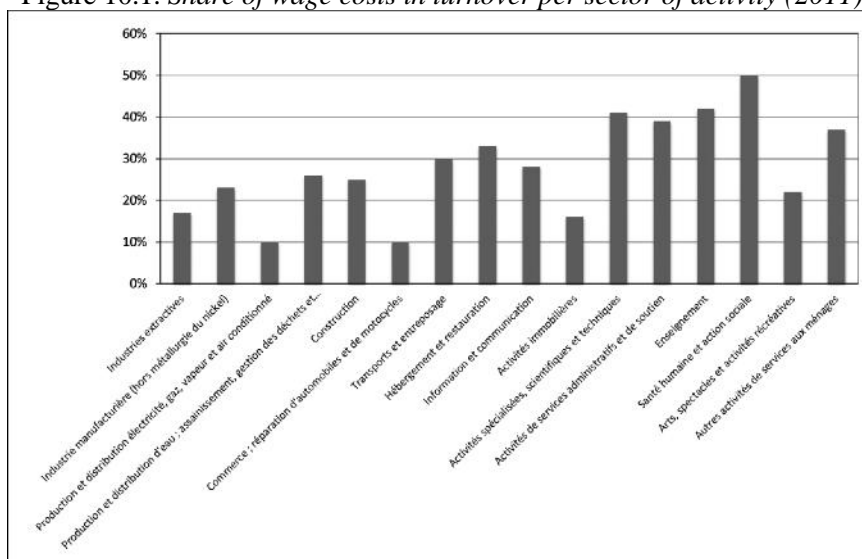
As presented in chapter 2, 3 and 5 of this book, New Caledonia's economy depends on access to international currencies to finance its imports and its current account. Some tradable sectors which could provide New Caledonia with currency have received specific support in accordance with conditions that are sometimes questionable and often innovative. They nevertheless remain marginal in terms of their contribution to GDP and in terms of foreign exchange, and most of them are still unprofitable. The model of Dutch disease has sometimes been called on to analyse such a situation whereby the tradable sectors (exportable or in competition with imports) suffer from an overvaluation of the real exchange rate as well as a price and profitability disadvantage compared to the non-tradable sectors (primarily services and protected sectors). One of the macroeconomic measures recommended in this type of situation is devaluation as this may improve the profitability of the tradable sectors (Corden and Neary, 1982).

In addition to industrial strategy, monetary policy is another potential lever of action and the question of the devaluation of the CFPF is recurrent and significant. It is raised in both the perspective of New Caledonia remaining within the bosom of mainland France and in that of its independence; any change in the monetary regime could result in a *de facto* devaluation of the local currency, irrespective of whether this continues to be the CFPF, is pegged to a basket of currencies or is directly linked to the euro. Once again, the expected impacts are not easily evaluated. The effects of a devaluation are all the more difficult to anticipate as the price and margin data are still fragmented and difficult to obtain in New Caledonia (chapters 2 and 4). In particular, the issue concerns the accompaniment measures required which should be significant in light of the role of convertibility and monetary stability in the operations of the oligopolistic markets which continue to frame the functioning of New Caledonia's economy.

The economic objective of a devaluation of the CFPF would be to consolidate the profitability of the tradable sectors (exportable or in competition with imports) with a view to increase the rate of import cover through exports in the long term, thereby reducing the current account deficit. The upward trend of the prices (in CFPF) of imported goods and exportable goods mechanically resulting from the devaluation process should therefore favour these sectors and contribute to the diversification of New Caledonia's economy. Several characteristics of this economy nevertheless cast a doubt over the expected effects of devaluation. If the prospect of devaluation were seriously envisaged, simulations of the effects of this would be necessary within a macroeconomic model. In the absence of this, it is worth underlining certain avenues for reflection resulting from the previous analyses.

