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Remittances in the Pacific Region

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Abstract

Remittances are large and have grown substantially over the past decade in the Pacific region. This primarily reflects the impact of emigration due to low growth and limited employment prospects at home. Many Pacific emigrants settle abroad with their families for long periods, but maintain close links with their relatives, villages and churches. The paper finds that the altruistic motive for remittances remains much stronger in the Pacific region than in the rest of Asia, where investment considerations increasingly appear to predominate, especially for the large share of single citizens working abroad for limited periods.

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I. Recent Developments[1]

Remittances are large and have grown substantially over the past decade in the Pacific region. This is consistent with experience in many other developing countries, as summarized in articles in the IMF's World Economic Outlook in April 2005. The increases for the Pacific island countries primarily reflect the impact of increased migration due to low growth in real GDP at home, cutbacks in public sector employment, and little progress in creating a more favorable climate for private sector activity. The strong growth in Australia, New Zealand and the United States provided good job opportunities, especially for skilled Pacific islanders.

Available data suggest that, while several Pacific island countries receive substantial remittances, experience varies widely between countries (see Box and Table). Samoa and Tonga are estimated to rank among the leading recipients of remittances in relations to GDP for all developing countries. There are now more ethnic Polynesians from these two countries living abroad than at home. Emigrants generally have strong family connections in the host country. Kiribati also ranks highly in terms of remittance flows, primarily from seamen, while most of the population still resides at home. Seafarers contracts contain commitments on the amounts to be remitted, which have been negotiated with their families prior to departure. Fiji receives the largest amount of remittances in U.S. dollar terms, although its share in GDP is smaller. Many emigrants are well educated with professional work experience. Marshall Islands, Micronesia and Palau benefit from remittances from the large number of citizens who reside in the United States, but recorded inflows are surprisingly modest. In the case of Palau, remittance inflows are more than offset by large outflows by Asian workers in the construction and tourism sectors. There is no tradition of emigration from the Melanesian countries of Papua New Guinea, Solomon Islands and Vanuatu, and remittances are minimal. This is partly explained by the acute shortage of skilled workers in these countries.

The growth in Tonga's remittances has been very pronounced over the past decade, increasing from an already large base of 23 percent of GDP in 1997 to about 40 percent in 2005. The growth in Samoa's remittances has been slower, from 17 percent of GDP in 1997 to about 25 percent in 2005. The different rates of increase have probably been influenced by these countries actual and prospective growth rates, with employment opportunities increasing faster in Samoa because of the positive impact of its economic reforms. Low political risk in both countries has also encouraged remittances. Seafarers' remittances for Kiribati have averaged about 14 percent of GDP over the past decade. Fiji's remittances have increased from 2 percent of GDP in 1997 to 7 percent in 2005, with a sharp rise after the 2000 coup, and growth from security related jobs in the Middle East (see Chart).

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[1] This paper was presented by Brian Aitken at the December 2006 meeting of the South Pacific Central Bank Governors. The authors appreciated helpful comments from David Burton, Steven Dunaway, Brian Aitken, Jens Reinke and Marta Ruiz-Arranz. Valuable inputs were also provided by the Australian, Fijian, and New Zealand authorities.

The findings of this paper are consistent with those of many other recent studies on remittances. In particular, important positive determinants of the size of remittance flows to the Pacific region are the rate of real GDP growth in partner countries (which has been strong in Australia, New Zealand, and the United States over the past decade), the distance to partner countries (which is not an impediment because of direct air links), and common language with partner countries (all of whom share English). Beyond these standard factors common to most studies, this paper finds close links between remittances and the aggregate stock of migrants, the concentration of foreign trade with a small number of regional partners, and shared historical and social factors associated with past colonial relationships.

