EXPANDING JOB OPPORTUNITIES FOR PACIFIC ISLANDERS THROUGH LABOUR MOBILITY at Home & Away
# ACRONYMS AND ABBREVIATIONS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACP</td>
<td>African, Caribbean, and Pacific grouping</td>
</tr>
<tr>
<td>ATM</td>
<td>Automated teller machine</td>
</tr>
<tr>
<td>AusAID</td>
<td>Australian Agency for International Development</td>
</tr>
<tr>
<td>AWOL</td>
<td>Away without leave</td>
</tr>
<tr>
<td>CSWAP</td>
<td>Canada’s Seasonal Agricultural Workers Program</td>
</tr>
<tr>
<td>EPA</td>
<td>Economic Partnership Agreement</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FARMS</td>
<td>Foreign Agricultural Resources Management Service (Canada)</td>
</tr>
<tr>
<td>FSM</td>
<td>Federated States of Micronesia</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross domestic product</td>
</tr>
<tr>
<td>HRDC</td>
<td>Human Resources Skills Development Canada</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labour Organisation</td>
</tr>
<tr>
<td>IOM</td>
<td>International Organisation on Migration</td>
</tr>
<tr>
<td>NZAID</td>
<td>New Zealand Agency for International Development</td>
</tr>
<tr>
<td>PACER</td>
<td>Pacific Agreement on Closer Economic Relations</td>
</tr>
<tr>
<td>PIC</td>
<td>Pacific island country</td>
</tr>
<tr>
<td>PICTA</td>
<td>Pacific Island Countries Trade Agreement</td>
</tr>
<tr>
<td>PMC</td>
<td>Pacific member country</td>
</tr>
<tr>
<td>PPP</td>
<td>Purchasing power parity</td>
</tr>
<tr>
<td>RMI</td>
<td>Republic of the Marshall Islands</td>
</tr>
<tr>
<td>SAWS</td>
<td>Seasonal Agricultural Workers Scheme (United Kingdom)</td>
</tr>
<tr>
<td>SPC</td>
<td>Secretariat of the Pacific Community</td>
</tr>
<tr>
<td>TMP</td>
<td>Temporary movement of persons</td>
</tr>
<tr>
<td>UFCW</td>
<td>United Food and Commercial Workers (Canada)</td>
</tr>
<tr>
<td>UN</td>
<td>United Nations</td>
</tr>
<tr>
<td>WHM</td>
<td>Working holiday maker</td>
</tr>
</tbody>
</table>
# Contents

Acknowledgments ......................................................... iv
Foreword ...................................................................... v
Executive Summary ................................................... vii

Chapter 1 Mission Possible: a Framework for Policy Action .............. 1
Section 1.1 Introduction .................................................. 2
Section 1.2 Special Challenges Facing Small Island States .......... 3
Section 1.3 The Solution: Economic Integration ..................... 7
Section 1.4 Analytical Framework, Empirical Findings, and Policy Implications ........................................... 11
Section 1.5 Summary and Conclusion .................................. 23
References .................................................................. 25
Notes ......................................................................... 25

Chapter 2 The Young and the Restless: the Challenge of Population Growth ................................................. 29
Section 2.1 Introduction .................................................. 30
Section 2.2 Population Projections ................................... 30
Section 2.3 Formal Employment Projections ....................... 37
Section 2.4 Potential for Overseas Employment .................... 41
Section 2.5 Conclusion ................................................... 44
References .................................................................. 45
Notes ......................................................................... 45

Chapter 3 Cents and Sensibility: the Economic Benefits of Remittances ...................................................... 47
Section 3.1 Introduction .................................................. 48
Section 3.2 Migration and Remittances in Fiji and Tonga .......... 49
Section 3.3 Interrelationships between Migration, Remittances, Income, and Saving ........................................ 69
Section 3.4 Remittances and Human Capital ......................... 78
Section 3.5 Remittances, Income Distribution, and Poverty Indicators ......................................................... 83
Section 3.6 Summary ...................................................... 93
References .................................................................. 97
Notes ......................................................................... 98

