



# Pacific Economic Update: Recovering in the Midst of Uncertainty

Special Focus: Harnessing the  
Benefits of Pacific Migration

August 2023



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## Preface and Acknowledgements

This publication is the second edition of an ongoing series on Pacific Economic Update (PEU). It consists of three parts. Part 1 provides a summary of global economic developments and a detailed account of the Pacific Islands' economic outlook and risks. Part 2 provides an overarching picture of the current status of labour migration in the Pacific. Part 3 presents an overall summary and recommendations. The PEU is intended for a broad audience, including regional forums, policy makers, business leaders, international donors and the community of analysts and professionals engaged in the economies of Pacific Island countries.

The PEU was led by David Gould (Lead Economist and Program Leader), Reshika Singh (Economist), Ruth Nikijuluw (Economist), and Thomas Walker (Lead Economist and Program Leader), under the guidance of Stephen N. Ndegwa (Country Director), Lalita Moorthy (Regional Director, EFI), Lars Christian Moller (Practice Manager, MTI), Yasser El-Gammal (Practice Manager, HEASP), Stefano Mocchi (Country Manager), Annette Leith (Resident Representative), and Degi Young (Resident Representative). The economic section was prepared by David Gould, Reshika Singh, and Ruth Nikijuluw, with contributions from Vishesh Agarwal, Lodewijk Smets, Mahama Samir Bandaogo, Mehwish Ashraf, Samuel Wills, Tuimasi Ulu, Sandra Kapota Murray, Debasish Das, Botir Baltabaev, and Shohei Nakamura. The special focus section was prepared by Thomas Walker and Dung Doan, with contributions from Matthew Dornan, Jesse Doyle, Kenia Parsons and Soonhwa Yi. Tom Perry, Hamish Wyatt, Vika Waradi, and Amelia Taylor provided support on communications and Greenhouse Studio provided document design. Nika Asasi provided overall project support. The team would like to express appreciation for feedback from Alief Aulia Rezza, Caglar Ozden, and Ergys Islamaj.

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To be included on an email distribution list for this Economic Update series and related publications, please contact Nika Asasi: [nasasi@worldbank.org](mailto:nasasi@worldbank.org). For questions and comments relating to this publication, please contact Reshika Singh: [rsingh39@worldbank.org](mailto:rsingh39@worldbank.org) or Ruth Nikijuluw: [rnikijuluw@worldbank.org](mailto:rnikijuluw@worldbank.org). For information about the World Bank and its activities in the Pacific, please visit: [www.worldbank.org/en/country/pacificislands](http://www.worldbank.org/en/country/pacificislands)

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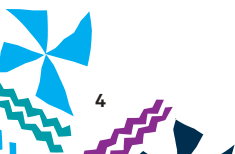
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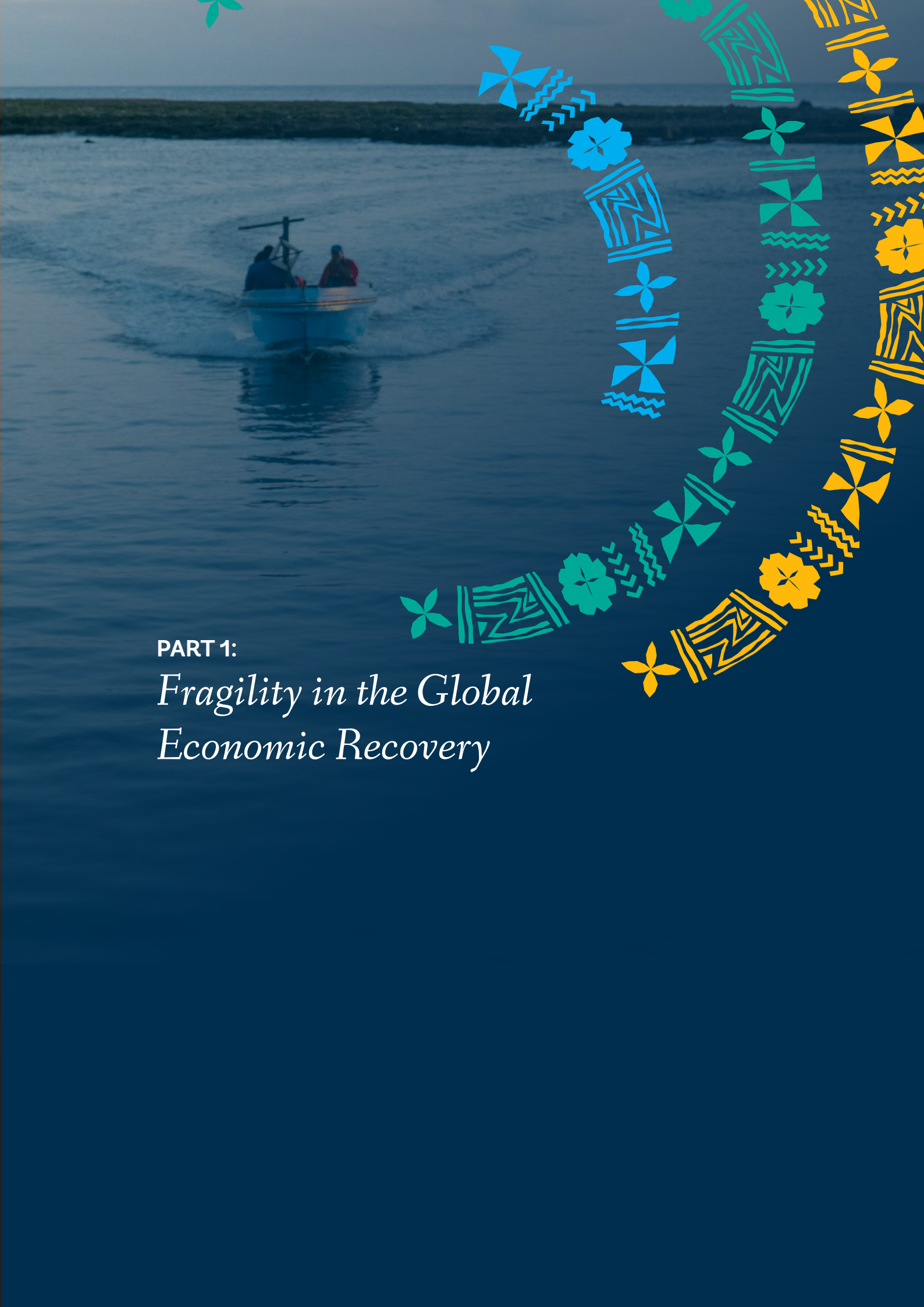
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## Abbreviations and Acronyms

<b>APTC</b>	Australia Pacific Training Coalition
<b>CFA<sub>s</sub></b>	Compacts of Free Association
<b>CHOGM</b>	Commonwealth Heads of Government Meeting
<b>EPS</b>	Employment Permit System
<b>FSM</b>	Federated States of Micronesia
<b>GDP</b>	Global Domestic Product
<b>HIES</b>	Household Income and Expenditure Surveys
<b>HT-HH</b>	Hunga Tonga–Hunga Ha’apai
<b>LSU</b>	Labour-Sending Units
<b>NPL<sub>s</sub></b>	Non-performing Loans
<b>OECD</b>	Organization for Economic Cooperation and Development
<b>PAC</b>	Pacific Access Category
<b>PACER</b>	Pacific Agreement on Closer Economic Relations
<b>PALM</b>	Pacific Australia Labour Mobility
<b>PLMS</b>	Pacific Labour Mobility Survey
<b>PLS</b>	Pacific Labour Scheme
<b>PPP</b>	Purchasing Power Parity
<b>PSWPS</b>	Pacific Seasonal Worker Pilot Scheme
<b>RBA</b>	Reserve Bank of Australia
<b>RBNZ</b>	Reserve Bank of New Zealand
<b>RMI</b>	Republic of Marshall Islands
<b>RPC</b>	Regional Processing Center
<b>RSE</b>	Recognized Seasonal Employer
<b>SQ</b>	Samoan Quota
<b>SWP</b>	Seasonal Worker Programme
<b>TIMS</b>	Tax Invoice Monitoring System
<b>UN</b>	United Nations
<b>US</b>	United States
<b>USD</b>	United States Dollar





**PART 1:**

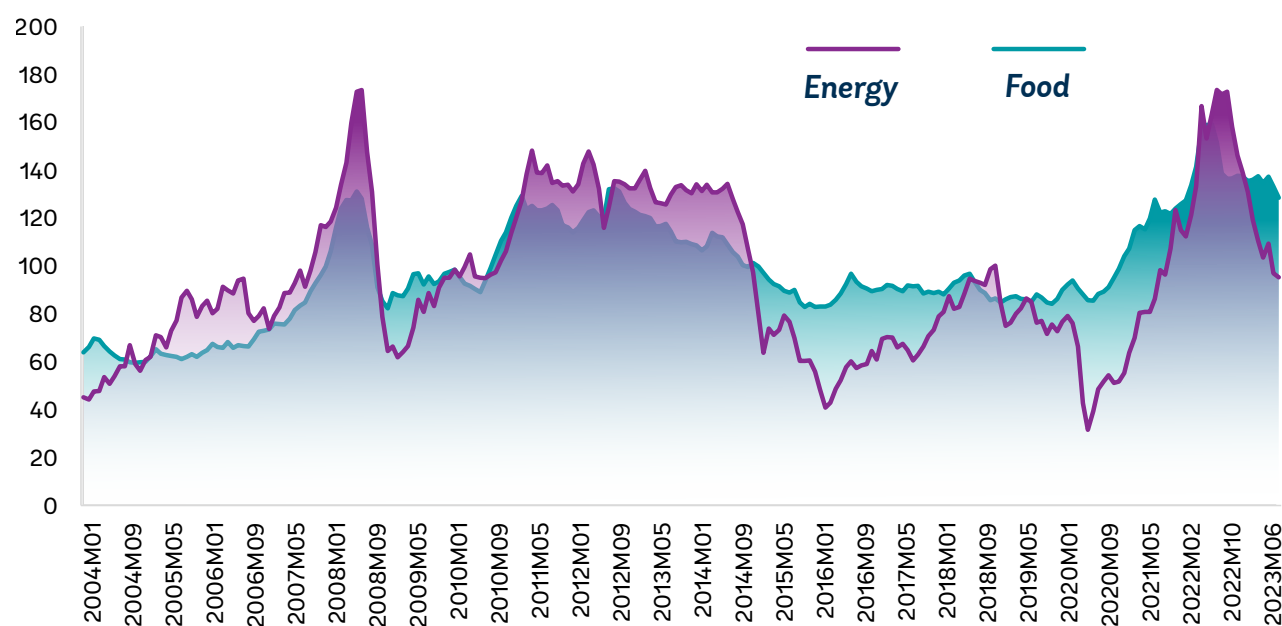
*Fragility in the Global  
Economic Recovery*

## 1.1 Global economic environment

The global economic recovery remains fragile, creating choppy seas for the recovering Pacific. While global conditions have gradually improved since the pandemic and spillovers from Russia's invasion of Ukraine, progress on reducing inflation in major economies has proven more challenging than expected. Given that all Pacific countries are net importers, this has resulted in persistently high imported inflation. The speed of monetary policy tightening by major central banks has slowed, but easing is unlikely in the near term. Aggregate demand in major trading partners of the Pacific (particularly Australia and New Zealand) remains lackluster. This could limit demand for travel and tourism services and other income sources such as remittance and commodity exports.

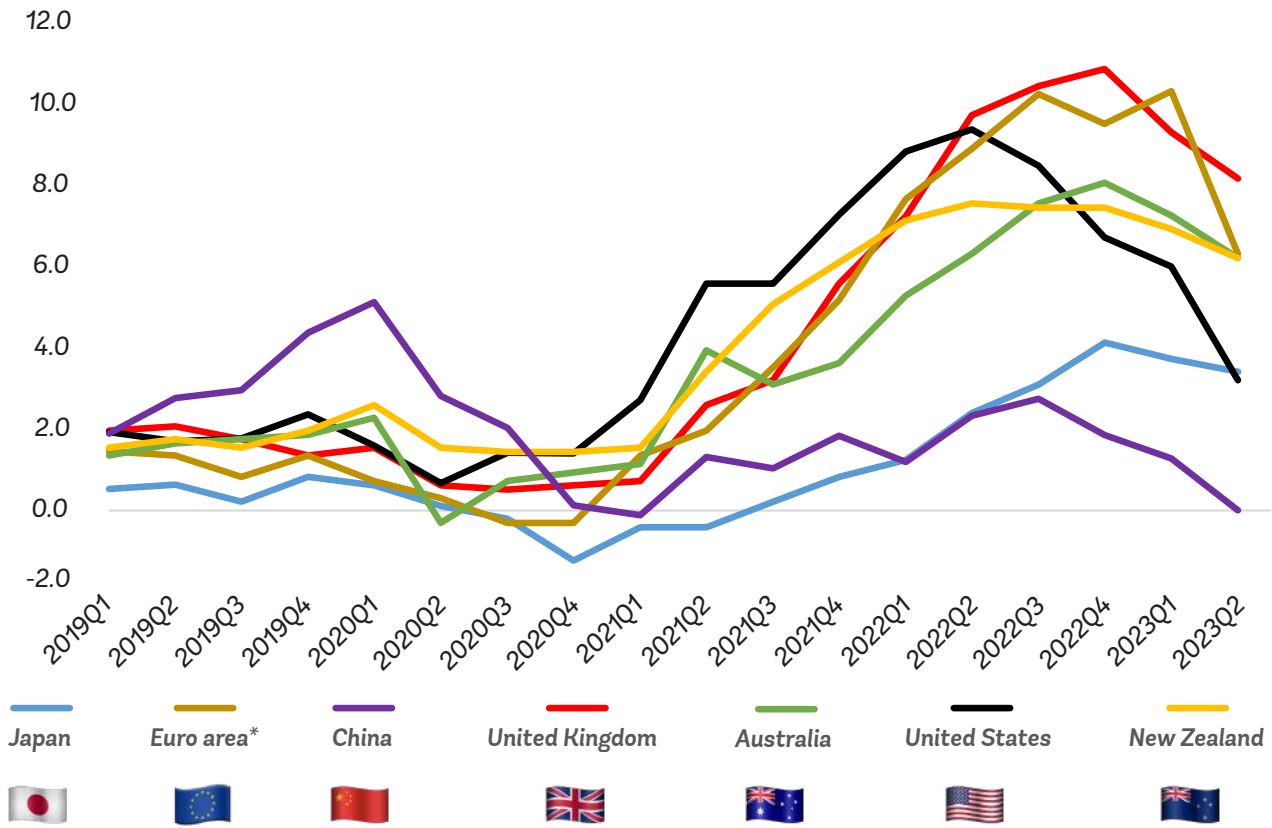
- 1. Inflation in major economies has slowed, reflecting a downward trend in global food and energy prices and an ongoing tight monetary policy.** The easing of supply chain disruptions together with reductions in energy and food prices from their peaks following Russia's invasion of Ukraine has contributed to lower inflation (Figure 1). Combined with monetary policy tightening, inflation in most major economies has begun to moderate, although it remains elevated compared to pre-pandemic levels in most cases, except for China (Figure 2).

Figure 1. Global Food and Energy Prices (2010=100)



Source: World Bank "Pink Sheet" (May 2023).

**Figure 2. Consumer Prices in Select Economies (annual percent change)**



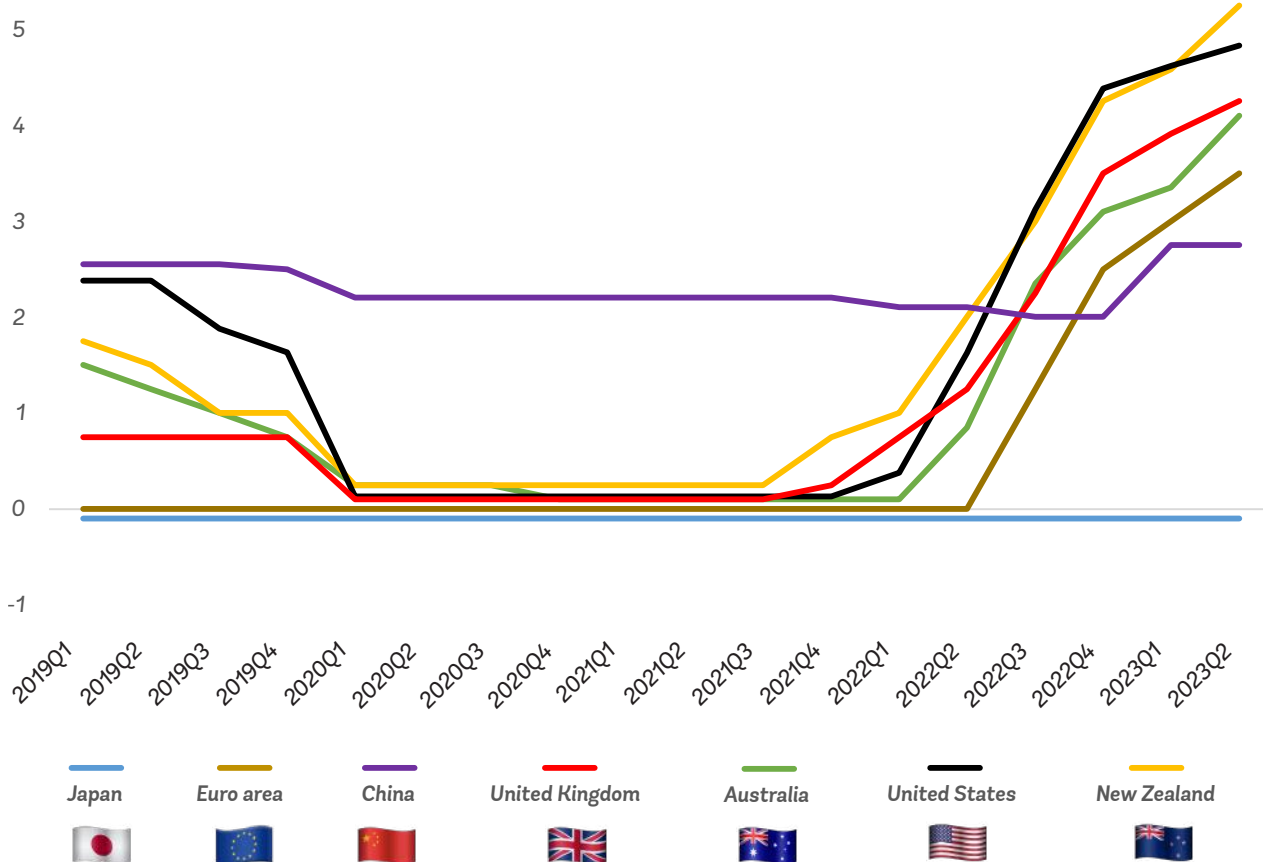
Source: IMF; ECB, BoE, ABS, StatsNZ.

\*Data reported is for May 2023 (June data not available)

**2. Despite the recent inflation moderation, interest rates remain high globally and may create spillover effects to more vulnerable developing economies, including the Pacific.** Except China, all major country central banks increased policy rates in Q2 2023, albeit at a more modest pace than last year (Figure 3). In July 2023, Reserve Bank of Australia (RBA) and Reserve Bank of New Zealand (RBNZ) paused interest rate hikes. However, both central banks have signaled that the policy rates will remain at a restrictive level for the foreseeable future as inflation remains high. The RBNZ has maintained its tight monetary policy stance with the highest cash rate in more than 14 years. The continued monetary policy tightening will help bring down inflation in New Zealand to their annual target range, but not until the second half of 2024. The RBA's cash rate is at the highest level in the past 11 years after 12-time increases in just over a year. Combined with cost-of-living pressures, the sharp jump in interest rates has led to a massive increase in mortgage payments and a substantial slowing of household spending.<sup>1</sup> Slower consumption affects the country's growth prospects and demand for tourism—with potential knock-on effects for tourism-dependent Pacific countries. On average, tourist arrivals from Australia and New Zealand account for over 70 percent of total tourist arrivals in Fiji, Samoa, and Vanuatu. The rapid tightening of monetary policy globally also triggered significant financial risks due to losses on long-term, fixed-income assets and increased borrowing costs. Pressure on financial markets and a dip in equity valuations could lower trust fund returns in countries such as Federated States of Micronesia (FSM), Kiribati, Palau, Republic of Marshall Islands (RMI), and Tuvalu.

<sup>1</sup>In Australia, the majority of mortgages have variable interest rates.