Remittances by Pacific island emigrants remain motivated primarily by altruistic factors rather than self-interest. Links with the home country focus on regular remittances to assist their own relatives, friends, and churches, and frequent visits for family celebrations and during major holidays especially Christmas. Most Pacific emigrants settle abroad with their families for long periods, if not their whole lives, although some funds are undoubtedly sent home to purchase property and open a small business if they return home, primarily in operating minibus or taxi services and retail stores. These emigrants typically do not have a strong tradition of entrepreneurship, particularly in view of the opportunities in the small private sectors in the region,

The altruistic motive is much stronger in the Pacific states than in the rest of Asia, where investment considerations increasingly appear to predominate, as shown by a recent IMF study applying the gravity model. Asian countries that receive high amounts of remittances include Bangladesh, China, India, Nepal, Philippines and Sri Lanka. For these countries, while some of the emigrants are long-term residents abroad, including communities of Indian sub-continent descent in Europe and of Filipinos in the United States, a substantial share of remittances is sent by single citizens working abroad for a limited period, especially in the Middle East and the Gulf States. Their overriding aim is to acquire savings quickly to return home and pursue investments there. Investment especially in the services sector also appears to be an increasingly motivating factor for Pacific island expatriates, as indicated by a recent Asian Development Bank study, although this trend is less pronounced than in other regions.

II. Benefits of Remittances

The overall impact of remittances on investment and growth appears to have been relatively modest in the Pacific. This would seem to confirm that most of the funds are used for basic consumption needs, although on a limited scale, they also help family members to receive better health services and education, which should contribute to long-term growth potential. It is not clear if an increase in the real GDP growth rate at home would add to remittances, as is frequently the case in other regions, but the effect could be limited unless a larger share of remittances is sent for investment purposes.

In any case, remittances cannot be relied upon by themselves to markedly raise growth rates in the region over the medium term. This will depend crucially on the maintenance of macroeconomic stability and the faster implementation of structural reforms to stimulate private sector activities, while remittances can play an important supporting role. Governor Narube of Fiji, in his October 2006 address to the Australia-Fiji Business Forum, urged the

Government to examine ways in which it can maximize opportunities for labor exports, facilitate the sending of these remittances, and provide infrastructure and incentives to help channel these into savings, businesses and investments.

Observations in the Pacific point to the wide disbursement of remittances throughout the population. Low-income earners receive sizeable amounts of cash, which serves as a safety net, helping to alleviate poverty, and promote a more equal income distribution. However, especially in light of rising poverty throughout the region in recent years, this does not relieve pressure for higher social spending from the budget. A high proportion of the population continues to reside in rural areas, many with incomes at a subsistence level, even if remittances help to obtain basic necessities.

Remittances are a valuable source of external current account financing, enabling higher levels of imports, including oil, while contributing to macroeconomic stability. In these circumstances, remittances help to avoid or contain balance of payments difficulties. In several countries, remittances are much larger than merchandise exports and sometimes exceed foreign aid. However, their relatively steady growth has not caused exchange rate volatility. Moreover, it is not apparent that remittance inflows have caused appreciation of the real exchange rates and put pressure on the competitiveness of the export sectors in the region. Without remittances, several countries would need to undertake very substantial adjustment to protect their external position, adding to the many challenges already faced by policymakers in raising growth rates.

Remittances may help to serve as a shock absorber in the face of hurricanes and other storms, floods, drought, volcanic eruptions, and earthquakes, as extra amounts are normally sent very promptly to assist friends and relatives. This could be of increasing importance if global warming results in larger and more frequent cyclones and rising sea levels, causing greater damage to property and infrastructure. In countries where investment is a prime reason for remittance flows, the recent IMF study applying the gravity model found that they do not seem to increase in the wake of natural disasters. While this is less of a factor in the Pacific region, higher remittances are likely to prove temporary and additional donor support, as normally provided in the past in the face of natural disasters, will need to be the main source of funds for rehabilitation and reducing vulnerability to crises.

Central banks in the region play a vital role in facilitating remittance flows, and should take advantage of these transactions to help develop their own financial systems and promote investment. When remittances are deposited with financial institutions, a larger share of the population comes into contact with the formal financial system, expanding the cash economy, especially in rural areas and promoting development. This increases the availability of credit, and the potential provision of education loans, home mortgages, and borrowings to establish small businesses.