The expected improvement in the relative profitability of the tradable sectors compared to the non-tradable sectors requires a reduction in production costs in the tradable sectors and optimisation of the inflationary effect of devaluation on the prices of non-tradable goods. With regard to reducing production costs and in light of the strong dependence of the New Caledonian economy on the import of intermediate goods (on average more than 20% of the production value, see chapter 5), the impact of devaluation on the costs of production would essentially be related to the reduction of the wage bill (expressed in currency). The share of the wage bill in turnover (figure 10.1) varies considerably from sector of activity to another (from 17% for mining industries to 50% for the human health and social action sector). Wages costs in the tradable sectors (manufacturing activities) account for less than one quarter of turnover while personnel costs represent a much larger proportion in non-tradable sectors (services, construction, etc.). Ultimately, the effect of reduced costs, expressed in currency, associated with the devaluation process for the tradable sectors would be limited; all things being equal elsewhere, a rough estimate shows that for the manufacturing sector a devaluation of 50% would at best translate directly through wage costs into a reduction of approximately 15% of the global costs in relation to turnover, representing an insufficient reduction to offset the price differential between New Caledonia and the rest of the world.

Figure 10.1. *Share of wage costs in turnover per sector of activity (2011)*



Source: based on ISEE.

Furthermore, the extent of the inflationary effects of devaluation depends *in fine* on the behaviour of the economic agents, and in particular behaviour with respect to margins. Devaluation creates windfall effects which are captured according to the power relations at play within each value chain/sector. The increase in the price of a tradable food in CFPF can be collected at different stages in the production chain ranging from producers to suppliers, intermediaries and traders. In a majority of production sectors, the power relations favour the intermediaries and the government would probably have to take strong measures to control margins. The debates focusing on the implementation of a general consumption tax (GCT) in 2016 illustrate the issues associated with the division of power within the value chains (chapter 4).

The recessionary effects of devaluation are considerable in the short term. Devaluation leads directly to a loss in purchasing power of the economy in terms of imported goods. For New Caledonia, which is dependent on imports of intermediate and final consumer goods, this effect would be severe and could lead to a short-term economic recession. Devaluation would also have major redistributive effects with the fall in purchasing power directly affecting the economic agents according to their incomes and consumption patterns as well as their capacity to redirect consumption towards non-tradable goods. With little access to substitution products for imports, employees and the poor urban population would certainly suffer the brunt of the negative impact of devaluation. However, rural areas and in particular the tribal populations would probably be in a position to substitute local products for some of the imported products, in particular through self-consumption and non-market trading which is still very present (chapter 7). The richest economic actors who enjoy access to foreign investments, would be best placed to benefit from devaluation.

In the medium and long term, the expected effect of devaluation is a modification of the productive structure of the economy in favour of the tradable sectors. In this short term, this presupposes that the initial impact of devaluation on relative prices is sufficiently large to be reflected in a significant modification of the relative profitability of the tradable sectors. In the longer term, it must be assumed that the price elasticity of supply in the tradable sectors is sufficiently high to result in an increase in domestic production. In this respect, the factors of production (primarily land and labour) must be available or be capable of moving freely from the non-tradable sectors to the tradable sectors. The analyses presented in chapter 7 suggest that the reorientation of land and labour from the non-market sector to the export market sector would not necessarily occur immediately but would instead be negotiated and gradual. It is highly likely that the positive effects of devaluation will not be observed in the short or medium term.

Ultimately, the absence of an economic model and the data currently available do not allow for a precise simulation of the positive and negative effects of devaluation. However, if the option is adopted, the analyses conducted in this work would suggest implementing devaluation along with very

strong accompaniment measures: for example the cancellation of the debt (which would increase as a proportion of the devaluation) and a far-reaching reform of the structure of the New Caledonian economy, in particular by calling the oligopolies of collusion into question. Monetary policy is simply an instrument serving a global strategy and cannot be envisaged alone.

- Diversification based on niche or emerging sectors

Beyond the mining and metallurgy strategies and the search for spillover effects, public policies are also faced with the challenge of diversifying the economy. Public policies have targeted this objective for several decades with limited success. Opportunities nevertheless exist by requalifying certain sectors.