Chapter 4 Neighbours: Making Bilateral Worker Schemes a Win-Win ................................................................. 101
Section 4.1 Introduction .................................................. 102
Section 4.2 Assessing the Labour Needs of Australian Horticulture ......................................................... 102
Section 4.3 Comparing Seasonal Agricultural Workers’ Programs ....................................................... 116
Section 4.4 Modelling Workers’ Savings and the Cost to Growers .............................................................. 124
Section 4.5 The Challenge of Regulation ............................... 127
Section 4.6 Conclusion ...................................................... 136
References .................................................................. 140
Notes ......................................................................... 142

Annex A-I ................................................................. www.worldbank.org/pi
Acknowledgments

This report was prepared by a team led by Manjula Luthria, senior economist in the World Bank’s East Asia and Pacific Region. The lead authors were Manjula Luthria (Chapter 1), Ron Duncan from the University of the South Pacific (Chapter 2), Richard Brown from the University of Queensland (Chapter 3), and Peter Mares and Nic Maclellan from the Swinburne University of Technology (Chapter 4). Other contributors to the individual chapters include Heather Booth, Guangyu Zhang, Maheshwar Rao and Fakavae Taomia (Chapter 2); and John Connell, Eliana Jimenez, and Gareth Leeves (Chapter 3).

The team is grateful for the valuable inputs received through discussions with individuals from the University of the South Pacific; the Australian National University; the University of Sydney; the University of Victoria, Wellington; the Australian Agency for International Development (AusAID); New Zealand Agency for International Development (NZAID); the Australian and New Zealand Treasury and Departments of Immigration and Foreign Affairs; and the United States State Department. Comments from Phil Martin (University of California, Davis), Martin Ruhs (University of Oxford), as well as informal discussions with individuals at the International Labour Organisation (ILO) and the International Organisation on Migration (IOM) on temporary movement of persons were very helpful. Important contributions were also received through useful information exchanges hosted by the Pacific Islands Forum Secretariat.

This work could not have been undertaken without the keen cooperation and support of key government agencies in Fiji and Tonga. Individuals from various government departments in these two countries contributed to ensuring that the quality of the data collection remained at the highest possible level. Discussions at various fora with Pacific island governments as well as other stakeholders in the Pacific region have contributed immensely to this report.

During the internal reviews of this report at the World Bank very helpful comments were received from Alan Winters, Indermit Gill, Aaditya Matoo, David McKenzie, Ana Revenga, Rekha Menon, Irena Omelaniuk, Sanket Mohapatra, and Gaurav Datt. Evelyn Ng provided excellent research assistance and Elisabeth Mealey infused creativity in overall design and publishing. Sheldon Lippman provided editorial review and made valuable improvements to the report. Jane Sprouster helped co-ordinate multiple tasks related to production and photographs were provided by Trevor Watson and Sofia Bettencourt.

The guidance and support of peer reviewer, Dilip Ratha, was instrumental in shaping this report. This report also benefited from the overall supervision of Xian Zhu, Sanjay Dhar, and Homi Kharas.
Foreword

Migration has emerged in recent years as an important development issue. There is a growing awareness of how it can improve the welfare of migrants and their dependants as well as the economies of host and sending countries. By some estimates the gains to global welfare from the liberalisation of the movement of people could outweigh the gains from any remaining trade liberalisation. Perhaps, nowhere is this more true than in the Pacific Region, characterised as it is by small, isolated islands trying to find economically viable ways to compete in a globalizing world.

The World Bank has launched a program to expand the knowledge base in this area by devoting the attention of staff in the central research units as well as regional departments to understanding the complex set of issues relating to migration—such as remittances, social protection and governance, the temporary movement of persons, and the links with trade and the financial sector—in an effort to identify policies towards migration that are pro-development. This report has benefited from the insights of these various efforts and its findings reinforce evidence on the positive impact of migration from other parts of the world.

Given the importance of labour mobility to the Pacific, and the integral role in poverty alleviation that migration can play, we hope this report elevates the discussion to a serious level in the Region. In the course of preparation of this report, constructive dialogue with various stakeholders has already begun to take shape, and the support of various donor and international agencies has proven to be critical. The World Bank stands ready to facilitate further meaningful dialogue on this issue and to assist with integration of labour markets in the Pacific Region.