III. Costs of Migration

Migration intensifies the already large shortage of skills in the Pacific islands, especially because there are indicators that emigrants have higher skill levels than the general population. The impact has been less than in the Caribbean where, as outlined in a recent

IMF book, a majority of countries have lost more than 50 percent of those workers in the tertiary education sector and more than 30 percent in the secondary education segment. Yet, emigration has further inhibited capacity building in the Pacific region. Australia's proposal to fund a Pacific Islands Technical College in the region could help to train young persons to learn trades that can be used in their countries. The college is likely to offer courses in such areas as health and community services; hospitality and tourism; construction; and automotive mechanics. These could help to alleviate the loss of talent from emigration. Moreover, without such initiatives, remittances may create dependency and less willingness to work, particularly for unskilled labor for which there are few employment opportunities.

The loss of population may hinder government service delivery, through the erosion of the tax base, particularly if higher income earners depart to foreign countries. This will make it even more difficult for those left behind to abandon subsistence agriculture. It would also reinforce the need for new tax measures and strengthened tax administration and for reduced public sector employment to ease the budget constraint, and reorient spending toward health, education and infrastructural spending. While households with access to remittances appear to provide their children with more education and better health care, government programs are still required to improve generally weak human development indicators.

There are potentially large social costs of emigration, associated with poor welfare of migrants in the host country and family breakdown because of long periods of separation. Clusters of migrant communities with lower-than-average socioeconomic status have become a cause of concern in certain locations of recipient countries. However, the large number of Pacific islanders who live abroad with their families promotes social cohesion. This contrasts with the dominance in other parts of the world of male migrants living and working on their own, which disrupts family life. These include residents in the United States from Mexico and other Central American countries; in South Africa from less prosperous neighboring countries who have traditionally been employed in the mining sector; and in the Middle East from many countries with the recent growth of security-related and rehabilitation contracts. With respect to the United States, several studies have noted that the absence of their fathers may have contributed to difficulties for child rearing and subsequently higher incidences of crime at home.

Remittance channels can be used to launder money and finance terrorism. This is an important issue and substantial progress has been made in recent years in removing Pacific island countries from the Financial Stability Forum blacklist and in controlling offshore financial centers. As in other regions, it would be desirable to promote remittance flows through established banking channels and discourage the use of unofficial arrangements, which are more difficult to regulate. At present, there is evidence of considerable use of informal channels, but no data is available. Transaction costs are important in this regard and policies should be directed toward reducing these, which could add significantly to incomes, especially for the poor. Present commercial banking arrangements ensure safe and reliable services, although limited competitive pressures, with only two or three banks in most island countries, are not conducive to keeping the cost of these services very low. ATMs offer one of the least cost channels for transferring cash and the greater availability of these machines in the region is a positive trend.

IV. Looking Ahead

There would appear to be good prospects for continued growth in remittances from existing sources, mainly Australia, New Zealand, and the United States. Access to the labor markets of these countries is likely to remain easier for skilled rather than unskilled workers. No shortages of Pacific island emigrants are envisaged to meet available opportunities, because of the projected continued high unemployment in the region over the medium-term. As time goes by, if contacts between the local population and long-term residents abroad were to weaken, interest in emigration could decline, although there has been no indication of this.

Major new channels through which Pacific citizens could establish long-term residency are not in prospect. There are only small numbers of Pacific islanders in the fast growing Asian emerging market countries, where domestic labor supply is plentiful and expected to remain sufficient to meet their own needs. The European Union and the United States are tightening border controls to restrict immigrant arrivals. The Middle East is not a major destination for Pacific islanders, except for those working on relatively short-term security related and economic rehabilitation contracts.

Development of agreements to allow easier movement of labor within the region, which is an objective of the Pacific Forum, could help to create jobs and promote capacity building, particularly if there were movements of skilled migrants to the smaller island states. This type of labor mobility could contribute to enhancing economic and social stability. It is difficult to estimate the prospective impact of such developments, although by themselves they would not be expected to have a major impact on growth or on discouraging emigration beyond the region.

Pacific island governments have for some time requested Australia and New Zealand to offer seasonal work visas for their citizens. The authorities consider that such schemes could prove attractive throughout the region, both to the Polynesian countries of Fiji, Samoa and Tonga that already have high emigration, and to the Melanesian countries of Papua New Guinea, Solomon Islands and Vanuatu, which have low formal sector employment, the highest proportion of excess unskilled labor and very limited migration opportunities. Successful schemes have been operated in other regions, including the Caribbean and Mexican Agricultural Seasonal Workers Scheme introduced by Canada, although other initiatives have suffered from exploitive working conditions.