**Figure 3. Central Bank Policy Interest Rates (percentage points)**

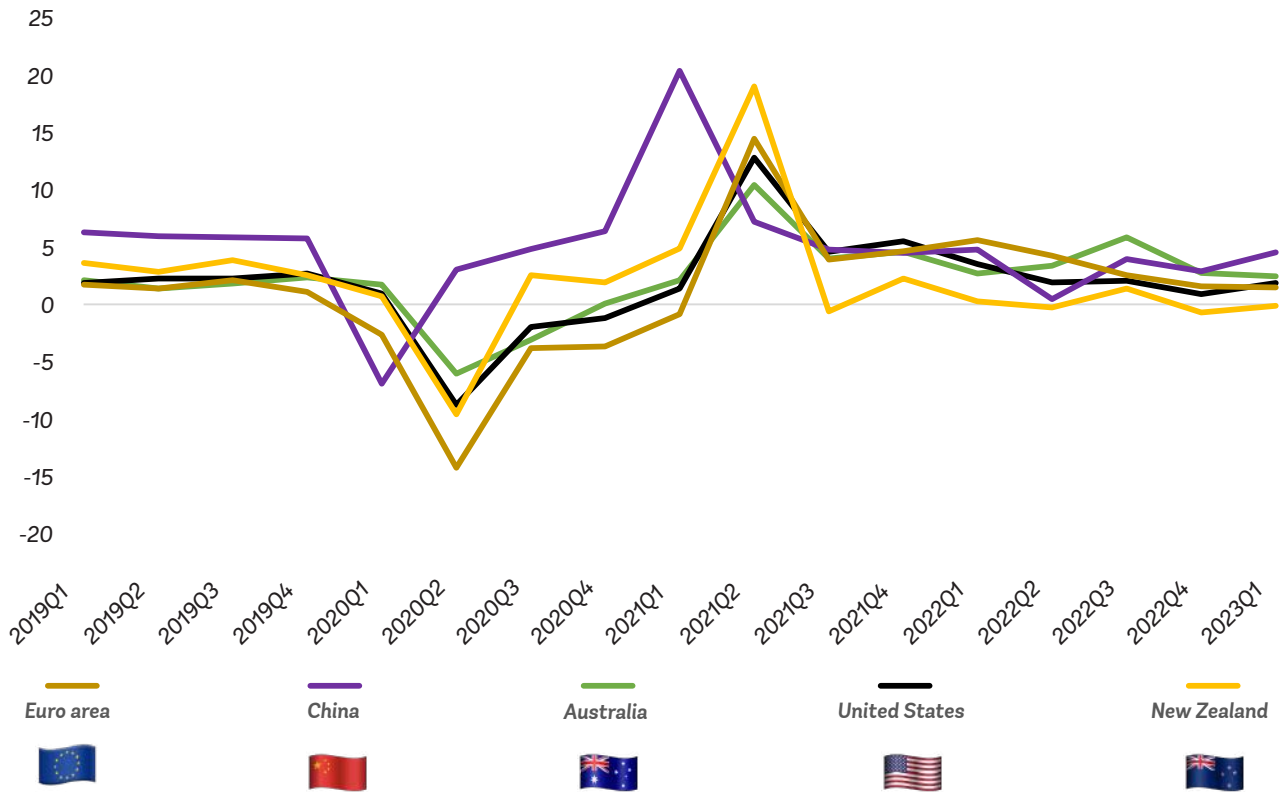


Source: IMF International Financial Statistics; ECB; RBA; Fed; RBNZ; BoJ; BoE.

**3. While the global economic recovery is expected to continue in 2023 and 2024, growth forecasts have been reduced in key Pacific trading partner nations, clouding the pace of the region’s ongoing recovery.** Inflation pressures and tight monetary policy weighed substantially on economic activity and policy tightening is expected to continue until inflation is solidly on a downward path. Australia recorded a decline in growth as inflation and high interest rates squeezed household consumption and reduced investment (Figure 4). Meanwhile, New Zealand recorded its second consecutive quarter of negative economic growth in Q1 2023, driven by slower business activity and the adverse weather events caused by cyclones that disrupted the services sector. Sluggish economic activity in Australia and New Zealand will likely dampen demand in some Pacific sectors, including travel, agriculture, and construction. It could also create negative spillovers on remittance inflows—a lifeline for several Pacific countries during the pandemic (see section two of this *Pacific Economic Update*, titled ‘Harnessing the Benefits of Migration in the Pacific’).

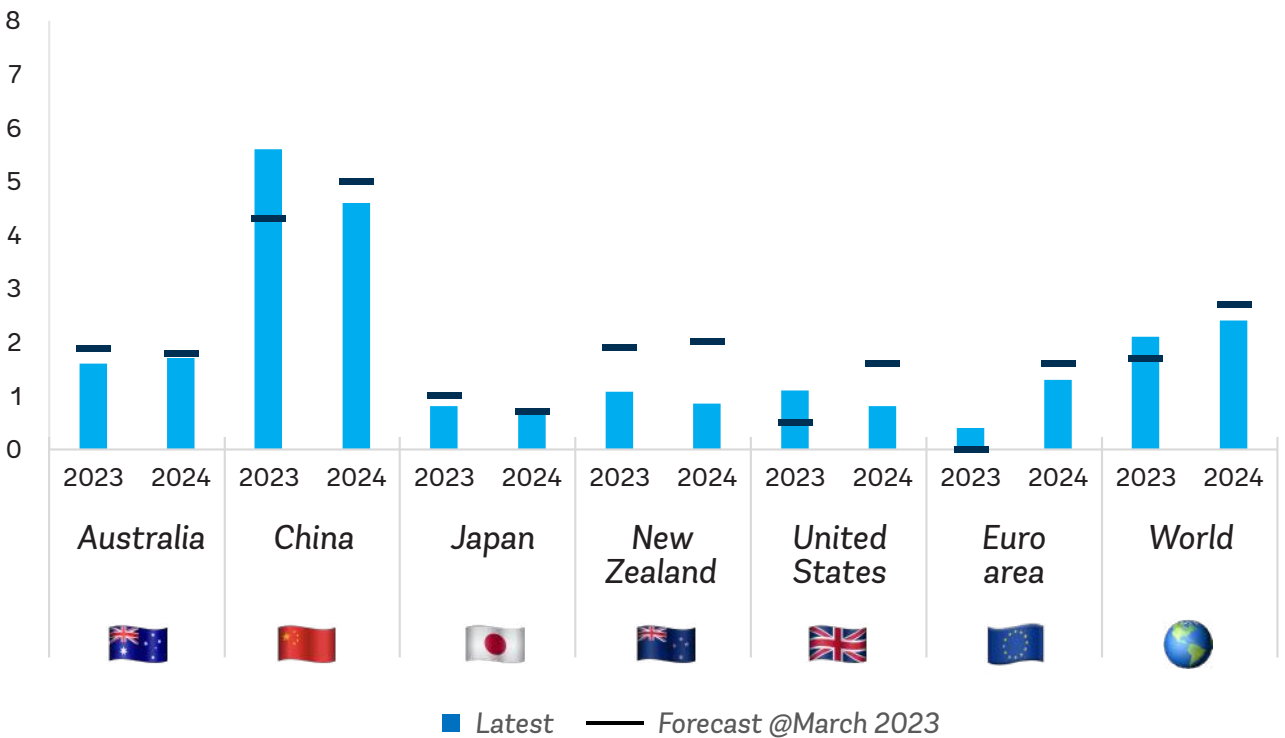


**Figure 4. Real Gross Domestic Product (annual percent change)**



Source: Source: IMF IFS; ECB.

**Figure 5. Global Growth Forecast (annual percent change)**



Source: World Bank Global Economic Prospects; IMF WEO.



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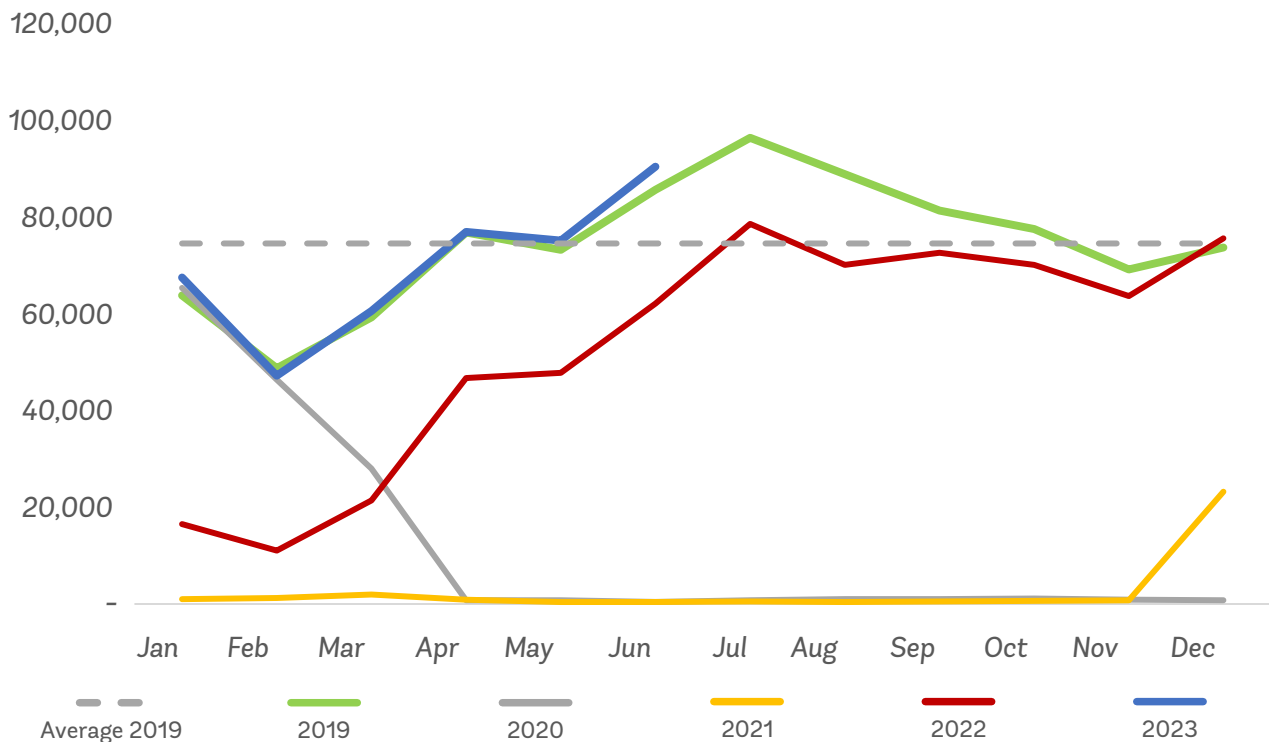
## 1.2 The Pacific Economy: Outlook

Despite uncertainties in the global economic recovery, Pacific economies are expected to see ongoing expansion in 2023 and 2024. Fiji led the Pacific's post-COVID-19 recovery with open borders and a strong rebound in 2022 and is now on track to reach its pre-pandemic output level in 2023. Ongoing recovery expectations in the Pacific are broadly in line with March 2023 World Bank projections except for Vanuatu and Palau, where growth has been revised down given weaker than expected outcomes in construction and tourism. In 2023, Pacific growth is expected to reach 3.9 percent and then moderate to 3.3 percent in 2024 as the initial post-COVID-19 rebound dissipates and the region moves towards its long-term trend growth of 2.6 percent. Nonetheless, uncertainty remains high and depends on whether a soft landing can be achieved among key trading partners as they battle ongoing inflation. Inflation remained stubborn across the Pacific at an average of over 6.7 percent in 2022, a substantial increase from the 1.5 percent average during 2019-2021. This has increased the risk of vulnerable populations falling into poverty (Box 1). In line with global trends, Pacific inflation is expected to decline to an average of 6.0 percent in 2023 and gradually subside thereafter.

### 1.2.1 Growth

**4. Ongoing recovery is projected in tourism-based economies for 2023, reflecting strong demand post-border reopening, albeit at a varying pace across the region.** Tourism will determine the recovery path for Fiji, Palau, Samoa, and Vanuatu. These tourism-based economies are expecting a robust growth of 6.2 percent in 2023. In Fiji, tourism arrivals in June 2023 surpassed the June 2019 arrivals (Figure 6). As a result, Fiji is expected to continue leading the Pacific's recovery with strong growth (Figure 7). In Samoa, ongoing growth in the tourism sector and remittances are expected to provide spillovers to the rest of the economy, complemented by the resumption of capital investments and construction following border reopening. In Vanuatu, the impact of twin cyclones on tourism and agriculture negatively affected the economy. Reconstruction will stimulate economic activity but growth is expected to remain modest in 2023 and accelerate over the medium-term. In Palau, growth has been revised significantly downward for 2023 amid a weaker than projected tourism recovery resulting from a lack of direct flights from source countries, such as Japan and Korea. Overall, tourism arrival is expected to reach pre-COVID-19 levels for most of the Pacific in 2023. Nonetheless, risks are substantial due to the uncertain economic outlook for Australian and New Zealand and are particularly high for Fiji, Samoa, and Vanuatu.

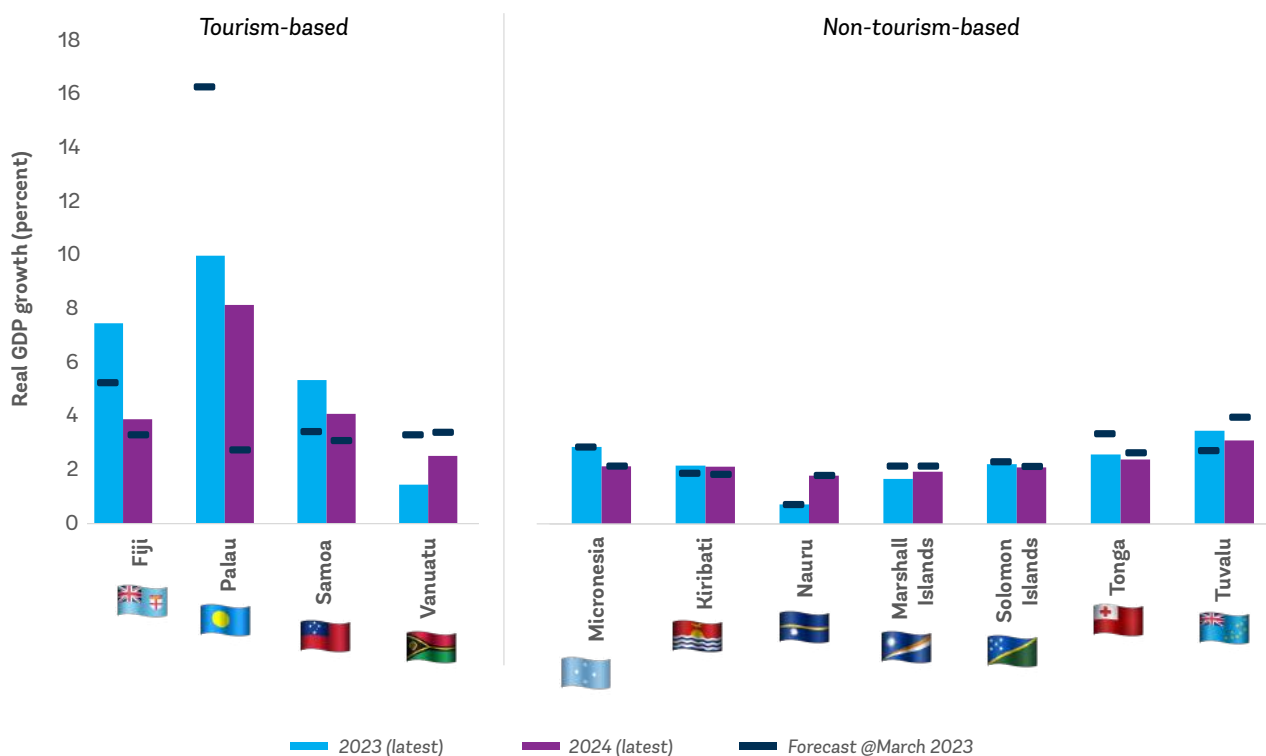
**Figure 6. Fiji: Monthly Visitor Arrivals (number of persons)**



Source: Country authorities and World Bank staff estimates

**5. Apart from the widespread benefits from border reopenings, country-specific factors will come into play to support the Pacific’s recovery.** Non-tourism dependent economies are expected, on average, to grow 2.5 percent in 2023. For Tonga, reconstruction from the Hunga Tonga–Hunga Ha’apai (HT-HH) disaster and rebound in agriculture and commerce are expected to be the key drivers for recovery. The Solomon Islands recovery is expected to be supported by the 2023 Pacific Games and several large infrastructure projects in the energy and transport sectors. In the medium-term, the services sector is expected to support growth in the Solomon Islands, followed by the construction sector and increased mining activity. These sources of growth are critical for recovery as the projected decline in logging activity suppresses primary sector growth. Nauru’s economy largely relies on the Regional Processing Center (RPC), which is supported by Australia. Revenues from the RPC and its related activities are estimated at just over 20 percent of Gross Domestic Product (GDP) in 2022, but are expected to gradually decline over the medium-term, weighing on economic growth. In FSM and RMI, the spillovers from border reopening to other sectors, such as resumption of public investment projects and construction, would be key drivers of recovery.

**Figure 7. Pacific Real GDP Growth Projections<sup>1/</sup>**

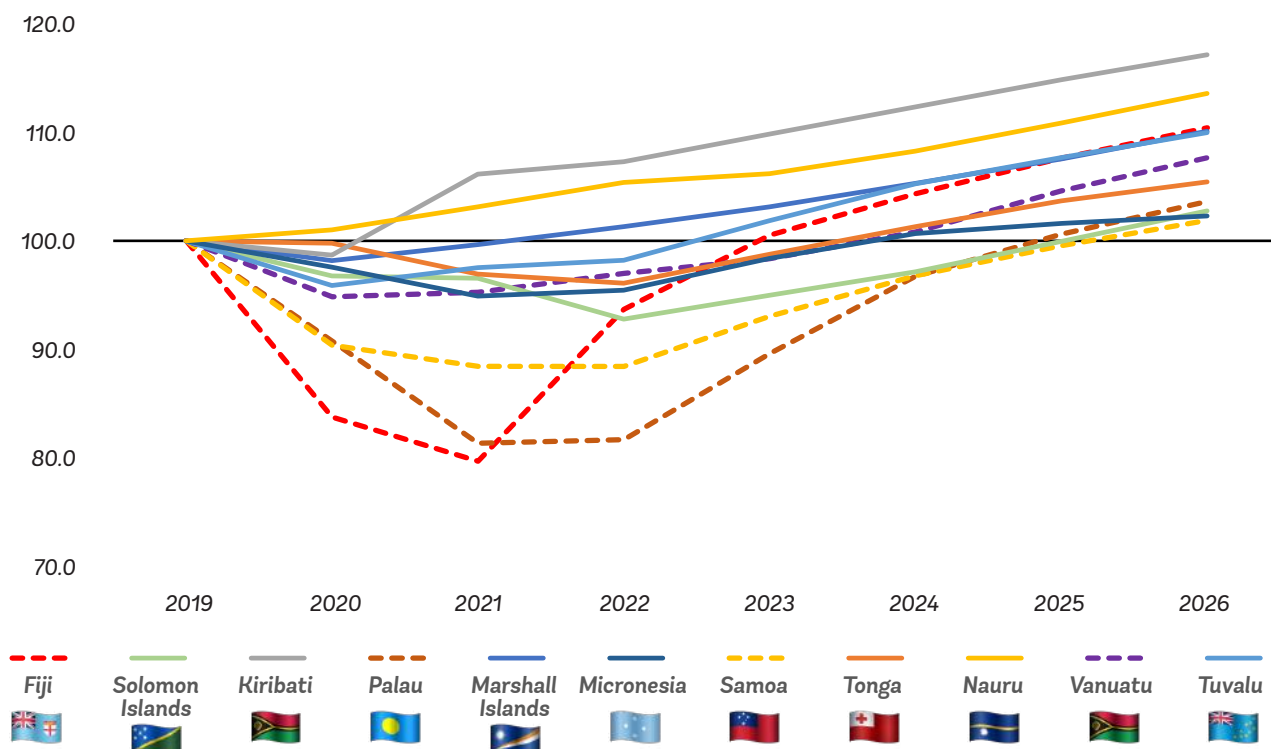


Source: World Bank staff estimates.

1/ All data is presented on a calendar year basis for consistency and comparability purposes. For countries with fiscal year different to the calendar year period, data in a calendar year basis are computed using cubic splining method based on fiscal year's estimates.

**6. In terms of output levels, most Pacific countries are projected to reach their pre-pandemic GDP by 2024, except for Palau, Samoa, and Solomon Islands.** For tourism-based economies, the earlier the border reopening and connectivity to regional source markets, the faster the recovery. Country-specific factors also determine the recovery path. Fiji will reach pre-COVID-19 output levels by 2023, with Vanuatu reaching the milestone a year later due to the impact of the twin cyclones. In Samoa, pre-pandemic GDP levels may not return until 2025 due to the spillovers from the 2019 measles outbreak, prolonged border closure and a relatively weaker tourism base prior to the pandemic. Solomon Islands is not expected to reach its pre-pandemic GDP level until 2025 due to a low base after a series of adverse shocks, including civil unrest in November 2021 and declines in logging and agriculture productivity. In contrast, some countries where fishing license revenue is a dominant contributor to income, such as Kiribati and RMI, surpassed pre-pandemic levels in 2021 because the fishing sector was less impacted by border closures. Nauru was the only Pacific country that avoided a contraction amid stable activity related to the RPC. For the rest of the region, a return to pre-COVID-19 GDP levels is expected by 2024.