In the field of agriculture, for example, analyses suggest rethinking the territorial production and food systems. The prospects remain limited in terms of employment and production of wealth, but promoting a more sustainable and diversified agriculture inspired by agro-ecological principles would make it possible to enhance the quality of the crops while protecting the environment as well as increasing the resilience of the systems to shocks and climate change. Furthermore, the revival of the sector and the improvement of food self-sufficiency has attracted particular attention from the public authorities with the recent adoption of the new agro-pastoral code. In light of the strong link to the land common to all the communities within the territory, it is a question of giving renewed value to agricultural activities in particular by calling on the system of traditional ecological know-how and its constant adaptations and on the latest agronomic knowledge. The development of different quality labels and the research conducted in this field offer clear avenues for developing the organic agriculture and processing value chains primarily intended to satisfy a growing segment of the local market and, beyond that, for export on a high-quality niche market.

For the non-tradable sectors, the prevalence of original social relationships rooted in non-market trading also provides opportunities to optimise human, social and cultural capital through the activities of the social and solidarity economy (SSE). As a specific component of the economy alongside the public and market sphere, the social and solidarity economy is defined both by the status of its constituent organisations (associations, mutual organisations, cooperatives and foundations) along with their high social utility and by their governance process which is designed to be both democratic and based on non-profit management (Bioteau and Fleuret, 2014). Thanks to its territorial attachment, the SSE not only consolidates territorial solidarity but also generates social value added and innovative interactions between the market and non-market sectors. By prioritising projects offering a high level of social utility, certain local development entities such as the CODEV in the North province are fully in line with this rationale (chapter 9). The innovative potential of the SSE is now recognised and greatly emphasised (Gadrey, 2006; Noguès, 2006; Bouchard, 2011). It contributes to the necessary recognition of a plural economy which assumes its full meaning in New Caledonia with regard to the importance of customary practices and the cultural diversity of its population. Furthermore, despite the difficulties linked to the lack of training in managing non-market organisations, the associative sector bears witness to strong dynamism across the territory with more than 470 associations created every year in recent times (Kani Conseil, 2014). The SSE can contribute to strengthening solidarity between the communities and improving social cohesion while helping the most vulnerable populations; women, young people, senior citizens and ill people.

Finally, the development of cultural activities serves as another example of prospects that are currently under-utilised. Still somewhat limited despite the efforts made in the successive agreements through the ADCK, the Tjibaou Cultural Centre and, more recently, the cultural centres founded in the north of Grande Terre, the promotion of cultural diversity through increased professionalism and the development of both cultural practices and interculturalism represents a lever of action. Creating a genuine status of artiste would doubtless allow a certain number of obstacles to be removed. Promoting these practices is one of the means of improving the promotion of the immaterial capital of New Caledonia.

- Diversification based on the promotion of New Caledonian heritage

In addition to these sectors, the impact of which can only remain limited, innovative and promising avenues for diversification can be seen in mobilising the natural and immaterial heritage of New Caledonia. The challenge is to find the means of promoting it in a sustainable manner.

As presented in chapter 6 of this work, 70% of the total wealth of New Caledonia is derived from neither economic capital nor natural capital. In addition to its mining resources, the territory benefits from a geopolitical income in the Pacific; its human capital has improved considerably; the administrative and entrepreneurial fabric is now dense and experienced (chapter 3). Other specific assets nevertheless exist: the level of natural endemism is high; the lagoon and its biodiversity are included on the UNESCO World Heritage List; the social relations within the tribes and their means of insertion into the market economy are original; and the customs and their institutional recognition have enabled the maintenance and development of the Kanak culture and the establishment of bases for a influence, regional solidarity and reciprocal enrichment. The notion of wealth (and its substitutable components as they can be converted into currency) overlaps the notion of heritage. This New Caledonian heritage, objectively exceptional and recognised as such, must be protected for future generations or, in other words, promoted in a sustainable manner.