Australia has traditionally held a preference for permanent settlement rather than temporary migration and the government has stated that a harvest migration scheme for workers from the Pacific would not be supported. The Senate Standing Committee on Employment, Workplace Relations and Education concluded in late 2006 that there is scant evidence that the horticultural industry is facing an indisputable harvest labor shortage. Working holiday visa holders have become a critical source of labor for many growers, and conditions associated with these visas have recently been relaxed, enabling visitors to obtain temporary employment easily, in combination with periods of full time study. However, the visas are issued only to those with minimum recognized skill levels, and there are currently no mechanisms for the entry of non-skilled workers. Moreover, income earned in Australia by non-resident workers is taxed and taking into account airfares, health insurance, and other costs, the authorities have questioned whether a temporary workers scheme would net enough income to fund any remittances.

New Zealand by contrast, is introducing a seasonal work scheme in 2007, which will let Pacific workers fill horticulture and viticulture jobs when no New Zealanders are available. The government has stated that low unemployment has led to labor shortages in those two sectors, despite increases in the number of working holiday-makers in New Zealand. An employer must be registered to recruit overseas workers, which requires evidence of good workplace practices, including the ability to pay market rates, and provide suitable accommodation and transportation. Employers are responsible for paying half of the travel costs of the workers flying to and from New Zealand, and the costs for removing workers from the country if they overstay their visas. However, there in an incentive not to overstay because workers then have the option to return in subsequent years, which is also expected to be preferred by employers in order to raise productivity. Over the longer term, the scheme is designed to contribute further to Pacific development by improving the skills of workers, who will return to their home countries with new capabilities.

Temporary migration proposals have been supported in a recent World Bank study on expanding job opportunities for Pacific islanders. With continuing high population growth in the region, the Bank has expressed concern that increasing numbers of long-term unemployed youth would add to social problems, civil unrest and crime. Greater labor mobility could make a significant contribution toward enhancing economic and social stability. While the study focuses on the empirical analysis of data from remittance, recipient households of Fiji and Tonga, which have relatively high levels of education and hence more marketable workers, its conclusions are seen as applicable throughout the region.

Another recent study by the Center for Independent Studies concludes that Australia and New Zealand should not open their doors to guest workers from the Pacific. Considerable numbers of Pacific islanders have successfully settled in Australia and New Zealand and the preferred option should continue to be attracting long-term immigrants. Income gains for guest workers would be achieved at high economic and social costs in terms of employment opportunities for long-term unemployed and other welfare dependents in Australia and New Zealand. There would also be additional costs for employers to use overseas workers associated with transport, accommodation and health needs and higher bureaucratic costs of administration, regulation and oversight would be incurred by the authorities.

The authorities must ensure that policies do not discourage remittance inflows. There should be no attempt to tax remittances, which are always derived from privately earned sources of income and may well have been taxed in the countries where emigrants are employed. Further, no government steps should be taken to direct remittances to specific sectors and purposes as there funds remain privately owned by local citizens.

V. Data Issues

Data on remittances is poor throughout the region, and less credible than other balance of payments components. There have been only modest steps to correct this situation in recent years. The basic compilation problem is that the data has to be collected from individuals, which is a difficult and labor intensive process. No Pacific island country has completely reliable statistics, although Fiji compiles monthly estimates of personal remittances based on information from commercial banks and foreign exchange dealers, and Kiribati attempts to keep track of transfers by citizens working on foreign vessels. While collection of data on remittances is also a problem for many countries in other regions, it is particularly acute in the Pacific, because of the very limited capacity of national statistical offices and budgetary constraints. Nevertheless, most countries do conduct household surveys and questions on remittances could probably be added to improve data at relatively small cost. The Reserve Bank of Fiji has expressed support for this approach.