**Figure 8. Pacific Real GDP Forecasts Relative to 2019 level (2019=100)**



Source: Country authorities; and World Bank staff estimates

**Table 1. Pacific Real GDP Growth Projections<sup>1/</sup>**

	2022 (Est.)	2023 (Est.)	2024	2025	2026
Federated States of Micronesia	0.6	3.2	2.4	1.0	0.7
Fiji	18.6	7.7	4.0	3.3	2.7
Kiribati	1.2	2.5	2.4	2.3	2.1
Nauru	2.3	0.8	2.0	2.5	2.5
Palau	0.4	10.3	8.4	4.2	3.2
Republic of Marshall Islands	1.7	1.9	2.2	2.2	2.5
Samoa	0.0	5.5	4.2	3.0	2.5
Solomon Islands	-4.1	2.5	2.4	3.0	2.9
Tonga	-0.9	2.9	2.7	2.5	1.8
Tuvalu	0.7	3.9	3.5	2.4	2.2
Vanuatu	1.9	1.5	2.6	3.9	3.1
Tourism-based economy average	5.2	6.2	4.8	3.6	2.9
Non-tourism-based economy average	0.2	2.5	2.5	2.3	2.1
Overall Pacific average	2.0	3.9	3.3	2.7	2.4

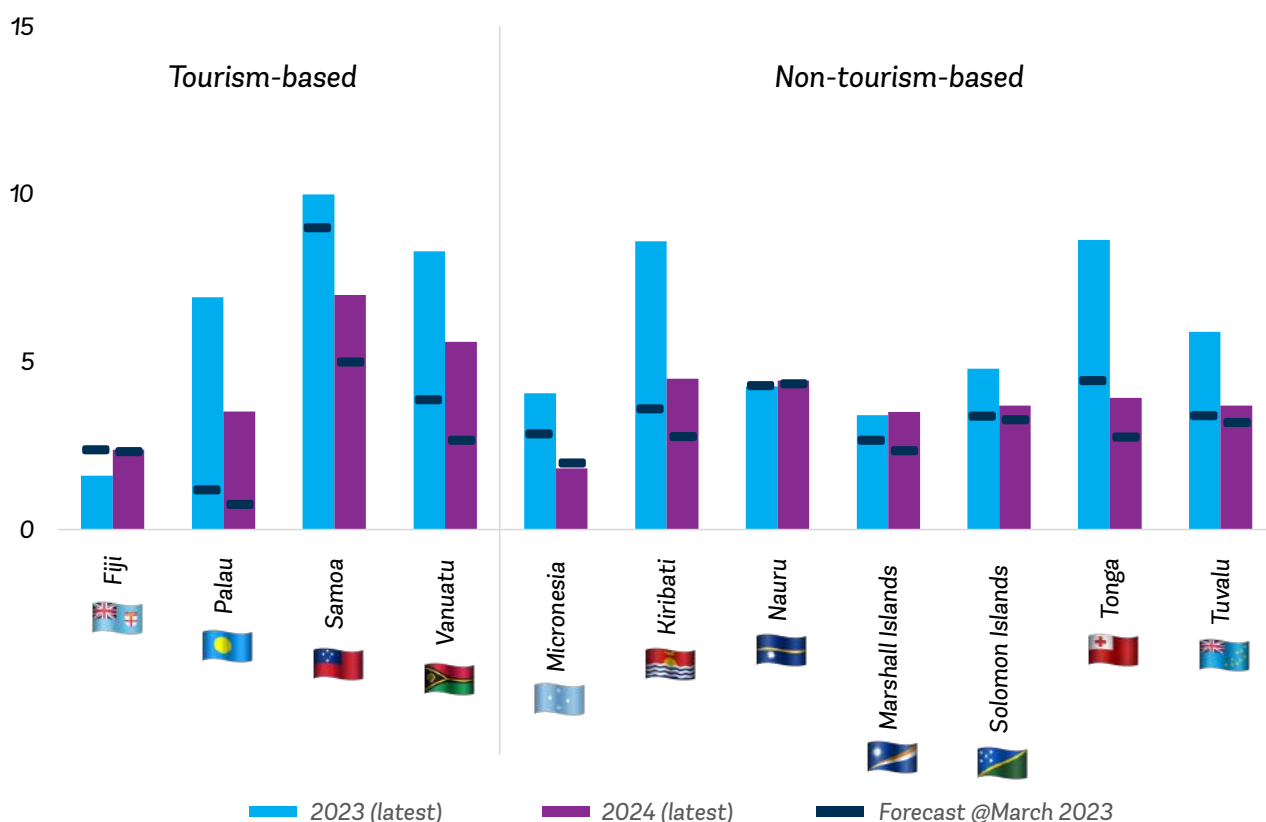
Source: Country authorities; and World Bank staff estimates

<sup>1/</sup> All data is presented on a calendar year basis for consistency and comparability purposes. For countries with fiscal year different to the calendar year period, data in a calendar year basis are computed using cubic splining method based on fiscal year's estimates.

## 1.2.2 Inflation

7. **Inflation is expected to remain elevated in 2023, threatening the livelihoods of poor and vulnerable people.** Inflation has been revised upwards since March 2023 projections to 6.0 percent in 2023. Supply chain disruptions and spillovers from Russia’s invasion of Ukraine continued to exert pressure on food and fuel prices. While the rate of price increases has slowed in recent months in some countries, inflation remains elevated. Prices have continued to rise in Samoa with annual average inflation of 12 percent in June 2023 as strong domestic demand has been exerting pressure on domestic prices amid elevated imported inflation. As a result, inflation is expected to remain sticky in Samoa and continue to be the highest in the region. For the Pacific overall, and particularly tourism-based economies that rely more on imported goods for visitors, inflation is expected to remain high in the near-term and subside only gradually over the medium-term (Table 2). Although global headline inflation has slowed, core inflation in many countries remains elevated, and inflation stayed above target in almost all inflation-targeting economies (World Bank Global Economic Prospects, June 2023). Inflation forecasts in most Pacific countries have been revised upwards compared to the March 2023 *Pacific Economic Update* (Figure 9). However, uncertainty remains given the fragile external conditions. Rising and prolonged inflation can potentially push more people into poverty in the region—eroding any progress made prior to the pandemic. Simulations show that without adequate mitigation measures, high inflation could substantially raise poverty levels in the Pacific by reducing the purchasing power of lower-income households (Box 1).

**Figure 9. Inflation Projections in the Pacific (annual average)<sup>1/</sup>**



Source: World Bank staff estimates

1/ All data is presented on a calendar year basis for consistency and comparability purposes. For countries with fiscal year different to the calendar year period, data in a calendar year basis are computed using cubic splining method based on fiscal year’s estimates.

**Table 2. Pacific Consumer Price Inflation Projections (annual average)<sup>1/</sup>**

	2019	2020	2021	2022	2023	2024
Federated States of Micronesia	1.7	0.9	2.6	5.4	4.1	1.8
Fiji	-0.8	-2.5	2.6	3.3	1.6	2.4
Kiribati	-1.6	2.4	1.6	5.3	8.6	4.5
Nauru	1.7	1.0	2.2	2.9	4.3	4.4
Palau	0.9	0.2	2.1	9.6	6.9	3.5
Republic of Marshall Islands	-0.5	-1.0	2.3	5.3	3.4	3.5
Samoa	1.0	-1.6	3.1	11.0	10.0	7.0
Solomon Islands	1.9	2.9	0.0	5.5	4.8	3.7
Tonga	1.3	0.1	2.9	9.7	8.6	3.9
Tuvalu	3.5	1.9	6.2	11.5	5.9	3.7
Vanuatu	2.6	5.0	2.4	4.6	8.3	5.6
Tourism-based economy average	0.9	0.3	2.6	7.1	6.7	4.6
Non-tourism-based economy average	1.2	1.2	2.5	6.5	5.7	3.7
Overall Pacific average	1.1	0.9	2.5	6.7	6.0	4.0

Source: Country authorities; IMF and World Bank staff estimates.

<sup>1/</sup> All data is presented on a calendar year basis for consistency and comparability purposes. For countries with fiscal year different to the calendar year period, data in a calendar year basis are computed using cubic splining method based on fiscal year's estimates.

### Box 1. Welfare Impacts of Inflation in Tonga and Kiribati

High inflation could substantially raise poverty levels in the Pacific by reducing the purchasing power of lower-income households. According to simulations, Tonga's poverty rate—measured based on the upper-middle-income poverty line (\$6.85 per day in 2017 PPP terms)—would increase by 3.2 points in the case of 5 percent inflation, holding everything else equal (Table 3). This assumes constant income and consumption. Higher inflation rates—10 percent and 15 percent—could raise poverty rates by 6.8 and 11.1 percentage points, respectively. In other words, the number of poor people would increase by around 3,100 with 5 percent inflation, 6,600 with 10 percent inflation, and 10,800 with 15 percent inflation. In Kiribati, where the lower-middle-income poverty line (\$3.65) is applied, depending on inflation rate, poverty rates will increase from as low as 2.3 points to 6.8 points. Higher inflation would push between 2,800 to 8,100 more people into poverty. These poverty impacts could be significantly mitigated by changes in consumption patterns or by higher income for rural households in response to higher food prices. Among others, targeted social protection measures by governments focusing on poor and vulnerable people could help in this regard.

Table 3. Poverty Impacts of Inflation in Tonga and Kiribati

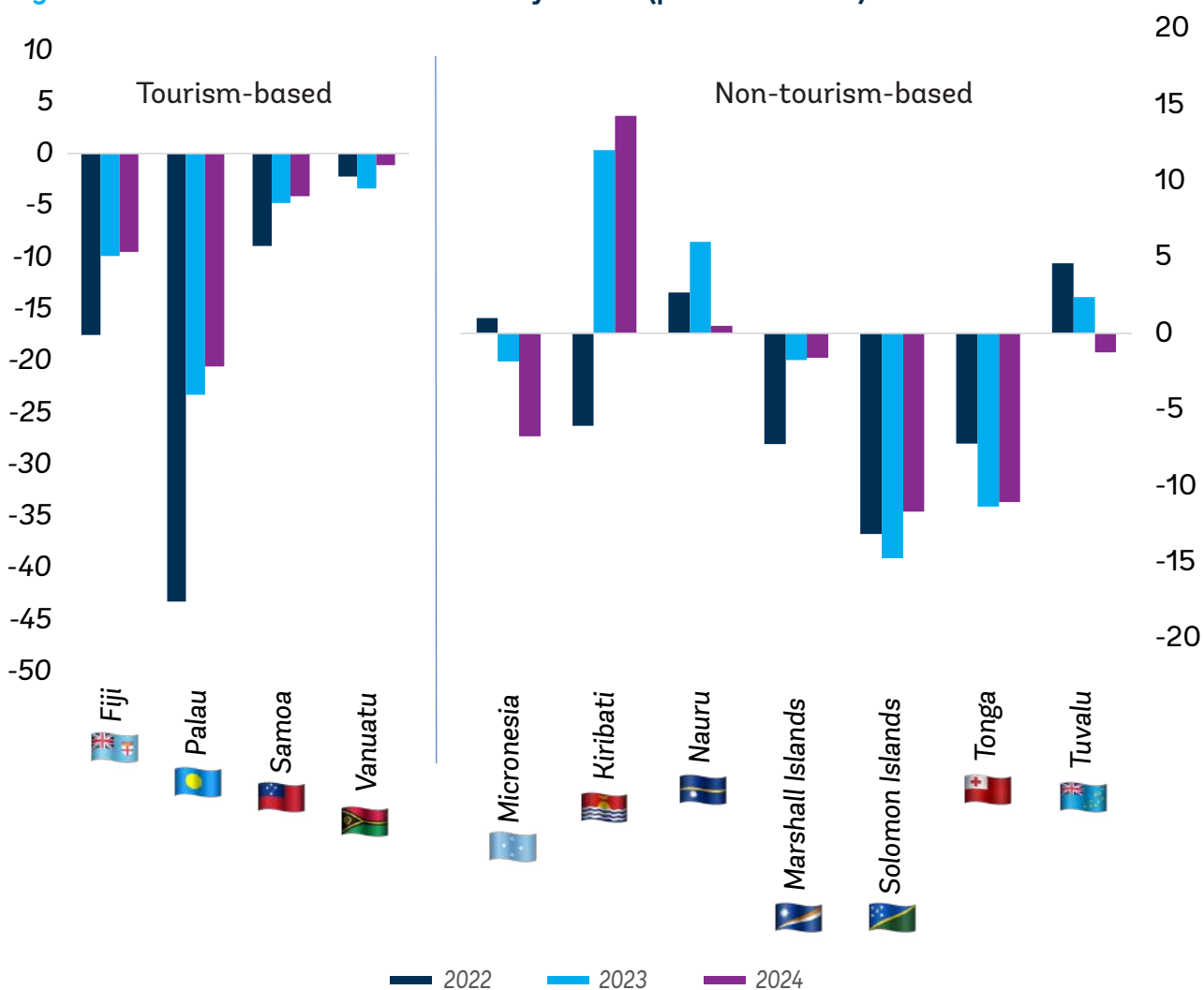
Simulated poverty rate (%)							
Scenario	Inflation	Tonga (2015)			Kiribati (2019/20)		
		\$2.15PL	\$3.65PL	\$6.85PL	\$2.15PL	\$3.65PL	\$6.85PL
1	+5%	2.1	15.1	51.1	2.4	21.8	71.1
2	+10%	2.6	16.6	54.7	2.5	23.7	73.3
3	+15%	3.0	18.7	59.0	3.1	26.3	75.8
Baseline poverty rate		1.8	13.9	47.9	1.7	19.5	68.9

Note: The poverty impacts were estimated by applying inflation to household consumption expenditures (except for own consumption and gifts) in a distributional neutral way based on household income and expenditure surveys (HIES). The model does not capture general equilibrium or substitution and behavioral effects. Additional analysis is needed to investigate potential factors that could help cushion the impact of rising prices on the most vulnerable people.

### 1.2.3 External Sector

8. The external sector is expected to gradually improve over the medium-term, in line with economic recovery and improvements in exports, helping maintain foreign reserve adequacy. While all Pacific countries are net importers, the external balance of tourism-dependent economies took the biggest hit. The current account deficits of Fiji, Palau, and Samoa are projected to narrow as the recovery in tourism is expected to offset rising imports (Figure 10). Like Tonga, Vanuatu is projected to maintain a current account deficit as import demands are expected to increase, reflecting significant reconstruction needs from recent disasters. In commodity-based economies, such as Kiribati and RMI, the trade balance is projected to improve markedly following the expected growth of commodity exports. In Tuvalu, the current account is expected to widen over the medium-term due to the moderating revenue streams such as development grants and fishing license fees. In Solomon Islands, current account deficit is projected to persist, driven by negative trade balance: despite a modest growth in logging, fish and agricultural exports, faster import growth associated with the 2023 Pacific Games is expected to deteriorate the trade balance.

Figure 10. Current Account Balance Projections (percent of GDP)<sup>1/</sup>

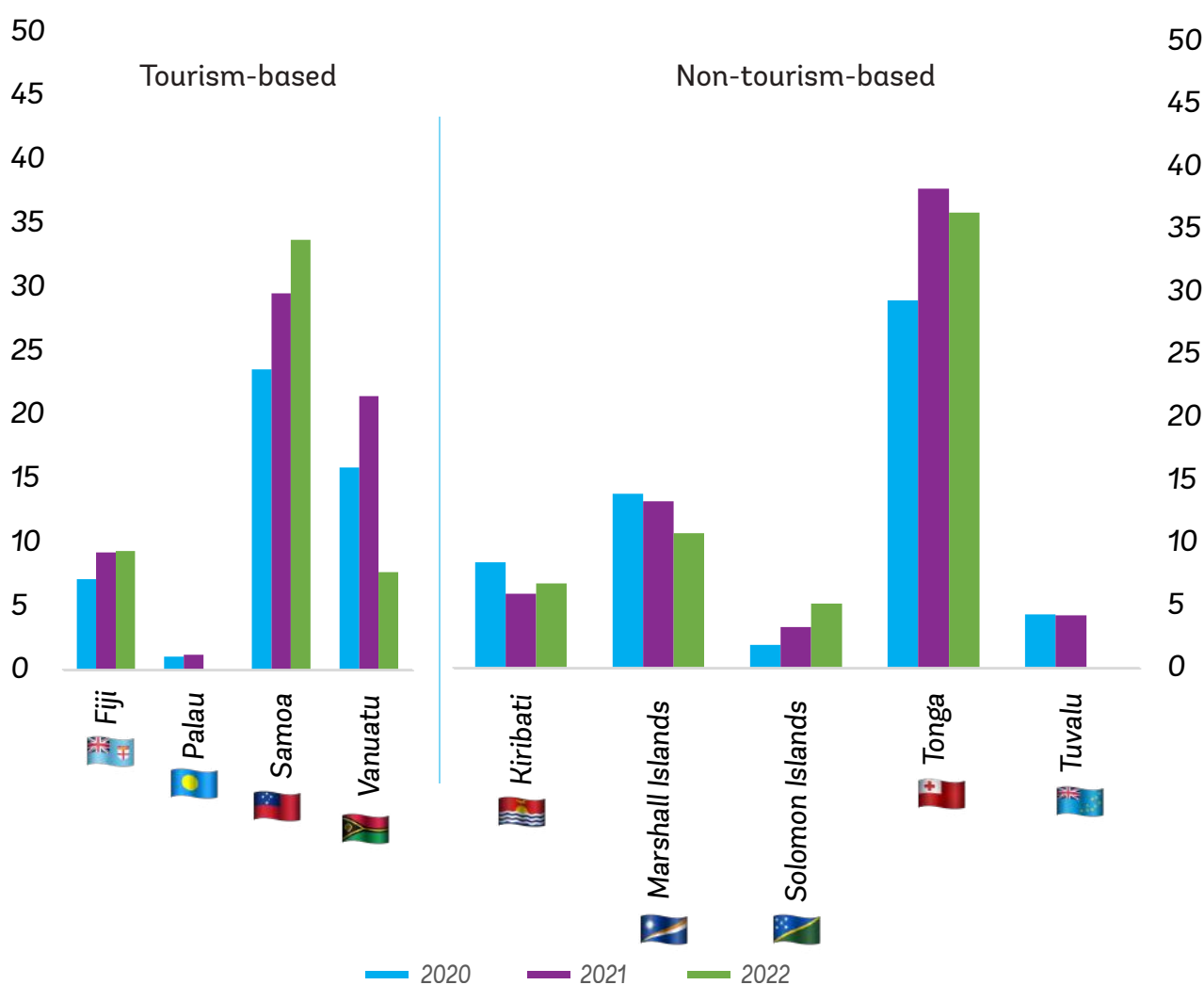


Source: World Bank staff estimates.

<sup>1/</sup> All data is presented on a calendar year basis for consistency and comparability purposes. For countries with fiscal year different to the calendar year period, data in a calendar year basis are computed using cubic splining method based on fiscal year's estimates.

**9. Robust remittance inflows have kept consumption buoyant during the pandemic, providing some impetus to growth and helping to reduce the magnitude of the contraction in Fiji, Samoa, and Tonga.** Remittances played a key role in supporting poor and vulnerable households to meet essential consumption needs (Figure 11). Tonga and Samoa recorded an average increase in remittance inflows of around 6 percent of GDP in FY20-FY22 compared to FY19. In Fiji, inflows doubled to 10 percent of GDP on average during 2020-22 compared to 2019. Going forward, remittances are expected to remain buoyant, supporting the improvement in current account balance and overall economic activity.

**Figure 11. Remittances Received in the Pacific (percent of GDP)<sup>1/</sup>**



Source: World Bank

<sup>1/</sup> Data for Micronesia and Nauru and 2022 data for Palau and Tuvalu are not available.



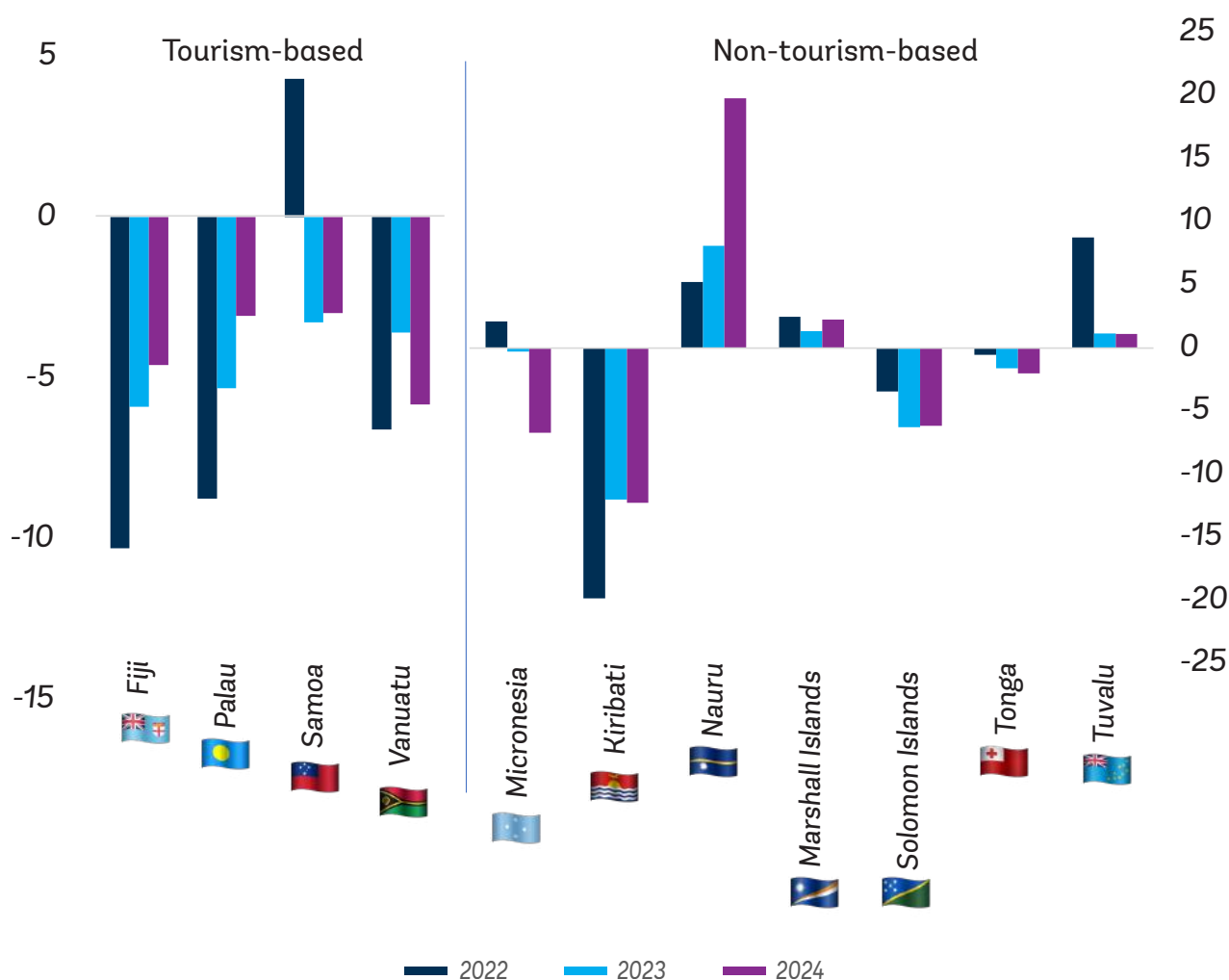
## 1.2.4 Fiscal

- 10. As the Pacific moves towards gradual unwinding of COVID-19 stimulus measures, the fiscal situation is expected to improve, helping bring down public debt.** The fiscal balance deteriorated in most Pacific countries as revenues shrunk and large fiscal stimulus packages were implemented in response to the COVID-19 pandemic and natural disasters. This was most notable in tourism dependent Fiji, Palau, and Vanuatu. A gradual improvement in fiscal balance is expected in most of the Pacific from 2023 to 2024 (Figure 12). Increased revenues underpin a decline in Fiji's fiscal deficit over 2023-24 and is expected to help reduce high debt levels. Fiscal balances in Samoa and FSM are expected to flip from surplus to deficit in 2023 as revenues and grants are projected to fall to normal levels. Greater capital expenditure and ongoing implementation of the District Development Project are expected to put pressure on fiscal balance in Samoa over the medium-term.<sup>2</sup> In Kiribati, strong fishing license revenues supported by favorable local climate conditions are expected to support fiscal consolidation, but the country will continue to experience the largest fiscal deficit as a share of GDP in the region. In Tuvalu, the fiscal surplus is expected to significantly narrow given lower revenue streams from development grants and fishing license fees. Fiscal accounts in Tonga and Vanuatu are projected to remain in deficit reflecting significant spending needs for reconstruction and recovery from recent natural disasters in the near term. In Solomon Islands, large-scale investments for the 2023 Pacific Games combined with expenditures for the preparation of the 2024 elections will add to existing budget pressures, contributing to a widening fiscal deficit.
- 11. Factors unique to the Northern Pacific and Nauru explain their fiscal outlook.** Amid robust fishing license revenues, the Northern Pacific's (FSM, Palau, and RMI) current account and fiscal outlook largely depends on the new Compact Agreement with the US. While the three countries have reached an agreement with the United States (US) on Compact renewal, the US Congressional approval is pending. The timing of the approval will impact the outlook. The trajectory in revenues associated with the RPC in Nauru explains the projected fiscal path—RPC revenues and its related activities are anticipated to reach around 60 percent of GDP by 2024 and then fall in the medium-term as Australia transitions out of supporting the Centre.