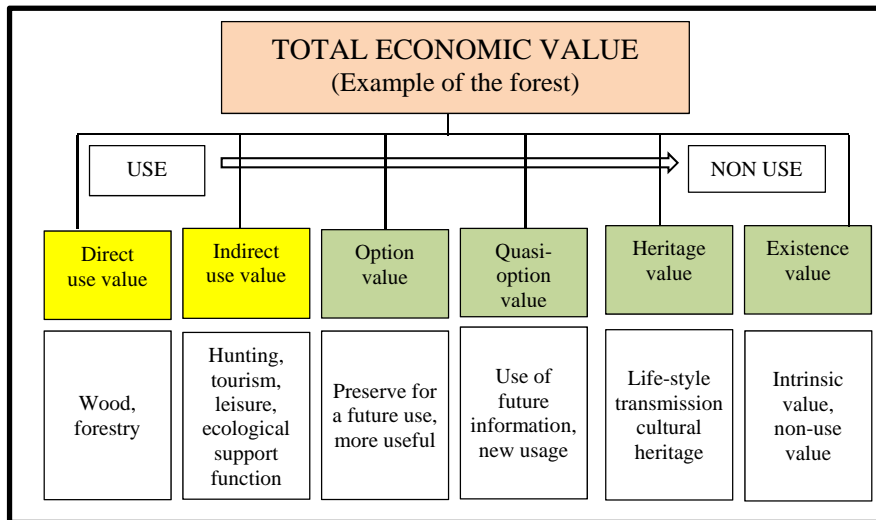
A national heritage designation strategy would not entirely avoid the constraints of small island economies, but by targeting other forms of international competition, it would enable them to be surpassed in part. Thus, mobilising unique heritage resources makes it possible to propose differentiated goods and services justifying high prices. It is a strategy that is increasingly present at the international level in the tourism sector, in particular for small island economies (SIEs).

The sectors in which heritage promotion is applied are in part already present in New Caledonia. They include tourism, forestry, a rethought version of aquaculture and agriculture (on condition that they are reorganised to be founded on local resources), micro-algae (and beyond these micro-organisms), the promotion of endemic medicinal plants (development of phyto-medicines, essential oils) and ornamental plants, phyto-extraction and revegetation. More broadly speaking, the markets for ecological services, green chemistry or even the bio-industry can be stimulated by a knowledge-based economy and networks (in particular in the field of research) capable of offsetting, in part, the handicaps of geographical isolation. At a time when there is a need for sustainable development, New Caledonia has the possibility of contributing to the definition of a new model of environmentally-friendly economic and social progress with future generations in mind.

An economic analysis of the values associated with nature sheds light on the potential for creating wealth in New Caledonia. The total economic value approach (Pearce and Warford, 1993) thus proposes a typology of values ranging from the use value to the non-use value (figure 10.1). While the direct use values are easily identified on the markets and can be allocated a price, some of the most immaterial values fall outside the scope of market valuation. Consequently, the latter values are often ignored in economic development strategies.

The direct and indirect use values of nature reflect the activities and incomes revealed (either directly or indirectly) on the markets. The option, quasi-option and heritage values presuppose the future projection of a use value for one's own benefit or possibly for future generations (heritage value). Much more uncertain, these values are nevertheless already in part promoted in New Caledonia. Finally, the existence value reflects a non-use value which is often totally ignored in development policies.

Figure 10.1. *The different dimensions of the value of a natural resource according to a total economic value approach*



Source: based on Pearce and Warford, 1993.

The development of certain sectors in New Caledonia already reflects a rationale of promoting natural or cultural heritage. This is particularly the case of hyperaccumulator plants boasting an *a priori* remarkable capacity to produce metallic salts useful in catalysis (pharmaceutical and agribusiness industry). The unique nature of the soil in New Caledonia combined with endemic plants this carries a use value which was a quasi-option value until this research programme (CNRS, IAC, SLN) made it possible to envisage its industrial use in the long term.