The marked degree of uncertainty about the prospective medium term growth in remittances strengthens the need for improving balance of payments data. This would help to better assess the economic impact of migration and remittances to both host and home countries and provide critical information to facilitate optimal decision making in the region. In the absence of such improvements, underreporting of receipts in the external current account and large net errors and omissions in the balance of payments will continue. Determination of the appropriate stance of fiscal, monetary and structural policies is then more difficult. The importance of addressing limitations with current remittance data was recognized by the G-20 Ministers at their 2006 meeting in Australia.

The IMF is a participant in the Luxembourg Group, a high level consultative team of statisticians from official national and international organizations formed to review and develop approaches to compiling remittances data based on international best practices, at the request of the Group of Seven Finance Ministers. As part of the Group's work, the IMF has prepared papers on improving data on remittances in the balance of payments framework. The Fund will also present a draft outline of a compilation guide for discussion by the group, within the coming months. When finalized, this should be of assistance to the Pacific region in strengthening their own balance of payments data. In particular, it will aim to clarify concepts and definitions of remittances, with a view to simplifying the work of compilers.

Resource constraints and institutional capacity have been the main factors limiting the availability, timeliness, coverage and accuracy of data compiled by statistical authorities in the Pacific region. The IMF can provide technical assistance from headquarters on request, to help overcome these problems, including the greater collection of remittance data from household level surveys, and is willing to devote larger resources to such issues. The Pacific Financial and Technical Assistance Center in Fiji also intends to make additional contributions, in this area, primarily through the statistical advisor.

The main sources of remittances for the Pacific islands are countries where these outflows are relatively small items in the balance of payments statistics, which is the case for Australia and New Zealand. While improving data on remittances in their own statistics may not rank as the highest priority, it is recognized that consistent with the leadership role of these two countries and their existing commitments to improve statistical data in the region, further support would be most helpful to supplement efforts by the Pacific island countries.

Unrecorded remittances will still probably remain substantial, although there is no readily available data for the Pacific region. These include commercial transfers through Hawala schemes, an informal system that operates outside the formal banking or financial channels, which has been analyzed for other regions in earlier IMF publications. These may be less important than for countries receiving remittances from the Middle East, including the Philippines and South Asia, but are still thought to be sizeable. Migrant bank accounts may be accessible by family members in their country of origin through ATM machines and it is very unlikely that such transactions are accurately recorded as remittances. Other informal channels include cash carried by hand by friends or family and in-kind remittances of jewelry and consumer goods, which constitute important amounts during visits home.

VI. Concluding Remarks

Remittances to several Pacific Island countries have grown substantially in recent years and are expected to remain large over the medium term. While not without costs, this is a healthy and beneficial development that has helped to alleviate poverty, improve income distribution, and avoid balance of payments difficulties.

An important motive for remittances is to help families and friends residing at home. These transfers enable many people, especially low-income earners, to raise their living standards by providing funds to purchase basic necessities and receive improved education and health care. Without remittances, a considerable share of the population would face hardship.

Efforts should be made to improve data on remittances, which is presently very weak, by national statistical offices in the region and supporting contributions from Australia and New Zealand. This will provide more useful information to be used by authorities for determining the appropriate stance of economic and development policies, especially in countries where remittances are large in relation to GDP. However, it will remain difficult to gauge their precise magnitude, particularly since Hawala and other informal channels are likely to remain operative.

Pacific island governments should continue to encourage remittances, but must not rely on them as a secure source of income that alone will achieve higher sustainable growth. In that regard, the essential actions are to ensure macroeconomic stability, including through fiscal consolidation, and to accelerate structural measures and improve the business climate. The region’s present dependence on emigration underlines further the need for reforms.

Box 1. Pacific Island Countries—Remittance Sources

Fiji: Military coups in 1987 and 2000, aimed at strengthening the political control of ethnic Fijians, caused a sharp upturn in emigration by Indo-Fijians including doctors, nurses and computer specialists, to Australia, Canada and New Zealand. Such emigration of about 80,000 persons has reduced Indo-Fijian share in the population from about 50 percent to 40 percent. Ethnic Fijians are longstanding participants in United Nations peacekeeping forces, contract workers in Afghanistan and Iraq, and professional rugby players in Australia, New Zealand and Europe.

Kiribati: Seafarers who have been certified as high quality by the International Maritime Organization are employed on vessels operating worldwide. They normally obtain renewable one-year contracts following graduation from the Kiribati Maritime Training Institute, which was established with United Kingdom assistance in the 1970s.