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<sup>2</sup> Record-high grants, robust revenues supported by revenue reforms including Tax Invoice Monitoring Systems (TIMS), and substantial under-execution of capital expenditure contributed to a fiscal balance in Samoa for 2022. Increased capital expenditure includes infrastructure upgrades relating to Samoa's hosting of the Commonwealth Heads of Government Meeting (CHOGM) in October 2024.

Figure 12. Fiscal Balance Projections (percent of GDP)<sup>1/</sup>



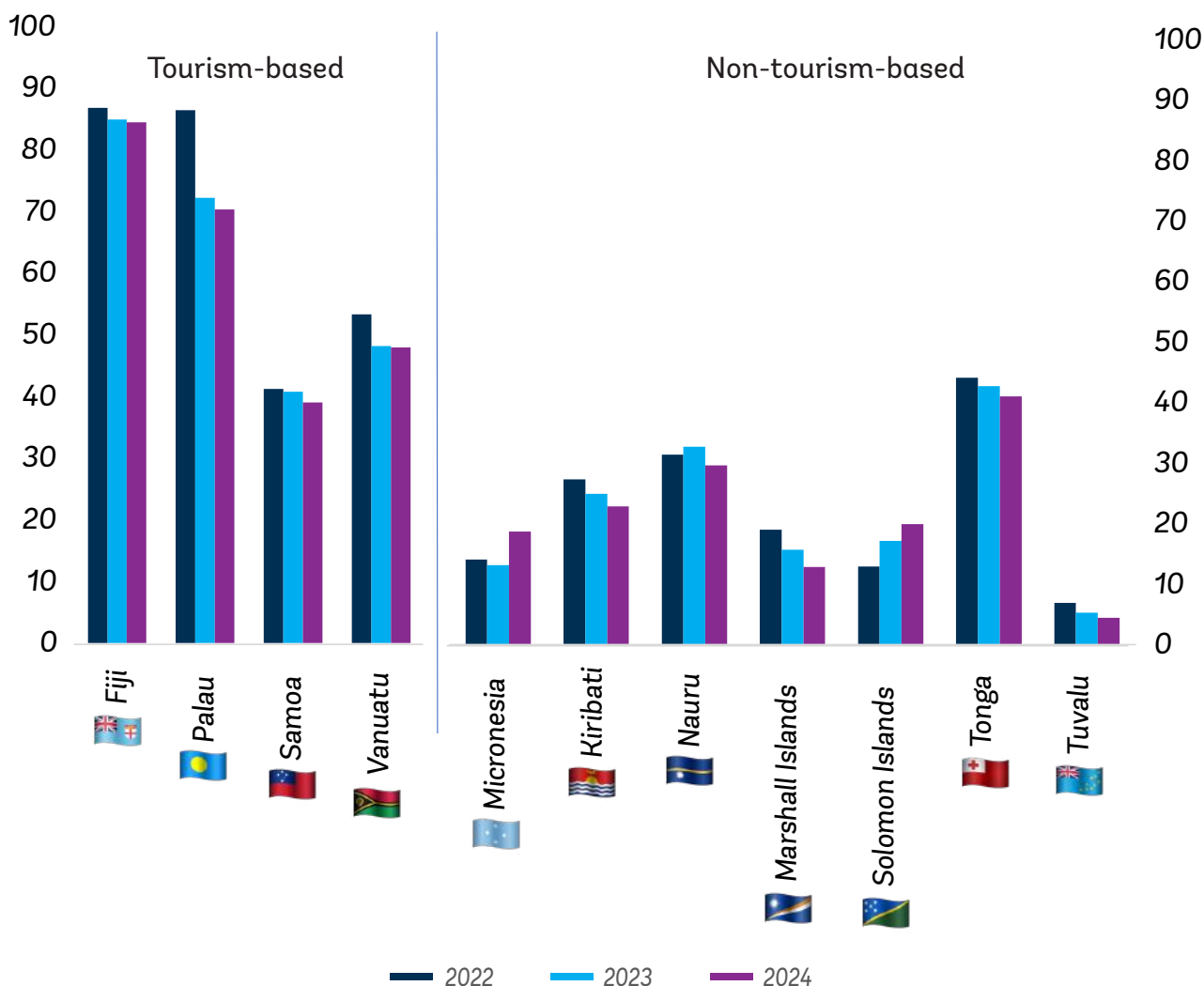
Source: World Bank staff estimates.

<sup>1/</sup> All data is presented on a calendar year basis for consistency and comparability purposes. For countries with fiscal year different to the calendar year period, data in a calendar year basis are computed using cubic splining method based on fiscal year's estimates.

**12. Public debt is expected to decline in most Pacific countries as fiscal pressures ease and authorities implement fiscal consolidation plans.** Public debt level in tourism-based economies is relatively high compared to others in the region, reflecting the negative impact of the pandemic on the economy and the cost of fiscal response.<sup>3</sup> Fiji and Palau continue to hold the largest share of public debt in the region with an average of over 85 percent of GDP in 2022. Tuvalu has the least public debt at 7 percent of GDP (Figure 13). In line with fiscal consolidation efforts, public debt is projected to decline during 2023-2024 across the Pacific (except in Solomon Islands and FSM). As the fiscal deficit widens in Solomon Islands and FSM, the governments are expected to increase borrowing to meet the financing gap—increasing the public debt.

<sup>3</sup>Refer to March 2023 edition of the Pacific Economic Update for detailed analysis on Pacific debt issue: <https://openknowledge.worldbank.org/server/api/core/bitstreams/b21ff434-5014-4653-994f-a1bcbe9cfd18/content>

Figure 13. Public Debt Projections (percent of GDP) <sup>1/</sup>



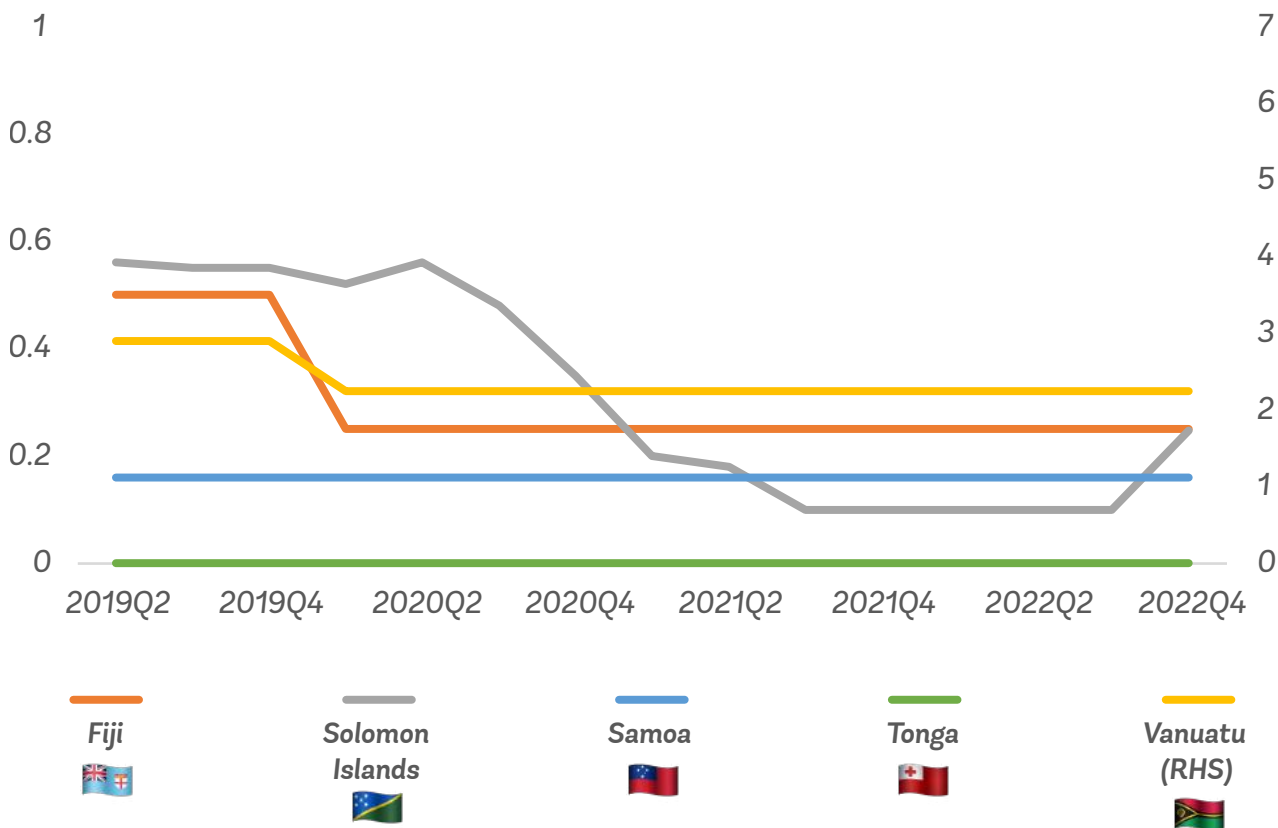
Source: World Bank staff estimates.

<sup>1/</sup> All data is presented on a calendar year basis for consistency and comparability purposes. For countries with fiscal year different to the calendar year period, data in a calendar year basis are computed using cubic splining method based on fiscal year's estimates.

### 1.2.5 Financial Sector and Monetary Policy

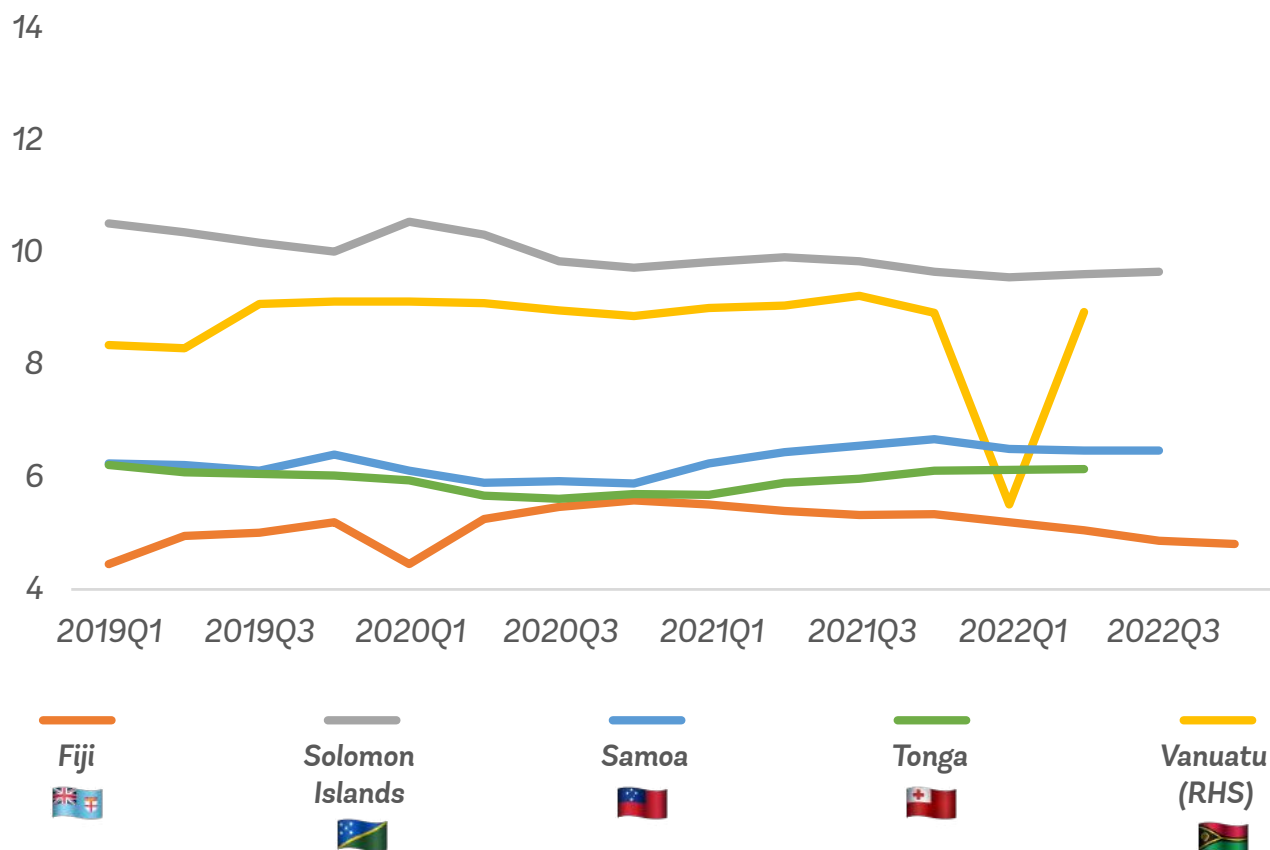
**13. In countries with their own currencies and some exchange rate flexibility, official interest rates have been kept low.** Most Pacific countries with their own currencies (Fiji, Samoa, Solomon Islands, Tonga, and Vanuatu) have been able to keep domestic policy rates near zero, despite the monetary tightening in anchor country currencies (Figure 14). These countries have exchange rate regimes that use a basket of currencies. As a result, recent strengthening in the US dollar has been offset, at least partially, by depreciation in other trading partner currencies. This reduces the need for sharp interest rate hikes to maintain the exchange rate regime. Nevertheless, domestic nominal lending rates remain high in most countries (Figure 15). This is primarily due to structural factors such as limited competition in the financial sector, high risk of lending, and absence of credit registries. Further normalization of travel and tourism could also boost private sector credit, particularly for tourism and investment projects that were halted during the pandemic, but risk of increased non-performing loans remains a concern. Increased lending would help reduce some of the excess liquidity that accumulated during the past few years due to the lack of bankable projects.

**Figure 14. Central Bank Policy Rates (percentage points)**

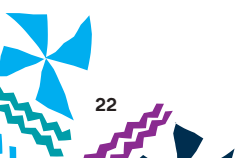


Source: Country authorities. 1/ Based on 28-day Bokolo Bills of CBSI

**Figure 15. Bank Lending-Deposit Rate Spreads (percentage points)**



Source: Country authorities; World Bank staff estimates.



**14. While bank earnings increased in most Pacific countries, asset quality may deteriorate.**

The impact of the pandemic on banks was less severe than initially feared, even in jurisdictions that saw the sharpest GDP contractions, such as Fiji, Palau, and Samoa. So far, the region has also been spared from the negative impact of banking sector turmoil in advanced economies. Given the asset composition, it is less likely that these stress events will impact countries with their own currencies, due to the more traditional banking activities and limited direct exposures. However, Pacific banking sectors are not out of the woods yet as strength in asset quality, liquidity, and capitalization is poor in some countries. The risk of further deterioration in asset quality is real, given elevated levels of loans and the erosion of real wages due to inflation. Low provisioning in countries with high non-performing loans (NPLs), such as Fiji, Solomon Islands, and Vanuatu remain a concern. In these countries, the levels of NPLs after provisions to capital stood at 20, 28, and 44 percent, respectively. Moreover, while system-wide data on asset quality, liquidity and capitalization paints a more benign picture, some banks reportedly face liquidity shortages and much higher NPLs than the system averages.

**15. The banking sector in some Pacific countries is also exposed to sovereign credit risk.**

Pension funds across the region, particularly in Fiji, have held significant domestic government bonds in their portfolio. Direct holdings of significant government debt could jeopardize stability should the government face difficulties servicing their debt obligations. Even in the absence of direct exposures, banks could be impacted through their deposit liabilities to pension funds. These risks remain relevant in countries with high public debt burdens and sovereign linkages, such as, Fiji and Palau. The United States Dollar (USD)-based jurisdictions (FSM, Palau, and RMI) also reportedly hold significant US-government debt, which might have lost market value in an environment of rising monetary policy rates (World Bank, Forthcoming c).

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## 1.3 Risks

Ongoing inflationary pressures, elections, and risks of slower growth among major trading partners create uncertainty for the Pacific. Geopolitical tensions and their impact on commodity prices as well as the region's vulnerability to natural disasters pose downside risks to the Pacific's economic recovery.

**16. Uncertainty in global commodity price movements and geopolitical tensions serve as downside risks to the Pacific's economic recovery.**

Many Pacific countries rely on energy and food imports. On average, fuel and food imports together account for almost 40 percent of merchandise imports in the Pacific, almost double the regional East Asia Pacific (EAP) average (23 percent).<sup>4</sup> If international food and energy prices stay elevated for longer than expected, it will create prolonged price pressures on the region. Persistent high inflation will further reduce real disposable income, increase the cost of living for all households, and weaken consumption. It also increases the risk of vulnerable population falling into poverty. The risk of global geopolitical tension and conflict will also influence the dynamics of global commodity prices. Russia's invasion of Ukraine combined with US-China trade tensions increases uncertainties. Lingering conflicts can deteriorate quickly and create pressure on global commodity prices, trade balances, and—to a lesser degree—aid flows to developing economies, including the Pacific.

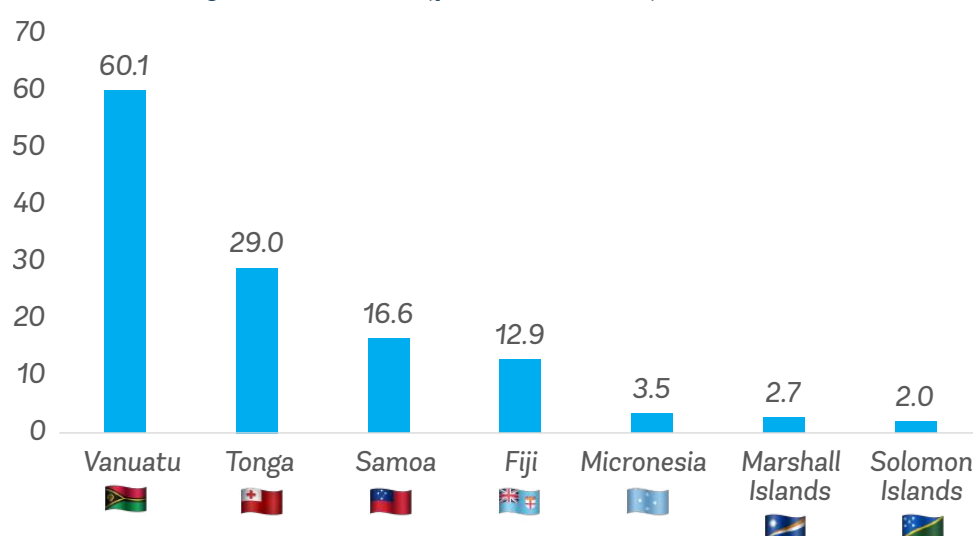
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<sup>4</sup>Based on World Development Indicators (WDI) data.

**17. Slower growth globally and in major trading partners may present headwinds to the Pacific’s recovery prospects, especially for tourism and remittance-dependent economies.** The Pacific’s recovery could weaken should global growth turn out slower than expected and persistent inflation spurs further rounds of monetary policy tightening by major central banks. Similarly, if Australia and New Zealand consumer spending continue to slow, tourism recovery may suffer and adversely impact tourism-dependent economies such as Fiji, Samoa and Vanuatu. Deterioration in the economic prospects of large economic markets may also dampen demand for Pacific labour mobility programs and earning prospects of the Pacific diaspora, resulting in lower remittance inflows—a key source of support for remittance-dependent economies such as Fiji, RMI, Samoa, Tonga, and Vanuatu.