Homi Kharas

Chief Economist and Sector Director,
Poverty Reduction and Economic Policy Unit,
East Asia and Pacific Region, World Bank
at Home & Away

EXPANDING JOB OPPORTUNITIES FOR PACIFIC ISLANDERS THROUGH LABOUR MOBILITY

Executive Summary

The island economies in the Pacific are small nation states located at a considerable distance from large economies and each other in the vast Pacific Ocean. Their land mass, population size, ethnicity, and natural endowments vary considerably. Most Pacific member countries (PMCs) in this region receive very high amounts of aid per capita but economic growth has proved elusive. With persistently high population growth and the youth population reaching 40 percent, finding productive employment is becoming more challenging. Greater labour mobility would expand the employment options available to Pacific islanders, but it is currently limited and skewed in favour of skilled workers.
This report is motivated by the need for jobs for the Pacific islanders who cannot source them domestically. Even as the business environment improves, employment creation will be limited by the challenges of demography, size, and geography. This report's main purpose is to examine the economic arguments—analytically and empirically—in favour of greater labour mobility, by addressing three fundamental questions.

**What is the extent of demographic pressures facing the Pacific?**

The demographic projections presented in the report under varying scenarios of fertility and mortality suggest that population growth in the Pacific islands is expected to remain high in the near future. Melanesia in particular, which is characterised by high fertility rates, low formal sector employment, and very limited migration options, will generate the highest proportion of excess labour. For example, in Solomon Islands and Vanuatu where formal sector employment is already among the lowest in the region, the working-age populations are expected to increase by another 30 percent within the next decade. While some domestic employment opportunities will also be created, it would still leave nearly 90 percent of the populations of these countries outside the formal sector. This has far-reaching repercussions domestically as well as for the wider Pacific Region.

The flip side of this story is that there will be an increasingly larger pool of young people from which industrialised countries with labour shortages will be able to draw. Low and declining fertility rates, and the ageing of the 'baby boomers' in many industrialised countries are giving rise to concerns regarding a growing stock of dependants (young and old) relying on a shrinking workforce. This coincidence of excess supply in some regions and excess demand in others creates the backdrop for potentially mutually beneficial movement of labour in the region.

**What has been the development impact of remittances on migrant-sending households and communities?**

Experiences from other parts of the world indicate that migration can contribute to social stability as well as economic development. Through empirical analysis of data from remittance-recipient households in two Pacific countries, Fiji and Tonga, this report's findings resonate with the global findings that migration and remittances have had a positive impact on migrant-sending countries. Remittances, which allow the 'transnational' family to earn abroad and consume at home, have served an important social protection role by providing access to a steady and reliable source of income for consumption in poor, vulnerable households. The results also show that remittances play an important role in improving income distribution. The poorest 40 percent of the population's share of cash income was found to increase while the share of the richest 20 percent fell in Fiji and Tonga. Remittances were also found to have a positive impact on poverty alleviation—all measures of relative deprivation used in the report improve after taking remittances into account. Interestingly, whereas Tonga suffers from more relative deprivation than Fiji before remittances are included, deprivation on the main islands in Tonga is reduced by remittances to such an extent that the situation is better than both rural and urban Fiji.

Remittances also induce higher saving in both Fiji and Tonga and there is some evidence of remittances stimulating business activities in Tonga. Another relevant finding is that informal channels are still widely used by migrants to transfer cash home, which is not surprising given the high cost of remitting through formal channels. Considering the size of remittances flowing into Pacific households, a reduction in the transaction cost of making financial transfers would lead to a substantial increase in the net remittances received. A follow-up study is underway to identify measures to lower the cost of remittance transfers.

Another important finding from household-level data is that remittances are associated with better secondary-level educational attainment (by alleviating the budget constraint to education), while having a migrant in the household increases the likelihood of other household members acquiring
post-secondary education (by inducing greater investment in education). These findings indicate that larger investments in education, as the result of increased remittances, could augment the supply of skilled workers in source countries by increasing both the incentive and ability to finance education. In the same spirit, recent policy announcements to establish aid-funded technical colleges and upgrade existing institutions in the Pacific should be welcomed as it would also help in the ‘up-skilling’ of migrants. Simultaneously, some countries in the Pacific should re-examine their objections to opening up their own labour markets to skilled labour from the region. These restrictions often impose self-inflicted costs on small countries because skilled migrants help to create jobs and strengthen institutions in the local economy, not destroy them.