Samoa and Tonga: Large communities from these countries have existed in New Zealand for many years and generally maintain very close links with their home countries, even after two or three generations. There are also sizeable numbers in Australia and the United States, primarily employed in construction, and agriculture. Numbers living abroad exceed the local population in both countries. Well-established links ensure a continued flow of migrants, even as substantial numbers regularly return home, especially in retirement.

Papua New Guinea, Solomon Islands and Vanuatu: Emigration from these three countries has been very small since independence, notwithstanding relatively low growth and high unemployment rates over long periods. The reasons for this may include the very small number of skilled citizens, less pronounced links than Samoa and Tonga with New Zealand, the high percentage of the population living in rural areas where knowledge of jobs abroad is minimal, and the continued importance of the wontok system whereby a relatively high percentage of earnings would need to be widely shared with neighbors.

Marshall Islands and Micronesia: It is estimated that up to 20,000 Marshallese and 30,000 Micronesians could be resident in Guam, Hawaii and the mainland United States. These citizens do not require visas and there are no restrictions on working in the United States. Increases in emigration have been associated with stepdowns in Compact funds, which have limited public sector employment.

Palau: Palauan citizens also have unrestricted access to live and work in the United States and remittances are sizeable. However, these receipts are broadly offset by outward transfers by Chinese, Filipino and other Asian nationals, who work in the fast growing tourism sector.

Table 1. Pacific Island Countries: Indicators of Remittances, 1997-2005

(in millions of US dollars)

	1997	1998	1999	2000	2001	2002	2003	2004	2005
Fiji	41.4	32.3	25.3	43.9	82.5	97.2	122.6	171.6	183.9
Kiribati	6.7	6.7	8.5	6.1	5.7	6.0	11.3	11.9	11.2
Marshall Islands	0.5	0.6	0.6	0.6	0.6	0.4	0.3	0.3	0.4
Micronesia	4.0	4.2	4.4	4.6	4.7	4.8	4.9	5.0	6.0
Palau	-6.1	-5.7	3.3	-1.4	-7.2	-4.8	-4.2	-6.9	-8.0
Papua New Guinea	-32.1	12.6	-7.6	-9.8	-41.7	22.0	36.0	39.9	41.0
Samoa	39.4	37.3	42.6	43.2	50.6	57.7	74.1	97.7	106.2
Solomon Islands	5.0	0.3	0.4	0.6	3.1	1.0	1.1	2.2	2.7
Tonga	38.8	33.9	40.4	45.9	52.9	58.7	79.6	91.6	89.9
Vanuatu	-8.6	-14.6	-10.9	-9.3	4.2	-8.8	-9.9	-10.0	-7.6