**18. Given the region’s vulnerability to disasters, climate change is a persistent major underlying risk.** Nine Pacific countries are categorized as disaster-prone with a high probability of disasters occurring every year. Historical data show that damage from natural disasters can be substantial for some countries, such as Fiji, Samoa, Tonga, and Vanuatu (Figure 16). The most recent disaster in the region was the twin cyclones that hit Vanuatu in early March 2023. The historic cost of natural disasters, when they do occur, has been around 60 percent of GDP in Vanuatu, indicating their high toll on livelihoods. The Pacific atoll nations—Kiribati, RMI, and Tuvalu—also face considerable risk from climate variability and sea-level rise.

**Figure 16. Annual Damages of Disaster (percent of GDP), Selected Pacific Countries**



Source: EMDAT and IMF working paper (2019)

Note: Disaster-prone countries are defined as countries that belong to the fourth quartile (75%-100%) of the Annual Probability Distribution of Natural Disasters. Damages in percent of GDP are obtained by dividing damages by GDP of the year of the disaster event from 1998-2017.

**19. In addition to the above risks, there are some idiosyncratic risks across countries.**

Upcoming elections and a contested political environment in some countries, including RMI in November 2023 and Solomon Islands in April 2024, could be a source of economic uncertainty. The risk of higher inflation compared to trading partners, combined with managed or fixed exchange rates, could present a competitiveness challenge in countries such as Palau, Samoa, Tonga and Vanuatu, which may dampen the tourism and exports recovery. Finally, sizable government guarantees to state-owned enterprises create ongoing fiscal exposures, which may pose fiscal and financial risks if not managed prudently.



**PART 2.**

## *Special Focus: Harnessing the Benefits of Migration in the Pacific*

Migration schemes serve as an engine of development and an increasingly important pillar of bilateral and regional economic relationships (Gould 1994). While there are challenges with labour migration, on balance it offers significant benefits to those involved, the broader community, and the entire Pacific. In 1950, there were fewer than 15,000 Pacific-born migrants in developed countries. By 2020, there were approximately 460,000 Pacific-born migrants residing in Organization for Economic Cooperation and Development (OECD) countries (OECD 2020). Nearly all the Pacific diaspora is situated in three countries: Australia (about 38 percent), New Zealand (about 34 percent), and the United States (about 27 percent).<sup>5</sup>

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<sup>5</sup>The estimates are based on the stock of foreign-born population by country of birth in the OECD International Migration Database. Data are for 2020 for all OECD countries, except New Zealand, for which data for 2018 was used due to lack of more updated data. No adjustment was made by the World Bank to account for Pacific emigrants to the US territories of Guam and Commonwealth of the Northern Mariana Islands, nor to adjust the migrant stocks in Australia to record only migrants who claim their ancestry is indigenous to their country of birth.

This chapter aims to provide an overarching picture of labour migration in the Pacific. It starts by highlighting the crucial role of migration and remittances to the Pacific economies before examining in detail the promises and challenges of temporary migration schemes for Pacific workers in Australia and New Zealand. Drawing on findings from the recent Pacific Labour Mobility Survey (PLMS) conducted by World Bank in Australia, Kiribati, New Zealand, Tonga, and Vanuatu in 2021-2023 (World Bank, forthcoming b), this chapter also presents arguments for strengthening labour mobility programs and concludes with policy recommendations for both migrant-sending and hosting countries to consider.<sup>6</sup>

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## 2.1 Migration and Remittances are Central to the Development Prospects of the Pacific

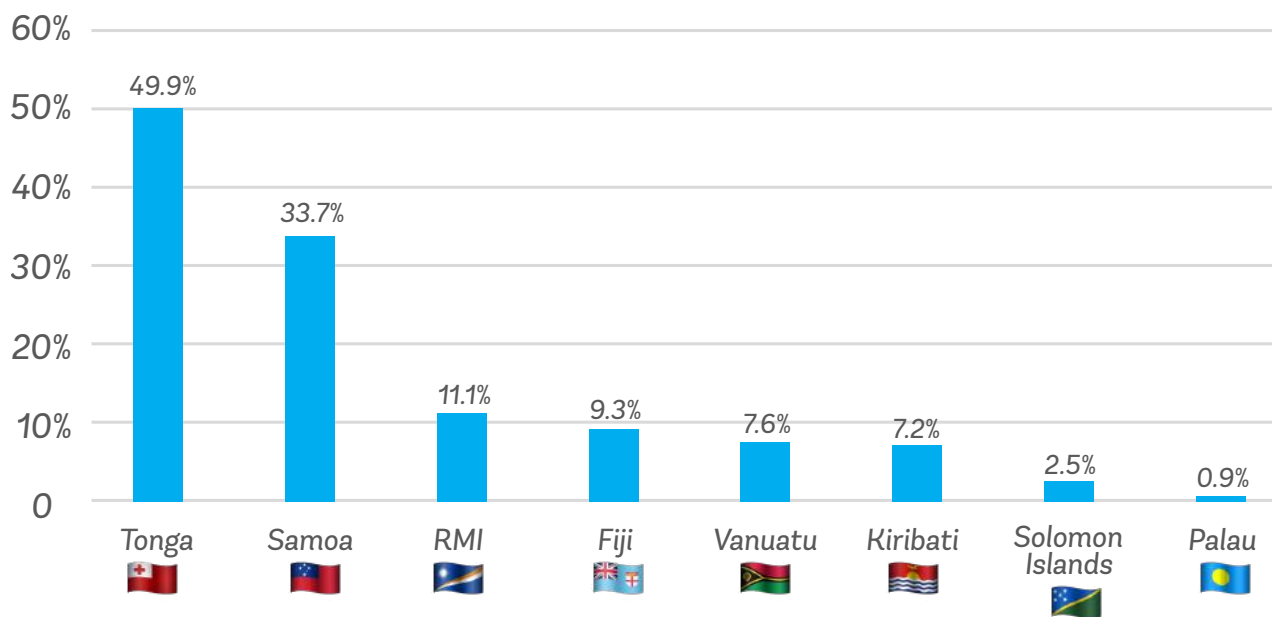
**20. International migration, both permanent and temporary, has made an important economic contribution to the Pacific through remittances as well as knowledge sharing.** Six of the top 10 remittance recipients by share of GDP in the East Asia and Pacific region are in the Pacific (World Bank 2021a); while Tonga and Samoa are often among the top five globally. Tonga tops the list, with remittance inflows amounting to almost 50 percent of GDP in 2022 (Figure 17). In addition to supporting macroeconomic stability, foreign exchange earnings from remittances also directly support the livelihoods of many people in the Pacific. In Tonga and Samoa, four out of every five households receive remittances from abroad, and this share is similar across the consumption distribution. Remittances make up an average of 30 percent of household consumption in Tonga, and eight percent in Samoa. Corroborating this pattern, data from the PLMS reveal that most temporary migrant workers send money home (Figure 18). In addition, most seasonal workers reported that they had acquired useful skills overseas, such as farming techniques, organizational skills, financial management, and English (World Bank 2017b, World Bank forthcoming a). The skills learned were primarily picked up on the job, although formal training courses are also supported by the labour mobility schemes.<sup>7</sup> For instance, a large share of participating Seasonal Worker Programme (SWP) workers were afforded opportunities to learn other transferable skills, such as the ability to operate a tractor (World Bank 2017b).

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<sup>6</sup>Both Australia and New Zealand have established low- and semi-skilled temporary migration programs specifically for Pacific Islanders. New Zealand's Recognised Seasonal Employer (RSE) scheme was the first of these programs to be established in 2006. Australia followed with the Pacific Seasonal Worker Pilot Scheme (PSWPS), introduced in 2009, which evolved into the Seasonal Worker Programme (SWP) in 2012, and the Pacific Labour Scheme (PLS) in 2018, both of which are now called the Pacific Australia Labour Mobility (PALM) Scheme. In both countries, the objectives of these programs are twofold: to meet labor shortages in selected industries, and to contribute to development outcomes in Pacific Island countries. The RSE is also open to citizens of several Asian countries, but Pacific Islanders comprise the bulk of participating workers. The PALM scheme has to date restricted participation to Pacific Islanders and citizens of Timor-Leste.

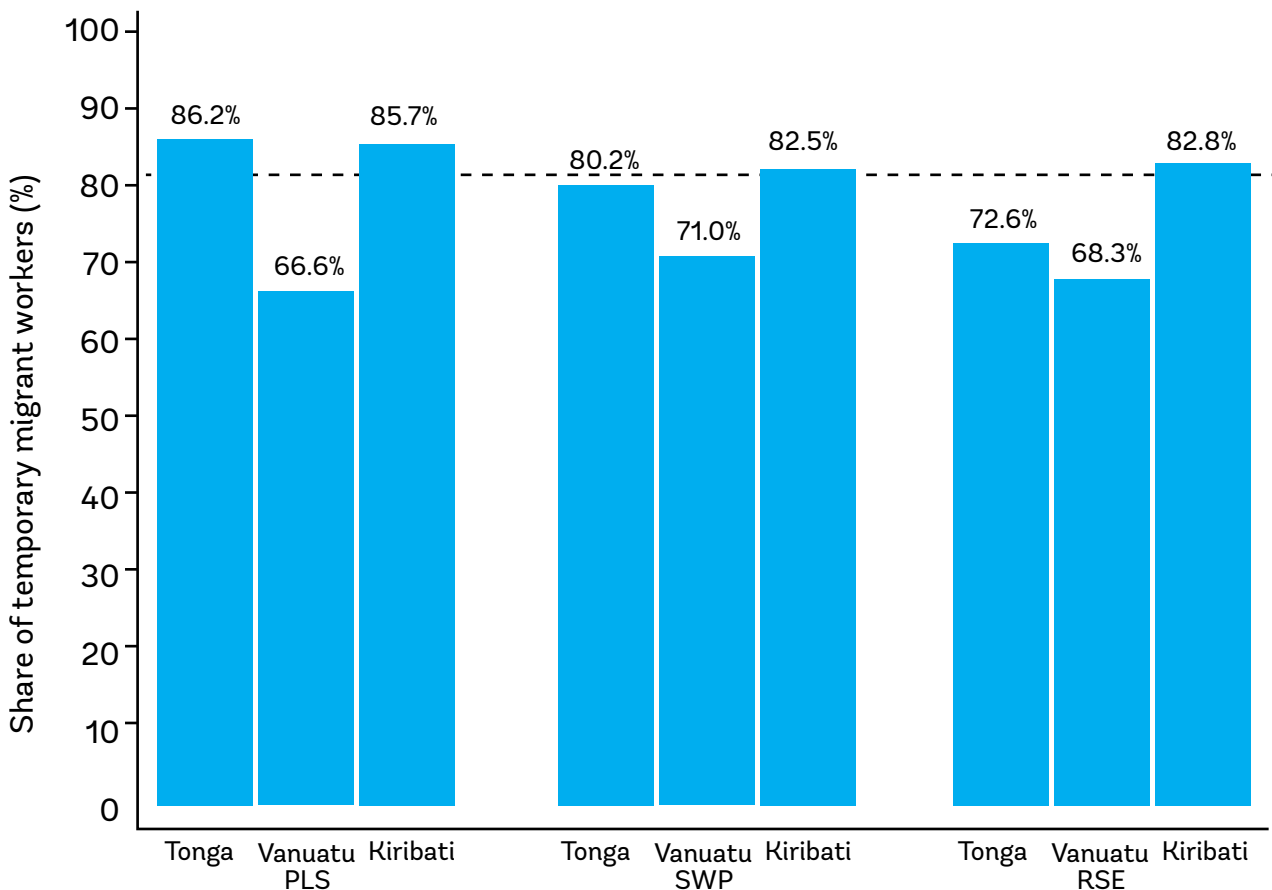
<sup>7</sup>The RSE Worker Training Programme provides free training courses for RSE workers ranging from an introductory essential learning course to courses covering money matters, small business development, leadership, compost toilets, building concepts, and other practical courses. The PALM scheme funds participating employers to train workers on the job in Australia, with the goal of improving productivity and providing skills and abilities that will benefit workers and their communities when they return home.

**Figure 17. Remittance Inflow (share of GDP 2022)**



Source: Migration Data Portal

**Figure 18. Share of Migrants Sending Remittances**



Source: World Bank (forthcoming b)

**21. Migrant workers earn significantly more overseas than they would at home.** Earnings net of deductions from seasonal workers participating in temporary labour mobility schemes in Australia and New Zealand are estimated to exceed potential earnings at home by three to four times for Tongan workers, and nine to ten times for ni-Vanuatu (World Bank, forthcoming b).<sup>8</sup> Earlier research estimates that across the Pacific, migrant workers earn 4.3 times more than they do in their country of origin (World Bank 2017b). Even after subtracting living expenses in the host country, seasonal workers remit US\$390 per month on average, nearly 1.8 times average earnings in their home countries. While these figures vary by country, all countries studied showed sizable income gains (Table 4).

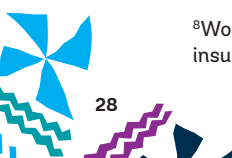
**Table 4. Temporary Migration Schemes Offer Significant Income Gains**

		Average pre-COVID earnings in domestic market (USD/month)	Average amount remitted (USD/month)
Overall		216.9	388.4
Scheme	SWP	259.1	431.1
	RSE	153.4	322.7
Nationality	Kiribati	175.8	266.5
	Tonga	393.2	641.9
	Vanuatu	115.8	265.3
Gender	Male	196.4	375.7
	Female	303.7	442.3

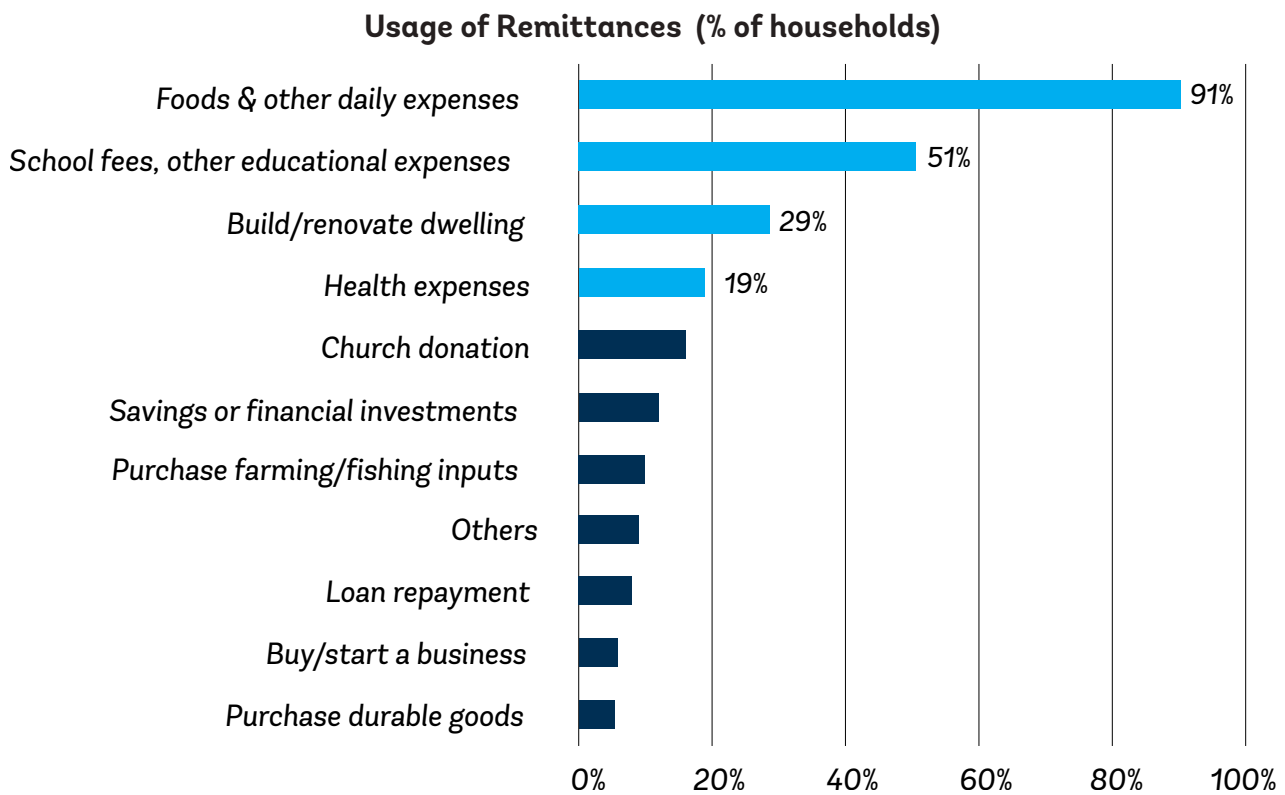
Source: World Bank (2021b). Estimates are based on remittances and earnings reported by migrant workers in the World Bank COVID-19 phone survey on Pacific labour mobility, which was conducted between June and September 2020. The survey collected data on actual earnings by seasonal migrant workers who worked in their home countries during January-February 2020, before COVID-related lockdowns were implemented and their trip to take up employment overseas was cancelled; as well as average monthly amounts that they had sent home in the previous working season.

**22. Remittances have provided a critical source of financing for essential household consumption and investment in human capital, especially in times of crisis.** The main use of remittances from seasonal workers were for everyday expenses, including food, school fees and health care. This pattern is robust both during and after the COVID-19 crisis (World Bank 2021b, World Bank forthcoming b) (Figure 19). Daily expenses related to sending children to school (such as bus fares and school lunches) are significant, emphasizing the role of remittances in supporting investment in child education. In areas where subsistence farming is prevalent and the cash economy is limited, remittances are often the primary source of fiat money for cash-based purchases of goods and services. During the pandemic, labour-sending households whose workers were unable to travel for seasonal work in the RSE and PALM schemes reported significantly higher financial anxiety than households whose workers were employed in the schemes (World Bank 2021b). The reliance on remittance income became more pronounced during this period, with the share of labour-sending households relying on remittances from seasonal workers as their main source of income increasing by 5-17 percentage points.

<sup>8</sup>Workers employed under the RSE and PALM schemes incur several costs, such as airfares to the destination country and health insurance, which are often paid upfront by their employers and gradually deducted from their earnings once they start working.

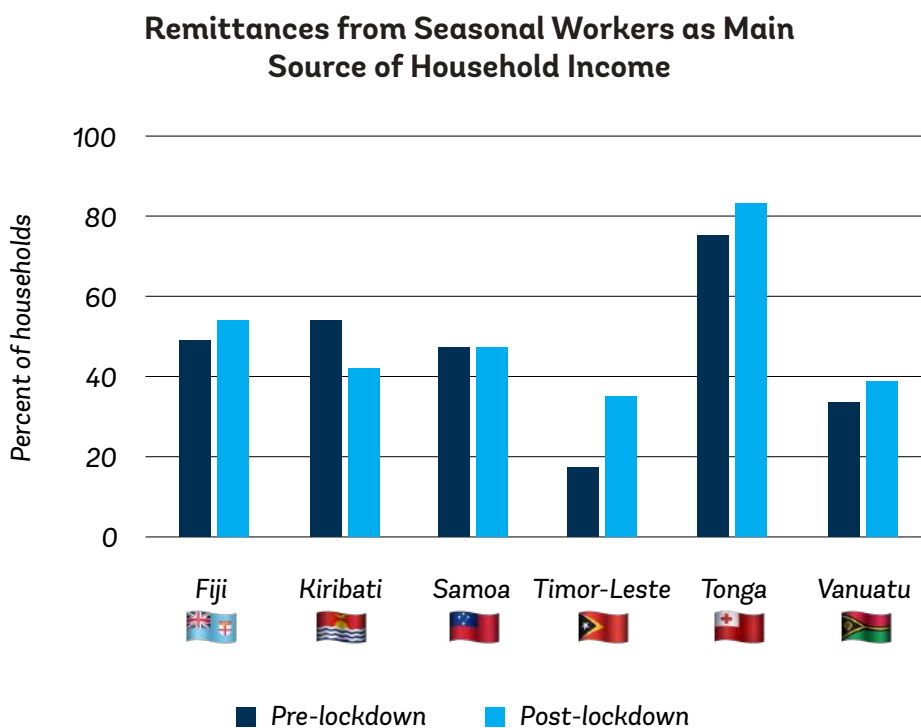


**Figure 19. Remittances from Temporary Labour Mobility Schemes Finance Essential Household Expenses**



Note: These uses of remittances are not mutually exclusive.  
Source: World Bank (2021b)