If migration is to be used as an instrument to foster greater regional stability and achieve stronger pro-poor outcomes, migration options need to be extended beyond the skilled and elite to the poor and unskilled who are unlikely to find such opportunities domestically. Evidence from other parts of the world, where international mobility for unskilled labour exists, points to its positive impact in improving social equity in sending countries, reducing social tensions, and creating a larger constituency for economic growth and governance reform.

**Is it possible to design migration programs that balance the benefits of migration with the concerns of sending and receiving countries?**

Understandably, destination countries are reluctant to open their borders permanently to large numbers of unskilled workers for fear of creating a fiscal burden or socio-political tensions. The analysis in the report therefore draws on global experience with managed temporary worker schemes for unskilled labour and concludes that well-managed programs can be designed to overcome most concerns quite successfully. Typically, migration between economically unequal partners is best placed within a bilateral framework allowing a high degree of freedom to customise its design and oversight.

With due attention to the design of incentives, it is possible to structure bilateral schemes that are successful in delivering economic gains while mitigating the economic and social costs for sending and receiving countries. In particular, attention to the ‘4 Cs’ that form the backbone of successful schemes will be critical:

- **Choice of workers** to ensure that hiring is skill-appropriate rather than hiring over-qualified workers who are likely to use the scheme as a stepping stone;
- **Circular movement of workers** to allow good employees to return in subsequent years rather than be offered a one-time only chance at off-shore employment thereby reducing the incentive to violate the arrangement;
- **Cost-sharing on travel-related costs** with employers so that fixed costs borne by migrants are not so large that they make overstaying attractive; and
- **Commercial viability** so that the scheme remains private-sector driven and reflects labour market conditions in host countries rather than by arbitrary quotas that become outdated if labour market conditions in destination countries change.

Building awareness of the importance of these features through pre-departure information and training sessions would go a long way in mitigating the risks of noncompliance as well as worker exploitation and abuse.

These features have universal applicability, and this report recommends the exploration of pilot schemes between Pacific populations and other nations with an economic need for unskilled labour and a development interest in the Pacific Region. Given that the Pacific countries have the strongest interest in ensuring economic as well as socio-political stability in the region, it would make sense for such small experiments with temporary managed programs to start within the
region. For that reason the report looks closely at a small horticultural region in Australia to find ways to transfer lessons from global best practice in temporary worker programs.

But this isolated case study cannot present the total picture of regional demand. Besides horticulture, there are likely to be several sectors in other neighbouring countries where greater integration of regional labour markets could be mutually beneficial. This report does not try to identify them or make prescriptions about where regional labour should be deployed. Instead, it takes the view that it is best left to the private sector to identify these gaps and grapple with viable business options. Governments should take responsibility for creating a facilitating environment to allow markets to work in an efficient manner, while remaining attentive to issues of social equity.

While labour mobility alone will not make the Pacific member countries prosperous, it could make a significant contribution towards enhancing economic and social stability in the region. Global evidence also indicates that trade liberalisation is not a substitute for the liberalisation of labour; hence, the latter must be pursued in its own right. Indeed, the benefits from the liberalisation of the movement of labour may far outweigh the benefits from further trade liberalisation for some Pacific island economies.
Notes

1 Nine Pacific island nations (population and GDP per capita in 2004) are members of the World Bank Group: in Melanesia, Fiji (840,800 and US$3,098), Solomon Islands (465,800 and US$513), and Vanuatu (207,300 and US$1,472); in Micronesia, Kiribati (97,800 and US$633), Republic of Marshall Islands (61,200 and US$1,803), Federated States of Micronesia (109,700 and US$1,786), and Palau (20,000 and US$6,350); and in Polynesia, Samoa (183,700 and US$2,030) and Tonga (102,000 and US$2,087). In addition, Papua New Guinea also borders the Region with 5.7 million people.