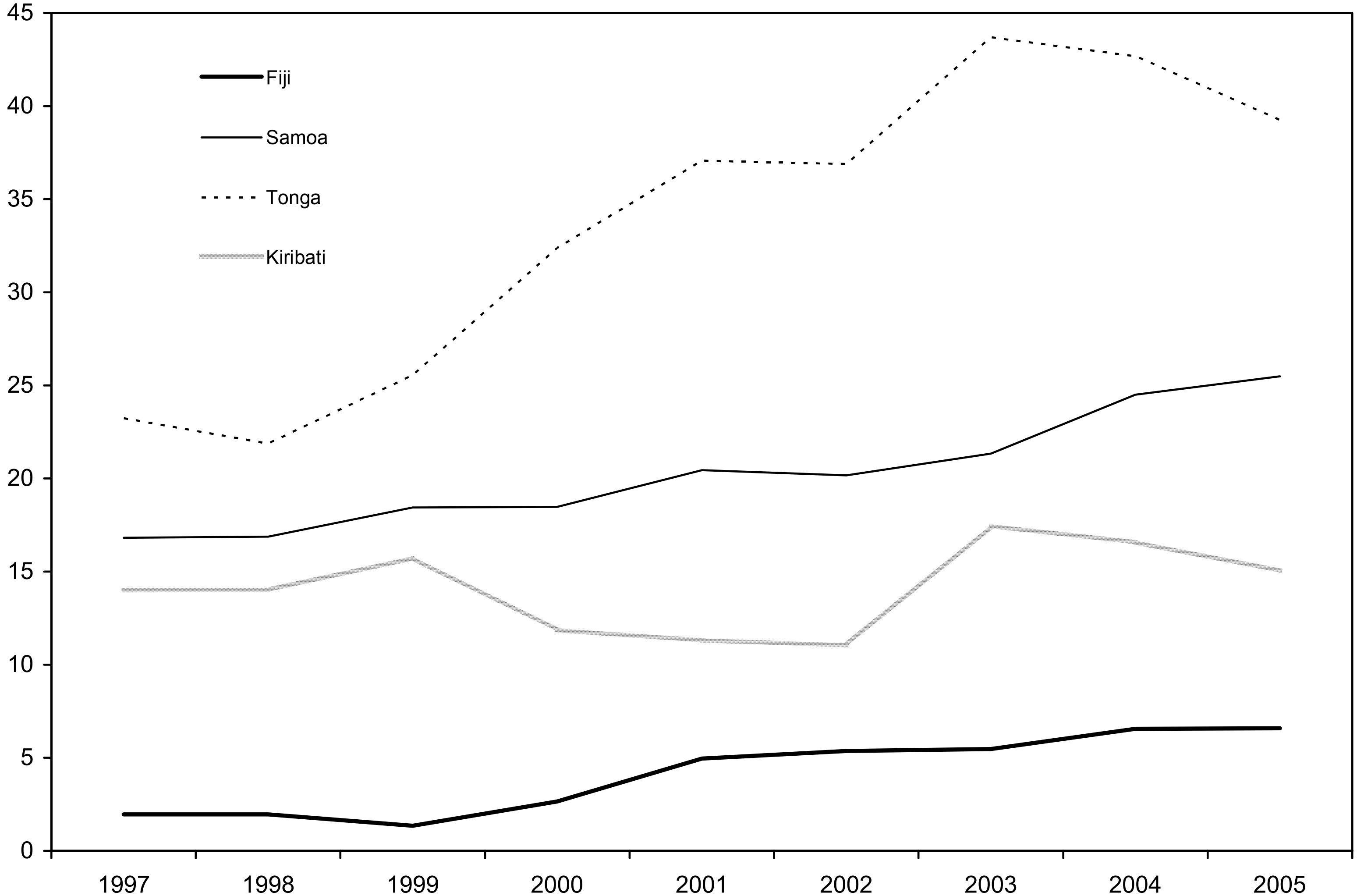
(in percent of GDP)

	1997	1998	1999	2000	2001	2002	2003	2004	2005
Fiji	2.0	2.0	1.4	2.7	5.0	5.4	5.5	6.6	6.6
Kiribati	14.0	14.0	15.7	11.8	11.3	11.0	17.4	16.6	15.0
Marshall Islands	0.5	0.5	0.6	0.6	0.6	0.3	0.3	0.3	0.3
Micronesia	2.0	2.1	2.3	2.1	2.2	2.2	2.1	2.2	2.5
Palau	-5.4	-4.8	2.9	-1.2	-5.8	-4.0	-3.4	-5.2	-5.5
Papua New Guinea	-0.7	0.3	-0.2	-0.3	-1.4	0.7	1.0	0.9	0.8
Samoa	16.8	16.9	18.5	18.5	20.4	20.2	21.3	24.5	25.5
Solomon Islands	1.3	0.1	0.1	0.2	1.1	0.4	0.5	0.8	0.9
Tonga	23.2	21.9	25.5	32.4	37.1	36.9	43.7	42.7	39.3
Vanuatu	-3.4	-5.7	-4.3	-3.8	1.8	-3.7	-3.6	-3.2	-2.3

Source: IMF, Balance of Payments Yearbook, *various bases* ; data provided by country authorities, and staff estimates.

1. Fiji - personal remittances; Kiribati - seamen's remittances; Marshall Islands, Micronesia, Solomon Islands - gross private transfers; Palau, Papua New Guinea, Samoa, Tonga, Vanuatu - net private transfers.

Selected Pacific Island Countries: Indicators of Remittances
(in percent of GDP)



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