**Figure 20. Remittances Become More Important During Income Shock (COVID-19)**

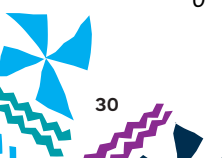
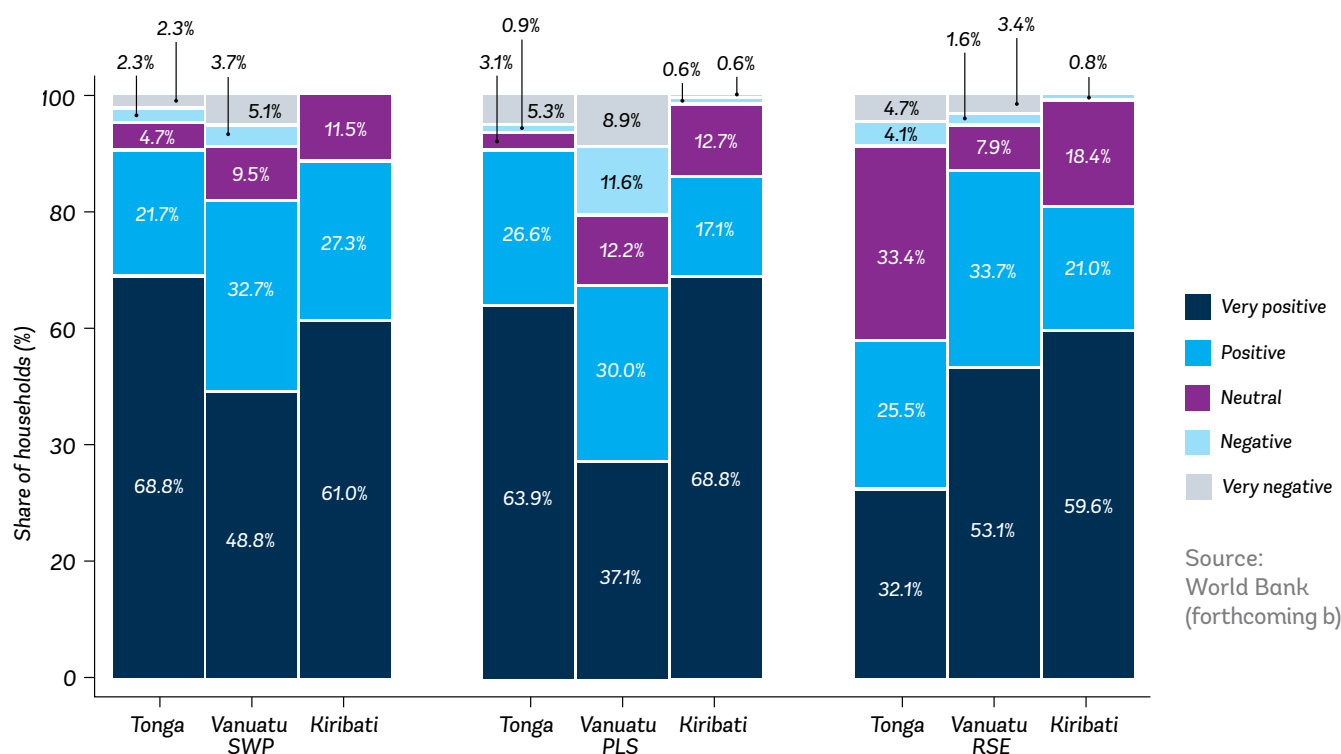


Source: World Bank (2021b)

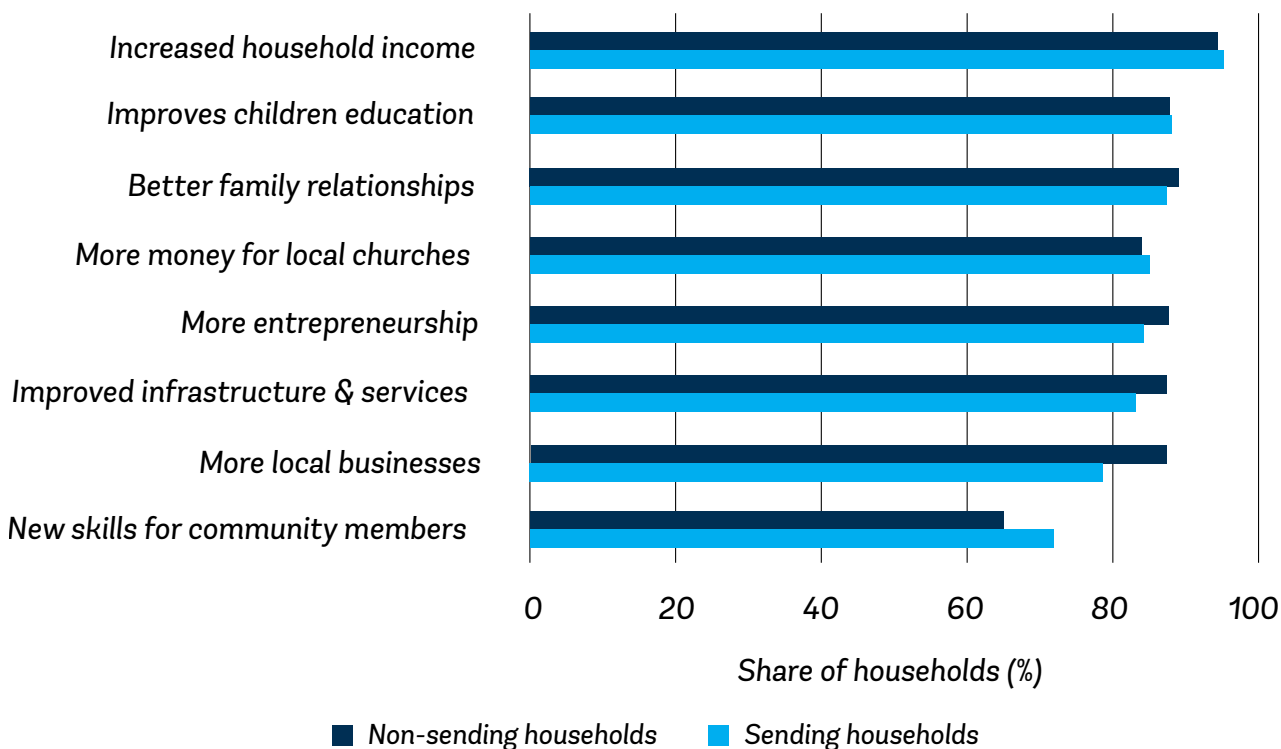
**23. The counter-cyclical nature of remittances to Pacific economies has consistently cushioned Pacific households from shocks.** In the past, when the Pacific suffered crises such as tropical cyclones, remittances from unaffected countries increased as migrants remitted more to help family through times of hardship. During the COVID-19 pandemic, which affected both the Pacific and destination countries, aggregate remittance inflows were more resilient than expected, despite a severe and abrupt decrease when the pandemic first affected the region. Altruistic and counter-cyclical behavior played a role in sustaining remittance inflows, offsetting the effects of the collapse of international tourism, the broader economic fallout from COVID-19, as well as the devastating impact of Tropical Cyclone Harold on Fiji and Vanuatu in 2020. While temporary and longer term migrants both tend to remit less as their earnings decrease, during the crisis many adjusted their own savings and consumption to maintain or even increase the money sent home. Some Pacific diaspora even explicitly emphasized the cultural importance of remitting (World Bank 2021b).

**24. Participation in labour mobility schemes is associated with improvements in health and education for migrants' families and is widely perceived as beneficial for Pacific communities.** The seasonal stream of the PALM scheme improved school attendance of school-age children in Tonga by 7.7 percent (World Bank, 2017b). There were no significant improvements in Vanuatu, however. Improvements in health were reported among most Tongan and i-Kiribati workers, with no considerable differences between the sexes. (Changes amongst ni-Vanuatu workers were more mixed.) Workers in the aged care and meat processing sectors were most likely to report improved health. In addition to benefits for participating households, labour mobility also brings benefits to the community. Households in the PLMS sample tended to agree that the schemes have very positive impacts on their community (Figures 21 and 22). The most common reasons given by respondents for this perception were higher household incomes, better family relationships, improved educational outcomes for children, and greater contributions to local churches.

**Figure 21. Perception of Labour Mobility Schemes in Pacific Communities**



**Figure 22. Reasons for Positive Impact on the Community**



Source: World Bank (forthcoming b)

**25. The social benefits of temporary migration schemes outweigh the costs, although challenges remain.** On the one hand, participation in labour mobility and the resulting income gains help strengthen family relationships, transform gender norms, and empower women. On the other hand, communities and some households face issues related to the prolonged absence of the workers. Alcohol use, family breakdowns, and poor relationships are cited in many cases (Box 2).



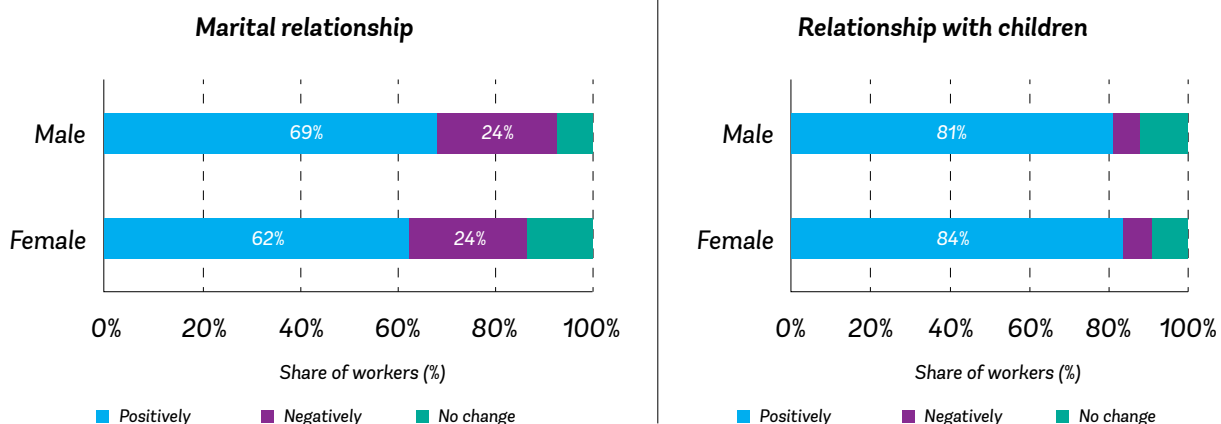
## Box 2. Gender and Family Angles of Temporary Migration

**Temporary migrant workers and their households report that migration has generally strengthened family relationships** (World Bank forthcoming a; Nunns et al. 2020). More than 80 percent of workers surveyed in the World Bank PLMS 2020-22 reported positive impacts on their relationships with their children, and 69 and 62 percent of female and male workers, respectively, said that it had a positive effect on their marital relationship (Figure 23). This improvement in relationships was attributed to increased household income and material goods that have decreased arguments between partners, especially where money stress was previously a source of conflict.

**Participation in temporary labour mobility programs can also help transform gender norms and attitudes.** A common perception is that temporary labour mobility schemes provide economic benefits but also involve net social costs such as marital separation, increased gender-based violence, and negative impacts on schooling. While there are such instances, the evidence from the PLMS and in-depth qualitative interviews for Kiribati, Tonga and Vanuatu shows—on balance—improvements in female agency and self-esteem and strengthened family relationships. Female workers in the RSE and PALM schemes experience increased access to, and control of, financial resources and acquire new knowledge and skills. Their greater self-confidence and economic independence also help strengthen collaborative decision-making within households. There is some evidence from Vanuatu that participation in temporary migration schemes has enabled female returnees to leave unhappy or abusive relationships. Community members in the Pacific also reported that female workers had gained prominence and visibility in community life and took more active leadership roles. Although some women chose not to actively challenge gender norms, the reported impact of labour mobility on female empowerment is particularly encouraging in the context of significant gender inequality.

**The shift in gender attitudes occur among, and because of, both female and male participation.** Male workers' experience away from home has helped increase their willingness to contribute to chores and caretaking responsibilities and increased their understanding of their spouses' contribution. In Tonga, three quarters of male workers' families reported that household duties are now shared. In Vanuatu, many respondents observed a change within their families, although most still felt there had been no noticeable change in the gender-based roles in the household, citing social norms and religion as reasons (World Bank, forthcoming a). Male participation in seasonal migration may also enhance women's agency and empowerment as wives or female relatives take up traditionally male roles while the male workers are away—some continue to help with such duties even after the men return (Bedford, Bedford and Nunns 2020, World Bank, forthcoming a). Wives of seasonal workers are also found to gain more control over household finances as recipients of remittances (World Bank 2017b) and embark on entrepreneurial ventures with income from seasonal work (Holani 2018, Bailey 2014).

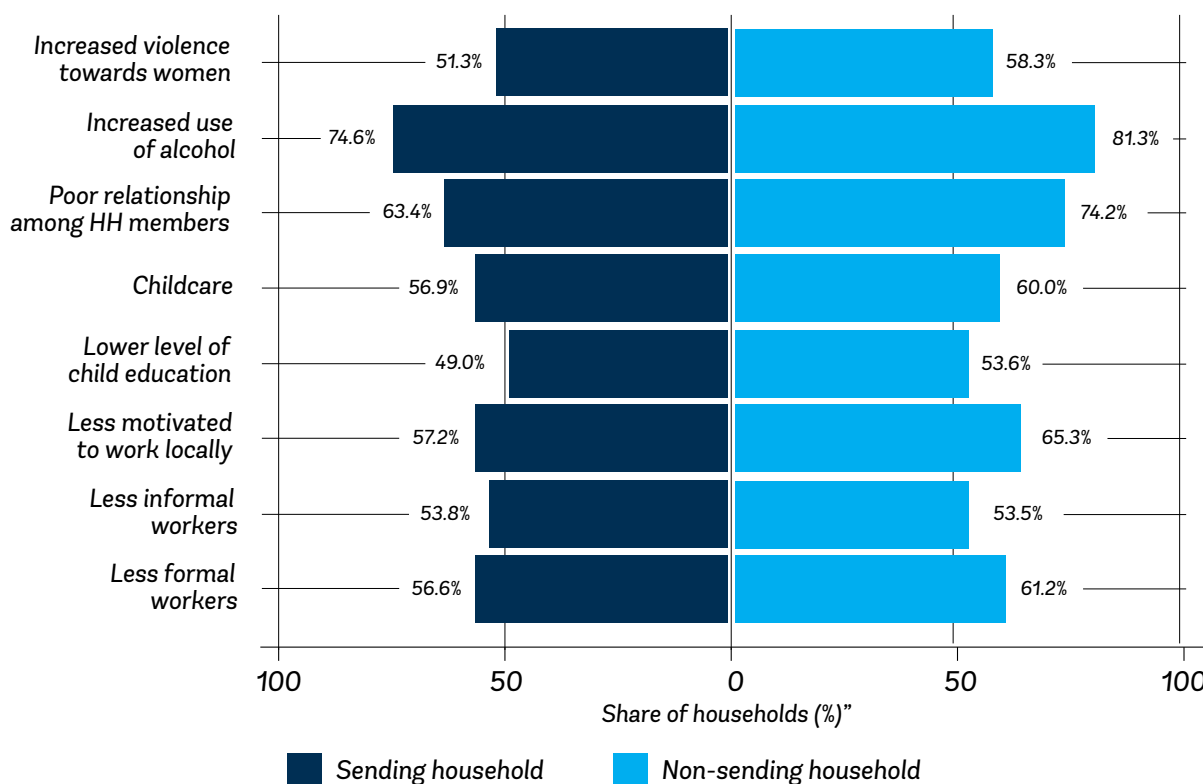
**Figure 23. Impacts of Labour Mobility on Marital Relationship and Relationship with Children**



Source: World Bank (forthcoming b)

**However, sending communities and households also face challenges, some of which directly relate to workers' absence from home.** The absence of migrant workers from their home increases the workload of remaining family members, especially women, and affects the gendered division of labour. In Vanuatu, localized labour shortages had reportedly arisen due to men being away, especially for physically demanding work such as construction or planting subsistence gardens. There are also reports of marital breakdowns, suspicion of infidelity, and adverse outcomes for children such as neglect and behavioral problems. In addition, adverse perceptions, moral judgments, and gossip regarding returned female migrants are common, especially when only a few women from a community participate in the schemes. Issues regarding male participation in seasonal work include men sometimes squandering their pay, especially on alcohol, and therefore having lower savings on return compared to more family-focused female workers (World Bank 2018; Chattier 2019).

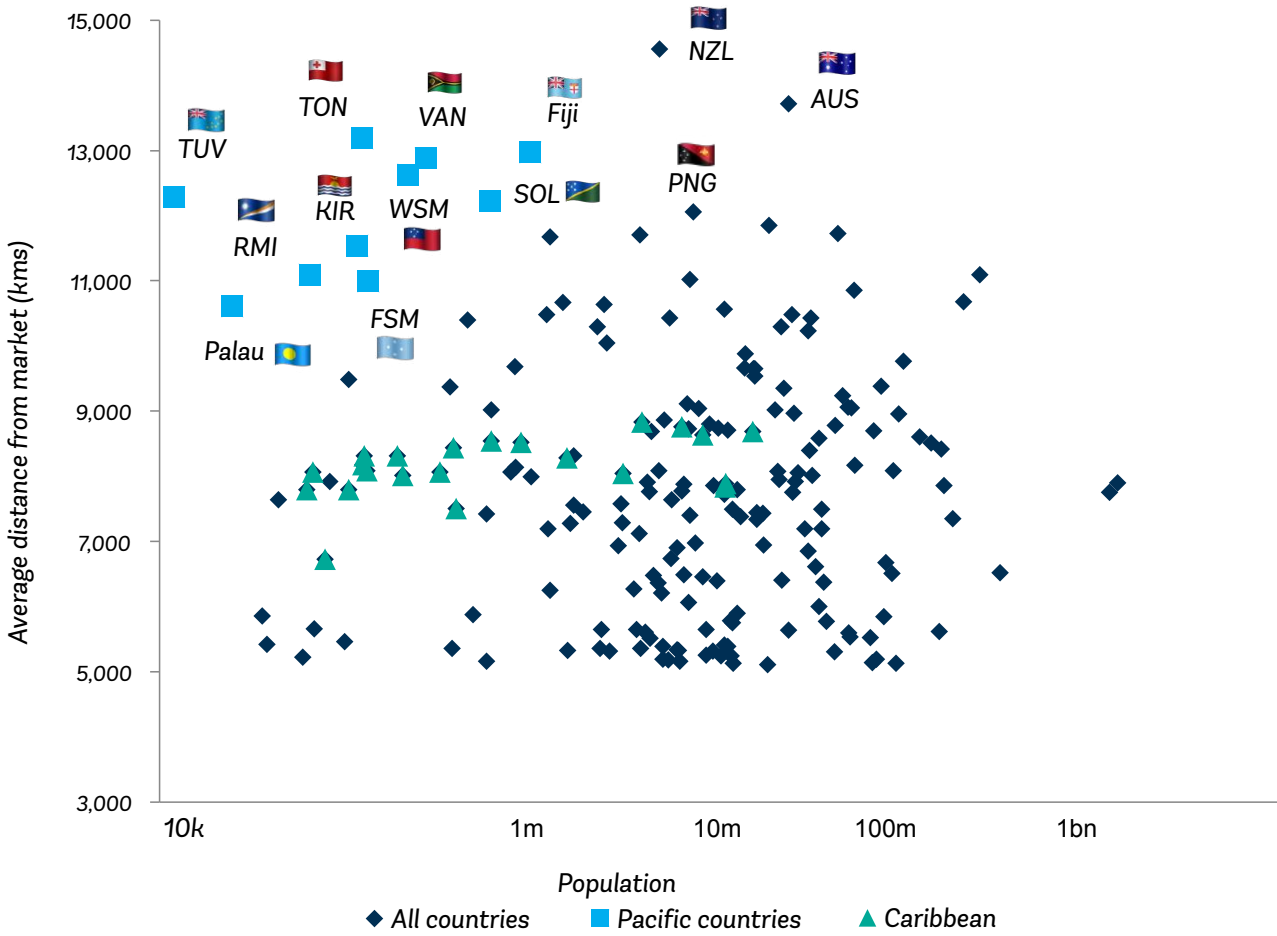
**Figure 24. Perceived Negative Impact of Labour Mobility Schemes on the Sending Community**



Source: World Bank (forthcoming b)

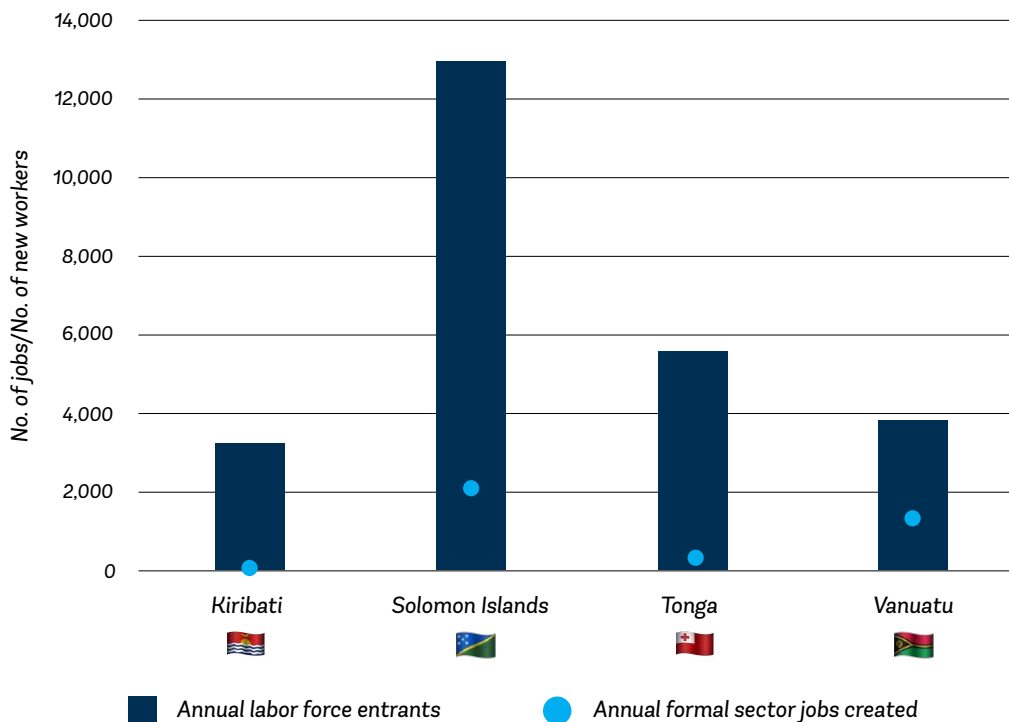
**26. Finally, the unique geography of the Pacific and its high exposure to climate change mean migration is more important than elsewhere, including other small states (Figure 25).** A combination of extreme dispersion, small size, and remoteness from larger markets make it challenging for the Pacific to compete in export markets, except in a few areas such as tourism, fishing license revenues, and natural resource extraction. It also undermines the ability of these countries to create good jobs outside subsistence agriculture for their relatively young populations (Figure 26). Small size translates into a lack of economies of scale in both public and private sectors, generating high costs. Remoteness entails high transport costs that prevent the Pacific from overcoming their small size through specialization and trade. Therefore, sources of economic growth are limited to activities where scale economies and transport costs are less important, or those that generate sufficiently high returns to be economically viable (Winters and Martin 2004). Among the economic activities that meet those criteria are: (i) activities involving natural resource rents, including fisheries, mining, logging, and small-scale tourism; (ii) inflows related to sovereignty, including foreign aid, internet domains, company and ship registries, and domiciliation; and (iii) incomes and remittances from access to overseas labour markets through permanent or temporary migration (World Bank 2017a). Further, as climate change becomes a main adverse risk to Pacific countries, economic migration provides an opportunity to maintain and improve potential income and is likely to increase. Resettlement of populations within and across Pacific countries in response to natural disasters and sea level rise is also likely to intensify. For instance, the Tongan government has been resettling people displaced by the 2021 HT-HH volcanic eruption and resulting tsunami.