This emerging perspective nevertheless also reveals the difficulties associated with the development of such activities based on the use of an exceptional natural heritage. Doubts have already been cast concerning the capacity of New Caledonia to capture the value added of an industrial process based on hyperaccumulator plants. An industrial prototype has been developed and patents have been filed in mainland France, and only the first stage of the manufacturing process – that of harvesting the leaves – is located in New Caledonia. In the absence of a contract specifying the proportion of the value of the final product owing to the territory, we might fear that this share remains minimal. This fear is all the more real as not one single regulation exists concerning the export of raw vegetable materials at territorial level. While the South province has introduced regulatory constraints specifying that granting a collection permit implies a minimum financial compensation of 2% of the turnover associated with the commercial exploitation of the natural resource (35% for the province and 65% for the land owners), the North province has not yet defined any clear rules while the Loyalty Islands province was preparing to adopt a restrictive regulation in this field. The lack, or absence, of harmonisation of the rules concerning the exportation and use of biodiversity can thus represent an impediment to its promotion. By extension, the protection of traditional know-how relating to the use of biodiversity raises the sensitive question of bio-piracy. In the past, however, New Caledonia has successfully emphasised its particularities and translated them into rights in the French Republic; it must also cultivate this know-how in the field of the recognition and preservation of its biodiversity.

Tourism is a privileged economic sector in the SIEs. On average, it represents between 9 and 10% of the GDP of SIEs compared to 4 to 5% in other economies. As Logossah and Maupertuis (2007) suggest, certain natural handicaps (isolation, remoteness, insularity) could represent comparative advantages for insular territories by being transformed into the characteristics of tourism goods that are in such great demand by many travellers. Even better, numerous SEIs, like New Caledonia, benefit from a “unique social, cultural or natural attractiveness” (Seetanah, 2011) which could, as long as the assets promoted are protected, be presented as an absolute advantage for international tourism, thereby counterbalancing the handicaps linked to isolation and small size. As underlined by Bimonte and Punzo (2003), it would be more advantageous for SIEs to bank on differentiation

rather on than the homogeneity of tourism products in order to promote the “uniqueness” of the destination by activating a comparative advantage or even offering a “unique experience”.

The reconversion of several SIEs towards heritage tourism illustrates the fact that tourism development models based on homogenous services in fierce competition are running out of steam. This is in particular the case for Mauritius and the Dominican Republic which have seen the price of their tourism services decrease over the past two decades.

For an SIE such as New Caledonia, characterised by the presence of a heritage already recognised by its inclusion on the UNESCO World Heritage list and experiencing high costs, the best tourism development strategy from the standpoint of sustainability and vulnerability would be to differentiate its tourism services on the international market by emphasising its heritage assets (Geronimi *et al.*, 2015, Zugravu *et al.*, 2016). Naturally, for such a strategy to be sustainable, an essential condition is the maintenance and development of the heritage in question through investments in protection and promotion.

The main challenge consists of maintaining the differentiation of tourism over time. The trend towards the homogenisation of tourism products through the dynamics of the global market leads to a loss of differentiation, an increase in competition, a downward price trend and a loss of steam of tourism specialisations. Far from expressing a retreat, investment in heritage, both to maintain and develop it, could represent a promising strategy of insertion into the international markets for New Caledonia.

More generally speaking, to be promoted and at least partially transformed into wealth, heritage and the related territorial resources must first be revealed then activated. Such a strategy involves concerted diagnostics, public debate, a shared vision and societal preference. In this respect, the innovative capacity of New Caledonian stakeholders and their partners as well as their connections to French and increasingly regional and international research networks are major assets.

Conclusion

In 1997, while examining the future of New Caledonia, Jean Freyss underlined the challenge of redefining the “links with the outside, with France and the other countries based on negotiated interdependence and not imposed dependence”. He felt that the small size and remoteness of New Caledonia were an opportunity to invent a society capable of combining customs, the market, the state and the nation. Since then, the New Caledonian society has succeeded in implementing new social institutions and regulations by creating new dynamics which have sometimes been entirely unexpected, in particular between market and non-market elements. In redeploying its relations with the Pacific region, and more generally speaking in its insertion into the global economy, the path that lies ahead is still long and strewn with numerous uncertainties. Nevertheless, the story is still to be written. The road already travelled by New Caledonia illustrates its capacity for social and institutional innovation, an essential resource in implementing its common destiny.

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