**Figure 25. Population and Distance from Major Markets**



Source: World Bank (2017a)

**Figure 26. Number of Labour Force Entrants and Formal Sector Job Creation in Various Pacific Countries**



Source: World Bank (2017a)

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## 2.2 Maximizing the economic gains from migration

### 2.2.1 Investing in skills to prepare workers for job markets

- 27. The rollout of the PALM and RSE schemes for low- and semi-skilled workers has facilitated migration of Pacific Islanders who are unable to access skilled migration programs.** Migration under these programs has supported less well-off households and groups, for which remittances and formal sector employment opportunities are especially valuable. While such programs are open to most Pacific countries (with the exclusion of northern states, which have access to the US labour market), only a handful of countries have benefited at scale since their inception. Samoa, Tonga and Vanuatu account for 84 percent of total workers sent under the two main programs—SWP and RSE—since 2012.
- 28. Even low-skilled workers need training to succeed in the overseas job market.** Workers need a set of foundational and soft skills to perform their role, including basic literacy, financial management, awareness of cultural norms in the receiving country, and proper workplace conduct. Workers who are well prepared in these areas are more successful, and are more likely to remain employed overseas and earn a good reputation. Employers who observe these skills in their workers are more likely to employ them again and recruit more workers from their country. This underscores the need for investment in foundational education from the early years onwards, as well as robust pre-departure and worker readiness training programs, to fully prepare those going overseas. In many Pacific countries, these programs are the responsibility of a government-managed labour-sending unit, while receiving countries provide pre-departure training materials.
- 29. A strong foundational education system is key to maximizing the benefits of migration and ensuring equitable access.** As the demand for workers expands to include higher-skilled professions, governments will need to invest in better quality primary and secondary education to enable their citizens to be competitive in applying for these jobs. These higher-skilled professions include aged care and hospitality workers, which require stronger interpersonal skills, literacy and numeracy. However, evidence shows that grade completion is not enough: learning poverty in the Pacific remains relatively high, and not enough Islanders are leaving school with the basic skills required to qualify for these occupations (World Bank 2022). These ‘learning poor’ are also more likely to come from lower-income households—precisely those who have the most to benefit from international migration.

**30. Collaboration between labour-sending and host countries can enhance the match between migrant workers' skills and the needs of the destination economy.** There are currently labour shortages in Australia and New Zealand—particularly in aged and home-based care, construction, accommodation and tourism, and social assistance sectors—where appropriately trained Pacific workers would be well placed to fill the gaps (World Bank 2017a, World Bank 2017c). The PALM scheme has recently relaxed eligibility restriction on employers, allowing all industries to participate and thus broadening the range of skills demanded. Bilateral and regional arrangements could facilitate expansion of training and help Pacific Island countries capitalize on these demands. In a Global Skills Partnership, for instance, the country of destination—either the government or the private sector—underwrites the training of potential migrants so they acquire the qualifications needed by the destination market. Such partnership also benefits those who will remain home and enter the domestic labour force (WDR 2023).

## 2.2.2 Human capital flight

**31. Increasing outflows of workers through labour mobility schemes have led to concerns about brain drain throughout the region.** There is anecdotal evidence of labour shortages in Fiji and Samoa's tourism industries, Fiji and Kiribati's health sectors, and Vanuatu's agriculture sector, especially in communities where a large share of the population migrates. Increasing participation in the schemes could also have adverse implications on labour supply for labour-receiving Pacific countries, such as Niue and Cook Islands. Concerns over brain drain are likely to intensify as labour mobility schemes continue to expand. The recent commitment of the Australian government to allow family members to accompany PALM workers on long-term placements<sup>9</sup>, together with pathways to permanent residency<sup>10</sup>, will make long-term migration more attractive. If employers in sending countries are unable to hire (or train) workers with suitable skills to replace those who go overseas, they may face sustained labour shortages. This could reduce output and drive-up labour costs, negatively impacting consumers and employers, but potentially benefiting non-migrant workers.

**32. A possible way to address concerns about brain drain in seasonal work programs is to better prioritize workers in low-skill industries, whose departure from the local labour market will have less impact on local employers.** A form of 'means testing' could be considered to prioritize those who have the most to gain from overseas employment and ensure that skilled and connected workers do not dominate these coveted opportunities. This could be done within the context of a broader government economic empowerment program, identifying households in need of employment opportunities and providing them with a focused program of training, financial literacy education and a stint overseas, followed by support to invest their earnings productively when they return.

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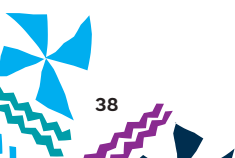
<sup>9</sup>Seasonal workers are not allowed to bring their families to Australia. Family accompaniment is expected to start in the fourth quarter of 2023. As of June 2023, eligibility criteria and visa arrangements are still being developed.

<sup>10</sup>In early 2023, the Australian government introduced the Pacific Engagement Visa, a new permanent resident visa for participating countries across the Pacific and Timor-Leste. Up to 3,000 visas, inclusive of partners and dependent children, will be allocated annually to Pacific and Timor-Leste nationals through a ballot process. PALM workers in Australia on valid temporary visas will be eligible to enter the ballot. Registration is expected to open in late 2023.

- 33. Another common approach is to invest in skills training programs tailored to local employers' needs.** Private training institutions can complement public efforts in Pacific Island countries, where most technical and vocational training institutions are publicly financed. For example, the Philippines responded to rising global demand for nurses by allowing the private sector to deliver nursing education programs. As a result, nine nurses were trained for every overseas job available (WDR 2023). This pool of available healthcare workers has facilitated growth in the domestic healthcare-related outsourcing and medical tourism industries. Nurses working in Manila now earn twice as much as Filipino nurses in Saudi Arabia (Ang and Tiongson 2023). Similarly, Chand and Clemens (2023) found that migration opportunities for accountants in Australia and New Zealand led to an increase in the number of Fijians with accountancy skills who remained in Fiji.
- 34. Skills partnerships where the destination country provides technology and finance to train migrants and non-migrants can compensate for the emigration of skilled workers.** In such partnerships, the destination country finances training to potential migrants in their origin countries and provides them with entry upon graduation. This approach aims to ensure that the skills and attributes of migrants match the labour needs in the destination country and mitigates brain drain because some trained participants choose not to migrate. The Australia Pacific Training Coalition (APTC) is an example of this approach, but has had little success in promoting labour mobility. It established technical and vocational training campuses in five Pacific Island countries and had graduated over 15,000 students by 2019. However, only a small proportion of these graduates migrated to Australia or New Zealand for work, despite a majority aspiring to do so. This outcome was attributed to weak links with prospective employers and inadequate mechanisms for recognizing skills and experience obtained in the country of origin. APTC's experience echoes lessons from other regions: for skills partnerships to be effective, it is vital that employers are actively engaged in the design of training programs, the programs are socially acceptable in the home country, and there is multilateral collaboration involving training institutes and public authorities in both home and destination countries (WDR 2023).

### 2.2.3 Addressing challenges related to migrant worker welfare and integration in host countries

- 35. Despite the benefits, challenges remain with the implementation of temporary migration schemes.** In recent years there has been media coverage of alleged worker mistreatment and exploitation among migrant workers in rural areas of Australia and New Zealand (Howes and Sharman, 2022). While these schemes are more tightly regulated and monitored than other visa programs, there is always some risk of worker mistreatment or exploitation. Common concerns raised in media reporting include excessive wage deductions, inadequate accommodation standards, and poor workplace health and safety. However, only seven percent of workers surveyed in the PLMS expressed dissatisfaction with their current employment, with most workers reporting that they were treated fairly by their employer. Worker satisfaction with their experience in host countries was higher in 2022 than at the start of the COVID-19 pandemic.



**Table 6.** Worker Satisfaction with their Experience in their Host Country

	PLS 2022	SWP 2022	RSE 2022	SWP 2020*	RSE 2020*	SWP 2015**
Tonga	8.7	9.0	8.9	9.2	7.1	9.9
Vanuatu	8.2	8.4	8.1	7.0	7.9	6.3
Kiribati	8.3	9.0	8.1	8.4	8.5	N/A
Male	8.6	8.6	8.5	7.9	8.3	N/A
Female	8.3	8.6	8.2	7.6	7.6	N/A
Returnee	8.5	8.9	8.4	8.2	8.3	N/A
First Timer	8.4	8.2	8.0	7.1	7.8	N/A

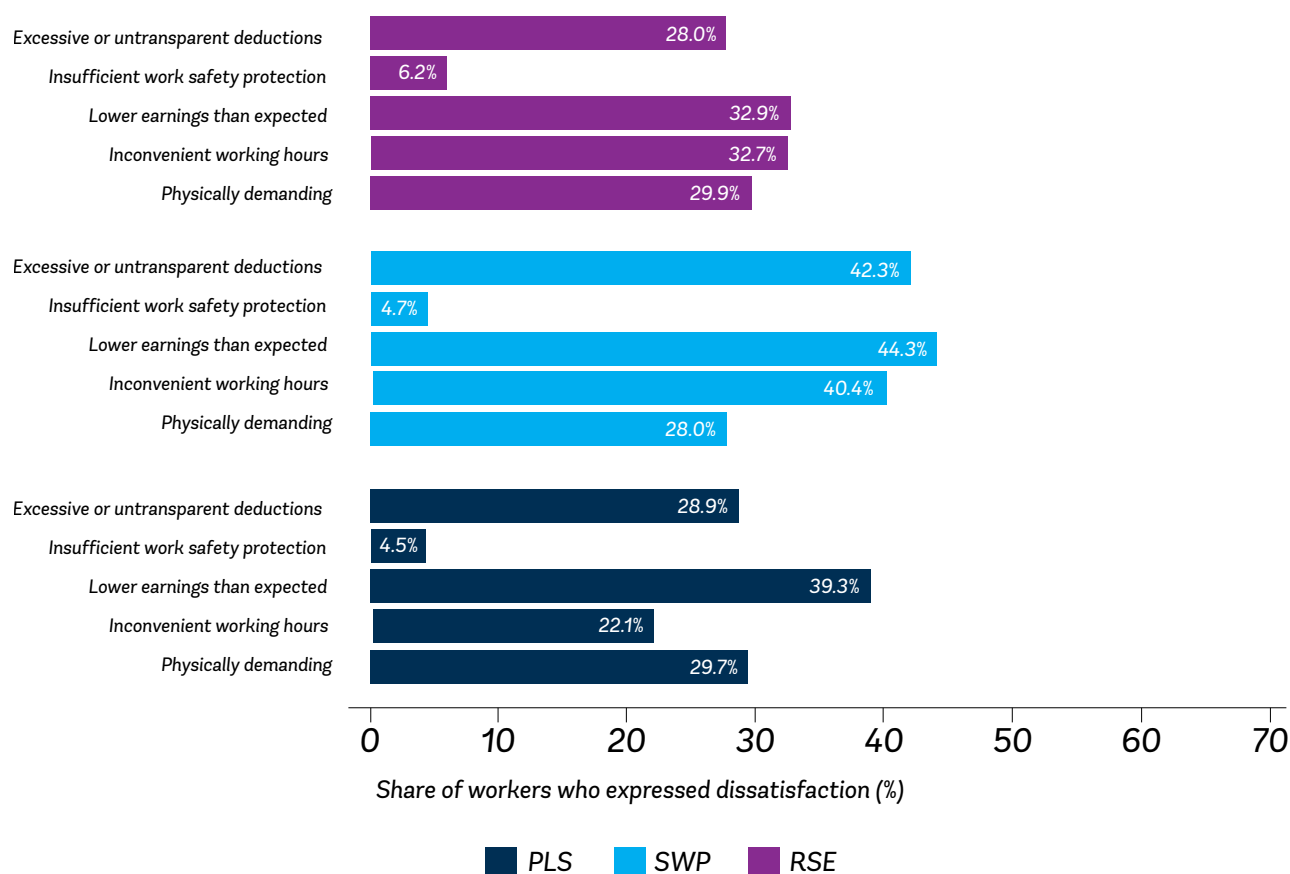
Note: Figures are ratings out of 10

Source: World Bank (forthcoming b), \*(World Bank. 2021b);

\*\*World Bank (2017b)

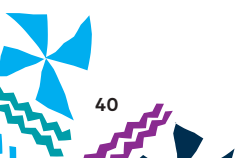
**36. Among workers expressing dissatisfaction, key reasons were earnings not meeting expectations, salary deductions being too high or not transparent, and inconvenient working hours.** Also, among the minority of workers expressing dissatisfaction, nearly 30 percent were unhappy about the physical intensity of the work (Figure 27). Across the schemes, SWP workers were the most dissatisfied group.

**Figure 27. Complaints Among Minority of Dissatisfied Workers**



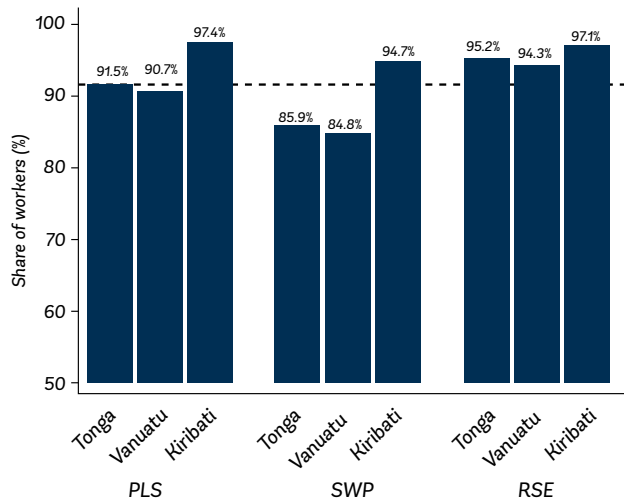
Source: World Bank (forthcoming b)

- 37. Nearly 40 percent of respondents indicated a desire to change employer, often related to concerns of mistreatment or disagreements with their employer (Figure 28).** SWP workers (particularly Tongan and ni-Vanuatu) had the most concerns about fair treatment and were also most likely to report disagreements with employers. Most workers reporting problems raised the issue with their team leaders, and only a small proportion reported turning to official venues such as support hotlines, home country consular services or labour-sending units (LSUs), or country liaison officers. RSE workers reported the highest levels of satisfaction and perceptions of fair treatment, yet a significant proportion of these workers also reported a preference to work for an alternative employer. This does not necessarily point to dissatisfaction but could also reflect a view that wages or working hours are higher with alternate employers.
- 38. Inadequate health insurance protection has also been identified as an issue.** All Pacific Island workers under the RSE and PALM schemes are required to maintain adequate personal health insurance throughout their placement as a condition of their visa. Yet at times, private health insurance can be problematic for workers due to high costs, lack of understanding, lack of eligibility for certain conditions, and mandatory waiting periods. Dental problems are the most frequently reported health complaints from Pacific migrants, exacerbated by the fact that the private insurance carried by migrant workers does not cover dental care (World Bank, forthcoming b). Consistent with this, previous research from New Zealand found that more than half of Pacific migrant workers started their placement with dental problems (Bailey 2020). Pregnancy is another condition currently lacking insurance coverage. Without other support, private maternity care costs in the host country are borne entirely by workers (Bedford and Bailey 2022). Female workers under the schemes have sought exemptions and cost waivers at hospitals, with varying success.

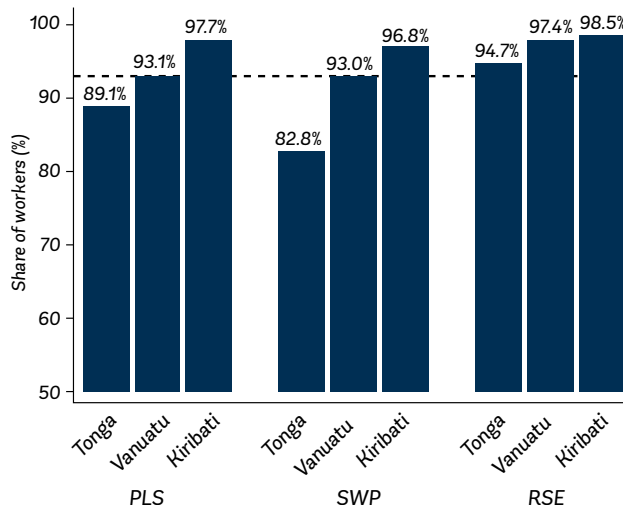


**Figure 28. Perceptions and Attitude Among Migrant Workers**

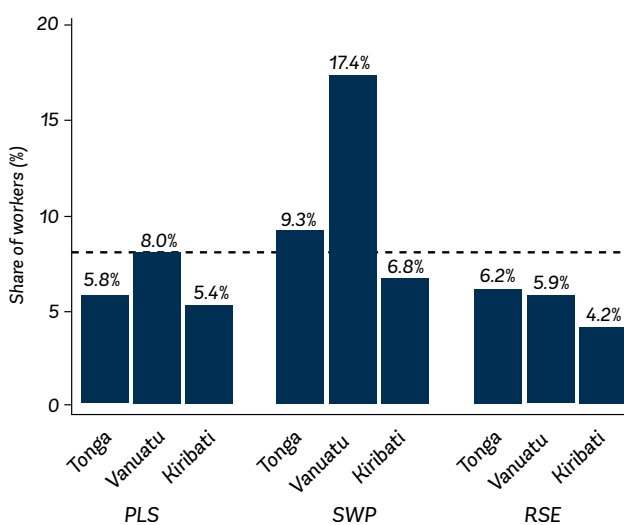
**Perception of Fair Treatment by Employers**



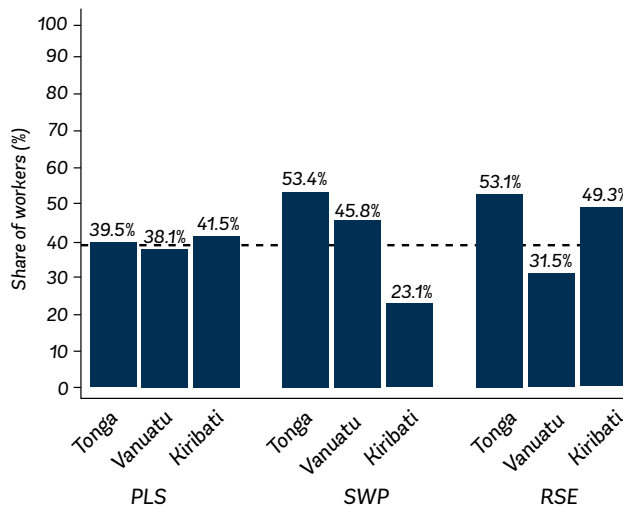
**Perception of Fair Treatment in Host Country**



**Disagreements with Employers**



**Preference to Work for an Alternative Employer**



Source: World Bank (forthcoming b)

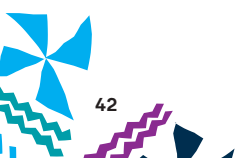
**39. These risks can be mitigated if workers are better prepared for their time overseas.**

Pre-departure briefings should comprehensively review employment contracts and help workers and their families understand the terms, including living arrangements, entitlements, pay and benefits, and required deductions. Since providing too much information upfront can be overwhelming, there is a need to ensure that clear and consistent information is provided to workers early on and reinforced regularly prior to departure.

**40. Measures are needed to ensure that workers have access to information and can report incidents while overseas.**

Sending-country authorities need to be updated on the status of overseas workers. Partnerships with authorities and communities in receiving countries can help proactively address any issues. Support services are especially relevant for workers in remote or isolated locations, particularly where access to mobile or internet services is limited, and workers might have trouble remaining in contact with their families.

- 41. Provisions should be explored to allow workers to change employers if work is not available.** Employers undertake considerable expense to recruit migrant workers and expect the workers to remain with them for the duration of the contract. If the work is insufficient, however, employers may have no choice but to suspend pay. This puts workers in a difficult predicament, because while their accommodation and food continue to be paid, they are not earning money. Special provisions for worker mobility between employers should be considered to temporarily relocate workers to other participating employers, perhaps under a cost-sharing arrangement, so they can be assured of a steady income.
- 42. Beyond the temporary labour mobility schemes in Australia and New Zealand, Pacific migrants have difficulties integrating into their host countries.** Many of these difficulties are related to language and cultural barriers, lack of access to information, and lack of work experience in host countries. Pacific Islanders in Australia, New Zealand, and the United States tend to have lower income and educational attainment than the rest of the population, and work in jobs that are not always commensurate with their skills or education levels (World Bank 2021b). This is especially true for Micronesians who migrate to the United States. The median household income for Marshallese in the US, for instance, is just 60 percent of the US population median. The poverty rate among Marshallese families in the US is 40 percent (Levin, 2017). This makes Pacific migrants more vulnerable to economic hardship and shocks, as was highlighted during the COVID-19 crisis. Members of the Pacific diaspora were exposed to relatively higher risks of COVID infection and adverse labour market outcomes, as they were mainly engaged in low- and semi-skilled jobs that were less amenable to home-based work.
- 43. International experience provides several lessons to boost the economic and social inclusion of migrant workers.** Policies aimed at facilitating labour market inclusion should be a key element of the integration agenda, such as providing a legal status, secure terms of stay and formal employment rights. These policies will allow and incentivize migrants to invest in language acquisition, further education, cultural familiarization, and social connections with local communities (WDR 2023). Access to language training and some integration supports have had positive impacts in destination countries such as Denmark, France, and Germany. Also, public and private investments in areas where migrants are heavily concentrated are often necessary to provide additional services and prevent pockets of poverty.
- 44. To encourage the integration of Pacific migrant workers, access to language training, targeted information dissemination, and strengthened worker support services is key.** The recent commitment of the Australian government to allow PALM workers on long-term job placements to bring their families, together with work and study rights for accompanying family members and new pathways for permanent residency, are promising steps to help workers build stronger economic and social ties in their destination country. Yet considerations are needed to ensure the cost of family accompaniment does not exceed its benefits. In addition, establishing a centralized database of workers and their families would help to facilitate regular outreach efforts, better provision of pastoral care and social assistance, and stocktaking of workers' employment and wellbeing, particularly during times of crisis.



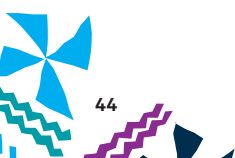
**Table 6. Recommendations to Improve Worker Wellbeing and Maximize Positive Impacts of Temporary Labour Migration**

Recommendation	Challenges addressed	Entity responsible
Improve pre-departure briefings through (i) comprehensive explanation of contract terms and living arrangements, and (ii) ensuring clarity, consistency and regular reinforcement of information provided.	Worker dissatisfaction due to unrealistic expectations and insufficient preparation for life in host country.	<ul style="list-style-type: none"> <li>• Host countries to develop and share training materials.</li> <li>• Sending countries to implement pre-departure training.</li> </ul>
Ensure that workers have easy access to information, support services and channels to report incidents while overseas.	Welfare issues such as mistreatments, disagreements with employers, insufficient insurance coverage and access to affordable health care.	<ul style="list-style-type: none"> <li>• Host countries in collaboration with sending countries.</li> <li>• Civil society organizations.</li> </ul>
Allow workers to change employers.	Risks of lack of work and suspended earnings.	<ul style="list-style-type: none"> <li>• Host countries.</li> </ul>
Inclusive recruitment processes, such as work-ready pools, expansion into sectors dominated by women, and support on administrative costs.	Recruitment tends to favor males, rural workers, and those most socially connected and represented.	<ul style="list-style-type: none"> <li>• Sending countries.</li> <li>• Recruitment agencies.</li> </ul>
Lower remittance-sending costs by encouraging cheaper transfer options and increasing competition among service providers.	Persistently high money transfer costs the Pacific and limits the economic gains of labour mobility.	<ul style="list-style-type: none"> <li>• Sending countries.</li> <li>• Development partners, local banks.</li> </ul>
Incentivize and support returning migrant workers. Support migrants to build skills overseas that are in demand at home. Improve financial literacy training.	Reintegration of returned workers.	<ul style="list-style-type: none"> <li>• Sending countries in partnership with local employers and development partners.</li> </ul>
Improve flexibility of superannuation accounts to move with workers.	Reintegration of returned workers.	<ul style="list-style-type: none"> <li>• Host countries.</li> </ul>
Expand migration opportunities beyond Australia and New Zealand.	Low skill levels stock in the Pacific and the need to ensure that overseas employment placements are secured with adequate safeguards and training opportunities.	<ul style="list-style-type: none"> <li>• Sending countries.</li> </ul>
Embed temporary migration programs into host countries' broader migration policy framework.	Risk of brain drain.	<ul style="list-style-type: none"> <li>• Host countries.</li> </ul>



## 2.2.4 Benefits of migration – ensuring inclusivity

- 45. Inclusive recruitment processes are needed to ensure migration contributes to economic inclusion in labour-sending countries.** Without proactive efforts, labour-sending arrangements tend to favor those who are most engaged, socially connected, and represented. Gender biases towards certain types of work also directly impact recruitment patterns. This means policy makers need to pay attention to the balance of workers recruited in terms of gender, ethnicity, and origin. Recruitment using work-ready pools can help to increase female recruitment. In the short-term, an expansion of opportunities in sectors that are dominated by women, such as aged care, will also help. The added benefit is that rates of pay in the aged care sector are typically higher than in the traditional seasonal work sectors of agriculture and meat processing.
- 46. Support on administrative costs can help reduce barriers to participation among disadvantaged households.** Workers often face considerable upfront costs in obtaining the documentation required to migrate. In some cases, these costs are borne by the workers and can be a barrier to participation among the poor, those from remote areas, and those lacking access to informal networks. Sending-country governments should explore options to help workers defer payment of these costs until they have earned income overseas. Temporary loans, repaid through deductions from the paycheck or from superannuation savings, are two possible solutions. Employers could also be required to pay an upfront fee for each migrant to cover these costs.
- 47. Lower remittance sending costs would enhance the economic impact on migrant's households.** Despite the high volume of remittances, the cost of money transfers in the Pacific has been stubbornly high. For instance, the average cost to remit A\$200 from Australia to Tonga and Vanuatu was 9.1 percent and 13.8 percent, respectively, in the Q1 2023, compared to 3.3 percent to Pakistan, 3.7 percent to the Philippines, and 6.5 percent to Zimbabwe (Remittance Prices Worldwide 2023). Governments should explore opportunities to lower the cost of international remittance transfers, both individually and collectively. In addition to regulatory and exchange rate policy, initiatives that encourage the use of lower-cost money transfer operators—such as online comparison tools—and assist in developing digital payments infrastructure—such as mobile money in the Pacific—can help lower costs. Countries like the Philippines have been able to lower remittance costs by increasing competition among remittance service providers, including licensed remittance agents. This has been achieved by easing entry restrictions to foreign providers and allowing digital payment platforms and electronic money transfer systems. Other measures include reducing reporting requirements in sending countries and reducing Anti-Money Laundering (AML)/Counter-Terrorism Financing (CTF) compliance costs in both sending and receiving countries (IMF 2019).



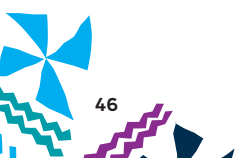
## 2.2.5 Managing returnees and reintegration

- 48. Further work is needed to incentivize and support returning migrant workers.** This will help smooth their transition back home and ensure the skills and capital gained overseas can be better invested in the local economy. For example, the ‘Make in India’ program has been successful in attracting investments and workers from the Indian diaspora back into the domestic IT and manufacturing sectors. This has contributed to India’s global reputation as an IT and software hub. Firms with returnee migrant managers file more patents than firms with a manager who never worked abroad (World Bank 2023). Ireland’s Global Irish Network engages with the Irish diaspora, sharing knowledge and expertise to support investment in Ireland. The Philippines’ reintegration program provides returnees with various employment services, including job matching and entrepreneurship training linked with a loan program. Korea’s employment permit system (EPS) supports workers to gain vocational skills in Korea to enhance their employability in their home countries. It also provides job matching services for EPS returnees to find employment with Korean firms in their home countries (the ‘Happy Return’ program).
- 49. Partnerships with local employers can support migrants to build skills overseas that are in demand at home.** Under the skills partnership model, the destination country finances worker training in the origin country to enable mutually recognized certification. This partnership eases the financial burden of education on destination countries and ensures that training is suited to the available employment opportunities. The APTC is one such provider in the Pacific market, and Korea also runs vocational training centers in labour-sending countries. Knowledge transfer can also include the transfer of institutional and social norms to the country of origin. In-depth interviews with female Pacific migrant workers reveal that nearly all returnees reported having acquired new skills and personal attributes which were beneficial in their day-to-day lives and which, in some cases, might help with future employability (World Bank 2017, World Bank 2021b).
- 50. Financial literacy training and improving the ability to move superannuation accounts to home countries will help workers reintegrate.** Many participating workers have low levels of financial literacy and may not have earned substantial income previously. Anecdotal evidence from LSUs suggests that benefits to labour-sending households are maximized where financial plans and objectives are put in place by the worker and their household prior to migration. Therefore, providing financial literacy training to workers and their households can increase the benefit of remittances. As workers who return can claim back the funds accumulated in superannuation accounts, ensuring they can easily access their accounts will also help reintegration. The New Zealand government, in a public-private partnership, developed a platform called the Seasonal Workers’ Superannuation Administration System to facilitate easier repatriation of superannuation funds. A similar system could be considered in other receiving countries. LSUs can also help workers retrieve their funds and partnerships with local banks could help ensure that the funds are repatriated without excessive transaction costs.

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## 2.3 The Way Forward for Migration Policy in the Pacific

- 51. The recent expansion of the PALM and RSE schemes, together with Australia's commitment to explore family accompaniment in long-term PALM placements, present significant development opportunities for the Pacific Islands.** Temporary migration programs can increase national income, skill levels and improve prospects for many Pacific Islanders who might otherwise struggle to find good jobs at home. Family accompaniment could also help address the social impacts of prolonged family separation. However, the migration process needs to be well managed, integrated with local labour markets and skills development programs, and treated as part of a broader productive inclusion program that offers opportunities within the sending country for those who do not migrate as well as those who return after working overseas. As outlined above, there is an opportunity for Pacific governments to do more, with support from development partners, to ensure migration leads to sustainable gains for the entire society and protects those directly involved.
- 52. Pacific governments can look to expand migration opportunities beyond Australia and New Zealand.** Migration under other low- and semi-skilled channels is already happening to some extent, for example Solomon Islands' workers are employed in Canada. It will be important for the Pacific to invest in outreach and engagement with a wide range of potential employers, to market their workers and ensure that overseas employment placements are secured with adequate safeguards and training opportunities. In the longer term, skills development could help Pacific countries become competitive in the telework industry, opening access to foreign jobs for a larger share of the population.
- 53. It is important to embed temporary and seasonal migration programs into the receiving countries' broader migration policy framework.** This involves considering how Pacific Islanders can develop a longer-term connection to the receiving country, for example through pathways to permanent residency. The Australian government is already progressing in this area, and New Zealand has longstanding agreements with some Pacific countries (such as Tonga and Samoa) to offer permanent residency either universally or on a quota basis. These arrangements will help expand opportunities for Pacific Islanders, particularly as climate change impacts worsen. However, the policies should be managed carefully to avoid drawing away the best and brightest workers from the Pacific Islands.

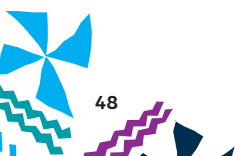




**PART 3.**

*Overall Summary and  
Recommendations*













- 54. In recent years, Pacific economies were confronted by multiple shocks, including the COVID-19 pandemic, spillovers from Russia’s invasion of Ukraine, global commodity price hikes and natural disasters.** A sizable fiscal stimulus was implemented to protect poor and vulnerable people. However, these shocks have collectively deteriorated fiscal balances in many Pacific countries, contributing to higher public debt in those countries with limited grant access. A gradual unwinding of fiscal stimulus and social spending will be needed to restore fiscal buffers and avoid fueling further inflationary pressures. This shift could be balanced by building adaptive social protection systems to facilitate future emergency response and maintaining spending on health and education. With a weak monetary transmission mechanism, adjustments in the fiscal policy stance are expected to be the main lever to respond to shocks and future risks.
- 55. Structural reforms are critical to enhance resilience to shocks and raise potential growth.** Given the Pacific’s vulnerability to the effects of climate change, building climate resilience is critical. Fiscal consolidation efforts—including domestic revenue mobilization through improved tax administration and better management of resource revenue—will help build the fiscal space needed to finance critical climate adaptation and development needs. Nevertheless, Pacific countries will need to continue to seek ongoing concessional financing while implementing reforms that can foster broad-based growth to improve debt-carrying capacity. Reforms to improve the business climate and attract investment will expand job opportunities, which can also address brain-drain concerns by providing more incentives for skilled workers to stay in the country.
- 56. Maximizing the economic benefits from migration requires appropriate skills investment, inclusivity in access to migration pathways, protection of migrants’ welfare in host countries and management of migrants’ return and reintegration.** Alongside the natural resource (particularly fishing) and tourism sectors, international labour mobility has been one of the most important income sources for Pacific countries, especially during the pandemic. Remittances finance essential household consumption and strengthen financial resilience in times of income shocks. Labour migration also enhances knowledge transfers and can be complementary to skills enhancement. In the long run, given challenges relating to climate change, providing an enabling environment for internal and external migration opportunities will prove useful as people relocate from vulnerable areas. Investing in skills training and a strong foundational education system is critical to maximizing the benefits of migration. Improving access to education will also boost inclusivity and help those most in need to benefit from migration, such as lower-income households. This will support both domestic and international labour market opportunities. Lastly, attention is needed to manage the return and reintegration of migrant workers to ensure that the skills, knowledge, and capital they have gained overseas can be better utilized and invested in the local economy.



## Annex 1. Migration Patterns from the Pacific Islands

The Blue Pacific Continent was first settled through one of the largest processes of migration in history, and Pacific Islanders have continued to travel and trade widely ever since. With the end of colonialism and the advent of low-cost sea and air travel, emigration both temporary and permanent has become a characteristic of most Pacific countries. Most of the Pacific diaspora is situated in three countries: the United States, New Zealand, and Australia. In the case of the northern Pacific Island states, migration to US territories such as Guam and the Northern Mariana Islands has also been significant. However, there is substantial migration between countries within the Pacific, as well as population movements within countries.

**Table 7. Pacific Diaspora Populations Living in OECD Countries**

Country	Diaspora (nationals living in OECD)	Nationals living at home	Diaspora as share of resident population
 Tonga	53,247	105,139	50.6%
 Samoa	87,949	190,390	46.2%
 Micronesia, Fed. States	40,642	103,718	39.2%
 Palau	6,855	20,919	32.8%
 Marshall Islands	11,841	52,786	22.4%
 Fiji	189,571	880,487	21.5%
 Tuvalu	1,816	9,876	18.4%
 Nauru	837	10,830	7.7%
 Kiribati	4,324	108,544	4.0%
 Vanuatu	2,280	253,165	0.9%
 Solomon Islands	1,768	560,685	0.3%
 Papua New Guinea	17,464	7,308,864	0.2%

Source: World Bank (2017a). Emigrants to the US territories of Guam and the Commonwealth of the Northern Mariana Islands are included. Migrant stocks for Kiribati, PNG, Solomon Islands and Vanuatu have been adjusted to record only migrants in Australia who claim their ancestry is indigenous to their country of birth. The population used as a denominator in the third column is the resident population only. Figures are for 2013, or for the stock of migrants 2011-2013, depending on the OECD countries concerned.

**Compacts of Free Association (CFAs) have been critical to facilitating the migration of citizens of the Federated States of Micronesia (FSM), Palau and the Republic of Marshall Islands (RMI).** These CFAs were established in the early 1980s based on the trusteeship of the Micronesian states established by the United Nations (UN) and administered by the United States from 1947 to 1986 (or 1994, in the case of Palau). In exchange for development and financial assistance, the United States maintained full international defense authority and responsibilities in Micronesia. The CFAs allow for unrestricted migration of members of the former trust territories to the United States and have facilitated large migration flows. Similar arrangements are in place for French-administered New Caledonia, Wallis and Futuna, and French Polynesia, and the US territories of American Samoa, Guam, and the Northern Mariana Islands. More than 94,000 Compact migrants (citizens of the Federated States of Micronesia, Palau, and the Marshall Islands) along with their US-born family members now reside in the United States and its territories.

**New Zealand’s administration of Samoa similarly opened opportunities for Samoans to travel to New Zealand.** In the aftermath of World War II, the League of Nations divided Samoa, a former German colony, into American Samoa and Western Samoa. The former became (and remains to this day) a US territory. At the time of independence in 1962, Western Samoa and New Zealand signed a Treaty of Friendship emphasizing the close relationship of the two countries and enshrining their ongoing commitment to working together, including through preferential migration arrangements.

**The most critical preferential pathways for longer-term migration from the Pacific region to New Zealand have been the Samoan Quota (SQ) and the Pacific Access Category (PAC).** Both these visas fall under the international/humanitarian stream and have extremely high retention rates—about 80 percent of those arriving on a PAC/SQ visa in 2005 still resided in New Zealand more than a decade later (Kantar 2019). The Samoan Quota is based on the 1962 Treaty of Friendship between New Zealand and Samoa. With 1,100 places available each year, Samoans now have the largest diaspora of any Pacific Island country. The PAC was established more recently as a means of opening up permanent migration opportunities for countries that share strong cultural and historical ties with New Zealand. A total of 650 places are available through the PAC annually (250 for Tonga, 250 for Fiji, 75 for Tuvalu, and 75 for Kiribati). Both the Pacific Access Category and Samoan Quota pathways remain significantly oversubscribed.

**In contrast to the United States and New Zealand, Australia has not provided a permanent preferential pathway for Pacific migrants.** The Pacific diaspora in Australia has largely been built through two pathways: (1) those migrating through the skilled migration stream; and (2) those who have become New Zealand citizens first and then migrated through the Trans-Tasman Travel Arrangement, which facilitates free movement between Australia and New Zealand. The Fijian diaspora in Australia has largely been built through successive waves of skilled migration. Meanwhile, the Cook Island, Samoan, and Tongan communities have predominantly come by way of New Zealand through the Trans-Tasman Travel Arrangement pathway (Lee 2008).

**Access to migration opportunities has not been uniform across Pacific Island countries, and colonial ties and administration have not always guaranteed opportunities.** Melanesian countries have been largely excluded from Compacts and other agreements: specifically, Vanuatu (which as the New Hebrides Condominium was governed by both the United Kingdom and France); and the Solomon Islands (historically governed by Britain). Indeed, until the establishment of the temporary labour migration schemes, migration from these Melanesian states was largely internal, and international migration was rare. Migration from Kiribati has been limited for the same reason.

**A critical development shaping Pacific migration dynamics since the turn of the century has been the rollout of preferential temporary migration programs (Table 8).** Both Australia and New Zealand have established low- and semi-skilled temporary migration programs specifically for Pacific Islanders. New Zealand’s Recognised Seasonal Employer (RSE) scheme was the first of these programs to be established in 2006. Australia followed with the Pacific Seasonal Worker Pilot Scheme (PSWPS), introduced in 2009, which evolved into the Seasonal Worker Programme (SWP) in 2012, and the Pacific Labour Scheme (PLS) in 2018, both of which are now called the Pacific Australia Labour Mobility (PALM) Scheme.<sup>11</sup> In

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<sup>11</sup>The RSE scheme is also open to citizens of several Asian countries, but Pacific Islanders comprise the bulk of participating workers. Participation in the PALM scheme is restricted to Pacific Islanders and citizens of Timor-Leste.

both countries, the objectives of these programs are twofold: to meet labour shortages in selected industries, and to contribute to development outcomes in Pacific Island countries. Pressure from Pacific countries played an important role in the establishment of such schemes, with the notable push for opportunities during negotiations for the regional Pacific Agreement on Closer Economic Relations Plus (PACER Plus) trade agreement between Australia, New Zealand, and Pacific Island states.

**Table 8. Summary of the PALM and RSE schemes**

	RSE	SWP (now seasonal stream under PALM)	PLS (now long-term stream under PALM)
Host country	New Zealand	Australia	Australia
Year of establishment	2007	2012	2015
Eligible Pacific Island countries	Fiji, Kiribati, Nauru, Papua New Guinea, Samoa, the Solomon Islands, Tonga, Tuvalu, Vanuatu		
Annual cap on number of visas granted	First set at 5,000 in 2007 but has steadily increased to 16,000 for 2021/22 intakes.	No cap	
Visa duration and work entitlement	Up to 7 months during any 11-month period, except workers from Tuvalu and Kiribati, who can stay for 9 months because of the distance from New Zealand and the cost of travel.	Up to 9 months in any calendar year, except workers from Tuvalu and Kiribati, who can stay for 11 months because of the distance from Australia and the cost of travel.	1-4 years
Industrial sector	Horticulture and viticulture industries	Agriculture, tourism, accommodation, meat work, aged care	
Cost incurred by workers	50% of airfare, predeparture costs, health insurance while in host countries	Airfare, predeparture costs, health insurance while in host countries	
Cost incurred by employers	50% of airfare, quarantine costs during the COVID-19 pandemic	50% of airfare, quarantine costs during the COVID-19 pandemic	
Safeguard mechanism in place for workers		<p>Vetting of employers and stringent criteria for participation, including meeting required accommodation standards, providing sufficient hours of work, pastoral care, and other provisions.</p> <p>Monitoring and compliance framework, including site visits and spot checks, regular reporting requirements, support service hotline.</p> <p>Pastoral care services provided by employers.</p> <p>Relationship managers in place.</p>	
Wage rates	Employers are legally required to pay migrant workers the same wages as nationals.		

Sources: Immigration New Zealand; Australian Department of Foreign Affairs and Trade (DFAT).

Note: PALM = Pacific Australia Labour Mobility; PLS = Pacific Labour Scheme; RSE = Recognised Seasonal Employer scheme; SWP = Seasonal Worker Programme.

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